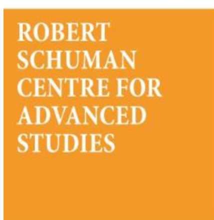

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RSCAS 2013/67
Robert Schuman Centre for Advanced Studies
Global Governance Programme-65

Multilateral Institutions and African Economic Integration

Bernard M. Hoekman

European University Institute
Robert Schuman Centre for Advanced Studies
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EUI Working Paper **RSCAS** 2013/67

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ISSN 1028-3625

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Printed in Italy, September 2013
European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
Italy
www.eui.eu/RSCAS/Publications/
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Abstract

A matter of long-standing policy concern is the limited extent to which many countries in Africa have been able to diversify their economies. The global phenomenon of supply chain trade in principle generates opportunities for specialization in processing activities and labour- or natural-resource intensive tasks that are part of international value chains. This paper discusses what role international organizations – in particular the global trade body, the WTO, and the multilateral financial institutions – have played in assisting efforts to enhance the ability of firms in Africa to participate in value chains by lowering trade costs, suggests some implications for trade governance at both the national and global level.

Keywords

African economic integration, supply chains, international organizations, development assistance, trade costs

Introduction*

The average level of import protection around the world has dropped to the 5-10 percent range (Kee et al., 2009). In conjunction with technological changes that greatly reduced trade costs—telecommunications, the Internet, containerization and other improvements in logistics—the result was a sustained boom in world trade. The value of global trade in goods and services passed the US$20 trillion mark in 2011 (WTO, 2012) or 59 percent of global GDP, up from 39 percent of GDP in 1990.[1] This increase in internationalization was due in no small part to ever greater "vertical specialization", with firms and plants in different countries specializing in different parts of the value chain for a product. The share of manufactures in total exports of developing countries increased from just 30 percent in 1980 to over 70 percent today, with a substantial proportion of this comprising intra-industry trade—the exchange of similar, differentiated products. Since the 1990s Intra-industry trade ratios for high growth developing and transition economies have risen to 50 percent or higher. Much of this comprises intra-regional trade. For example, about half of all East Asian exports of manufactured goods go to other East Asian economies.

Of course, there is substantial variation across countries and regions. Sub-Saharan African countries in particular remain heavily dependent on natural resources and agricultural products. And although there has been a sea change in trade policy everywhere, the poorest countries, many of which are in Africa, often tend to have the highest barriers. Africa is also one of the least integrated continents in terms of "connectivity", reflecting weaknesses in infrastructure and limited regional integration. There has been progress in the last decade in pursuit of regional economic integration among subsets of African states, but to date the continent as a whole and the various sub-regions have not seen the shift towards intra-industry trade, vertical specialization and participation in international supply chains that has been a driver of growth in other parts of the world. This is particularly unfortunate because global value chains offer an opportunity for firms in Africa to engage in international production in a way that was much less feasible 20-30 years ago. Integration into a supply chain allows a firm to specialize in a narrow activity and add value to a product that can be sold anywhere in the world. But preconditions for this are that trade barriers are low, because being part of a supply chain means many of the inputs that are needed must be imported from foreign firms that are "upstream" in the chain, and that trade costs are low enough to make production profitable.

Many different institutions and groups play a role in supporting the economic integration of African economies including states, business, intergovernmental organizations and NGOs. In this paper I discuss what two types of international organizations (IOs) can do in this regard, and whether there are opportunities to do better. I will limit my focus to trade (the WTO) and multilateral development organizations (primarily the World Bank) and the relationship between these two types of IOs—an issue that is sometimes discussed under the heading of "coherence". Although the focus is mainly on the WTO and the World Bank, much of the discussion applies as well to other international trade institutions such as regional trade agreements and to other providers of development assistance.

It is important to note at the outset that the discussion will not do justice to what development organizations do, as they are active on many fronts that are directly or indirectly relevant to economic integration. Much of their activity aims at bolstering productivity performance, e.g., by strengthening the investment climate, increasing human capital and improving public health. All of these impact on economic opportunities and outcomes. A country's trade-related policies are determined by governments. Trade IOs can be used by governments to establish rules of the game for policies, and

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* An earlier draft of this paper was presented at the conference, "Trade Governance: Integrating Africa into the World Economy through International Economic Law," Mandela Institute, Witwatersrand University, Johannesburg, 7-8 March, 2013. I am grateful to David Deese and Dominique Njinkeu for helpful comments.

[1] Trade openness ratios were calculated from the World DataBank (Global Economic Prospects).

development IOs can advise on the design of institutional frameworks to support an open trade regime and provide financial and technical support to improve trade-related infrastructure, both hard (roads, ports, etc.) and soft (policies, standards-upgrading, export promotion services, border management procedures, etc.) The extent to which IOs do this depends in part on whether trade competitiveness and economic integration are priorities for a government. The effectiveness of the support provided also depends importantly on governments, as this will be determined in part by the ability to coordinate across ministries and regulatory bodies as well as providers of technical and financial assistance. At the end of the day much of the burden of greater coherence rests on governments both individually and collectively, as all IOs are governed by their members.

What follows very briefly summarizes some of the main reasons identified in the literature why Africa has seen less diversification and specialization in processing activities and "intermediate" parts of international value chains for goods (Section 1) .This is followed by a discussion of the role IOs can play and have played in addressing these various factors, in particular the global trade organization, the GATT/WTO (Section 2) and the multilateral development organizations (Section 3). Section 4 assesses what might be done to bolster the effectiveness of IOs in supporting African economic integration, both regionally and into the world economy, and suggests some implications for trade governance at both the national and global level (Section 4). Section 5 concludes.

