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These notes summarize recent research on global trade issues. They reflect solely the views of the author, and do not necessarily reflect the views of the World Bank Group or its Executive Directors, or the countries they represent.

Trade Note 1

World Bank Activities on Trade

Over the last year, the World Bank has significantly stepped up support for trade activities to help its client countries integrate better into the world trading system. It has augmented resources devoted to trade, increased the number of staff with trade expertise and established a new Trade Department in July 2002 to coordinate its policy, research and capacity-building work on trade. These developments have significantly enhanced the Bank's capacity to provide support on trade activities for its clients.

Besides traditional trade lending operations, support for domestic policy reform and institution building in client countries has gained importance. This so-called "behind the border" agenda, is now widely recognized as being critical for countries to maximize benefits from "border" reforms. The narrow trade lending measure (discussed later) thus underestimates the total amount of support provided by the Bank.

The Bank's knowledge arm – the World Bank Institute – helps build the capacity of government officials to formulate trade policy, of researchers to provide a comprehensive analysis of the issues, and of civil society. Some 35 seminars, courses and workshops will be supported in 2002-03 to assist developing countries participate more effectively in the WTO negotiations. A few examples of activities in 2002 include "Globalization, Corporate Governance Strategy in the post-WTO era" in China, September 2-6; "African imperatives and the new world trade

order: an African Economic Research Consortium research workshop" in Uganda, November 13-16; and "Agricultural Trade and the WTO in South Asia" in Bhutan, November 25-29.

Another important way in which the Bank is beefing up its trade activities is by undertaking research and analytical work that can provide a sound basis for the design of future lending activities. During FY03, about 60 pieces of Analytical and Advisory Activities that focus on trade issues in World Bank client countries will be completed. The Diagnostic Trade Integration Studies (DTIS) for the Integration Framework (IF) and low income countries brings the number to around 70. The Bank is leading the Steering Committee (comprising agencies, donors and least developed countries) of the diagnostic phase of the revamped IF for Trade-Related Technical Assistance.

As part of that mandate, the Bank has completed 8 diagnostic studies (Cambodia, Lesotho, Madagascar, Malawi, Mauritania, Nepal, Senegal and Yemen) and is in the process of completing 4 more (Burundi, Ethiopia, Guinea, Mali). Thus, the Bank has completed or initiated all the country requests that have been approved by the IF Working Group. This has involved organizing and mounting over 20 visits to member countries in the past 12 months, and utilizing over \$100,000 per country of the Bank's own resources. The Bank is also a major contributor to the IF Trust Fund – currently US\$1.8 million.

Product standards are a key area of Bank support. For instance, the Bank is implementing trade facilitation projects to improve quality standards. A Trade Facilitation and Export Competitiveness



Technical Assistance Loan project currently under preparation in Peru, and a Public Policy Technical Assistance Loan being implemented in Panama are aimed at upgrading standards capacity. In addition, the Bank is leading the Standards and Trade Development Facility – an inter-agency partnership with the World Trade Organization (WTO), Food and Agriculture Organization (FAO) and the World Health Organization (WHO), which will deliver technical assistance for food safety and related standards.

With respect to trade lending, the Bank extended loans amounting to US\$800m per year (about 6 percent of total lending) in the early 1980s. This increased to around US\$1.6b per year (about 9 percent of Bank lending) in the second half of that decade, followed by a decline. In the past two years, Bank trade lending has been around US\$400m a year, or about 2 percent of total Bank lending.¹

These trends in Bank trade lending reflect two factors. First, Bank support for trade liberalization increased between FY1985 and FY1995, when many developing countries undertook significant trade reforms. Since then, the pace of trade reforms—and associated Bank lending in support of such reforms—has slowed down. Bank adjustment lending to support trade reforms averaged 14 loans amounting to \$550m per year between FY1985-95, which dropped to an average of 7 loans to \$50m per year by FY2001-2002.

Second, the latter half of the 1980s witnessed a large increase in loans for trade financing—primarily lines of credit extended by the World Bank to private sector exporters and importers in developing countries, with state-owned development banks as intermediaries. Such lending peaked in the second half of the 1980s at an average of over \$700m per year, exceeding the peak of adjustment lending. However, inadequate development of domestic financial intermediation capacity and the

poor repayment records by enterprises has scaled down such lending substantially.

Aside from financing trade reforms and providing lines of credit to exporters and importers, Bank trade lending has strengthened institutions for trade facilitation involving investment in physical infrastructure, and building capacity in customs. During the last two years, lending for such trade facilitation projects has occupied the largest category of Bank trade lending, averaging around US\$200m. (50 percent of total trade lending) a year. Examples include transport projects in Azerbaijan, Chad and Honduras; trade and transport facilitation projects in each of the six Southeastern European countries (Albania, Bosnia, Croatia, Macedonia, Moldova and Yugoslavia); and support for improving customs border control agencies and training the trading community in Pakistan.

The two second largest categories of trade-related lending during FY2001-2002 were loans for export development (e.g. Foreign Investment and Export Facilitation Project in Armenia) and competitiveness; and for trade financing. In light of the negative experience of the earlier kind of trade-financing loans, the Bank now supports the establishment of insurance schemes to foster the development of domestic trade financing capacity. The Regional Trade Facilitation Projects for 7 Sub-Saharan African countries fall under this category of loans.

Finally, the Bank will continue to undertake specific projects for the IF countries as the action plans in the DTIS are validated by individual countries. For example in Mauritania, the Bank will be providing support through livestock and agricultural competitiveness projects (that address *inter alia* standards issues) as well as port modernization and airfreight projects (to improve trade facilitation).



The rise in analytical work on trade issues, coupled with the increase in resources devoted to trade work, implies a significant rise in lending and capacity building activities by the Bank in the future.

Table 1 **Annual Average Amount of Trade Lending (US\$m.)**

Approval FY	Trade Liberalization	Trade Facilitation		Trade Financing		TA for WTO Accession/ Negotiations	Total Amount of Trade Lending
		Institutional	Physical Infrastructure	Public	Private		
1981-85	102	105	101	159	339	0	807
1986-90	591	194	13	115	715	0	1,628
1991-95	518	109	86	335	148	2	1,199
1996-2000	119	132	482	32	94	0.2	859
2001-02	54	132	68	29	128	3	413
1981-2002	305	135	166	148	308	1	1,061

Table 2 **Trade Related Analytical and Advisory Activities**

Regions	FY02	FY03
AFR	4	19
EAP	2	8
ECA	1	18
LAC	1	4
MNA		5
SAR	5	6
Total	13	60

Note: These refer to activities completed during the respective Bank fiscal years. They exclude the DTIS under the IF.

¹ The Bank has been undergoing a systematic exercise to extract the trade components out of trade-related loans, many of which are multi-sectoral. The amounts provided throughout the text are therefore generally lower than figures published prior to the completion of this exercise.

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