

**ECONOMIC AND PRIVATE SECTOR**

PROFESSIONAL EVIDENCE AND APPLIED KNOWLEDGE SERVICES

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# Trade priorities for 2015

Background notes for a trade and development think tank  
workshop held on 13<sup>th</sup> February 2015

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# Trade and Development Open Ideas Day - a summary

A brainstorm meeting organised by the Department for International Development Trade Policy Unit (DFID TPU) and the Overseas Development Institute International Economic Development Group (ODI IEDG) on 13 February 2015 (at DFID, London) gathered the key trade stakeholders (World Trade Organization (WTO), World Bank (WB), ODI, Commonwealth Secretariat, Center for Global Development (CGD), International Trade Centre (ITC), International Centre for Trade and Sustainable Development (ICTSD), Trade Mark East Africa (TMEA), Saana Institute, European Centre for Development Policy Management (ECDPM), Graduate School, Food and Agriculture Organization (FAO), IDEAS Centre, University of Sussex and several UK government departments and DFID units) to discuss new ideas on trade in 2015.

The day generated a range of ideas on how the trade community could be more actively involved, more co-ordinated, and more focused around key trade debates in 2015:

- **Battle for ideas** – Most trade experts appreciate the direct and indirect ways in which trade supports growth and poverty reduction, but some disagree that open trade will help. Is there enough discussion between the trade community and the trade doubters? Should we refer to open trade rather than free trade?
- **Supporting the multilateral trading system (MTS) remains crucial** – At the same time, there is concern about regional agreements outside the MTS that exclude Least Development Countries (LDCs). Unfortunately, there seemed little optimism for a significant breakthrough at the WTO in December 2015 even though there is plenty to do for a post-Bali 'lite' agreement and LDCs are hoping for an ambitious outcome on their priorities. We also need to learn from the success of the conclusion of the Trade Facilitation Agreement, and do more on Services Trade (e.g. the implementation of the waiver for LDCs).
- **The emergence of global value chains (GVCs) has major policy implications** – The discussions on GVCs highlight important linkages with other policy areas, such as investment, agriculture, and the importance of product quality and standards. There is increased recognition that GVC analysis does change the emphasis of policy priorities fundamentally, e.g. renewed and increased emphasis on trade restrictions such as rules of origin, non-tariff measures and tariffs. There is also renewed emphasis on industrial policy, including the idea that a smaller, less coordinated push into specific GVC activities could be needed, rather than full-scale development of a whole value chain. The emergence of GVCs also reminds us that importing helps exporting and that distance still matters.
- **Supporting regional integration requires a new way of working** – The process of regional integration emphasises normal trade issues such as informal trade, design versus implementation of policy, food security, and work with the private sector. But recent experiences in supporting regional groupings also point to new ways of working (more emphasis e.g. on political economy, business associations, and infrastructure).
- **Mega-regionals need to be made development compatible** – Possibilities exist to build in (more) development friendly items in mega-regionals such as EU-US Transatlantic Trade and Investment Partnership (TTIP), but there is disagreement on when TTIP etc. would be concluded. There could also be value in committing to monitoring development impacts and to binding them into WTO principles.

- **Informal sector should be better understood** – There is recognition of the extent of informal trade or formal trade by informal sector workers (and that women are disproportionately represented in this area).
- **Post-2015 debates to include a focus on reducing trade costs** – A number of global conferences relevant to trade will take place in 2015: the fifth Aid for Trade review, the third conference on financing for development in Addis, the UN General Assembly conference in New York and the WTO ministerial in Nairobi (as well as the United Nations Climate Change Conference in Paris and the G20 meeting in Antalya). There is a clear road map running through these, and a focus on reducing trade costs could provide a strong rallying cry (this combines new trade issues, as well as policy opportunities, with an urgent need to respond to what LDCs want, e.g. to enable their economic transformation). Whilst there is some debate on how best to measure trade costs, significant progress can be made easily. There also needs to be more co-ordinated amongst the conferences.
- **Zero-zero-zero in the post-2015 context** – It is important to ensure that trade remains visible in the post-2015 debate. There could, for example, be a focus on 'zero (distortionary) trade restrictions' in addition to zero extreme poverty and zero net emissions. This could also link trade and climate change and trade and poverty more intimately.
- **Challenges in 2015** – Remaining challenges in trade include: lack of business voice, lack of co-ordination between post-2015 and trade dialogue processes, lack of global leadership on trade (for example, the role of G7 and G20), and failure to prioritise trade issues in broader debates.

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## Abbreviations

ACP	African, Caribbean and Pacific Group of States
ADB	Asian Development Bank
AfDB	African Development Bank
AfT	Aid for Trade (AfT)
AoA	Agreement on Agriculture
FFD	Financing for Development
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
AU	African Union
AUC	African Union Commission
BIAT	Boosting intra-African trade
BRICS	Brazil, Russia, India, China and South Africa
CARIFORUM	Forum of the Caribbean Group of African, Caribbean and Pacific States
CBTA	Cross-Border Transport Agreement
CEPR	Centre for Economic Policy Research
CFTA	Continental Free Trade Area
CGD	Center for Global Development
CMA	Critical mass agreements
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
DDA	Doha Development Agenda
DFID	Department for International Development
DFID TPU	DFID Trade Policy Unit
DFQF	Duty-free, quota-free
DRC	Democratic Republic of Congo
EAC	East African Community
ECCAS	Economic Community of Central African States
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EIF	European Investment Fund
EPA	Economic Partnership Agreement
EPS PEAKS	Economic and Private Sector PEAKS
EU	European Union
EUI	European University Institute
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FTA	Free trade agreement
FTAAP	Free Trade Area of the Asia Pacific
GMS	Greater Mekong Subregion
GVC	Global value chain
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least Developed Country Least Developed Countries
MCC	Millennium Challenge Corporation
MoI	Means of implementation
MTS	Multilateral trading system
NAMA	Non-agricultural market access
NFIDC	Net Food-Importing Developing Country
NTB	Non-tariff barriers
NTM	Non-tariff measures
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OWG	Open Working Group



PA	Plurilateral agreement
PTA	Preferential Trade Agreement
RCEP	Regional Comprehensive Economic Partnership
REC	Regional Economic Community
RoO	Rules of Origin
RTA	Regional trade agreement
S&D	Special and Differential Treatment
SADC	Southern African Development Community
SDG	Sustainable development goal
SET	Supporting economic transformation
SME	Small and medium enterprises
SSA	Sub-Saharan Africa
TCB	Trade capacity building
TF	Trade facilitation
TFA	Trade Facilitation Agreement
TFTA	Tripartite Free Trade Area
TiSA	Trade in Services Agreement
TNC	Transnational corporation
TPP	Trans-Pacific Partnership
TTIP	EU-US Transatlantic Trade and Investment Partnership
UEMOA	West African Economic and Monetary Union
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UN ESCAP	Economic and Social Commission for Asia and the Pacific
UNHCR	United Nations High Commission for Refugees
WB	World Bank
WTO	World Trade Organization



## Introduction

This set of notes supports a Trade and Development Open Ideas Day which aims to refresh and build ideas on key trade policy developments for 2015 and enable debate and sharing among key thinkers.

