

## World Bank Trade Strategy Consultations

29 June 2010

German Federal Ministry for Economic Cooperation and Development (BMZ), Berlin

### Summary

#### Opening remarks by Juergen Zattler, BMZ

- ❖ Appreciate opportunity to comment on Background Paper at an early stage and receive further information
- ❖ Surprising that this is the first formal World Bank trade strategy, as the Bank's impact on country trade strategies has been high. Hope that the Bank's impact remains high.
- ❖ The linkages between trade, growth, and poverty reduction have been disputed, especially during the time of structural adjustment programs. At the time it was assumed that trade would lead to efficiency gains, which in turn would lead to growth and in turn to poverty reduction. Today there is more awareness of other impacts that trade has, and this has resulted in a slight shift of perspective:
  - The Bank's focus on regional integration has increased.
  - The importance of country-specific solution and a need for specific policy prescriptions has been acknowledged.
  - There is an increasing focus on binding constraints – which are country-specific – and on growth as well as poverty reduction.
  - The importance of political economy is taken into account: political capital is needed to implement reforms.
  - There is more focus on deep integration, compared to the previous narrower focus on e.g. tariffs.
  - The financial crisis has resulted in a decrease in trade volumes and remittances, and open economies have been vulnerable to instability. There has been a trade-off between openness and stability.
  - The financial crisis shows that a shift in focus is needed from aggregates to the quality of data and the composition of variables.
  - The crisis and the Toronto meeting illustrate that even though WTO trade negotiations have seen little progress, the result has not been a 1930s-type downward spiral of trade. The response to the crisis has been positive, including e.g. IFC trade credits. There has not been a huge wave in protectionism, as was expected.
  - Infrastructure, know-how, and capacity play an increasing role, as does Aid for Trade: the EU pledged EUR 20 bn until 2012; Germany committed EUR 220 mn in 2008 but spent EUR 470 mn. Germany and the German Development Institute (DIE) are currently working on an Aid for Trade-strategy, which will include impact monitoring.

- ❖ Germany's focus is currently on trade development, economic infrastructure and improving capacity.
- ❖ There are doubts whether ODA will increase to achieve ODA targets, the results are not yet known. But a narrow focus on ODA targets, which focus on a transfer of resources, is not itself relevant. The impact to trigger dynamic, sustainable processes in countries themselves is of importance. Support for trade can trigger economic activity and trade revenues, which in addition to tax revenue collection and private and financial sector mobilization are important.

**Presentation by Richard Newfarmer, World Bank**

- ❖ See PPT-presentation.
- ❖ A formal WBG-wide coherent view on trade was so far lacking, as was the opportunity to discuss a trade strategy with a broad group of stakeholders.
- ❖ During the 1980s period of structural adjustment and macro-economic imbalances, trade was tagged on as part of the solution, and this was not very effective.
- ❖ During the 1990s the WB backed off trade and increased its focus on poverty reduction and micro-economic management as well as governance. Trade was mainly relegated to research.
- ❖ From 1995 to 2000/2001 we can see a clear fall in trade lending components.
- ❖ Since 2001, with the launch of the Doha round, the Executive Directors pushed for an increased focus on trade. But the agenda had changes since the 1980s. The Bank's focus has mainly been on "behind the borders" and trade facilitation. In 2001 a paper "Leveraging Trade for Development" was presented to the Board, providing support for Doha and an expanded set of trade activities. Since then, the focus on trade has been increasing.
- ❖ Since the 1950s, trade has increased 27-fold, has diversified, and production networks have become much more common.
- ❖ A map shows how labor, capital and technology barriers hamper trade in particular in Africa [see PPT].
- ❖ The key lessons have been that there needs to be diversification of markets and products, and cooperation, in particular on the regional level, needs to take place.
- ❖ The trade agenda has become more complex. E.g. high cost-chains (inefficiencies) are arguably more important now than tariffs.
- ❖ Trade reform requires a complementary package of policies, which includes e.g. protection of low-income workers. This complementary agenda goes beyond the trade ministry and requires involvement of the whole economic cabinet.
- ❖ In terms of analytics, the Bank works on research, South-South analysis (WBI) and research directly for governments.
- ❖ The focus of the Bank is mainly on export facilitation and competitiveness.
- ❖ The Bank engages in several global partnerships, e.g. with the WTO's Aid for Trade.
- ❖ The Bank has several new indices, including the Logistics Performance Indicators (LPI), World Trade Indicators, and Agricultural Distortions Database.
- ❖ 2/3 of country strategies now include trade as a focal area. There is also a regional and global focus.
- ❖ Much of Aid for Trade support runs through the IFC.

