The World Bank in Trade: The New Trade Agenda

31

Richard Newfarmer and Dorota Nowak

The World Bank's engagement on trade has intensified in recent years. After high levels of trade-related lending during the 1980s, the Bank turned its attention away from trade during most of the 1990s.[1] However, by 2001, as it became clear that developing countries' participation in the globalization process was uneven and as the debate on globalization began to intensify, the Bank began to ramp up its trade work once again in 2001.[2]

But the agenda was different in 2001 than in earlier periods. No longer were Bank activities primarily focused on tariffs and other border barriers to trade (many of which had come down significantly), but rather on the "complementary policies" necessary to ignite growth and ensure participation of the poor in globalization. The "New Trade Agenda" of the World Bank has three goals. The first is to make the world trading system more supportive of development at the global level, particularly in the products the poor produce—namely agriculture and labor-intensive products. The second is to improve the trade-creating aspects of preferential trade agreements at the regional level. The third is to help developing countries incorporate trade into national development strategies to promote growth. The Bank's country work is focused on overcoming the supply-side constraints that prevent developing countries, particularly low-income countries, from taking advantage of the opportunities inherent in globalization.

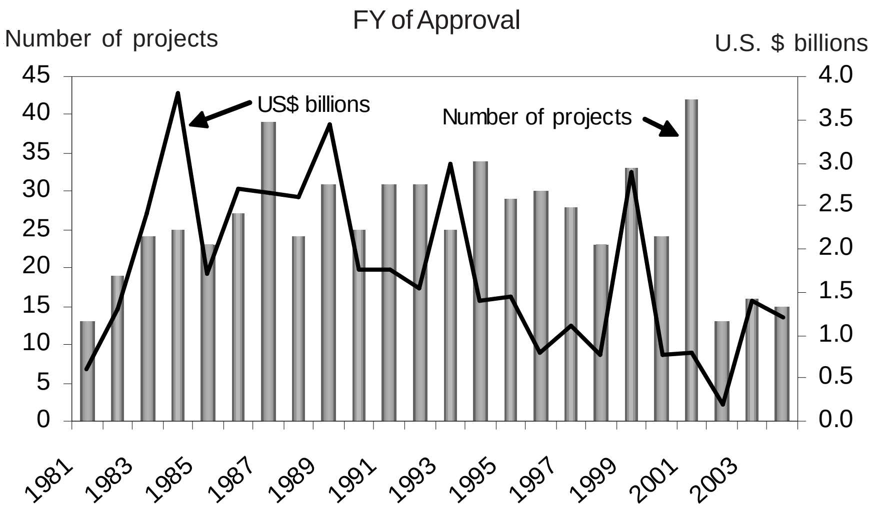
This chapter charts the evolution of the World Bank's activities in trade, provides an overview of the Bank's current program, and concludes with a look at the challenges that lie ahead.

Two decades of trade work at the World Bank: a natural evolution

The Bank's assistance to developing countries in support of trade, while varying in intensity, has been substantial over the last 25 years. More than 500 lending operations were dedicated fully or partially to trade in 117 countries. Total lending amounted to $38 billion, or some 8.1 percent of total Bank commitments during this period. Lending activities continued to be supported by a great deal of economic and sector work, research, and, more recently, an increasing volume of capacity building and training activities.[3]

In the 1980s, many developing countries began eliminating quantitative restrictions on imports and reducing tariffs. The Bank supported those efforts with structural and sectoral adjustment loans. Its aim was to help countries reduce the disincentives to exporting implicit in high border barriers and to reduce the

Figure 1. Number of trade-related lending has decreased overall



Source: World Bank, TAE Project Database.