It consists of three parts.

Part I provides a set of background notes on the individual sessions during the day:

- 1 [Key events](#) in 2015, latest developments in trade, priority policy areas
- 2 [Priorities](#) for development issues in the post-Bali World Trade Organization (WTO) work plan
- 3 [Understanding](#) global value chains: how should global policy processes react?
- 4 [How](#) to support regional integration in developing countries, including the role of Aid for Trade
- 5 [How](#) to ensure development benefits from mega-regionals and EU trade policy
- 6 [Bringing](#) it together: trade in the post-2015 agenda

Part II includes a range of contributions from participants around these sections:<sup>1</sup>

- 7 [Priorities](#) for development issues in the post-Bali WTO work plan
- 8 [Understanding](#) global value chains: how should global policy processes react?
- 9 [How](#) to support regional integration in developing countries, including the role of Aid for Trade
- 10 [How](#) to ensure development benefits from mega-regionals and EU trade policy
- 11 [Bringing](#) it together: trade in the post-2015 agenda

Part III includes three supplementary notes on a number of products that have become available under the Economic and Private Sector PEAKS (EPS PEAKS) arrangement, notably a trade topic guide and helpdesk responses, and information about the SET (supporting economic transformation) programme.

These notes guided the discussion at a seminar. A [summary](#) of the day is also included at the beginning of this note and summarised around the following themes: Battle for ideas; Supporting the multilateral trading system (MTS) remains crucial; The emergence of global value chains (GVCs) has major policy implications; Supporting regional integration requires a new way of working; Mega-regionals need to be made development compatible; Informal sector should be better understood; Post-2015 debates to include a focus on reducing trade costs; Zero-zero-zero in the post-2015 context; and Challenges in 2015.

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<sup>1</sup> The contributors include Nicolas Imboden (IDEAS Centre), Bernard Hoekman (European University Institute (EUI) and Centre for Economic Policy Research (CEPR)), Mohammad Razzaque (Commonwealth Secretariat), Rashid S. Kaukab (CUTS International), Benjamin Leo and Vijaya Ramachandran (Center for Global Development), Tom Pengelly and Quentin de Roquefeuil (Saana Institute), David Luke (UN Economic Commission for Africa), Sean Woolfrey and Isabelle Ramdoo (European Centre for Development Policy Management (ECDPM)).



# Part I: Introductory notes

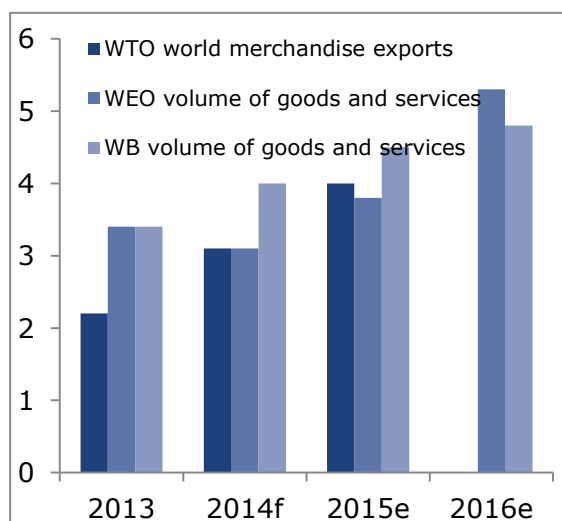
# 1 Key events in 2015, latest developments in trade, priority policy areas - *Dirk Willem te Velde*

This year is an exciting time for analysts working on trade and development. There continue to be interesting trade trends that require reflection, there are new analytical insights emerging from trade analysis, and there are a range of trade policy and development policy processes that require new ideas and action. This note will take stock of these key developments to inform the trade policy priorities for the next year.

## ***New trade relationships***

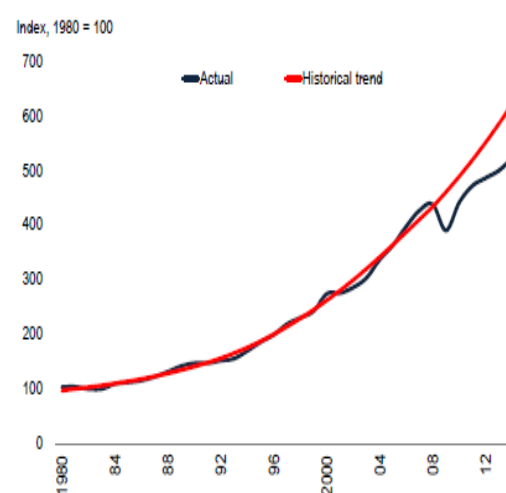
The main international organisations are downbeat about the prospects for world trade growth. In September 2014, the World Trade Organization (WTO) reduced its forecast for merchandise exports for 2014 to 3.1% (down from the 4.7% forecast made in April) and cut the estimate for 2015 to 4.0% from 5.3% previously. In January 2015, the International Monetary Fund (IMF) reduced its forecast for world trade growth (goods and services) in 2015 to 3.8% (compared to 4.9% in the October 2014 forecast), after 3.1% in 2014.<sup>2</sup> In January 2015, the World Bank wrote about 'persistently weak global trade'. Even since the recovery from the global financial crisis, global trade growth has slowed significantly, growing by less than 4% in 2013 and 2014, well below the pre-crisis average growth of 7% per annum. The World Bank argues that the slowdown is due partly to (1) weak demand but also to (2) lower sensitivity of world trade to changes in global activity (the elasticity of trade with respect to incomes has been declining). This reduction in elasticity may be the result of changes in global value chains and of a shifting composition of import demand.<sup>3</sup> If global trade had continued to grow according to historical trends over the period 2009-2014, it would have been 20% above its actual level in 2014.