- ❖ Breakdown of lending for sectors and regions [see PPT].
- ❖ The lessons are that trade can be powerful for growth and reducing poverty, but this is not automatic. Complementary policies are needed, including social protection and investments into improving the education system.
- ❖ Trade is not just about tariffs and ports, but relates to the work of several ministries and various sectors.
- ❖ The Bank proposes to focus on 5 areas [see PPT]:
  - Trade competitiveness
  - Trade facilitation and logistics
  - Trade finance (mainly through the IFC)
  - Trade cooperation (with an increased focus on partnerships under President Zoellick, including CSOs)
  - Trade data and systems (including cooperation with other partners)
- ❖ The Bank's strengths are its: focus on multiple sectors, its decentralized nature, quality research and data, cross-country transfer, an increased focus on results and monitoring and evaluation
- ❖ Timeline for the strategy [see PPT].

### **Discussion Round 1: Trade policy in developing countries**

#### **Christa Randzio-Plath, VENRO**

- ❖ Relief to hear that, contrary to the paper, assume that trade policy is complex, as is the link between trade and poverty (as EPA experience has shown).
- ❖ What remains unclear are the objectives, and how these can be achieved: how can trade reduce poverty and increase equality?
- ❖ What is missing is a focus on coherence, e.g. between trade policy and other sectors, or a trade strategy and national contexts. Since the 1980s the problems resulting from the complexity of trade have become clearer: trade can at times increase imbalances.
- ❖ Figure 8 and 9 creates the illusion that trade has increased steadily. But this lumps together MICs and LICs, which should be differentiated.
- ❖ External costs of trade have increased, e.g. the effects on climate change. This must be addressed in the strategy.
- ❖ Demands change, as the recent criticism of Germany's export-orientation show.
- ❖ How should local capacities and new, emerging markets be protected?
- ❖ Even if Doha fails, the Hong Kong commitments on agriculture should be carried through.
- ❖ The Bank's increasing focus on regional integration is positive, but the Bank should not tell countries which group to join – this is a question of national sovereignty.
- ❖ The WTO is not delivering on development, and developing countries do not have the bargaining power needed.
- ❖ Because there is no international competition law, developing countries pay higher prices, as developed countries have formed cartels.
- ❖ There is no doubt that Aid for Trade can help, but it is not the key solution. The Bank needs to make this solution explicit in its strategy: how can development take place and poverty be reduced.

## **Juergen Zattler, BMZ**

- ❖ The lessons from unilateral trade liberalization are that there needs to be sequencing, a focus on binding constraints and on political economy and it is better to liberalize in a multilateral context. Initial resources and conditions matter a lot. Does not agree with Collier's argument from the "Bottom Billion" that it is too late for the bottom billion to enter competition and that trade is not a solution for them.
- ❖ Regional trade cooperation is important, and geography matters a lot. The EU trade experience has been positive. The World Development Report (WDR) has focused on this aspect, and has categorized countries in terms of geography. The Bank is encouraged to continue work in this area.
- ❖ The economic crisis has shown that this is a trade-off between efficiency and stability. There should be increased attention to vulnerabilities, and the approach should be trial-and-error rather than big-bang. The more open economies have suffered the worse.
- ❖ There have been structural changes to the world economy:
  - The emergence of China, India and other Asian countries. China's economy will equal that of the US in less than 20 years, China is the largest exporter, and the consumption focus is strongly on Asia. There is a pressure to shift from export to domestic demand models.
  - What does this mean for other MICs and LICs? Is there any space for them? Is Collier right? There must be new opportunities, e.g. in labor-intensive sectors and exporting to Asia. Regional integration has resulted in an increased tie between Africa and Asia, and a decreasing bond between Africa and Europe.
  - The world's population will soon increase to 9 bn. Food demand is expected to rise by 50% in the next 20 years: this is a huge opportunity for Africa's agricultural sector.
  - Value-added chains are increasingly important, as is the emergence of new actors such as sovereign wealth funds.
  - Global Public Goods (GPGs) should be integrated into the work of the Bank, especially climate. The trade strategy cannot ignore these interlinkages.
- ❖ The Bank's role should be on cross-cutting issues in addition to the 5 proposed areas: identifying best practices through analysis, playing an advocacy role in the North but also in emerging markets, which will be increasingly relevant in trade in the future, and focusing on networks and cartels in a market that does not operate as single actors.