1. Factors affecting African economic integration

African countries are active traders – the ratio of trade to GDP is often above 60 percent. What distinguishes African trade is the dominance of natural resources and agricultural exports and the very limited intra-regional trade that takes place (less than 10 percent of the total, as measured by official trade statistics).[2] The prevailing pattern of trade reflects endowments and very high trade costs.[3] Many African countries are rich in natural resources and most have large pools of relatively unskilled labor. High trade costs are the result of many factors, including trade policy. Tariffs or the rules of origin that apply among countries that have free trade agreements are examples, as are inefficient border management practices and nontariff barriers such as onerous compliance and conformity assessment processes, and restrictive regulations affecting the cross-border movement of trucks, traders, and products such as food.[4]

Transport costs are high for many African nations simply because of geography. Many countries are land-locked and thus far from sea ports located in other countries, making the efficiency of transport corridors and border crossings of paramount importance for firm level competitiveness. Lowering trade costs is therefore not "simply" a matter of dealing with nontariff measures that apply at borders. Equally important in many countries are internal trade costs associated with frequent controls and stopping of trucks moving along corridors. To a significant extent the trade cost policy agenda also revolves around improving the performance of services sectors: reducing the costs of service inputs for firms and increasing the variety and quality of producer and backbone services such

[2] See Kathleen Hancock's chapter in this volume and World Bank (2012). Informal trade within Africa is significant so that the actual figure is higher. However, this mostly comprises low value items and trade in foodstuffs. While important from a welfare perspective – this type of trade generates revenue for the small traders involved (who are often women) – it does not comprise the type of specialization that has supported growth in other parts of the world.

[3] Policies in the rest of the world also affect Africa's export structure and trade volumes. Tariff peaks and tariff escalation in major export markets have had a negative effect on incentives to do more processing in Africa. The extensive support given to agricultural production in many OECD countries, combined with limited preferential market access programs for African producers of certain commodities – e.g., sugar – created incentives against diversification and upgrading and supported status quo bias because of the rents involved.

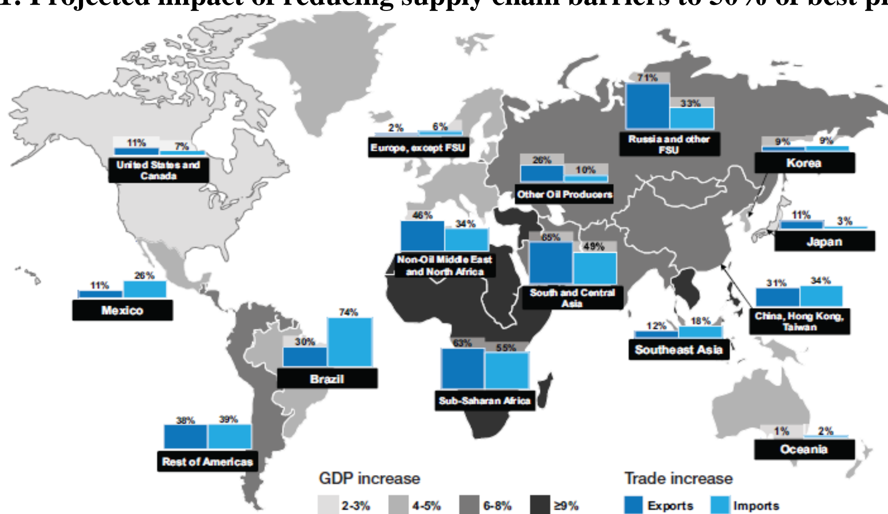
[4] There is a large literature focusing on the factors affecting African trade performance and measuring the relative performance and the incentive structure confronting firms and farmers in Africa. See the annual World Bank reports *Doing Business* and ,*Global Monitoring Report,* Anderson and Masters (2009) on agricultural trade policies; Borchert at al. (2013) on services trade policies; and Arvis et al. (2012) for measures of logistics performance.

as transport are important determinants of the competitiveness of firms and farmers. Their ability to produce and sell their products on local, national and global markets and the rate of return they will obtain depends on the availability and cost of services (Francois and Hoekman, 2010). Wages in much of Africa are among the lowest in the world making the region potentially attractive for investment in relatively unskilled labour-intensive export production of the type that has tended to be a key feature of the development strategy undertaken by Asian countries, most recently and notably China. As real wages in China continue to increase, African countries become more attractive for manufacturing/processing investment, but the speed and extent to which this will happen will depend in part on reducing trade costs.

Achieving this is a complex, multi-dimensional challenge. Trade liberalization has an important role to play, but much of the agenda revolves around administrative practices and procedures. One example is border management – enhancing the efficiency of enforcing regulatory and fiscal policies (McLinden et al., 2010). Another example is making greater progress in achieving regional integration objectives, which can create larger markets and lower the costs of transit transport—a key factor for land-locked countries in particular (Arvis, Raballand and Marteau, 2010). The importance of reducing the costs of accessing and transiting neighbouring markets and attaining scale and agglomeration economies through convergence of administrative procedures and trade-related regulatory regimes is a major motivation underpinning regional integration efforts in Africa.