**Figure 2: Annual growth in volume of trade**



Sources: WTO, IMF and WB

**Figure 1: Actual and trend world trade**



Source: Figure 4.8 in WB GEP

<sup>2</sup> <http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf>

<sup>3</sup> World Bank (2015), Global Economic Prospects, see <http://www.worldbank.org/en/news/press-release/2015/01/13/global-economic-prospects-improve-2015-divergent-trends-pose-downside-risks>

Developing countries now account for around half of global trade flows; the rise of China and other emerging markets in trade is remarkable. Further, around **80% of all trade takes place within the international production networks of transnational corporations (TNCs)**; see the World Investment Report 2013 of the United Nations Conference on Trade and Development (UNCTAD). Trade in intermediate goods accounts for 60% of global trade. Trade in commercial services is increasing rapidly from a small base and reached \$4 trillion in 2011 (compared to \$18 trillion of merchandise trade).

The sharp fall in oil prices over the last half year, by approximately 50% to around \$60 dollars a barrel, currently has important distributional consequences amongst and within countries. There will be distribution of financial resources between oil exporters and oil importers, and between different groups within country.

### ***New analytical insights***

A number of tools for trade analysis have emerged, bringing new analytical insights relevant for both trade and development policy.

**Global value chain analysis** suggests it is important to consider not only *what* is exported but also *how* and *where* in the value chain a firm is located. According to an increasing amount of analysis, a firm/country no longer needs to possess all production capabilities along the chain, but can specialise in certain parts as long as it is well connected to the rest of the chain. This offers new opportunities and challenges. Global value chain (GVC) analysis further suggests that exporting depends on importing (even more than was previously considered), putting even more emphasis on transport conditions (see recent work by the Organisation for Economic Co-operation and Development (OECD), WTO and UNCTAD).

**Calculations of trade in value added** are now possible given the development of input-output models and supply-use tables (e.g. the Eora Multi-regional Input-Output Database available for nearly 200 countries). These calculations, admittedly sometimes based on poor-quality data, suggest that what is important is not just the amount of global exports a country has but how much domestic value added is contained in such exports.

As a further example of new analytical insights, the Hidalgo, Hausmann et al (2007) **product space analysis** can provide new insights into what products a country can most easily move into next, given the country's current trade structure. Other databases, such as the **IMF-DFID Export Diversification Database**, allow new analyses based on export prices and new measures of export quality.

### ***New trade policy developments***

The **WTO's Doha Development Agenda**, which was launched in 2001, eventually produced the Bali package in 2013, including only trade facilitation, agriculture and some changes for Least Developed Countries (LDCs). The next Ministerial Conference will be held in Nairobi from 15 to 18 December 2015. It will discuss outstanding issues on the **Bali agenda** and perhaps conclude the Doha Development Agenda (DDA).

The **Trade in Services Agreement (TiSA)** is now being negotiated by 23 members of WTO. These countries currently account for 70% of world trade in services. TiSA would extend WTO's General Agreement on Trade in Services (GATS), which involves all WTO members. There is no deadline.

The Fifth Global Review of Aid for Trade is themed: 'Reducing Trade Costs for Inclusive, Sustainable Growth'. It will be held from 30 June to 2 July 2015 at WTO Headquarters in Geneva.

## Trade priorities for 2015

There are a number of mega-regional trade agreements under negotiation in 2015, including the following:

**EU-US Transatlantic Trade and Investment Partnership (TTIP):** This deal is intended to deepen relations between the US and EU and to move further in areas such as services and investment. A key issue will be the negotiation of standards that are acceptable to all parties.

**Trans-Pacific Partnership (TPP):** Negotiations are taking place among members of the Asia Pacific Economic Cooperation (APEC), including the US, with the objective of deepening trade relations among some members of APEC. The US sees the agreement as a counterweight to increased Chinese influence in the Asia-Pacific region. China is excluded from this as well as from the TTIP.

**East Asia Free Trade Area:** There has been a wave of free trade agreements (FTAs) signed by the Association of Southeast Asian Nations (ASEAN) with Japan, Korea and China. Known as the ASEAN+3 agreements, they may be consolidated through the creation of an East Asian Free Trade Area or Comprehensive Economic Partnership Agreement in East Asia.

### **Global development policy in relation to trade**

The third International Conference on Financing for Development will be held in Addis Ababa, from 13 to 16 July 2015. The Conference should result in an intergovernmental agreement, which should support the implementation of the post-2015 development agenda. The means of implementation of the development agenda cover a wide range of finance flows and policies. It will be important to see how this covers a 'systematic issue' such as the international trade architecture.

The **United Nations summit is expected to adopt the post-2015 development agenda** during a high-level plenary meeting of the General Assembly, from 25 to 27 September 2015, in New York. Trade can be seen as an important target in its own right; e.g. trade costs could be embedded as a target of sustainable development goals (SDGs). It could also form a key part of the means of implementation (MoI) of the global partnership goals, e.g. Open Working Group (OWG) Goal 17 on MoI could include e.g. trade preferences, rules of origin, and trade costs.

Both Aid for Trade (AFT) and trade policy are likely to feature at both the Financing for Development (FFD) and UN summits and, vice versa, both summits may have implications for AFT and trade policy.

### **Summary**

There are some concerns about the slow growth in trade post-financial crisis, although increasingly there are also new opportunities for developing countries, through the emergence of value chains. New types of trade analysis have led to new policy insights; e.g. some argue that countries can succeed in trade by targeting specific parts of a value chain, but in order to do this it is important to address logistics. New data analyses can also examine the domestic value addition of trade; this can provide insights into how countries participate in trade and how much they gain. A range of high profile events on trade and development policy in 2015 provide the opportunity to fully incorporate these new trends and insights. There is scope to refine trade rules on e.g. rules of origin and rules to liberalise services restrictions or to harmonise standards – all of which can help countries to take part in and gain from value chains.



## 2 Priorities for development issues in the post-Bali WTO work plan - Yurendra Basnett

This note summarises the issues discussed at the World Trade Organization (WTO) in Bali and afterwards in the run-up to the General Council; it then provides a number of comments and poses some questions.

### ***What are the key issues in the post-Bali work plan?***

In December 2013 the WTO Ministerial Conference in Bali included decisions on trade facilitation, agriculture, cotton and Least Developed Country (LDC) issues. Contentious issues – e.g. trade facilitation and public stockholding of food stock – were further negotiated and agreements reached in the General Council meeting of 27 November 2014. We discuss these issues below.