## **Richard Newfarmer, World Bank**

- ❖ These comments have been valuable.
- ❖ On the crisis-trade link: trade collapsed more than expected, but also recovered quickly. However, it is not clear that the most open countries – as measured say in the trade/GDP ratio – have suffered the most. China and the East Asian countries are the most integrated, but did not suffer the most. What matters more is proximity to the epi-center of the crisis – and whom one is mainly integrated with, e.g. Mexico suffered because of its link to the US, and Eastern Europe because of its link to the EU. Commodity exports also suffered. Sound macro was also key because those countries with fiscal headroom and reserves could adopt counter-cyclical policies. All in all, developing countries fared rather well due to their sound macroeconomic policies from the last decade. And developing

countries played a pivotal role in leading the recovery, and those with solid macro, diversified markets, and diversified products did better.

- ❖ The link between trade and poverty is a complex one. There has been concern at the Bank over EPAs, which can lead to regional disintegration and decrease in trade.
- ❖ Climate change will have a large impact on trade, and research should reflect this. A focus on financing technology transfers is arguably more important than a liberalization agenda.
- ❖ The Bank has not pushed for specific memberships into regional associations or markets.
- ❖ Competition authorities need to cooperate, especially the EU and US.
- ❖ Trade reforms of China, Brazil and India since the 1990s show that the World Bank was not involved, but that the countries themselves saw value in having import competition. The criticism of the Bank's role in trade liberalization has been over-stated.
- ❖ The Global Economic Prospects in 2002 was the first Bank report to focus on the rise of the role of emerging markets in developing countries.

#### **Oliver Wieck, BDI**

- ❖ The World Bank should remind the US that Doha has a development agenda.
- ❖ The Bank should concentrate on its value-added, and not duplicate what is being done by the WTO or OECD – this would be detrimental.
- ❖ Surprising that there is little focus on investments and the link to trade. This year's Global Monitoring Report argues that investment (including FDI) is central.

#### **Nikolai Putscher, BMF**

- ❖ 50 years ago Asians were poorer than Africans. This shows how important trade, including sequencing, has been.
- ❖ Growth theory shows that investments are needed into education and good governance.
- ❖ Why is Africa not able to take over low-value production, and move up the value-chain ladder?
- ❖ WTO's dispute settlement mechanism has been positive, but has been used mainly by the EU and US. Could the Bank be an advocate for the sufferers from European, American and Japanese trade restrictions?
- ❖ Evaluation has been neglected too much in the past, there has been too much complacency in this respect.

#### **Rainer Hartel, KfW**

- ❖ The Bank has several strategies – these should be translated into a business plan in order to be credible. The Bank should build on its value-added and focus on specific areas.
- ❖ Expenditure on Africa is high, but Africa's share in global trade is very low. There should be more learning from best-practice cases, as also small countries have had good long-run visions.
- ❖ Country ownership is key.

### **Susanne Droege, SWP**

- ❖ The linkage between climate change and trade is central. The UNFCCC \$30 bn until 2012 should be used for research and investment projects.

### **Richard Newfarmer, World Bank**

- ❖ Investment plays a major role in the World Bank's work on trade.
- ❖ The Bank's role in dispute settlement is primarily confined to research because of the obvious political difficulties of getting involved in particular cases.
- ❖ Yes, integrating several strategies is complex but necessary. In the Bank, this process occurs primarily at the country level for operational work, where the country directors and their ministerial counterparts formulate a business plan.
- ❖ Evaluation is very difficult to do well, but important.

### **Discussion Rounds 2 + 3: Aid for Trade agenda and Actor Coordination**

#### **Evita Schmieg, BMZ**

- ❖ 20 years ago the BMZ had a trade strategy. Following an evaluation, trade policy was mainstreamed into other sectors.
- ❖ Trade is more complex now: it includes tariffs, services, regulation, geographic location – this new thinking has been a challenge for Aid for Trade.
- ❖ It is important to adhere to the Paris Agenda principles. Countries need to secure ownership. This should play a role in the strategy paper.
- ❖ It is difficult to define others' comparative advantages, but one usually knows one's own strengths. The Bank's focus should be on the proposed pillars, but in these areas, the Bank should play a strong role in harmonization.
- ❖ The World Bank can build on analytical capacities, which is one of its main strengths.
- ❖ There is an interesting publication by the Bank from 1992 on the East Asian miracle which should be looked at again.
- ❖ The European Commission has played a large role in supporting regional integration. This role should not be duplicated, but complemented by e.g. supporting country implementation of integration.
- ❖ There needs to be more clarity on the link between trade and poverty. Much can be learned from the Bank in this respect, e.g. from poverty-sensitive programming and from impact measurement.

