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The Aid for Trade Initiative:  
A WTO Attempt at Coherence

Jean-Jacques Hallaert



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## **Abstract**

The Aid for Trade Initiative is an answer to developing countries' requests for technical and financial assistance in the Doha Round negotiations. These requests prompted the WTO to collaborate with donors and development agencies but no attempt at increasing coherence between trade policy, aid policy, and development policy has been made. The main reason is that, while the WTO Secretariat had to collaborate with other institutions, it is not institutionally in a position to influence aid allocation. Aid for trade is delivered on donor's terms in the same way than any other form of aid and the WTO's role is largely limited to calling for more financial resources. The stalled Doha Round negotiations made matters worse as not only the Initiative was headless but it lost its initial core purpose of supporting the implementation of a multilateral agreement. As a result, the Initiative has grown increasingly de-linked from the Doha Round and support to trade capacity building and trade reforms has progressively slipped off donors' priorities list. In its Aid for Trade Work Programme for 2012-13, the WTO implicitly acknowledged this reality. It did not call to increase coherence in policy making or in aid-for-trade delivery but merely asked donors to consider the trade dimension of their emerging new priorities. The Trade Facilitation Agreement reached in 2013 at the WTO Ministerial Conference in Bali is an opportunity to refocus the Initiative on clearly trade-related issues: implementing a multilateral trade agreement and reduce trade costs.

## **Keywords**

WTO, policy coherence; economic development; aid-for-trade; capacity-building; technical assistance



## **Introduction\***

Collaboration with the Bretton Woods Institutions “with a view to achieving greater coherence in global economic policy-making” (“Coherence”) is one of the five formal functions of the WTO.<sup>1</sup> Coherence is not easy. It often involves high transaction costs for little results (Winters, 2007). The Aid for Trade Initiative is arguably the strongest WTO attempt at coherence; coherence between trade policy, aid policy, and development policy.

This paper provides a chronicle of the Aid for Trade Initiative in order to discuss how coherence has been understood, implemented, and has evolved. It starts by showing that the experience with the Uruguay Round pushed developing countries to request that promises of technical and financial assistance to implement a multilateral agreement become more than lip-service. The second section argues that the WTO could not ignore these requests but could not answer them either. Therefore, it collaborated with other organizations and agencies leading to the Aid for Trade Initiative. The third section turns to the coherence challenge of implementing the Initiative. It discusses the choices made in shaping the Initiative, their implications, and the impact of the stalled Doha Round negotiations. The fourth section argues that, in its Aid for Trade Work Programme for 2012-13, the WTO implicitly acknowledged that little coherence in policy making has been achieved but did not attempt to change this situation limiting itself at calling donors to consider the trade dimension of their new development priorities. The final section shows that the Trade Facilitation Agreement (TFA) offers the Initiative an opportunity to address its challenges by focusing on clearly trade-related projects. But this opportunity is at risk of being squandered.

### **I. The legacy: when the Uruguay Round haunts the Doha Round**

Traditionally, developing countries have been suspicious about the contribution of trade to development. This suspicion was at the root of the opt-out strategy they followed in the GATT Rounds. For two main reasons, developing countries are more active in the Doha Round negotiations than in previous Rounds.

First, when the Doha Round negotiations started, trade was appearing as a possible engine for growth and poverty reduction. The success of small export-oriented East Asian countries was followed by the success of large countries like China.

Second, the Uruguay Round had demonstrated that opting out was not anymore cost free. As long as the multilateral trade negotiations were limited to tariffs, the opt-out strategy had no visible cost. Thanks to the unconditional most favored nation clause, a developing country could benefit from other countries’ tariff cuts even if it did not reduce its own tariffs. There were hidden costs though. Opting out from GATT rules and relying on preferential market access limited in practice developing countries’ bargaining power in the negotiations but did little to foster their exports and even hampered their export diversification. As developing countries lost the capacity to negotiate tariff cuts on the goods they export, it is not surprising that the negotiated tariff cuts did not cover agriculture goods and left largely untouched the high protection on labor-intensive products such as shoes, textiles, and apparel. In the Uruguay Round, trade rules were extended to cover textiles and agriculture and

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\* I would like to thank Patrick Messerlin for suggesting this paper and for his comments on a previous version. It is more than appropriate to dedicate him this paper.

<sup>1</sup> Article III(5) of the Agreement establishing the WTO ([http://www.wto.org/english/docs\\_e/legal\\_e/04-wto\\_e.htm](http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm)). For more details, see the “Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking,” [http://www.wto.org/english/docs\\_e/legal\\_e/32-dchor\\_e.htm](http://www.wto.org/english/docs_e/legal_e/32-dchor_e.htm).

developing countries have now strong incentives to be involved in the negotiations as it is in part about market access for their main exports.