### **Trade Facilitation**

On 28 November 2014 the WTO General Council adopted the [protocol on trade facilitation](#).

The key aspects of the protocol include the following:

- Publication of trade facilitation information in a non-discriminatory and easily accessible manner in order to enable governments, traders and other interested parties to become acquainted with it.
- Procedures as well as forms and documents required for importation, exportation and transit; duties and taxes applied on imports and exports; rules for the classification or valuation of products; and procedures for appeal are to be made publicly available.
- Information on procedures, forms and documents needed as well as contact information on enquiry points for import export and transit to be made available through the internet.
- Information on the provision for advance ruling (decisions by customs on specific issues concerning import and/or exports).
- Options for electronic payment of duties, taxes, fees and charges incurred upon importation and exportation and collected by customs.
- Periodic measurement and publication of the average release time of goods.
- Use of relevant international standards for import, export or transit formalities and procedures.
- A single window enabling traders to submit documentation and/or data requirements through a single entry point.
- Countries to extend the same level of treatment to transit trade as they would to their own imports and exports.
- Physically separate infrastructure (such as lanes, berths and similar) to be made available, where practicable, for traffic in transit.

### **Agriculture**

- *Public stockholding for food security purposes:*
  - o The [Bali Ministerial Declaration on Agriculture](#) included the following: notification and transparency on agricultural support, safeguards (decisions will not be used to increase support), consultation on operation of public stockholding programmes, and work programme for post-Bali agenda.
  - o [General Council Decision of 27 November 2014](#).

- Until a permanent solution is agreed and adopted, and provided that the conditions set out in paragraphs 3 to 6 of the Bali Decision are met, Members shall not challenge through the WTO Dispute Settlement Mechanism, compliance of a developing Member with its obligations under Articles 6.3 and 7.2(b) of the Agreement on Agriculture (AoA) in relation to support provided for traditional staple food crops in pursuance of public stockholding programmes for food security purposes existing as of the date of the Bali Decision, that are consistent with the criteria of paragraph 3, footnote 5, and footnote 5 and 6 of Annex 2 to the AoA.
  - If a permanent solution for the issue of public stockholding for food security purposes is not agreed and adopted by the 11<sup>th</sup> Ministerial Conference, the mechanism referred to in paragraph 1 of the Bali Decision, as set out in paragraph 1 of this Decision, shall continue to be in place until a permanent solution is agreed and adopted.
- [Tariff quota administration](#):
- Tariff quota administration of scheduled tariff quotas can be treated as 'import licensing'.
  - Importing countries are to ensure that unfilled tariff quota access is not attributable to administrative procedures that are more constraining than an 'absolute necessity' test would demand.
  - Contact details of importers holding licences for access to scheduled agricultural tariff quotas are to be made publicly available.
  - Effective reallocation mechanism of tariff quotas should be implemented.
- [Export competition \(export subsidies and disciplines\)](#)
- Maintain and advance domestic reform processes in the field of export competition.
  - Ensure that the level of export subsidies remains significantly below the Members' export subsidy commitments.
  - Continue, in the post-Bali work programme, to prioritise fulfilment of the objective set out in the 2005 Hong Kong Ministerial Declaration on export competition.
  - Enhance transparency and improve monitoring in relation to all forms of export subsidies and all export measures with equivalent effect, in order to support the reform process.
  - Review the situation regarding export competition at the 10<sup>th</sup> Ministerial Conference.

[Cotton](#): The Ministerial decision of 7 December 2013 on cotton included the following:

- Enhance transparency and monitoring in relation to the trade-related aspects of cotton.
- Hold dedicated discussion on a biannual basis to examine relevant trade-related developments across the three pillars of Market Access, Domestic Support and Export Competition in relation to cotton.
- Hold dedicated discussions on all forms of export subsidies for cotton and all export measures with equivalent effect, domestic support for cotton, and tariff measures and non-tariff measures applied to cotton exports from LDCs in markets of interest to them.
- Development partners to accord special focus to the needs of cotton-producing LDCs within the existing aid-for-trade mechanisms/channels such as the European Investment Fund (EIF), and to the technical assistance and capacity-building work of relevant international institutions.

## Development and LDC issues

- [Preferential Rules of Origin for LDCs](#)
  - o Preferential rules of origin should be transparent, simple and objective.
  - o In the case of rules based on the *ad valorem* percentage criterion, given the limited productive capacity in the LDCs, it is desirable to keep the level of value addition threshold as low as possible, while ensuring that it is the LDCs that receive the benefit of the preferential trade arrangements. It is noted that the LDCs seek consideration of allowing foreign inputs to a maximum of 75% of value in order for a good to qualify for benefits under LDC preferential trade arrangements. The methods for the calculation of value should be simple.
  - o In the case of rules based on the change of tariff classification criterion, a substantial or sufficient transformation should generally allow the use of non-originating inputs as long as an article of a different heading or subheading was created from those inputs in an LDC.
  - o In the case of rules that allow a specific manufacturing or processing operation for the purpose of conferring origin, such rules should, as far as possible, take into account the productive capacity in LDCs.
  - o Cumulation should be considered as a feature of non-reciprocal preferential trade arrangements. The core objective of cumulation is to allow LDCs to combine originating materials without losing the originating status of the materials and to jointly share materials or production.
  
- [Operationalising of the waiver concerning preferential treatment of services and service suppliers of LDCs.](#)
  - o The Council for Trade in Services shall convene a high-level meeting six months after the submission of an LDC collective request identifying the sectors and modes of supply of particular export interest to them.
  - o Members are encouraged to extend useful preferences to LDCs' services and service suppliers unilaterally, consistent with the waiver decision.
  - o Technical assistance and capacity-building are to help LDCs benefit from the operationalisation of the waiver. Special focus should be directed towards the delivery of targeted and coordinated technical assistance aimed at strengthening the domestic and export services capacity of LDCs.
  
- [Duty-free and quota-free market access for LDCs](#)
  - o Developed-country Members that do not yet provide duty-free and quota-free market access for at least 97% of products originating from LDCs, defined at the tariff line level, shall seek to improve their existing duty-free and quota-free coverage for such products.
  - o Developing-country Members, declaring themselves in a position to do so, shall seek to provide duty-free and quota-free market access for products originating from LDCs.
  - o The Committee on Trade and Development shall continue to annually review the steps taken to provide duty-free and quota-free market access to the LDCs, and report to the General Council for appropriate action.
  