While regional cooperation is important, much of the policy agenda involves autonomous, unilateral reforms. The potential benefits associated with a concerted effort to facilitate trade are large. A global dataset compiled by Arvis et al. (2013) suggest that improving logistics performance could reduce average bilateral trade costs ten times more than an equivalent percentage reduction in average tariffs. A report by the WEF, Bain and the World Bank (WEF et al. 2013) examines supply chain barriers to international trade and concludes that these are far more significant impediments than tariffs. It suggests that concerted action to reduce supply chain barriers to achieve a level that is equivalent to 50 percent of best practice observed in the world today could increase world GDP over six times more than removing all tariffs. The projected gains for African countries are among the highest, in the range of 10 percent of GDP or more, reflecting the high levels of barriers that prevail (Figure 1). This is an area where making progress requires cooperation and coordination across a range of institutions and stakeholders in a country, in part because there are investment costs associated with realizing these gains. This is a good example of the need for greater coherence, including on the part of what trade and development IOs do.

Figure 1: Projected impact of reducing supply chain barriers to 50% of best practice



Source: WEF, Bain and World Bank, 2013.

2. African trade policies and the GATT/WTO

The global trade regime has provided a framework for countries to define trade policy disciplines commitments and a mechanism through which these can be enforced. The scope and coverage of policy disciplines has expanded steadily since the creation of the GATT in 1947, as has membership. Some 30 countries have acceded to the WTO since 1995, including many small developing and transition economies as well as China and Russia. A noteworthy feature of the accession process is that it entailed much more far-reaching policy commitments and reforms than those African countries made when they became contracting parties to the GATT (Braga and Cattaneo, 2009). Although accession takes too long and is too much subject to idiosyncratic demands by existing WTO members, the result of the process is generally that countries undertake numerous reforms, and, perhaps more important, for a period of time there is an explicit focus by government on the trade regime and trade policy institutions.

Engagement by African states in the trading system has been characterized by insistence on "more favourable and differential treatment." This was associated with an import substitution industrialization strategy and non-participation in multilateral rounds of tariff reduction/trade liberalization. The basic rationale for this approach was that developing countries needed to foster industrial capacity to reduce import dependence and to diversify away from traditional commodities. Diversification was needed because commodities were held to be subject to long-term declining terms of trade reflecting low income elasticity of demand, as well as short-term price volatility, and offered little scope for employment creation. At the same time it was recognized that exports were important as a source of foreign exchange and that the national market might be too small for a protected domestic industry to be able to realize economies of scale. This led to calls for preferential access to export markets through a general system of preferences that would give developing countries better than most-favoured-nation (MFN) treatment in industrialized countries (Hudec, 1987).

The end result was limited preferential access to OECD markets, as "sensitive" items tended to be excluded, and significant anti-export bias as a result of high rates of protection that were exempt from trade negotiations. The strategy of "less than full reciprocity" in GATT/WTO trade negotiations helps explain the long-standing tariff peaks and escalation in OECD countries: as these were on items of interest to African and other developing countries the lack of engagement implied no incentive to lower them.

The strategy of not offering trade policy concessions has continued to be pursued in the WTO context. LDCs, which are mostly located in Africa, were granted "the round for free" in the DDA negotiations: it was agreed that they were not required to make any reductions in their tariff bindings. The focus of African countries has been on improving and defending preferential access to major export markets, not just OECD markets but also those of the rapidly growing emerging economies, and expanding/improving provisions for special and differential treatment.[5] Progress was made in the post 2001 period following the launch of the DDA in expanding duty-free, quota-free market (DFQF) access for LDCs. This is a significant achievement, but it also had a downside by pitting developing countries against each other (DFQF only extends to the LDCs and not to other countries that may be very similar in terms of per capita income and other development indicators), and focusing attention on the preference erosion losses that might occur if the DDA were to lead to a substantial reduction in the applied MFN tariffs of preference-granting countries. This dynamic is illustrated most notably in the resistance by the United States to extending DFQF treatment to Asian LDCs (Bangladesh, Cambodia, Laos), which is driven in part by concern that doing so would erode the value of the preferential market access provided under AGOA.

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[5] See Apecu (2011) for a very comprehensive, in-depth analysis of the engagement by African countries on the various subject areas covered by the WTO and the DDA.

Particularly striking has been the limited degree to which attention has been given to subjects that matter greatly for competitiveness and that could therefore help improve trade conditions in African countries. Two areas stand out in this regard, services and trade facilitation. Both are of critical importance as policy reforms affecting these areas can have a major impact on trade costs confronting firms and farmers.

On the positive side of the ledger, a major achievement was the launch of the "aid for trade" (AFT) initiative and the establishment of the Enhanced Integrated Framework for trade-related technical assistance. Although not formally tied to the DDA, these initiatives signified recognition by the WTO membership that market access and rules were not enough. The aid for trade initiative is a mechanism to engage development agencies more in the trade integration agenda and helps to raise the profile of trade issues in the process of determining priorities for investment and policy reform at the country level. The major challenge and opportunity looking forward is to do more to link AFT with the negotiation and implementation of specific commitments in policy areas such as services and trade facilitation, as it is there that the potential gains for African countries are the largest.

The WTO can help countries to deal with the "real trade costs" agenda through agreements on frameworks that embody good practices and establish focal points for regular dialogue and monitoring of progress in implementation of good practices. The trade facilitation negotiations in the Doha Round illustrate how the WTO could be used by developing countries to make a difference on the ground for traders and producers. A key feature of the trade facilitation talks was a decision by developing countries to introduce a formal link between implementation of any agreement and to the provision of financial and technical assistance. Another feature of the negotiations was to engage the specialized agencies with expertise in the area in the process. Examples include the World Customs Organization, UNCTAD, the IMF and the World Bank. These agencies undertook assessments at country level of the trade facilitation situation, gaps and priorities, and can provide the assistance needed for implementation of reforms. The Doha Round process raised national awareness of the importance of trade facilitation and influenced the development community as well. A plethora of research on the net benefits of facilitating trade induced by the launch of the negotiations identified the high rate of return of investments in this area and the high opportunity cost of not dealing with the issue. As a result, the number of projects and level of resources allocated to this area increased significantly relative to the late 1990s and early 2000s.