Moreover, starting with the Uruguay Round, the opting out does not mean anymore being exempted of commitments. Because the Uruguay Round created a new international organization, the WTO, to replace the “temporary” GATT, all members had to accept all the provisions of the agreement. This principle, which also govern the Doha Round negotiations, implied that developing countries make legally binding commitments on issues such as sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), trade-related aspects of intellectual property rights (TRIPS), or customs valuation.<sup>2</sup> These commitments required substantial and costly policy and administrative reforms. The possibility that the WTO could negotiate and thus could lead to new commitments on issues such as labor or environmental standards or the Singapore issues (competition, investment, government procurement, and trade facilitation) further increased developing countries’ incentives to be active in the negotiations. They initially adopted a defensive attitude. For example, the Like minded Group, a coalition of developing countries, organized itself at the 1996 Ministerial Conference in Singapore to prevent labor standards from becoming part of the WTO negotiations. This coalition also tried to block the launch of a new Round from 1998 to 2001 (Jones, 2010).

The Doha Round was eventually launched in 2001 and developing countries expressed concerns about the potential adjustment and implementation costs of the agreement under negotiation. They forcefully requested both technical and financial support. This was largely the result of their experience with the Uruguay Round.

The benefits expected from the Uruguay Round in terms of exports of agricultural goods and textiles and apparel did not materialize. The “dirty tariffication” of agriculture non-tariff barriers,<sup>3</sup> the special agricultural safeguards combined with other protectionist devices such as quotas and tariff escalation, large subsidies, and SPS had in effect limited their access to rich countries’ markets. The phasing out of the MFA quotas that had distorted trade in textiles and apparel for decades was in practice delayed to 2005 and only a few countries were able to seize the opportunities of the liberalization. Therefore, in the Doha Round, developing countries requested support to build the trade capacity they need to turn the trade opportunities of a Doha Round agreement into trade flows.

In contrast, the implementation costs of the Uruguay Round agreement were visible. The agreements on SPS, TRIPS, and customs valuation were costly and difficult to implement, diverting limited resources and capacities from other projects that were arguably more important for development (Finger and Schuler, 2000). As a result, most developing countries did not, or could not, comply with their obligations. According to Stiglitz and Charlton (2005), in 2000, 90 of the 109 WTO developing country members were in violation of SPS, TRIPS, or customs valuation agreements. This experience prompted calls for financial and technical assistance so that countries could implement both the Uruguay Round commitments and the expected Doha Round commitments.

Developing countries also requested support to mitigate the perceived adjustment costs from an agreement. Mauritius, which was expected to be significantly affected by the end of the textiles quotas and by the preference erosion of preferences on sugar, suggested the creation of a compensation mechanism to address the impact of preference erosion. Net food-importing developing countries expressed concerns on the impact of a price increase following the negotiated elimination of agricultural subsidies.

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<sup>2</sup> Rules on customs valuation are a good example of how things have evolved. Developing countries could opt out of the Tokyo Round code on customs valuation (and most of them did) but the Uruguay Round’s agreement on customs valuation is legally binding for all WTO Members.

<sup>3</sup> As part of the Uruguay Round, some members agreed to replace their non-tariff barriers on agriculture with *ad valorem* tariffs. Estimating the *ad valorem* equivalent of non tariff measures is difficult. The tariffication was usually done in a way that tariff equivalent was high and arguably has not reduced protection.

Finally, developing countries requested that the support they ask for takes the form of *actual* assistance and not *promises* of assistance. This is another legacy of the Uruguay Round. As summarized by Finger (2007), developing countries experience was that “the Uruguay Round agreements imposed bound commitments to implement, but provide only unbound promises of assistance.” The Uruguay Round agreement included promises of assistance

- To enable developing countries to turn the trade opportunities of the agreement into trade. In the Decision on Measures in Favor of Least-Developed Countries (LDCs), Ministers agreed that LDCs “shall be accorded substantially increased technical assistance in the development, strengthening and diversification of their production and export bases including those of services, as well as in trade promotion, to enable them to maximize the benefits from liberalized access to markets”<sup>4</sup>;
- To implement the agreements. The agreements on TBT,<sup>5</sup> on the application of SPS measures,<sup>6</sup> on customs valuations,<sup>7</sup> and on TRIPS<sup>8</sup> have all articles indicating that developing countries *should* receive assistance; and
- To cope with the adjustment costs. The Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries, Ministers agreed “to give full consideration in the context of their aid programmes to requests for the provision of technical and financial assistance to least-developed and net food-importing developing countries to improve their agricultural productivity and infrastructure.”<sup>9</sup>

Because they were unfunded, non-binding, and non-enforceable, these promises were, however, soon forgotten.