- [Monitoring mechanism on special and differential treatment](#)
  - o The Mechanism shall act as a focal point within the WTO to analyse and review the implementation of Special and Differential Treatment (S&D) provisions.
  - o The Mechanism shall review all aspects of implementation of S&D provisions with a view to facilitating integration of developing and least-developed Members into the multilateral trading system.
  - o The Mechanism can make recommendations to the relevant WTO body that propose: the consideration of actions to improve the implementation of a

special and differential provision; or the initiation of negotiations that aim to improve the special and differential provision(s) that have been reviewed under the Mechanism.

### **Decision on the regular work under the General Council**

- [Aid for Trade](#)
  - o The Aid-for-Trade Work Programme will be framed by the post-2015 development agenda.
- Decisions were also made on Trade-Related Intellectual Property Rights ([TRIPS](#)) [Non-violation and Stipulation Complaints](#), [Work Programme on Electronic Commerce](#); and [Work Programme on Small Economies](#).

### **Commentary on some key development aspects of the Bali Decision**

Negotiations on **trade facilitation** (TF) – reducing the cost of trading – entailed making binding commitments in customs procedures and regulations. Improvements in TF are a ‘no-brainer’, but we need to distinguish between ‘improvements’ and ‘commitments’. Commitments made in the WTO are binding and subject to legal action if they are not adhered to. Meeting trade facilitation commitments will require investment, and many will be capital intensive. Developing countries, and in particular LDCs, will need finance and technology to upgrade and improve TF. [Section 2](#) of the Bali Declaration provides assurance that developing countries and LDCs will be supported in building capacities to implement the agreement.

**The LDC package** was the least controversial of the three negotiation areas, largely because the contents of the package are best endeavours rather than binding commitments and because it just reconfirmed what had been decided eight years earlier in Hong Kong. WTO members reaffirmed their commitment to duty-free, quota-free (DFQF) market access for LDCs. But the actual developmental benefits remain questionable. The limited number of goods exported by LDCs means that anything less than 100% coverage is of little practical use. Tariffs are falling rapidly, so the benefits of DFQF are eroding rapidly. Improvements in rules of origin and non-tariff barriers (NTBs) would have been more beneficial to LDCs as these are the barriers that really block market access, but the agreement at Bali was too vague to be useful. A [15-year service waiver](#) (WTO members can provide preferential markets access on trade in services to LDCs without having to do the same for the rest of the membership) was agreed at the 2011 WTO Ministerial Conference in Geneva, and Bali has helped to set the course for its operationalisation. On the whole, however, there has been little improvement in the LDC package since the [2011 Ministerial Conference](#).

Negotiations on **agriculture**, more specifically on food-stock holding, presented the main area of contention that continued beyond Bali. India’s position was to use current prices, which would mean amending the agriculture agreement of the [Uruguay Round](#) and would not be acceptable to other members. Alternatively, India proposed an interim arrangement until a more permanent solution is found. Here, the United States proposed a ‘sunset clause’ of four years – a timeline that India did not accept. A final deal was struck to have an [interim mechanism](#) until a permanent solution is found, which means that more negotiation is still required to find a permanent solution.

Members reaffirmed their commitments on **Aid for Trade** (AFT). After the [Global AFT review in Geneva in July](#), it was important [call for such a reaffirmation](#) at the very minimum. The new AFT work programme in the WTO is to be framed by the [post-2015 global development agenda](#) – a shift from the Hong Kong Ministerial declaration on AFT that will have implications for the [2006 AFT Task Force recommendations](#) on AFT operationalisation. The 2013 European Report on Development discussed the [role of trade](#)

[in the post-2015 global development agenda](#), and how AfT can help. The Bali declaration presents an opportunity for the [future of AfT](#) to be more streamlined and more focused on addressing the high cost of trading in LDCs.

### 3 Understanding global value chains: how should global policy processes react? - Marie-Agnes Jouanjean

Since 1980 world trade has grown on average nearly twice as fast as world production; this reflects the increasing prominence of international supply chains, or GVCs.<sup>4</sup> The latest phase of globalisation is characterised by the great 'unbundling' of global production and its fragmentation across countries. As discussed by Grossman and Rossi-Hansberg, trade has traditionally entailed mostly an exchange of goods.<sup>5</sup> Now it increasingly involves value being added in many different locations, or what might be called trade in tasks. Revolutionary advances in transportation and communications technology have weakened the link between labour specialisation and geographic concentration, making it increasingly common to separate tasks in time and space.

At least since the June 2012 Los Cabos Summit, G20 leaders have recognised the importance, the role, and the relevance of regional and global value chains to world trade, in promoting economic growth, employment and development.

The GVC literature suggests a new development path, away from the classic transition of resource allocation moving from agriculture to manufacture, and towards services. Integration into global production networks not only allows skipping the development of a country's own value chain but allows focusing resources and specialising in tasks in which the country has a comparative advantage.<sup>6</sup> GVCs are the catalyst of such a leapfrogging<sup>7</sup> through technologies and know-how transfer.

However, the focus now has to be not only on enhancing the participation of developing countries in global production networks but also on understanding how to maximise spillovers from GVC participation to support sustainable, inclusive and transformative economic growth.

The first step is to understand what we are talking about. Research on GVCs has increased exponentially within the last few years. Long directed mainly towards understanding governance behind the organisation of production networks, GVC analyses are now also looking towards developing new tools and indicators that allow quantifying and categorising of a country's participation and place in GVCs (from TiVA analysis based on input-output models to network connectivity and innovative indicators of economic complexity based on trade flows).

Better integration in global production networks requires satisfying firms' most pressing requirements, as GVC analyses re-emphasised that firms are the main actors of trade. Yet some of those requirements can only be addressed by public policies and strategies or even global policy processes: participation in regional and global production networks depends on the business environment and investment climate, productive capacity, infrastructure and trade facilitation. In addition to many within-country parameters determining countries' attractiveness to GVC firms – from natural resource endowment to skills and domestic public policies and prioritisation – GVC integration requires countries

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4 WTO (2013) *World Trade Report 2013*. Geneva: World Trade Organization.

5 Baldwin, R., and Lopez-Gonzalez, J. (2014). 'Supply-chain Trade: A Portrait of Global Patterns and Several Testable Hypotheses'. *The World Economy*.

Grossman, G. and Rossi-Hansberg, E. (2008) 'Trading Tasks: A Simple Theory of Offshoring,' *The American Economic Review* 98(5): 1978–97.