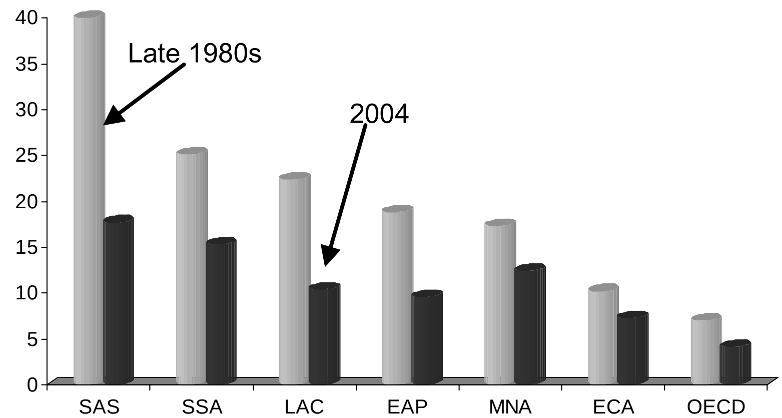
distortions and monopoly rents that often accompanied the barriers. The Bank also supported macroeconomic reforms that eliminated multiple exchange rates and discretionary allocation of foreign-exchange subsidies. Lending remained relatively high throughout the 1980s, reaching its apex in fiscal year 1987 with approximately 40 trade projects approved (figure 1).

By the 1990s, most countries had enacted major trade reforms. Led by East Asia (and with South Asia trailing behind), average unweighted tariffs in developing countries declined sharply from their high levels of the late 1980s (figure 2). With these developments, the Bank turned its attention to other impediments to growth. Fiscal year 1993 marked the start of a decline in trade-related lending that lasted until 2002, with a spike in lending to the crisis-affected countries of East Asia in 1999.

Throughout this period, the Bank's core trade research team remained intact. Its steady stream of timely policy-oriented studies included work on trade and poverty, agricultural trade, services, trade facilitation, regionalism, and foreign direct investment. The team's work formed the basis for the Bank's eventual reengagement on trade issues at the global, regional and country levels.

Figure 2. Average tariffs have decreased accross all regions

Average tariffs, percent



Source: WITS database.

The New Trade Agenda: a resurgence of trade activity at the Bank

The steady expansion of the global marketplace proved to be an important driver of growth in developed and developing countries alike. Global merchandise trade grew at an annual average of more than 6 percent in the 1980s and 1990s. As a group, developing countries benefited from the expansion, increasing their share of the non-oil market from 21.1 percent in 1980 to 37.4 percent in 2003.

But beneath this process lurked uneven country performances. Low-income developing countries have had far less success in penetrating global markets than middle-income countries, and their average growth has lagged behind that of developing countries as a group. While middle-income countries increased their share of the global market for non-oil trade by some 14 percentage points between 1990 and 2003, low-income countries managed an increase of just 0.5 percentage point. The least developed countries (LDCs) barely maintained their market share. Correspondingly, growth rates of the low-income countries were substantially lower as well, although they accelerated with the rise of commodity prices after 2001. During the 1990s, growth of the low-income countries was 0.4 percent slower than for middle-income countries, and 1.1 percent lower in per capita terms.

The slower growth of low-income countries can be traced in part to trade problems—among them over reliance on volatile commodities, lack of diversification, and inability to take advantage of profitable opportunities in global markets. The lowering of tariffs exposed “behind-the border” constraints to trade related to the investment climate (e.g., poor macroeconomic policy, weak governance, and lack of enforcement of property rights), institutions (customs), and infrastructure (ports and telecommunications). Without progress on these problems, the price incentives of lower border barriers by themselves could not induce growth.

Another obstacle to growth in developing countries' exports was the high level of protection of agriculture in the developed countries. As manufacturing tariffs came down, agricultural tariffs stayed high, while domestic support programs in the advanced economies depressed world prices for the agricultural commodities so important to developing countries' trade.

Two other factors called for a new trade agenda at the Bank. The first was the opportunity presented by the emergence of a new round of multilateral trade talks, dubbed the Doha Development Agenda. The second was the explosion of "competitive liberalization" at the regional level, as the United States, in particular, accelerated its pursuit of regional trade agreements (RTAs), thereby opening a second front along which developing countries could expand their markets.

In April 2001 a report to the World Bank's Executive Board of Directors (World Bank 2001) outlined a new trade strategy with three mutually reinforcing goals:

- at the global level, to help make the world trading system more conducive to development.
- at the regional level, to help shape the growing agenda on regionalism and bilateral agreements in such a way that trade is created and integration deepened; and
- at the country level, to help developing countries integrate trade into growth strategies.