In sum, developing countries’ requests for financial and technical assistance in the Doha Round are both a legacy of the Uruguay Round and the result of the expansion of the WTO to behind-the-border issues. The novelty is that developing countries make forceful requests that the promises for technical assistance are more than lip-service.

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<sup>4</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/31-dlldc\\_e.htm](http://www.wto.org/english/docs_e/legal_e/31-dlldc_e.htm). It is noteworthy that the Decision includes assistance to strengthen and diversify the production base. This is outside the WTO mandate and will be an aid-for-trade objective.

<sup>5</sup> Article 12(7), [http://www.wto.org/english/docs\\_e/legal\\_e/17-tbt\\_e.htm](http://www.wto.org/english/docs_e/legal_e/17-tbt_e.htm).

<sup>6</sup> Article 9, [http://www.wto.org/english/docs\\_e/legal\\_e/15sps\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/15sps_01_e.htm).

<sup>7</sup> Article 20, [http://www.wto.org/english/docs\\_e/legal\\_e/20-val\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/20-val_01_e.htm).

<sup>8</sup> Article 67, [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm).

<sup>9</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/35-dag\\_e.htm](http://www.wto.org/english/docs_e/legal_e/35-dag_e.htm).

## II. Promoting coherence between aid, trade, and development: too much for the WTO Secretariat alone

*Progress in complicated multilateral negotiations may increasingly require a more active market in side-payments (foreign aid or other non-trade related items) in order to avoid “hold-up” problems and facilitate a broad-based consensus*

(Kent Jones, 2010)

Developing countries' requests for assistance in the Doha Round negotiations could not be ignored for three main reasons.

First, following the failure of the WTO Ministerial Conference in Seattle to launch the “Millennium Round,” the WTO had emphasized the development dimension of trade to garner enough support for a new Round called the “Doha Development Agenda” (DDA) or the “Development Round”. Technical and financial support was an important component of the development dimension and the Ministerial Declaration that launched the Doha Round states: “We have established *firm commitments* on technical cooperation and capacity building in various paragraphs in this Ministerial Declaration. We [...] reaffirm [...] the important role of sustainably financed technical assistance and capacity-building programmes.”<sup>10</sup>

Second, developing countries had demonstrated their readiness to block an agreement if they perceived that their interests and concerns were not sufficiently taken into account. The Like Minded Group had made the resolution of the Uruguay Round implementation issues a condition for the launch of a new Round (Jones, 2010). In 1999, at the WTO Ministerial Conference in Seattle, developing countries opposed the launch of a Round that would discuss labor standards. In 2003, the WTO Ministerial Conference in Cancún collapsed in part because developing countries felt that the draft texts did not reflect their priorities.

Third, developing countries agreed that trade facilitation would be part of the Doha Round negotiations only in 2004 and on the condition that aid is provided. The “modalities for the negotiations on trade facilitation” (WTO, 2004) include commitments to provide developing countries with support as early as the negotiation phase: “It is recognized that the provision of technical assistance and support for capacity building is vital for developing and least-developed countries to enable them to fully participate in and benefit from the negotiations. Members, in particular developed countries, therefore commit themselves to adequately ensure such support and assistance during the negotiations.”<sup>11</sup> More importantly, the implementation of the agreement was, from the start, explicitly conditional to the country capacities to do so and thus to the availability of support to build this capacity: “It is understood, [...] that in cases where required support and assistance [...] is not forthcoming, and where a developing or least-developed Member continues to lack the necessary capacity, implementation will not be required” (WTO, 2004). As a result, the Trade Facilitation Agreement concluded in December 2013 changes dramatically the approach to special and differential treatment: it moves away from exemptions and transition periods to assistance to acquire the capacity needed to implement obligations.<sup>12</sup>

In this context, “providing something to developing countries had become of paramount importance politically — in most eyes it had become the *sine qua non* for completing the Round” (Winters, 2007). But, what should be provided and how?

The WTO could not respond itself to the requests for financial support. It is not an aid agency and both the link between trade and development and the management of adjustment costs belong on the

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<sup>10</sup> Paragraph 41, [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm), emphasis added.

<sup>11</sup> [http://www.wto.org/english/tratop\\_e/dda\\_e/draft\\_text\\_gc\\_dg\\_31july04\\_e.htm#annexd](http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm#annexd).