6 Cattaneo, O., Gereffi, G., Miroudot, S., and Taglioni, D. (2013). *Joining, Upgrading and Being Competitive in Global Value Chains: A Strategic Framework*. World Bank Policy Research Working Paper, (6406).

7 Pascal Lamy commenting on the *African Economic Outlook 2014* report.

to be internationally connected. Firms' production processes require predictable, reliable and timely access to inputs in both quality requirements and delivery. Poor connectivity means not only high costs but also high uncertainty.

Hence, global production networks have put forth and re-emphasised the importance of imports and services, both of which being highly dependent on global policy processes.

While there is now no need for countries to produce intermediary goods themselves, they still need to be able to import them. The capacity to import high quality but also complex inputs is essential to enter higher-value added production. In addition, low import costs have a direct impact on productivity and competitive advantages in tasks.

Participation in GVCs requires efficient and competitive within-country and cross-border services. It is important to stress that those services are part of GVCs and not separate value chains. First, GVCs and in particular higher-value addition require greater use of technology and support services in production process. Such services can be embedded in contracts; for instance, producers of fresh horticultural products for supermarket chains have to follow strict production specifications and can benefit from extension services. Other services can include quality control, logistics, storage facilities, packaging, and distribution. According to the type of value chain, those services can be vertically integrated or supplied by external providers. Improving logistics and transportation services is of particular importance in reducing cost, time and uncertainty both within and between countries.

**Global policy processes (World Trade Organization (WTO), regional trade agreements (RTAs) and other fora such as the G7 and G20) can support the increase in cross-border logistic services efficiency by supporting trade facilitation initiatives in the broad sense: customs, border and transit management to reduce trade costs along the entire trading chain.** This could therefore include competition and regulation in logistics and transport services and in particular transit regulations for landlocked countries; the supply of physical infrastructure such as transport but also communication infrastructure. Many of those – for instance, reforms of competition regulation in freight and in particular trucking or retailing – can be undertaken unilaterally and may not necessitate the support of regional or global processes. However, such issues might be better addressed through regional or global coordination as the rents created by barriers to entry in the sectors might make unilateral reforms more difficult.

Last but not least, increasing the efficiency of cross-border trade requires addressing the issue of **non-tariff measures (NTMs), and in particular Sanitary and Phytosanitary measures (SPSs) and Technical Barriers to Trade (TBTs)**. Such measures affect both production costs – as a consequence of the effort to comply with production standards – and trade costs because of red tape as well as inspections and testing at the border that can create delays for both imports and exports. NTMs might be the most sensitive and complicated challenge to address, for two reasons. The first is that it would be necessary to separate legitimate measures from protectionist ones. This would be particularly difficult as the resulting barriers to imports might have created rents and they often have high political economy content. The second is that in many cases private standards are stricter and more burdensome than public standards. While the former can't per se prevent trade from occurring, they make it more difficult for developing countries to enter high quality GVCs as they require higher investments and production costs but also might be more volatile and heterogeneous than public standards. However, such standards have often been considered to be a catalyst rather than a barrier to trade, as they allowed countries with poor standards institutions and infrastructure to integrate GVCs, for instance in the high-value horticultural sector.<sup>8</sup>

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<sup>8</sup> Maertens, M., and Swinnen, J.F.M. (2008), 'Standards as Barriers and Catalysts for Trade, Growth and Poverty Reduction', *Journal of International Agricultural Trade and Development* 4(1): 47-61.

Harmonisation of standards is often cited as one solution. However, it is a long shot in particular because of its high political economy dimension: harmonisation necessarily means choosing one system over another. As a consequence, mutual recognition is therefore often seen as the most feasible option. But the GVC literature provides innovative suggestions on new ways of addressing market access and barriers to trade: for instance, the recognition of production processes<sup>9</sup> rather than geographic origin for various SPS measures; others suggest 'whole of supply chain' approach to trade negotiation supporting coordination and joint action across countries.<sup>10</sup>

The relevance of rules of origin (RoO) as traditionally set in regional and preferential trade agreements is challenged by the new global production network paradigm and rules of the game. RoO prevent the use of more efficient parts and materials from third countries for exports to preferential trade partners. It is therefore important for RoO to be simplified, and for the methods of calculation and procedures for certifying and verifying origin to be revised.<sup>11</sup>

While trade facilitation is essential to participation in GVCs, the issues of maximising the spillovers to the economy, assuring backward and forward linkages to the domestic economy as well as moving up the value chain and social upgrading, are still mainly 'behind-the-border' related matters. One pressing concern for developing countries is trade-off between i) attracting foreign direct investment (FDI) and reducing costs to integrate GVCs and ii) social and environmental regulation and upgrading.

How can global processes help? The WTO is not the right body to set labour or environmental standards, although of course it could ensure such standards are minimally trade distortionary. Instead, countries set their own standards; but it is also the responsibility of firms in GVCs to decide how to conduct their investments. Global policy processes (e.g. WTO, G7, G20) can bring public and private actors together and raise transparency of investments processes, thereby ruling out a potential 'race to the bottom' of standards.

Private sector Corporate Social Responsibility (CSR) policies and International Framework Agreements in addition to the full range of monitoring initiatives<sup>12</sup> have increased transparency. In fact, examples show that the private sector often requests more regulations to protect its assets and long-term production prospects. The G20 can set standards on this.

Finally, for countries to benefit fully from GVCs it is important that there are transparent rules on how the profits of such multilateral activities are taxed. The G7 and G20 have recently put the spotlight on international tax policy and have supported the OECD's work on Base Erosion and Profit Sharing.

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9 Naziri D., Rich, K. M. and Bennett, B. (2015), 'Would a Commodity-based Trade Approach Improve Market Access for Africa? A Case Study of the Potential of Beef Exports from Communal Areas of Namibia', *Development Policy Review*.

10 Hoekman, B. and Jackson, S. (2013) 'Reinvigorating the trade policy agenda: Think supply chain!'. [www.voxeu.org](http://www.voxeu.org), 23 January 2013.

11 Estevadeordal, A., Blyde, J., Harris, J., and Volpe, C. (2013). ICTSD. 'Global Value Chains and Rules of Origin', *Strengthening the multilateral trading system*.

<sup>12</sup> CDP Carbon, Water and Supply Chain Disclosure Projects.



## 4 How to support regional integration in developing countries, including the role of Aid for Trade - *Dirk Willem te Velde*

This note discusses (1) the proliferation of regions, (2) the required focus of regions to have the greatest poverty effects, (3) lessons in regional integration with lessons for effective regional AfT, and (4) the impact of regional AfT.