Emulating this approach in other areas of trade-related regulation could help make the WTO a more effective mechanism to assist countries reduce trade costs/improve competitiveness. Perhaps the most obvious and important area is services. Hoekman and Mattoo (2013) argue that progress in this area would be enhanced by taking regulatory concerns and constraints seriously. Liberalization of services policies is constrained by the great diversity in regulation and regulatory capacity. Mechanisms that bring together sectoral regulators, trade officials and business to assess current policies and to identify beneficial reforms are needed. Strengthening the relevant implementing institutions will require the engagement of a variety of national, regional and international institutions.

This is an area where greater 'coherence' is needed between trade organizations such as the WTO that establish rules of the trade game and the trade and development organizations that have the technical expertise, resources and country presence to support reform processes. Moving in this direction implies a shift away from the long-standing insistence on "special and differential treatment (SDT) in the WTO, which is more about exceptions and exemptions as opposed to constructive engagement and mobilization of support to help governments put in place better policy frameworks and achieve national objectives. Traditional SDT has been a weak reed that has generated little in the way of direct benefits and arguably has resulted in significant opportunity costs in terms of benefits foregone (Hoekman, 2005). It has meant less market access in areas of export interest (continued tariff escalation/peaks in major export markets during the 1970s and 1980s for example, less in the way of

benefits from applying WTO trade policy disciplines, including very limited use of WTO dispute settlement procedures and the WTO's transparency mechanisms.[6]

Key elements of the SDT strategy pursued by many developing countries are arguably misconceived because they do little to address the key factors that matter for competitiveness and that could therefore help improve trade performance. Four areas stand out in this regard – tariffs; the cost and quality of service inputs; reducing the trade-impeding effects of non-tariff measures (NTMs); and trade facilitation/border management. Policy reforms affecting these areas can have a major positive impact in terms of reducing the trade costs confronting firms and farmers. A large and expanding body of research has documented that the potential benefits for the world as a whole of action in these areas are substantial (Laborde et al. 2011; Decreux and Fontagne, 2011; WEF, 2013). DFQF access for LDCs and AFT are both important post-2001 achievements, but much depends on how the latter is used to help firms benefit from the former.

Given that average MFN tariffs are declining steadily, the value of DFQF treatment is inherently limited. It can only partially make up for the high trade costs that confront African enterprises. The key challenge and priority is improving the domestic "trade environment". AFT can help but how it is allocated and how much it is used is very much a function of what governments want to use it for, and whether they make trade a priority area for investment/reform. AFT allocation and effectiveness is also a function of the "supply side." Demand may exceed supply, and there are invariably important coordination challenges to be overcome within government, as well as across and within development agencies.

3. International financial/development organizations

The international financial institutions (IFIs) played a significant role in supporting trade reforms in developing countries in recent decades. They have a mandate to engage governments on the content of trade policy and to provide advice on, and analysis of, trade policies and trade-related reforms. They also have the ability to identify the need for complementary reforms and investments and engage in policy dialogue on areas critical for competitiveness. Examples include the level of the (real) exchange rate, the exchange rate regime, and the monetary and fiscal policies that affect these variables. The IFIs could complement technical analysis and advice on the design of policies with financial resources to assist countries to implement reforms and improve supply capacity. Between 1987 and 2004, for example, the World Bank allocated some 8 percent of its total loans and credits to programs and projects aimed at trade policy reforms, strengthening trade-related institutions and infrastructure (e.g., product standards; Customs) (World Bank, 2006). The IMF supported economic adjustment programs in 34 Sub-Saharan African countries between 1993 and 2003. In 31 of these countries programs were implemented that included trade policy reform conditions (Wei and Zhang, 2006). The World Bank and IMF programs were generally informed by extensive analysis and research on trade issues, ranging from the design of reforms to assessments of the impacts and results of different types of trade policies. Several influential multi-country case studies of prevailing trade policy regimes and economic performance played a role in identifying priorities for reform in the mid- to late 1980s (e.g., Bhagwati, 1978; Krueger, 1978; Choksi, Michaely and Papageorgiou, 1991;.Thomas et al., 1991).

[6] There is of course an active debate on whether WTO rules restrict the ability of governments to pursue development objectives. In my view arguments that the WTO has "kicked away the ladder" are largely incorrect – governments continue to have a very substantial degree of "policy space" to pursue measures that aim at offsetting market failures and creating an enabling business environment. Insofar as there are specific WTO disciplines that are deemed to be too constraining, there are numerous channels to relax these, ranging from requests for waivers to the (re-)negotiation process – as was done in the case of TRIPS and access to medicines and action by developing countries to safeguard the ability to use export subsidies (see Hoekman and Kostecki, 2009).

One focus of these programs was to reduce disincentives to engage in export production, boost export performance and improve resource allocation, thereby making economies more robust to changes in the world economy, whether these are technological in nature or short term exogenous shocks. The objective was to increase incentives for investments in new activities and products so as to diversify the economy and generate new sources of foreign exchange. A key part of many programs was to enable firms to have access to the inputs they needed at world market prices – thereby allowing them to compete on a level playing field with foreign competitors, and confronting firms with competition from imports, thereby ensuring that resources went to sectors in which a country had a comparative advantage. Creating an incentive framework that would generate a more efficient allocation of domestic labor and capital was seen as a precondition for sustaining higher economic growth over time.