The report also laid the groundwork for the subsequent creation of a new International Trade Department in 2002.

The program today

To achieve these objectives, the Bank's trade program consists of operational activities, research, analysis, advocacy, training, and capacity building at the global, regional, and country levels.

Toward a development-friendly multilateral system

The Bank's participation in global discussions of trade policy has intensified significantly since 2001, with a focus on the Doha Round. To help make the world trading system more conducive to development, the Bank has undertaken new research and channeled existing research more directly into policy dialogue. For example, the Bank devoted its *Global Economic Prospects* reports from 2001 to 2004 to trade-related policy analysis and recommendations (World Bank 2001a, 2002, 2003a, 2004a).

Box 1. A new initiative in trade facilitation

In the growing area of trade facilitation, the Bank is complementing its operational activities with an ambitious outreach program to support the Doha negotiations. The main goal is to help developing countries approach the negotiations with tools they need to make informed decisions. Better knowledge of the cost and benefits of reforms will help developing countries undertake stronger commitments—to their own benefit. Of particular importance is LDC participation in the commitment process. If they are left out of the reform process, LDCs will be further marginalized in the world trading system.

The main aspects of the World Bank program, which is being implemented in coordination with the Negotiating Committee at the WTO and the WTO Secretariat, are: (a) publication and dissemination of the *Customs Modernization Handbook* (de Wulf and Sokol 2005); (b) preparation of a self-assessment tool that will allow countries to quickly analyze proposals put forward at the negotiations; (c) participation of LDCs in all relevant forums, with a special focus on Africa in coordination with the Africa Union. Working together with the World Customs Organization and with support from Britain's Department for International Development, the Bank will also pilot a self-assessment tool in four countries.

Source: World Bank.

Making RTAs work for developing countries

In the last 15 years the number of regional and bilateral reciprocal trade agreements in force around the world increased from about 50 to more than 200. These agreements can have a positive or negative effect on trade and incomes, depending on their design, and can also affect the multilateral trading system (see Richard Newfarmer's chapter in this volume). The Bank has analyzed these issues in research papers and studies such as Schiff and Winters (2003) and World Bank (2004a).

The Bank has produced trade reports for five of its six regions, focusing on competitiveness, trade reforms, services, and other behind-the-border trade questions.[4] It also has an ambitious program in support of Eastern Europe's accession to the European Union (the program links regional initiatives to domestic reforms).

In the last two years, the Bank has begun to respond to client requests for technical assistance in regional trade negotiations, particularly those involving the European Union and United States. In addition, the Bank is investing an increasing amount in trade-facilitation projects and regional transport corridors, notably in Africa. As part of a recently released Africa Action Plan, the Bank's Africa region will conduct surveys of transport costs in export corridors and work with donors on new projects to promote regional integration.

Country work: increasing investment in trade

As tariffs have come down, governments have sought the Bank's advice on overcoming supply-side constraints to trade. For LDCs, the Bank has spearheaded work on the Integrated Framework (IF) for Trade-Related Technical Assistance—a multidonor trust fund managed by the United Nations Development Programme with participation from the International Monetary Fund, World Trade Organization, International Trade Center and the United Nations Conference on Trade and Development (see Julia Nielson's article in this volume).[5] The cornerstone of the IF are country-specific diagnostic trade integration studies (DTIS), which analyze internal and external obstacles to the country's integration into the world economy and identify areas in which technical assistance and policy actions can help overcome those obstacles. Of 50 LDCs eligible to receive assistance through the IF, 37 (including 29 in Africa) are participating. By the end of 2005, 21 DTISs will have been completed and 7 more will start. Nine studies are planned in 2006.