<sup>12</sup> See Articles 14 to 20 of the Trade facilitation agreement (WTO, 2014a).

agenda of other international institutions. Therefore, answering developing countries' calls required cooperating with other organizations and the development community; it required coherence.

Other organizations and donors stood ready to help. In an example of coherence, the IMF established in 2004 the Trade Integration Mechanism (TIM) to "mitigate concerns that implementation of the WTO agreements might give rise to temporary balance of payments shortfall" (IMF, 2004). The IMF established the TIM to facilitate the Doha Round negotiations and despite its assessment that preference erosion or fiscal revenue losses from tariff cuts would be a problem only for a few countries. The IMF assessment on losses from preference erosion was presented in a communication to the WTO (IMF, 2003). Later, in response to the Hong Kong Ministerial declaration calling for more analysis of the scope of the tariff dependency problem, the IMF published estimates on fiscal revenue losses from various tariff cut formulas considered in the negotiations (Elborgh-Woytek *et al.*, 2006). In the absence of a Doha Round agreement, only three countries requested and obtained support under the TIM (Bangladesh, the Dominican Republic, and Madagascar). In all cases, it was to mitigate the impact of the end of the MFA quotas.

The development community was also ready to embrace the calls to supplement its usual activities with efforts to promote trade as an engine for development. Donors have long financed projects that have an impact on trade but, except for a few of them, this impact was less an objective than a side effect. In the early 2000s, the situation had changed. Donors were facing calls to scale up aid to reach the Millennium Development Goals (MDGs) as well as growing evidence that aid alone may not boost growth (Easterly 2001, 2003; Calì and te Velde, 2011) and could even make matters worse (Rajan and Subramanian, 2005). Thus, they were looking for ways to go beyond the double gap model (Chenery and Strout, 1966) emphasizing that money alone is not the answer and aid effectiveness is crucial (leading to the principles of the Paris Declaration on Aid Effectiveness in 2005).

Against this background, the aid to support trade projects appealed to donors. Aid for trade could be branded as an effort to reach the MDGs.<sup>13</sup> Moreover, aid for trade had the potential to be very effective. The aid and growth literature and the trade and growth literature were both providing new empirical evidence on ways to increase the impact of aid and trade on economic growth and poverty reduction. Moreover, they were providing intellectual support to the need to achieve coherence between trade policy, aid policy, and development policy.

In the early 2000s, there was mounting evidence that aid has more impact on economic growth and poverty reduction in a good policy environment and that effectiveness depends of "complementary policies."<sup>14</sup> The importance of complementary policies was echoed in the trade and growth literature. Complementary policies had long been recognized by trade economists as a factor that determines the impact of a trade reform on both trade and growth. However, their role had been challenging to show empirically in cross-country analysis. In the first half of the 2000s, development in econometrical techniques allowed to do so (Hallaert, 2006). Chang *et al.* (2005) showed that the positive impact of trade on growth is larger if it is accompanied by increased education, infrastructure, and deeper financial sector, but also institutional and regulatory reforms. Bolaky and Freund (2004) found that the impact of trade liberalization is increased if it is accompanied by a regulatory reform. This prompted trade economists to emphasize more vigorously the role of complementary policies and the role aid

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<sup>13</sup> The Millennium Development Goal 8 addresses both trade and aid. Its Target 12 is to "develop further an open, rule-based, predictable, non-discriminatory trading and financial system" that works for developing countries. Its Targets 13 and 14 address the special needs of LDCs, landlocked developing countries and small island developing states. "Proportion of ODA provided to help build trade capacity" is listed under MDG 8, Indicator 41. The relation between aid for trade and the MDGs was made explicit in the recommendations of the WTO Task Force on Aid for Trade. The task force indicates that an objective of aid for trade is "to enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals" (WTO, 2006a).

<sup>14</sup> For a review, see De Lombaerde and Mavrotas (2009) as well as Calì and te Velde (2011).

could play in improving the ability of developing countries to use trade for growth and poverty reduction (Hallaert, 2010; Hoekman 2007; Hoekman and Olarreaga, 2007; Hoekman and Prowse, 2005; Prowse, 2005; Winters *et al.*, 2004).

By 2005, the political economy was ripe to launch of an Aid for Trade Initiative. Several high profile reports were published that year. They detailed the rationale for an Initiative that would focus on alleviating the constraints that prevent developing countries from benefiting from trade opportunities and make trade a tool to get the growth needed to achieve the MDGs: the UN Millennium Task force on Trade report of which Patrick Messerlin was a lead author (UN Millennium Project 2005), a report supported by the U.K. Department for International Development (Zedillo *et al.*, 2005), the report of the Commission for Africa (2005), and a report commissioned by Sweden on developing countries and the WTO (Page and Kleen, 2005).