The scope and geographical focus on integrations varies widely. The World Trade Organization (WTO) facilitates negotiations on multilateral integration, which is normally the most efficient way of integration (although it also involves the greatest use of adjustment). But when progress at the multilateral level is slow, there are other ways to integrate, such as regional integration (amongst developing countries), North-South integration (e.g. the EU's Economic Partnership Agreements), or South-South integration (e.g. integration between China and Africa). There will be pros and cons of these various types of integration for member countries and other countries left out. This note will not discuss this, but clearly **with finite resources, choices will need to be made with respect to the scope of integration**. Note 5 discusses the role of mega-regionals and the poorest countries, whilst this note discusses regional integration amongst poor countries (especially through regional trade agreement).

Nearly all countries belong to at least one bilateral or regional trade agreement (RTA), and each RTA differs from the next. The surge in RTAs started in the early 1990s. Most (over 90%) of the signed agreements are free trade agreements (FTAs), with the remainder being Customs Unions. And often there are overlapping regions. Some countries have signed up to mutually incompatible commitments in different agreements. There are many examples of RTAs under negotiation: e.g. in Africa, negotiations are supposed to start on the Continental Free Trade Area (CFTA) and the Tripartite Free Trade Area (TFTA) Agreement – between the South African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) – that is expected to progress in 2015. And there is much progress in regions such as the EAC. How can such regional integration efforts be most effectively supported?

Traditionally, the effects of tariff liberalisation in RTAs depend on the balance between trade creation and trade diversion resulting from the implementation of the regional integration agreement.<sup>13</sup> But we know now that tariff liberalisation is unlikely to be the most important factor in terms of effects from RTAs. Te Velde (2006)<sup>14</sup> provided a framework to analyse **the effects of regional integration on poverty**. It found that the effects through tariff liberalisation were likely to remain limited in regions amongst poor countries with similar production structures, so expectations with respect to poverty effects should also be tempered. There was some evidence for dynamic effects, and these can be more important than static effects. The effects of Regional Integration (RI) on investment (from outside the region) are positive, but the benefits are likely to be distributed unequally across the region. **The poverty effects through trade and investment depend not only on the depth of the integration process but also on the complementary policies and institutions that countries put in place.**

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<sup>13</sup> Trade creation increases welfare by replacing domestic supply by imports from a partner whose production costs are lower (more efficient) but who was previously excluded by tariffs (artificially inefficient compared to domestic producers). Trade diversion occurs when the impact of the regional agreement is the replacement of imports from an efficient country by imports from a less efficient partner country that became artificially competitive thanks to the discriminatory removal of tariffs. Welfare is lower.

<sup>14</sup> Velde, D.W. te (ed.) (2006) *Regional Integration and Poverty*. Aldershot: Ashgate.

Regional integration can affect poverty directly by including regional socioeconomic projects and other types of integration, e.g. in providing infrastructure or regional public goods more generally. In this sense, the type and scope of the RTA process may matter a lot for poverty reduction. Several regions have widened the scope beyond trade and investment (although in some cases, regions started with areas other than trade liberalisation). Thus **a focus on regional programmes that support the public goods provisions in a regional context is appropriate**. For example, TradeMark East Africa is supporting regional infrastructure. Other appropriate areas include regional standards, regional governance (e.g. regional business institutions), etc., all of which can have important direct and indirect effects on poverty, depending on contextual factors.

A recent draft EPS PEAKS request (Engel and Jouanjean, 2015<sup>15</sup>) highlights a number of lessons on regional integration with lessons for effective external support:

- 1. Recognising regional integration as processes:** In the past, successful regional integration processes in the Association of Southeast Asian Nations (ASEAN) and MERCOSUR (also known as the Common Market of the South) region were primarily driven by the private sector and occurred at very different speeds across issue areas, depending on where demand by private sector actors and coalitions of governments was greatest. Asian regionalism was driven by the need to develop supply chains and services required for diversification in order to participate in global production networks driven by US-, EU- and Japanese-led firms. Hence, support for regions needs to go beyond a simple sequential model; e.g. moving from goods to services to capital and labour mobility may not be the most efficient. Support needs to be tailored to the needs.
- 2. Recognising the limits of regions as drivers of change:** Regions such as the Economic Community Of West African States (ECOWAS) and West African Economic and Monetary Union (UEMOA) may have developed frameworks for regional integration and negotiation with external partners, but there will be varying interests and limitations in terms of capacity, legitimacy, and costs and benefits in driving forward the process. This needs to be accounted for in support.
- 3. Scaling back levels of ambition:** Regions can be highly ambitious in their integration plans. Indeed, it is useful to put the piecemeal approach in an overall vision. However, ambition in regionalisation often leads to missed deadlines and lack of confidence in the process. It may be more useful to take a more piecemeal approach focusing, for example, on mutual recognition rather than full harmonisation when it comes to regulatory issues, as this alone has taken three decades in the case of the EU (e.g. the EU services sector is still not fully liberalised and harmonised).
- 4. Having a better understanding of the 'losers' of reform:** A study of nine agricultural liberalisation processes in East Africa found that reforms were most likely to succeed if those stakeholders capable of organising and blocking reforms accepted the redistribution of income and were willing to support or acquiesce to reforms. Compensation mechanisms can be a central feature. Thus, rather than purely supporting pro-change constituencies, it may also be advisable for outsiders aiming to foster integration, to facilitate dialogues and partnerships among groups affected by reforms at the value chain, sector and national level.
- 5. Addressing information asymmetries:** Some regions have introduced a low-cost platform to make citizens aware of non-tariff barriers (NTBs).

There have been **very few rigorous assessment approaches to regional aid for trade**. Whilst the empirical literature on aid for trade is growing, there is little on regional aid for trade vis-à-vis other aid for trade in formal statistical models, and very few

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15 PEAKS helpdesk request: Economic Community of West African States (ECOWAS)

qualitative assessments in Africa, although there is more in the case of Latin America and Asia. Past evaluations have suggested a stronger need for greater harmonisation and coordination on the donor side, greater absorptive capacity in recipients (hampered by e.g. high turnover of national officials and 'poor articulation with national strategies'). Below we discuss lessons from an Asian Development Bank (ADB)-led regional grouping on aid for trade and on the ADB's support for regional integration, which looks different (e.g. more emphasis on private investment / institutions) from the African context.