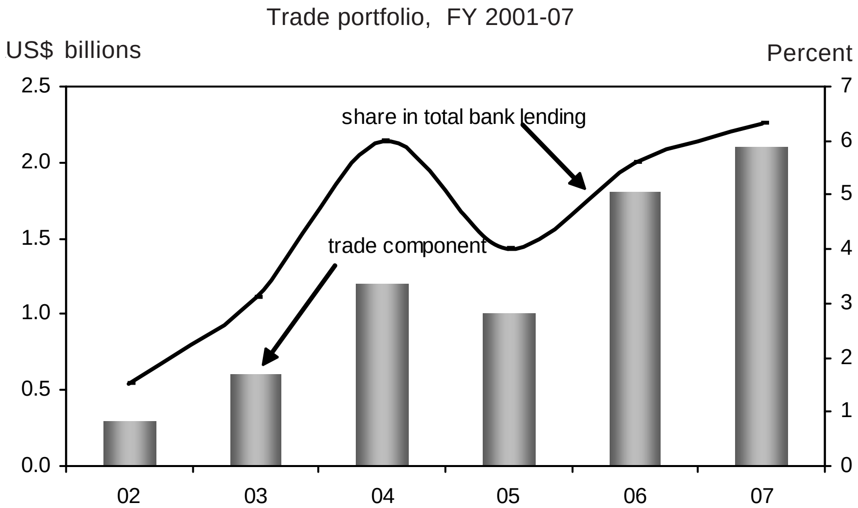
For non-LDCs, work on trade diagnostics has continued to expand. Whereas in 2002 almost all of the Bank's trade diagnostic work focused on IF countries, by 2005 that work encompassed more than 35 non-LDC countries. Virtually all of this work has started with a comprehensive approach to trade integration, simultaneously focusing on trade policy, infrastructure, customs and trade facilitation, and sometimes other aspects of the business environment.[6]

Meanwhile, the Bank's lending activities (in dollar terms and in the number of lending operations) have rebounded from a record low of approximately $200 million in FY2001[6] to $1.2 billion in 2004. And they continue to grow. Today, approved and projected commitments for new trade operations for the three-year period FY2004–2006 are significantly larger than the total commitments of operations active in FY03, which had been approved over a period of eight years (figure 3).

From conditionality to collaboration

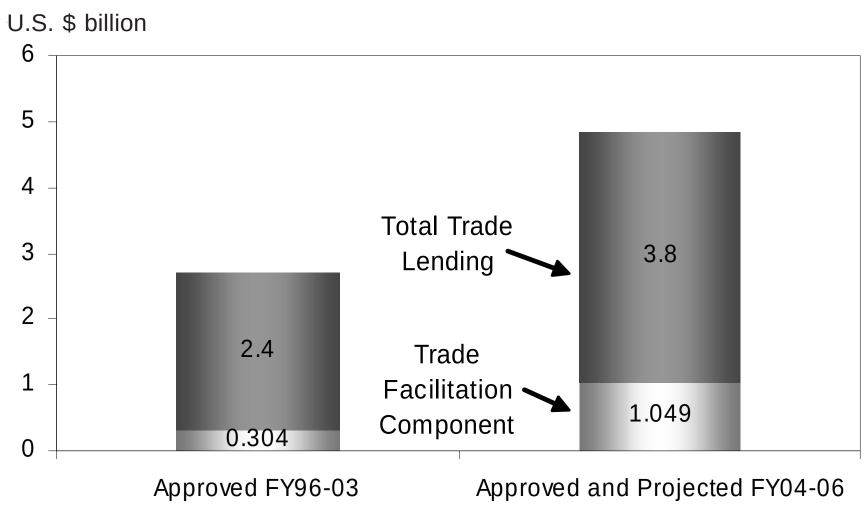
Implementing the New Trade Agenda requires improving institutions, making productive infrastructure investments, and fine-tuning policies over time, tasks that do not lend themselves well to 1980s-style adjustment lending in support of "stroke of the pen" policy changes. Because of the new requirements and the move away from balance-of-payments support characteristic of the turbulent 1980s, adjustment lending as a share of total trade lending has fallen. The content of the Bank's lending program has shifted to investment lending in trade-related, infrastructure and institutional reform.[7] Today, loans for trade facilitation alone accounts for one-fourth of all new lending (figure 4). Approved and projected

Figure 3. Trade lending has increased since late 1990s



Note: Data for FY06-07 are projected in the Bank's lending program

Figure 4. Bank activities, FY 1996 - 2006



Note: Data for FY06–07 are projected in the Bank's lending program.