The intellectual advocacy was accompanied by political commitments. In May 2005, the G8 heads of government committed “to increase our help to developing countries to build the physical, human and institutional capacity to trade, including trade facilitation measures” and “called on the IFIs to submit proposals to the annual meetings for additional assistance to countries to develop their capacity to trade and ease adjustment in their economies” (G8, 2005). A few weeks before, at the IMF-World Bank spring meetings, the Development Committee stressed the need for aid for trade and called “on the Bank and Fund to work with others to develop proposals to help developing countries adjust to and take advantage of the round, for consideration by our next meeting” (IMF and World Bank, 2005a). At the annual meetings in September 2005, the IMF and World Bank staff’s proposal to provide more aid to trade capacity building was endorsed (IMF and World Bank, 2005b). Then, in December 2005, at the WTO Ministerial Conference in Hong Kong the “Aid for Trade Initiative” was officially launched.

The Ministerial Declaration (WTO, 2005) reflects the interests and objectives of both the WTO (“Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade”) and donors (“Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA”).

### **III. How to deliver aid for trade? A coherence challenge**

The first challenge for coherence was how to deliver aid for trade. The Integrated Framework for Trade related Technical Assistance to Least Developed Countries (IF) was an obvious channel to provide aid to implement a multilateral trade agreement and to cope with its implementation cost. The IF, an early attempt at policy coherence, is an initiative of six multilateral institutions (IMF, ITC, UNCTAD, UNDP, World Bank, and WTO). It was set up in 1997 to help the delivery of trade-related technical assistance in response to the needs identified by each LDC. Thus, the Development Committee of the World Bank and the IMF argued that the IF should deliver aid for trade. In order to increase its fire power,<sup>15</sup> it was agreed at the 2005 IMF-World Bank annual meetings to provide the IF with 200-400 million US dollars in additional resources (IMF and World Bank, 2005b).

Others favored a different delivery mechanism. The lack of financial resources was not the only problem with the IF: it had disappointed many developing countries, was not operational (in part because coordination issues had slowed down its action), was plagued by high bureaucratic costs, and was limited to assistance to LDCs whereas the requests for support in the Doha Round were made by all developing countries. Therefore, many stakeholders favored another delivery mechanism that

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<sup>15</sup> Early 2004, the IF had received from donors only USD 21.1 million for the Diagnostic Trade Integration Studies and for Technical Assistance (Winters, 2007). On the eve of the WTO Ministerial Conference in Hong Kong, the IF had only given out a maximum of USD 1 million in aid to each country (Beattie, 2005).

would be both sufficiently large and operational quickly. The EU, the OECD, the G8, the WTO, and several bilateral donors favored the idea of an Aid for Trade Initiative and donors pledged “more money than the IF had ever received” (Winters, 2007).

This difference of views persisted at the WTO Ministerial in Hong Kong. Ministers launched the Aid for Trade Initiative but also indicated in the Declaration: “we continue to attach high priority to the effective implementation of the Integrated Framework (IF) and reiterate our endorsement of the IF as a viable instrument for LDCs’ trade development, building on its principles of country ownership and partnership” (WTO, 2005).

The Hong Kong Ministerial Declaration gave the WTO the mandate to shape the Initiative stressing the importance of collaborating with other institutions: “We invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations [...] on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting [...] on appropriate mechanisms to secure additional financial resources for Aid for Trade” (WTO, 2005).

The choice to give the WTO the lead in shaping, monitoring, and defining precisely the scope of the Initiative was done by default. While it is in the context of the Doha Round negotiations that developing countries’ requests for support were the most clearly expressed, the WTO has no expertise in delivering aid and no mandate to do so. But there was no other politically viable alternative. Developing countries feared that the IF could focus too much on market liberalization while donors suspected that the UNDP would promote it too little (Winters, 2007).

This choice had two major implications. First, the WTO put resource mobilization at the core of the Initiative. Pascal Lamy, then head of the WTO, was clear: “resource mobilization was really the focus of our efforts [...]. It must remain central.” (WTO, 2011a). The Hong Kong Declaration had instructed the WTO Director-General to do so because showing that financial resources are available was important to facilitate the Doha Round negotiations. There was also an institutional motivation for the WTO to focus on resource mobilization: lobbying for more resources and monitoring the financial flows is all what the WTO Secretariat could do given the limits of its mandate.