Trade reforms supported by the IFIs generally had common features: a removal of quantitative restrictions (QRs) on imports and exports; a reform of the structure of the tariff, generally moving towards a simpler and more transparent system of a limited number of tariff bands; the removal of tariff exemptions of various kinds; reducing net taxation of agriculture; and lowering the average level of the tariff. Frequently the tariff structure that was recommended involved higher tariffs on final products than on inputs—the idea being to afford industries a continued positive rate of effective protection against imports. The experience of many countries that implemented such trade reform packages, including in Africa (e.g., Benin, Cote d'Ivoire, Gambia, Malawi, Zambia), was that tariff revenue declines, a major concern for many low-income countries, were offset by the removal of tariff exemptions, the tariffication of quotas and the mobilization of other tax bases (Baunsgaard and Keen, 2010; Keen and Mansour, 2010). Over time, as economic activity increased and trade expanded, tariff revenues might even increase as a result of import growth.

Reforms generally went beyond narrow trade policy (tariffs, quotas). In many cases programs included an extensive focus on macroeconomic management driven by the need to move countries towards a more sustainable fiscal situation and control inflation. In many instances trade reforms included a devaluation of the real exchange rate. Depreciation created incentives to switch expenditures away from imports, thus helping to move the balance of payments towards surplus. Devaluation also played an important political economy role in helping to implement and sustain trade liberalization: by making imports more costly, some of the protection that was lost through lower trade barriers was offset. Conversely, devaluation made it easier for export-oriented firms to expand output and generate employment opportunities for workers in import substituting sectors that were negatively affected by liberalization. Complementary measures that were often pursued included the introduction of indirect tax systems (excises, value added taxation) and projects to bolster the supply side of the economy: efforts to restructure firms/industries with a view to improving efficiency, investments in infrastructure and education, etc.

There have been many assessments of the trade reform programs and the assistance provided by the IFIs through the early 2000s (see e.g., Dean, Desai and Riedel, 1992; Sharer, 1998; Wei and Zhang, 2006; World Bank, 1992, 2001 and 2006). While reform programs did not always have the desired effects and many were not sustained, the reforms increased growth rates by generating additional investment into the tradable sectors.[7] Whatever the relative importance of the different drivers of reform, the result was a significant reduction in anti-export bias, greater neutrality in the incidence of policies across sectors, a reduction in the relative taxation of agriculture compared to other sectors (Anderson, 2009), and increases in investment, output and trade. This also occurred in Africa, although to a lesser extent than in other regions. Africa is the only region that still taxes farmers

[7] See for example Wacziarg and Welch (2008) for a careful analysis of performance of a large number of countries before and after trade reform. See also Greenaway et al. (2002). Krueger (2003) discusses the importance of the interplay between politics and the nature of governments across countries and the effectiveness of economic policies and policy reform.

(Anderson and Masters, 2009). But similar to other parts of the world the magnitude of the rate of relative taxation has fallen – and greater trade openness in Africa has led to higher rates of growth (Bruckner and Lederman, 2012).

Since the early 2000s World Bank support activities have put more emphasis on the reduction of real trade costs. The World Bank Group is the largest provider of financial assistance for trade integration if one uses the OECD definition of aid for trade (AFT).[8] Africa is the largest recipient of World Bank AFT and has seen its share in the Bank's overall support for trade activities rise to over one-third.[9] The increasing emphasis on trade competitiveness and trade facilitation and logistics reflects demand for assistance in these areas from governments and a recognition that improving border management (the administrative procedures associated with the movement of goods across borders) and transport services policies can have a major impact on firm-level competitiveness and helps explain the lack of diversification in many African countries.[10] Without action to reduce transport costs from remote areas, increase connectivity and facilitate the movement of goods, services and people across borders, specialization opportunities cannot be fully exploited, if at all, and the potential gains from trade will not be maximized. Poor roads and ports, poorly performing customs, weaknesses in border management, inadequate regulatory capacity, and limited access to finance and poor business services are all areas where development assistance can help to improve matters.

Trade policy was a central element of many IMF programs in the 1980s and 1990s. From 2000 on less attention was given to trade matters in IMF lending, although trade policy is a standard element of IMF surveillance activities. The average number of trade policy conditions in IMF programs fell from over 2 to under 0.5 between 1998 and 2007. As of the late 2000s the traditional focus on trade liberalization was no longer visible in most country programs—insofar as trade was an element of lending programs policy conditions mostly pertained to Customs (IMF, 2009). The decline in focus on trade policy was a reflection of different factors, including lower tariffs in most countries, the limited connection between specific trade policies and macroeconomic performance, learning from the East Asian crisis (where many were of the view that a number of the trade-related conditions that were imposed by the Fund could not be justified as having a macroeconomic rationale) and a sense that with the establishment of the WTO and the increasing prominence of PTAs the need to focus on national trade policies had become weaker. A corollary of the shift away from trade conditionality by the IMF was a drop in the extent of trade policy analysis by Fund staff. In the late 1990s, three quarters of Fund staff reports included analysis of trade policy matters; as of 2006 the number had fallen to one-quarter (IMF, 2005; 2009).[11]

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8 The OECD/WTO definition of AFT includes trade policy and regulation, economic infrastructure (ports, roads, airports, telecommunications, and energy), capacity building, and trade-related budget support. Because it is impossible to distinguish which part of an infrastructure project is for a nontradable sector, the OECD considers all loans for infrastructure as AFT.