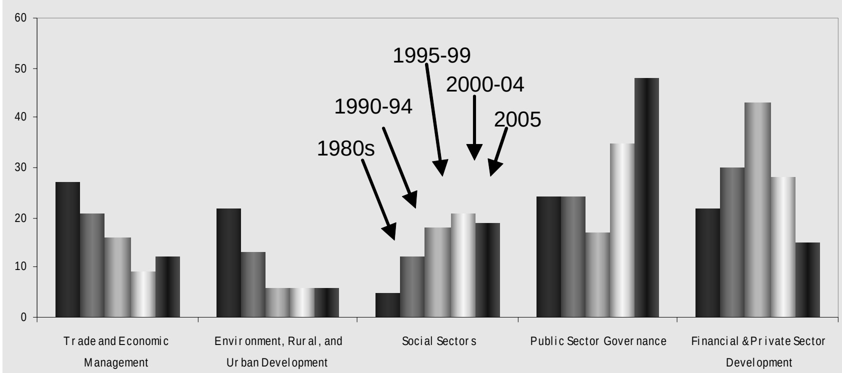
Box 2. Conditionality in World Bank lending for trade has decreased

Conditionality directed at reducing trade barriers has fallen systematically since the 1980s. The reasons for the decline mirror larger developments in the Bank's program: the greater openness of developing country economies since trade reforms in the 1980s, and the Bank's shift toward long-term reforms of institutional and supply-side policies. Not only has Bank adjustment lending in support of reductions in border barriers fallen, but the number of overall conditions in Bank adjustment loans has also fallen.

The graph below shows the shift away from conditionality related to trade and economic management in adjustment lending in favor of public sector governance. Within the economic management sphere it is probable that the number of trade conditions focused on tariff reductions has also fallen.

Figure 5. Trends in the share of conditions by thematic area

Percent



Source: ALCID, World Bank.

commitments for FY2004–06, at more than $1 billion, are triple the commitments for trade facilitation in active operations during FY1996–2003. A striking feature of Bank trade lending has been the significant decrease in the use of conditionality (Box 2).

Often projects support several integrated aspects of trade-related projects. For example, the Bank has supported restructuring efforts, policy changes, and new investments designed to increase the productivity of West African countries in cotton production–even as the Bank has advocated reducing subsidies in rich countries that undercut global prices (see Box 3).

As with trade facilitation, the demand for work on standards compliance in agriculture has grown exponentially. Many developing countries have succeeded in diversifying their agricultural exports into perishable products of higher value, especially horticultural and fish products. Yet the sustainability of this success is uncertain because of increasingly stringent official and private standards in industrialized countries. Demand for technical assistance and capacity-building

Box 3. Easing the vulnerability of the "Cotton 4"

Benin, Burkina Faso, Chad, and Mali—known as the "Cotton 4"—depend heavily on cotton exports, leaving them vulnerable to the price-depressing subsidies of rich countries and volatility in world cotton markets. While advocating reductions in those subsidies, the Bank (with partners) has tried to reduce countries' vulnerability to fluctuations in cotton prices by increasing their competitiveness, strengthening their research capacity, and reinforcing producer associations. The Bank also is helping countries consider diversification to other crops, including traditional cereals and cash crops, and exploring the potential for protecting producers from risks through a combination of crop insurance and instruments to manage price risks.

In close coordination with other donors and international agencies, the Bank is supporting additional reforms of the cotton sector to lower costs and increase productivity. To support restructuring in *Benin*, the World Bank has an ongoing Cotton Sector Reform Project ($18 million). In *Burkina Faso*, the World Bank and the government are preparing a new Agricultural Diversification Project ($35 million) to strengthen producer organizations. In *Chad***,** progress on cotton reforms has been somewhat limited because of the fiscal difficulties of Cotonchad, the parastatal cotton processing company, and the slow pace of reforms by the government. The Bank is considering a Cotton Sector Reform Project (proposed at $15 million) if and when the government launches a reform program. In *Mali*, the government has decided to postpone the privatization of the parastatal cotton company. The Bank has recently approved an Agricultural Competitiveness and Diversification Project ($46.4 million) that focuses on cotton and diversification of crops. The French development agency is working with producers' organizations to build their capacity.