The second implication was that donor coordination and coherence in policy making could not be enforced or even advocated given the limit of the WTO mandate.<sup>16</sup> This problem was increased by the delivery mode that the task force recommended. The delivery mode was widely debated and involved virtually all donors (bilateral, multilateral, or regional) but also the Bretton Woods institutions, the UN agencies, the Commonwealth Secretariat, and the OECD. The debate boiled down to the issue of creating a dedicated fund or leaving aid for trade as part of regular official development assistance (ODA). Eventually, the latter was chosen.<sup>17</sup> This choice had the advantage of maximizing the resource mobilization because it allows labeling as “aid for trade” regular aid projects that are somewhat related to trade and because some donors may have political or institutional difficulties in funding a dedicated fund. It had the disadvantage that aid for trade is delivered in an uncoordinated manner only because donors want it, for the project they choose to support, and on their terms. Therefore, there is no coherence in the Aid for Trade Initiative and the collaboration between institutions and donors is largely limited to the preparation of the Global Review of Aid for Trade that takes place every two years.

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<sup>16</sup> It seems that the WTO initially hoped to be able to do so. Finger (2007) reports that, in a chat room discussion (16 October 2006), WTO DG Lamy explained that while the WTO makes only a modest contribution to capacity building, it seeks to contribute coherence and clarity to other’s efforts.

<sup>17</sup> For details, see Hoekman (2007) and Luke *et al.* (2009).

#### IV. “Deepening coherence”: From coherence in policy making to maintaining awareness of the role of trade in development

The Aid for Trade Initiative succeeded in mobilizing a large amount of resources but, after five years, resource mobilization was at risk. Facing a fiscal crisis, many donors were cutting their development budgets. Moreover, because the Doha Round negotiations had stalled, the resources mobilized could not support the implementation of a multilateral agreement and instead were used to finance other projects, some of them only remotely related to trade. In this context, delivered on donors’ terms through existing channels, without coordination, aid for trade was difficult to distinguish from other forms of aid. Its rationale was blurred. This prompted many developing countries to question the additionality of aid for trade (Hallaert, 2013),<sup>18</sup> while for many donors, in the absence of a Doha Round agreement, trade capacity building was increasingly falling out of favor as new priorities emerged.

The WTO response was to expand the already broad scope of the Initiative to cover donors’ new priorities. In its Aid for Trade Work Programme for 2012-13, titled “Deepening Coherence,” the WTO claimed that donors’ new priorities such as gender empowerment, green growth, food security, energy, and climate change can be part of aid for trade. It also gave a higher profile to topics, such as trade finance and the role of the private sector in development, that have always been part of the Initiative but were attracting more attention (WTO, 2011b).<sup>19</sup>

In the Work Programme, the WTO also called donors to consider the trade dimension of their new priorities. Raising donors’ and developing countries’ awareness of the role trade can play in development is probably a major achievement of the Aid for Trade Initiative. As part of the 2009 monitoring exercise, the WTO and the OECD asked recipient countries to evaluate the role given to trade in their development strategy (OECD-WTO, 2009). The answers suggest that the awareness of trade as a development tool is extremely high, reaching levels unthinkable only two decades ago: 96 percent of developing countries claimed that they have mainstreamed trade in their development strategy. This is certainly an overestimate that reflects the bias of a monitoring exercise based on self-assessment. Outsiders’ assessment is more nuanced. UNCTAD (2009) wrote at the time that the OECD-WTO survey was conducted: “Mainstreaming trade into national development strategy is a major concern [...] so far, only a minority of country-level plans includes trade-related policies and assistance among their priorities.” A more recent UNDP (2011) study finds that 85 percent of PRSPs included a trade component, whereas only 25 percent had this in 2000.<sup>20</sup> These more nuanced views are consistent with the IMF-World Bank joint assessments of the Poverty Reduction Strategy Papers (PRSPs).<sup>21</sup>

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<sup>18</sup> Additionality is a major concern of developing countries. They fear that aid for trade would divert aid from other sectors. Reflecting this concern, Kofi Annan, the United Nations Secretary-General, indicated at the WTO Ministerial in Cancún: “Developing countries need aid for trade, and such aid must not come at the expense of aid for development” (WTO, 2003). The additionality of aid for trade is explicit in both the Hong Kong Declaration (WTO, 2005) and the task force recommendations (WTO, 2006a).

<sup>19</sup> Trade finance was a high profile issue during the “great trade collapse” of 2008-09. In November 2008, Pascal Lamy claimed in his report to the WTO General Council that the World Bank support to trade finance was “aid for trade in action.” The Aid for Trade Initiative provided the WTO with extra leverage to promote its trade finance agenda (Hallaert, 2011). As for the role of the private sector in development, the Fourth High Level Forum on Aid Effectiveness held in 2011 emphasized that the private sector is essential to move from “aid effectiveness” to “development effectiveness.” In this context, the role of the private sector was given a particular attention at the Third Global Review of Aid for Trade.