9 See World Bank (2011).

10 According to the World Bank's annual Doing Business report, on average it takes three times as many days, nearly twice as many documents and six times as many signatures to trade in many African countries than in high income economies See e.g., Djankov et al. (2006), Freund and Rocha (2010), and Hoekman and Nicita (2011).

11 The IMF participates in the Enhanced Integrated Framework for trade-related technical assistance to LDCs, which among other things aims to help ensure that LDCs include relevant trade-related priorities in their Poverty Reduction and Strategy Papers (PRSPs). In principle IMF surveillance can help inform this process, and the IMF can provide technical assistance in specific areas (such as Customs). The IMF created the Trade Integration Mechanism (TIM) in 2004, an instrument to help countries where multilateral trade liberalization might create balance of payments problems. The TIM is not a new facility, however, but aims to make IMF assistance more predictably available. To date, three member countries (Bangladesh, the Dominican Republic, and the Republic of Madagascar) have obtained support under the TIM.

4. Challenges, gaps and opportunities

The foregoing discussion illustrates that the World Bank has been providing substantial assistance to African countries aimed at improving trade competiveness and that this has been rising in the last decade. The same is true of other development IOs such as the African Development Bank (AfDB) and the United Nations Development Programme (UNDP), and bilateral donors such as the UK's Department for International Development (DFID) and the US Agency for International Development (USAID).

There are a number of areas in which more could be done. One is to provide more effective support for integration of African markets for goods, services and people. This is not to say that this is a subject that is ignored by policymakers and the international agencies. The New Partnership for Africa's Development (NEPAD) is a focal point for regional cooperation and integration. The African Development Bank (AfDB) supports regional cooperation and integration efforts by lending for multi-country projects and assisting African regional economic communities (RECs). The NEPAD initiative raised the profile of the regional integration agenda in AfDB activities, both policy based (e.g., banking and financial standards) and infrastructure development. The AfDB hosts the Africa Infrastructure Consortium Secretariat, and is tasked with facilitating cooperation on infrastructure development between itself, the AU, NEPAD, RECs and the members of the Consortium. Priority is being given by the AfDB to the promotion and development of regional infrastructure; in partnership with the AU and the UN Economic Commission for Africa.

While the regional lens has been used as a focal point for assistance by the World Bank and other development organizations, the type of projects that have been pursued are mostly country-specific, reflecting the country-centric operating model that characterizes the way the IOs are organized. Lending by the development banks (AfDB and World Bank) for policy reforms that would support regional trade arguably is too limited owing to the difficulties in securing agreement between countries and achieving agreement on guarantees for multi-country loans (Hoekman and Njinkeu, 2012). Loans by the IOs can only be made to revenue earning, creditworthy regional entities, unless repayment obligations are assumed by member governments. Many regional bodies are not revenue earning and are dependent on financial contributions from their member governments, which themselves often face serious fiscal constraints. More fundamentally, regional projects are less likely to find their way into national development plans as a result of coordination problems. A challenge then is to ensure that sufficient attention is given to determining the relative direct importance of regional projects and cooperation for countries, the potential positive externalities that could be achieved and finding solutions in cases where country-specific capacity constraints preclude the appropriate level of regional cooperation (supply of a regional public good).

Another, more specific challenge is to devote greater attention in the context of integration efforts on matters such as trade facilitation and expanding trade in services (integrating services markets). These are areas that increasingly are getting more attention from policymakers, creating opportunities to increase the coherence of what the IOs do in both areas and by doing so supporting greater progress on African economic integration. At present full use is not being made of these opportunities. One illustration of this is the limited support that African countries have been giving to the trade facilitation talks in Geneva. Another is the lack of engagement in efforts to agree on liberalization of services trade and investment policies, and for dealing with nontariff measures more generally. By not leveraging the WTO process to make progress in facilitating trade and reducing trade costs, a significant opportunity cost is incurred. Particularly worrisome in this regard are some of the arguments that are offered as to why African countries should resist accepting new disciplines on trade facilitation (Ismail, 2012) or avoid taking action to liberalize access to services markets. By not doing so – or, equivalently, by insisting on a mercantilist quid pro quo for agreeing to move forward on trade facilitation that they do not have the market power to achieve – firms and workers in Africa will continue to be confronted with higher trade and operating costs that precludes them from integrating into value chains (Draper and Lawrence, 2013).

The greater focus by IOs like the World Bank on economic integration and increasing trade competitiveness in the decade following the launch of the DDA is a reflection of greater demand for assistance by governments in these areas. The increasing demand for – and engagement in – trade facilitation projects suggests a disconnect between the positions that are often taken in Geneva and what governments are doing at home. There is less of a disconnect when it comes to the manner in which use is made of the development IOs, but their support could be made more effective. Arguably IOs can do more to provide more effective assistance for putting in place the institutional mechanisms to launch and sustain the processes that are needed to make major inroads on trade costs. Trade facilitation, dealing with NTMs and integrating services markets is much more complex than traditional trade liberalization (WEF, 2013; Cadot and Malouche, 2012; Hoekman and Mattoo, 2013).

Tariffs can be reduced at the stroke of a pen by the Minister of Finance, regulatory reform cannot. Bringing the relevant players together, including the business community and the regulatory agencies, is a precondition for establishing a performance baseline and thus a common understanding of the impacts on traders/investors and the opportunity costs that are incurred (Cadot et al, 2012). Establishing trust is paramount if the various parties are to engage fully and openly. Greater coherence requires mechanisms that are used to build agreement on what the priorities are from an integration perspective, to define what policy disciplines could usefully be embedded in trade agreements, as well as a means to agree with development IOs what support should be provided and who will provide it, and to mobilize business in monitoring implementation and outcomes. A major factor impeding progress in the WTO, as well as in PTAs, both North-South such as the Economic Partnership Agreements with the EU (see Hancock in this volume) and among African nations, in dealing with NTBs, facilitating trade in goods and liberalizing services-related transactions is that there is often no concrete action plan, performance metrics/indicators and "ownership" of such an agenda. This requires not just creating institutional mechanisms that allow participation by all the main stakeholders and that have solid governance and accountability features, but sustained engagement and support for the people and entities that are tasked with managing such mechanisms and processes.