Source: World Bank staff.

support in this field has grown rapidly, outpacing the response by the development community.

Research and capacity building

As the Bank's trade program has grown, research has provided a solid foundation. Trade staff at the Bank have published in refereed journals and written 125 research papers in the World Bank Policy Research Working Papers series. Launched in 2004, a new World Bank Trade and Development Series now includes a dozen books on issues relevant to the ongoing multilateral trade negotiations. Four new works in the series will be released in late 2005 or early 2006.[8]

Thematically, the Bank's research agenda continues to evolve to meet the changing demand from operational units and client countries, with the overarching aim of understanding the large differences in growth performance across countries and the role of trade policies and agreements in encouraging reform.[9] Today, research work falls into three areas: national trade policies and related behind-the-border policies and how these affect growth and poverty reduction; the global agenda, in particular the ongoing Doha Round of WTO negotiations; and the design and impact of regional integration and preferential trade agreements. Bank researchers continue to refine their analysis of the impact of alternative agricultural reforms on development and poverty.[10] One study examines specific proposals for agricultural trade reform that are consistent with the WTO's July 2004 Framework Agreement (Martin and Anderson 2005). Another examines the implications of these reforms on poverty in key developing countries and globally (Hertel and Winters 2005).

The World Bank Institute (WBI) is directing its operational priorities and projects to support countries preparing to join WTO and those that have recently joined. WBI also is devoting resources to help member countries in the global negotiations and in regional negotiations in agriculture, services, and trade facilitation. With 28 countries in the WTO accession process, WBI support can be an important catalyst for reforms. The Bank's strategy for engagement includes activities to leverage its support and reach as many clients as possible. For example, the Bank has convened negotiators of regional agreements from developing countries to share experiences and learn from one another. To leverage impact, WBI continues to work with many external partners.

The challenges ahead

Trade ministers and their governments will soon determine the fate of the Doha Round. Regardless of events in the short-run, the Bank through seminars, research, and dialogue with policymakers will continue to stress the need for changes in the global system to widen access of poor countries to markets in rich countries and to put them on a footing of equal trade opportunity with richer countries.

At the regional level, the proliferation of regional trade agreements risks wasting reform momentum in poorly designed arrangements. In the hope that ongoing research, training, and capacity building work on RTAs may help to mitigate these risks, the Bank will continue to expand its dialogue with the countries involved and to provide analysis and technical assistance to see that regional programs are linked adequately to the domestic reform agenda.

The great bulk of the Bank's work will continue to be at the country level. Here, despite substantial progress, needs remain great indeed. The challenge is to help countries better integrate trade-policy reforms that promote growth into national development strategies, and to help finance the infrastructure and institutions necessary to overcome supply-side constraints. The anticipated rise in "aid for trade" should help countries in this task.

Notes

1. The authors thank Denisse Pierola for her research, and acknowledge the helpful comments of Jean Francois Arvis, Paul Brenton, and Carlos Braga, and inputs from Yvonne Tsikata.

2. An important turning point was the staff paper presented to the Bank's Board in April 2001, "Leveraging Trade for Development" (World Bank 2001b). After tracing trade patterns and describing the trade problems of developing countries, the paper outlined a Bank strategy for moving forward.

3. For a more detailed discussion on the World Bank's training and capacity building activities in trade, see World Bank (2003b). For more information on trade-related research at the World Bank, see World Bank (2004b) and Hoekman (2004).

4. For Europe and Central Asia, see Broadman (2005). For East Asia and the Pacific, see Krumm and Kharas (2004). For the Middle East and North Africa, see Dasgupta and Nabli (2003). For Latin America and the Caribbean, see De Ferranti and others (2001). For South Asia see World Bank (2004c).