<sup>20</sup> Obviously a softer criterion than the WTO-OECD criterion of “mainstreaming trade in development strategy” or the UNCTAD’s “priority.”

<sup>21</sup> See the “Joint Staff Advisory Notes” and the “Progress Reports” published on the IMF website. For an evaluation of the (lack of) mainstreaming of trade in development strategies when the Initiative was launched, see WTO (2006b).

Therefore, in the Work Programme, the WTO watered down significantly the meaning of coherence when applied to aid for trade. “Deepening coherence” was not about more or better coherence in policy-making but about lobbying donors to consider the trade dimension in their new objectives. In fact, coherence was conspicuous for its absence in the Work Programme. In Paragraph 3, the WTO explains how aid for trade should work:

“Operationalization of Aid for Trade lies in the hands of developing countries, regional economic communities (RECs) and their development partners. Mainstreaming of trade into national and regional development programmes helps ensure that demand for Aid for Trade is expressed in dialogues with development partners; demand against which Aid-for-Trade support can be aligned. Implementation of Aid-for-Trade programmes is multi-faceted, encompassing a diverse range of delivery mechanisms and development partner organizations including, *inter alia*, bilateral donors, international financial institutions (including the World Bank Group and regional development banks), RECs and multilateral agencies.”

This paragraph acknowledges the diversity in delivery and of development partners instead of stressing the need to ensure coherence in policy-making and aid delivery. Moreover, it does not mention any role for the WTO but repeats the utopian conception underlying the Paris Principles: developing countries are expected to identify and prioritize their needs and sequence the implementation of projects. Donors would then benevolently align their support on these priorities. The burden of policy coherence was passed to the developing countries, a formidable task for countries that are often deemed to have insufficient capacities.

To some extent, in the Work Programme for 2012-13, the WTO acknowledged the reality of aid for trade. The WTO Secretariat is not in an institutional position to push for coherence. Aid-for-trade resources are increasing but they are delivered by donors on their terms without incentive for collaboration or coherence. Aid for trade is not any different from other form of ODA and suffers from the same flaws of lack of donor coordination and volatility.

## **V. Will the Trade Facilitation Agreement be a missed opportunity to reinvent the Aid for Trade Initiative?**

At the Ministerial in Bali in December 2013, the Doha Round delivered the first multilateral agreement since the creation of the WTO: the Trade facilitation Agreement (WTO, 2014a). The TFA makes an explicit link between implementation by developing countries and the technical and financial assistance they receive. Moreover, developing countries are required to implement many of their obligations under the agreement only when they consider they have the capacity to do so (Hoekman, 2014a and Neufeld, 2014).

Therefore, aid for trade has an important role to play in the TFA implementation and the TFA provides a unique opportunity for the Aid for Trade Initiative to tackle its challenges. By focusing its activities on trade facilitation and, more broadly, on reducing trade costs, the Initiative could become more efficient and restore its credibility (Hallaert, 2013). Will the opportunity be seized?

At first glance, there are reasons for hope. The WTO Aid for Trade Work Programme 2014-15 emphasizes that the “Bali Package emerged as a central theme” for the Initiative and the theme of the Fifth Global Review of Aid for Trade held in the summer of 2015 was clearly the core rationale of Aid for Trade and of the TFA: “reducing trade costs.” Moreover, donors have responded. According to the OECD,<sup>22</sup> commitments to support trade facilitation projects increased in real terms by 45 percent and disbursements by 131 percent in 2013. Adding another incentive for donors to finance trade-related

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<sup>22</sup> The OECD’s Creditor Reporting System can be accessed at <http://www.oecd.org/dac/aft/aid-for-tradestatisticalqueries.htm>. Aid to trade facilitation is reported under code 33120. Data are only available up to 2013.

projects, the Sustainable Development Goals (SDGs) for 2015-30 adopted at a UN Summit in September 2015 follow on the step of the MDGs: they consider trade as a tool for development.

However, a closer look suggests that the TFA is not for the Aid for Trade Initiative an opportunity but business as usual.