#### **Regine Qualmann, GTZ**

- ❖ Devising a strategy is the first step to making coordination possible. Transparency is needed, especially in the Aid for Trade area.
- ❖ The strategy should identify the strengths of the Bank explicitly, and also state where the Bank will not play a role. At the moment, all areas are covered.

- ❖ Donors and the Bank should not tell developing countries what regional agreements to belong to.
- ❖ The (Enhanced) Integrated Framework of the late 1990s, of which the Bank was one of the 6 co-founders, and which is used for LDCs only should be made better use of for implementing coordination. Bilateral agencies are currently at the sidelines, but should be integrated. Is an IDA-only mechanism planned?
- ❖ Germany's strength lies in translating strategy into processes and action.
- ❖ Regional coordination is complex, and regional economic communities (RECs) are still weak.
- ❖ The trade community is small and gathers around Geneva. Aid for Trade has allowed for a link to the development community, but the linkage is weak, and the communities speak different languages. Integrating the trade and development communities is crucial. The first generation of DTISs did not reflect the poverty agenda, and, at the same time, PRSPs have not included the trade agenda.

**Heike Jantsch, Foreign Office**

- ❖ Trade within countries has been neglected so far. This is an obvious problem at least since the recent food crisis, which was related to a lack of infrastructure. Especially some African countries should not be ignored in this respect as they are very large geographically.
- ❖ More than half of the global population lives in cities, but the rural population should not be forgotten in the strategy.

**Kim Weidenberg, The Left Party**

- ❖ What is the baseline for coordination?
- ❖ Human rights need to be included into the strategy, in particular related to trade financing.

**Christa Randzio-Plath, VENRO**

- ❖ The term "trade competitiveness" should be replaced by "development friendly trade"
- ❖ Shocking that women are mentioned only on p.8, and this focusing on "women's participation in export supply chains". This cannot be the right solution, especially when Doha stresses gender integration.

**Thomas Feidieker, BMZ**

- ❖ The gap between the trade and development communities is structural, and also exists at the national level. Finance Ministries play a pivotal role.
- ❖ The WTO deepens this gap, especially under Pascal Lamy, allowing for little time for dialogue with developing countries.
- ❖ The World Bank should play an active role in furthering this dialogue.
- ❖

**Christian Nakonz, Afrika Verein**

- ❖ “Trade” within transnational corporations, and its effect on taxation, should be taken into account. The Bank could provide expertise to developing countries in order to increase their bargaining power.

#### **Richard Newfarmer, World Bank**

- ❖ It is correct to give countries ownership, and for the government to take the lead in coordinating donors.
- ❖ The International Health Partnership (IHP) is an example of agencies working together to provide greater coherence and sustainable financing under the leadership of government priorities and donor coordination. This idea was also behind the Integrated Framework, but implementation has still been weak, as the framework is relatively new and in-country coordination is still lacking.
- ❖ The trade strategy will be World Bank Group wide, and will hopefully ultimately be reflected at the country level
- ❖ Different donors have different opinions on which areas the World Bank should step back from. And the Bank’s clients often demand a full package of services. Following the Paris Agenda, this role definition should be left to the countries.
- ❖ The gender quote was slightly out of context, but agree that the role of gender in the paper is currently underplayed, something we’ll rectify in the strategy.
- ❖ The term “competitiveness” has a positive connotation for the Bank’s clients, as this is associated with being part of the global market. “Development friendly” policies can apply to any “pro poor” policies.
- ❖ Our view of the WTO’s efforts in aid for trade is different: we appreciate the enhanced attention the WTO has given to the issues at the global level and the awareness it has built among the WTO membership of the importance of development assistance. At the same time, The WTO is the first to recognize that it is not an implementation agency for development policy. It should be used to e.g. place Aid for Trade on the G20 agenda, as was done.
- ❖ Thank you for all of the valuable comments and feedback.
- ❖ Please look at our website: [www.worldbank.org/tradestrategy](http://www.worldbank.org/tradestrategy) for further updates.
- ❖ We will circulate and post the summary, which you can comment on, addressing feedback either online or directly to Katri Kemppainen-Bertram in Berlin at [kkemppainenbertr@worldbank.org](mailto:kkemppainenbertr@worldbank.org).