5. The Integrated Framework (IF) is the central mechanism for interagency cooperation on aid for trade, brings together bilateral and multilateral donors and multilateral agencies to help LDCs integrate trade into their national development plans and to coordinate delivery of trade-related technical assistance in response to needs identified by LDCs. Seventeen donors, including the World Bank, have contributed $28.1 million to the IF to date. A further $10.5 million is required for 2005 to adequately meet the needs of LDCs.

6. See, for example, de Wulf and Sokol (2005) and World Bank (2005a).

7. For example, on May 31, 2005 the World Bank Board of Executive Directors approved credits from the International Development Association of $7.5 million for the Republic of Burundi and $5 million for the African Trade Insurance Agency to provide additional funds for the ongoing Regional Trade Facilitation Project. The original project was approved in 2001 and covered Burundi, Kenya, Malawi, Rwanda, Uganda, and Zambia. Another example of lending in trade facilitation is the ECA Trade and Transport Facilitation project in Southeast Europe, which aims to strengthen and modernize customs administration and other border control agencies in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, and the Federal Republic of Yugoslavia.

8. For a list of World Bank trade publications visit: www.worldbank.org/trade.org

9. For a detailed discussion of the Bank's trade research program, see Hoekman (2004).
10. Current work takes into account existing preferences, the reforms that took place between 1997 and 2001, and the critical distinction between bound and applied tariffs.

References

Anderson, K., and W. Martin (eds.). 2005. *Agricultural Trade Reform and the Doha Development Agenda.* New York: Palgrave Macmillan and Washington D.C.: World Bank.

Broadman, H. 2005. *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*. Washington DC: World Bank

Dasgupta, D., and M. Nabli (eds.). 2003. *Trade, Investment and Development in the Middle East and North Africa: Engaging with the World*. Washington DC: World Bank.

de Ferranti, D., G. E. Perry, D. Lederman, and W. F. Maloney. 2001. *Natural Resources to the Knowledge Economy: Trade and Job Quality*. Washington, DC: World Bank.

de Wulf, L., and J. Sokol (eds.). 2005. *Customs Modernization Handbook*. Washington DC: World Bank.

Hertel, T., and A. Winters (eds.). 2005. *Poverty and the WTO: Impacts of the Doha Development Agenda*. New York: Palgrave Macmillan and Washington D.C.: World Bank.

Hoekman, Bernard. 2004. "The World Bank Trade Research Program: Summary and Synthesis." Development Research Group, World Bank, Washington, DC. Mimeo.

Krumm, K., and H. Kharas. 2004. *East Asia Integrates: A Trade Policy Agenda for Shared Growth*. Washington DC: World Bank.

Nielson, J. 2005. "Aid for Trade." In *Trade, Doha and Development: A Window into the Issues*. World Bank: Washington, DC.

Schiff, M., and A. Winters. 2003. *Regional Integration and Development*, Washington, DC: World Bank.

Tsikata. 2005. "Trade Conditionality in World bank Adjustment Lending" background paper prepared for forthcoming Trade Assistance Evaluation.

World Bank. 2001a. *Global Economic Prospects 2002: Making Trade Work for the Poor.*. Washington, DC.

———. 2001b. "Leveraging Trade for Development." A report presented to the World Bank's Board of Executive Directors. April.

———. 2002. *Global Economic Prospects 2003:Investing to Unlock Global Opportunities*. Washington, DC.

———. 2003a. *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda.* Washington, DC.

———. 2003b. "Leveraging Trade for Development: The World Bank Agenda," A report to the World Bank's Board of Executive Directors. September.

———. 2004a. *Global Economic Prospects 2005: Trade, Regionalism, and Development*. Washington, DC.

———. 2004b. "Leveraging Trade for Development: The World Bank Research Agenda." A report presented to the World Bank's Board of Executive Directors, March.

______. 2004c. *Trade Policies in South Asia*. Report No. 29949. Washington, D.C.

———. 2005a. *Food Safety and Agricultural Health Standards: Challenges and Opportunities in Developing Country Exports*. Washington, DC.

———. 2005b. *Review of World Bank Conditionality*. Washington, DC.

World Bank and International Monetary Fund. 2005. "Trade Progress Report: Doha Development Agenda and Aid for Trade. A report presented to the World Bank Board of Executive Directors. August 18.