For the development community, the focus remains unchanged: mobilizing resources and improving market access. The SDGs are broader in scope than the MDGs reflecting the view that development policies need to consider issues of equity and inclusion as well as the environmental impact of human activity. Aid for Trade is seen as a tool to achieve the SDGs but its role is limited to the usual resource mobilization. The “Means of Implementation” 8.a proposes to “increase Aid for Trade support for developing countries, particularly LDCs, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries.” As in the MDGs, trade has a role to play (Goals 17.10 to 17.12) and, as in the MDGs, the focus is on the market access rather than reducing the trade costs (Hoekman, 2014b) notwithstanding the TFA, notwithstanding the growing body of evidence that reducing trade costs will bring larger benefits than improving market access, and notwithstanding the recent and robust empirical evidence that the role of imports for growth and development is as large as the role of exports (Hallaert, 2015).

Against the background of a broadening of development goals and notwithstanding the institutional importance of the TFA, the incentives for the WTO to call for an expansion of the scope of the Initiative are strengthened. In the Aid for Trade Work Programme 2014-15, the WTO claims that the Bali Package “*add[s]* a significant, novel dimension to on-going work on Aid for Trade.” (WTO, 2014b, emphasis added). Similarly, Pascal Lamy, who as head of the WTO oversaw the birth and development of the Aid for Trade Initiative, recently stressed the importance of helping “least developed countries [to] acquire the capacity to raise the quality of their production to the required level. This *adds* a large Aid for Trade area, *besides* existing support programs for production capacity, infrastructure, trade facilitation or trade finance.” (Lamy, 2015, emphasis added). Clearly, reducing trade costs has not become the focus of the Aid for Trade Initiative but just another expansion of its scope.

The financial cost of implementing the TFA is small and, thus, in itself, does not require an increase in Aid for Trade resources or a refocusing of the Initiative’s activities. The OECD estimates that the initial investment cost ranges between USD 5 and USD 25 million per country and that the annual operating costs do not exceed 3.5 million (OECD, 2014). The Word bank estimates range from USD 7 to USD 11 million (Jackson and McLinden, 2013).

Nonetheless, in another sign of the suspicion that developing countries regarding the additionality and delivery of aid for trade, they express concerns that support may not be available to implement the TFA. These concerns are so strong that in July 2014, in a show of coherence, nine International Organizations (ITC, OECD, UNCTAD, UNECE, ECLAC, ESCAP, ESCWA, World Bank, and WCO) issued a joint statement stressing their commitment to provide coordinated assistance and the WTO announced the launch of a “WTO Trade Facilitation Agreement Facility” financed on a voluntary basis by WTO Members (WTO, 2014c). The Facility is limited in scope and aims at addressing possible aid-for-trade delivery failure. In such, it is an answer to the credibility issue of the Initiative but this can only be a partial, limited, and specific answer. The Aid for Trade Initiative needs more to tackle its challenges and should seize the opportunity of the TFA to reinvent itself.

## **Conclusion: Has the Aid for Trade Initiative passed the test of coherence?**

The Aid for Trade Initiative increased donors' and developing countries' awareness of the role trade can play in development. It has also been instrumental in the increase in aid to build trade capacities and in donor financing to the productive sector.

However, the Aid for Trade Initiative failed at coherence in policy-making. The WTO Secretariat is not in a position to promote coherence in aid for trade. It has no expertise in aid delivery and in development policies and, perhaps more importantly, could not institutionally steer the Initiative. Its role is largely limited at calling for more resources and at monitoring aid flows. Thus, the Initiative is headless and, in the absence of a Doha Round agreement, without a precise goal. The consequence is that donors deliver aid for trade as any other form of aid: on their terms and in an uncoordinated way. As past experience shows that complementary policies and sequencing are crucial for the success of trade reforms, the failure to achieve coherence reduces the effectiveness of aid for trade.

In this context, and with no prospect for a rapid conclusion of the Doha Round, aid for trade has become less a priority for donors. In its Aid for Trade Work Programme 2012-13, the WTO implicitly acknowledged this reality. Unable to promote coherence in policy making it redefines coherence as coherence "in objectives" by calling for donors to consider the trade dimension of their new priorities.

The Trade Facilitation Agreement has the potential to transform the Aid for Trade Initiative and increase policy coherence. However, the TFA risks being a missed opportunity for the Initiative. The WTO considers that trade facilitation and more generally reducing trade costs constitutes just an expansion of the scope of the Initiative rather than an opportunity to focus its activities. Similarly, for the development community, the TFA does not lead to revisit business as usual: the role of trade in the post 2015 development agenda remains as it was in the MDGs: improving market access. Despite its large benefits and low cost, reducing trade costs is simply ignored.

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**Author contacts:**

**Jean-Jacques Hallaert**

IMF, Washington DC

Email: [JHallaert@imf.org](mailto:JHallaert@imf.org)