What follows takes a "supply chain perspective" to illustrate several types of opportunities that exist for greater coherence and effectiveness. For reasons already noted supply chains offer significant prospects for African firms to increase their participation in regional and global trade. It does so because this is an area where the potential gains are large and the redistributive impacts of taking action to reduce the barriers are less stark than those associated with reducing market access restrictions narrowly defined.[12] A supply chain lens is also helpful in identifying where IOs like the World Bank can be more effective in the provision of trade-related assistance from an economic integration perspective *and* in informing the design of rules of the game that would be beneficial to embed in trade agreements.

A company's ability to participate in supply chains depends greatly on government policy choices such as the extent of restrictions on market access at home and in export markets, and the efficiency of border management and transport and logistics services. Even if tariffs on exported goods are zero, firms that confront high and uncertain border costs, complex and restrictive rules of origin, and inefficient and unpredictable logistics services will not be able to compete with firms in countries that do not confront such costs. A major challenge in making progress to reduce trade costs is to determine what exactly needs to be done. Often it is not enough to fix just one thing or another. In practice a "bundle" of policy-induced constraints may need to be addressed for a supply chain to become feasible, or for firms to invest in the facilities that are needed to make a value chain work.

[12] This is because supply chain barriers often do not generate much in the way of rents, but instead simply raise costs. In contrast, and import tariff, for example, generates revenues for the government and rents for import-competing industries that are paid for by consumers. Liberalization distributes income from producers to consumers, while removal of many supply chain barriers will increase real incomes by lowering the costs of goods.

A recent report by the World Economic Forum, Bain & Co. and the World Bank (WEF et al., 2013) concludes that a necessary condition a comprehensive approach to reducing supply chain barriers is for governments to engage with the business community. Firms that are involved in the management of value chains, that provide transport and logistics services or that are engaged in wholesale and retail distribution can all provide information on the factors that affect (reduce) supply chain efficiency. A first challenge is therefore to elicit this information from them. A central component of any such effort is the creation of mechanisms to collect data on factors affecting supply chain operations. These data can then be used to identify 'clusters' of policies that jointly generate the major supply chain barriers for industries that are particularly important or that have the greatest potential (based on inputs from business and economic analysis). A second challenge is therefore to design and put in place mechanisms that can be used to identify these priority clusters of policies are and agree on a specific implementation action plan to address the different policy-induced constraints that are identified. A third challenge is to ensure that this process includes feedback loops between government and firms to allow everyone to monitor progress, which again will have to include a mechanism through which data can be channelled on whether performance indicators are improving.[13]

This may seem a rather obvious prescription but such approaches are rarely pursued with an explicit focus on what matters from a supply chain perspective. Instead governments (and thus IOs) tend to focus on specific policy areas such as Customs; transport; standards; etc. A supply chain lens would ensure that a cross-cutting approach is taken towards identifying barriers, and that what matters most from an investment/operations viewpoint will be identified. A practical constraint that may impede initiatives along these lines is unwillingness by firms to provide data or to inform the government about some of the constraints that they face (e.g., related to corruption or other abuse of power).[14] This suggests a role for IOs – to be facilitators that help to design and put in place mechanisms that assure firms of confidentiality in case of sensitive information and that assure governments that the information that is being tabled is accurate.

Another role could be to support mechanisms to identify proposed priority areas for action that will promote the general interest as opposed to only benefiting a few companies. In practice, many of the policies that impede economic integration are regulatory in nature; they are generated by a multiplicity of agencies that impose compliance requirements on firms/traders.[15] Very often there is little if any communication/coordination among such agencies. Making progress in removing or reducing the supply chain barriers that prevail requires coordination across many government agencies as well as engagement with industry. Involving economic agencies such as competition authorities that will take an economy-wide view and focus on the interests of consumers would help ensure that efforts are directed at reforms that will promote the general welfare. Steps in this direction can be made through the creation of a high-level body that has the mandate to bring the relevant regulatory bodies and enforcement agencies together, enhance the understanding of all concerned regarding the effects of the status quo on trade and identify approaches that can reduce negative trade impacts while not impinging on the achievement of regulatory objectives.

Such approaches can also be pursued with a view to furthering regional integration and more generally the negotiation of trade agreements. A "whole of the supply chain" approach will help ensure that in negotiating the removal of barriers a comprehensive approach is pursued as opposed to one that centres primarily on specific policy instruments. International trade agreements tend to take a

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[13] The aim here is not simply to give the private sector – whether local or multinational – what they want and increase their profits. The focus is on what will enhance the general welfare by reducing trade costs that are redundant thereby benefiting consumers and increasing real incomes.

[14] Only one out of some 20 companies that were the source of detailed case studies of the types of supply chain barriers that prevail in their operations on specific trade lanes/in specific countries were willing to be named in the WEF et al. 2013 report.

[15] Most NTBs are due to the enforcement of regulatory provisions that are either product- or industry/activity- specific.

silo approach, addressing policy areas in isolation. Lowering supply chain barriers requires a more flexible and cross-cutting approach that spans all policy measures that impact on trade logistics, including those affecting services such as transport and distribution, as well as those related to border protection and management, product health and safety, foreign investment, and the movement of business people and service providers. In this regard there is great scope for greater coherence between what is needed from an economic integration perspective and the approach that is taken in trade agreements.

Another approach that can enhance coherence and thus the effectiveness of assistance is to focus on NTMs and services. International cooperation can do more to help support economic integration through processes that aim to deal with the main constraints that impede progress in reducing the incidence of NTMs and opening services markets to greater competition. The negotiation literature stresses that negotiators need to learn about the preferences and interests of other parties, as well as their own, and this is a process that that takes time. Negotiations invariably involve a complex process of interaction between domestic groups that result in an understanding of negotiating objectives/priorities. Learning is critical when it comes to the substance of policy rules—officials and stakeholders need to understand what the implications are of a given proposed rule and how it will impact on the economy. Hoekman and Mattoo (2013) argue that establishment of "knowledge platforms" – fora aimed at fostering a substantive, evidence/analysis-based discussion of the impacts of sector-specific regulatory policies and NTMs – could help build a common understanding of where there are large potential gains from opening markets to greater competition, the preconditions for realizing such gains, and options to address possible negative distributional consequences of policy reforms. Generating information on the impact and experience with reform programs that were pursued in other countries could help governments both assess prevailing policies and institutions in their own nations, and identify policy reform options.

Such fora could fulfil a number of roles.

- First, a mechanism through which information is generated on prevailing regulatory measures and their effects on prices and trade flows.
- Second, enhance knowledge of experiences and impacts in other countries, in the process identifying alternative options/good practices through collection and sharing of information Such learning can help ensure that regulations and standards that are adopted reflect local conditions and capacities for effective implementation.
- Third, by bringing together representatives of a range of countries, including officials, regulators, and services suppliers, governments can discuss and learn about alternative approaches that have been pursued in practice to address the political economy constraints that may impede pro-competitive regulatory reform.
- Fourth, identify the need for external financial and technical assistance and thus help governments allocate aid for trade more effectively.

Any mechanism to identify good practices in regulation must be broad-based and tap into knowledge across the globe for a specific sector or issue. International sectoral organizations such as the International Telecommunications Union for information and telecommunications services); the Bank for International Settlements, the International Accounting Standards Board and the Berne Union (for financial sector-related standards/regulation), the International Organization for Migration (for migration and cross-border movement of people); and networks of sectoral regulators and related institutions (such as the International Competition Network) could be the focal points for specific activities. The same applies to entities such as the Asia Pacific Economic Forum, the OECD, UN agencies, and business associations. In practice knowledge platforms may best be designed on a regional basis, linked to PTAs and regional institutions (such as regional development banks). A few initiatives along these lines have been launched in recent years, including one on professional services in the context of the Common Market for East and Southern Africa (COMESA) (Dihel, 2012).

5. Conclusion

Much progress arguably has been made in the last decade to increase the degree of coherence in what development IOs do to respond to the priorities areas in which governments seek support. Progress has also been made to make the global trading system a more effective instrument to support economic integration, including the move by the EU through its Everything But Arms DFQF initiative for LDCs, similar initiatives by a number of other OECD countries, and the Aid for Trade initiative. But a good case can be made that there is still much that can be done to improve coherence of policies and impact of the support that is provided by IOs. As far as participation in the WTO is concerned, the continued insistence on traditional forms of special and differential treatment is arguably an opportunity lost. The trade facilitation, services and NTM agendas that are on the table in the WTO are all policy areas that are of great importance from a development perspective. Economic integration can be an effective instrument to improve development outcomes. A new approach that revolves around a positive agenda could have a much greater impact in supporting economic integration. Pursuing such an agenda would help to improve coherence by creating focal points in the WTO that can be used by governments to pursue desirable reforms, and by development IOs to support not just implementation of what are agreed to be good practices but to help put in place complementary measures to increase the benefits of implementation of trade commitments.

Agreement on binding (enforceable) disciplines is an important role of the WTO and PTAs. But trade cooperation can and should go beyond the negotiation of binding rules of the game. Mechanisms of the type discussed in this paper can be pursued not just at the national or regional level but at the global (WTO) level. Reducing the trade-impeding effects of regulation requires consultative processes and dialogue through which agents can increase their understanding of the issues and the options that may exist to reduce trade costs without doing harm to the objectives that underlie regulation. There is no reason why existing WTO committees and groups cannot do more to have such exchanges and to promote greater learning about country experiences, involving not just government officials but drawing on data and information provided by businesses and other IOs.

More fundamentally, there is arguably a need to go beyond business as usual in the approaches that are taken by governments to facilitate trade. Shifting from pursuit of cooperation on a policy instrument basis (tariffs, licensing, customs valuation, services, IPRs, etc.) to a supply chain-informed approach could do much to make trade agreements and trade assistance more relevant to business, resulting in greater trade expansion by creating greater incentives for investment and job creation. This will be difficult to do given that as it implies much more coordination across government and regulatory agencies and structured engagement with the business community. It will also be challenging for development organizations as the same challenge arises there: to cut through the many silos that have been created to provide support to specific “sectors” – e.g., transport – or to deal with specific policy areas – e.g., Customs reform. A supply chain focus would imply that all of the main bottlenecks, chokepoints and sources of uncertainty and variability would be on the table, not just those aspects that a government agency happens to request assistance on. It would also help improve coherence by encouraging greater cooperation and coordination across IOs and other development organizations by identifying a cluster of areas where action is needed.

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