Some lessons can be learned from the Asia region (the first Regional Technical Group report on Aid for Trade in Asia and the Pacific, 2011). The report includes the following conclusions: Certain economies in emerging Asia and the Pacific have been transformed into global factories – where trade liberalisation has led to robust economic growth and rising prosperity; foreign direct investment (FDI) has been key to this success. Typically, in the large and/or more outward-oriented economies of Asia, FDI created factories, competitive products, jobs and exports. Well-managed FDI brought with it technological transfer, which contributed to the development of domestic industry; despite these success stories, however, two-thirds of the world's poor live in Asia; AfT must help close this gap. A regional approach backed by national strategies can maximise the benefits of available AfT; aid continues to play a critical role in helping attract FDI by improving the business climate.

As an example of regional aid for trade, the ADB has been supporting the Greater Mekong Subregion (GMS) for over 20 years. **The ADB mobilises resources from development partners and the private sector for GMS programmes.** Supported by ADB and the Economic and Social Commission for Asia and the Pacific (UN ESCAP), the GMS business forum has been set up to strengthen private sector participation in GMS development. The ADB is supporting the GMS's 'Cross-Border Transport Agreement' (CBTA) to achieve seamless movement of goods, services and people.<sup>16</sup> A key feature of the agreement is that it fosters public-private partnership and dialogue. The agreement brings together in one legal instrument all the important non-physical measures to increase cross-border land transport.

There are also advances in understanding regional infrastructure for trade facilitation.<sup>17</sup> The beginnings of **a theory of change** are emerging and involve the following concepts:

- The **policy measure** that is being assessed. The overall measure is a regional infrastructure measure, and this can consist of hard (e.g. roads) and soft (e.g. harmonisation of rules) infrastructure.
- The effects on **three main types of actors**: households, firms and governments. The effects on such actors are interdependent and overlap.
- Distinguishing between **direct and indirect impacts**. Some groups are affected directly by the policy measure (e.g. firms that can trade more). In other cases, the effects are indirect and take time to work through the impact (e.g. productivity and agglomeration effects).
- Explicit **growth and poverty effects**. The overall impact on poverty is through the combined effect on the main channels noted above (households, firms and governments). But some channels have a more direct poverty link; the effect for others is more indirect, via growth. For example, the impact on **poverty** is envisaged through the impact on consumption and welfare, job creation or destruction, assets and resilience. The impact on **growth** is envisaged through the

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16 ADB. 2011. Greater Mekong Subregion Cross-border Transport Facilitation Agreement: Instruments and Drafting History. Asian Development Bank.

17 An ODI-led study (Dr Marie-Agnes Jouanjean) is currently examining the effects of regional infrastructure for poverty reduction.

increase in the scale of firms and productivity. Finally, an increase in government revenues affects poverty and growth through public services.

The effects of regional infrastructure trade facilitation are both direct and indirect. The direct effects may include increased trade flows, which can have a direct impact on incomes and jobs. However, the indirect effects may eventually be much more significant; e.g. competition may lead to upgrading of production capacities, and importing and exporting can foster learning. But the indirect effects are harder to identify and measure. This makes it much more difficult to communicate results of a regional infrastructure development project compared to a health or education delivery project. Some assessments<sup>18</sup> might go as far as arguing that a cross-border project has little effect on poverty because direct effects could be negative for some specific groups and the indirect effects remain unmeasured. We can do better than this and measure direct and indirect effects more accurately.

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<sup>18</sup> See e.g. the December 2013 Independent Commission for Aid Impact (ICAI) assessment of TradeMark Southern Africa (TMSA). Several problematic issues were highlighted in the report; however, a weak point in the report itself was the lack of an appreciation of indirect effects of cross-border infrastructure.

## 5 How to ensure development benefits from mega-regionals and EU trade policy - *Yurendra Basnett*

The US and EU are negotiating a transatlantic free trade agreement (TTIP). The US is also negotiating a trans-Pacific free trade agreement (TPP) with developed and developing countries in East Asia and the Pacific. Though still in the making, these mega-regional trade agreements will have important implications for countries involved as well as for those that are not.

Average tariffs in these two sets of negotiating countries are quite low (more so in the case of TTIP than TPP). Therefore, further reductions, *ceteris paribus*, will not result in many tariff-related gains for them, and are unlikely to substantially affect those not involved.

But negotiations in [both agreements also include non-tariff measures](#), for example the setting of trade standards in sectors like automobile. Common standards on both sides of the Atlantic could be good, as manufacturers will no longer have to operate two separate production lines. But it could also shift trade away from production networks that do not benefit from the agreement. For instance, if the Japanese automobile industry is adversely affected by EU-US trade standards, the impact will be felt in the entire production chain, which includes many developing countries. However, if these mega-regional agreements were to include [mutual recognition of trade standards, the benefits of the agreement would not be exclusive to the partners](#). Developing countries that are not part of these agreements but which already export to one of the parties would benefit from recognition of standards that they can already meet across the regional block. Notwithstanding, low-income countries might still need support to meet new standards.

The developmental implications of these two agreements drive a larger point of relevance. First, as trade agreements are increasingly entering into non-tariff areas, there is a development case to update the World Trade Organization (WTO) rules that govern such agreements. The WTO rules require that such exclusive arrangements do not increase restrictions for others in the areas of goods and services. In the areas of standards and technical requirements, there is a thin line between expanding and restricting trade. Most developing countries lacking capacities will find themselves facing the latter, rather than benefiting from the former. Perhaps, as a minimum, the notion that while some benefit, others are not to be left worse off, needs to be included in the WTO rules when advanced economies enter into such agreements, with the burden of proof placed on members of the exclusive arrangement. Second, there is a need to actively monitor progress of these negotiations in order to assess the broader implications for developing countries.

Most African, Caribbean and Pacific Group of States (ACP) countries have either initialled or signed reciprocal free trade agreements (FTAs) with the EU: the ACP-EU Economic Partnership Agreements (EPAs). Some have also been granted non-reciprocal preferential market access under the 'Generalised System of Preferences' or the 'Everything But Arms' provision (includes all the Least Developed Countries (LDCs)). EPAs are argued to provide a more liberal and predictable market access for ACP countries. But there are also concerns about the [implications of EPA on regional integration in the ACP region](#).

While EPAs have fostered integration in some regions (for example in the Caribbean with the Forum of the Caribbean Group of African, Caribbean and Pacific States (CARIFORUM) EPA), in other regions opinions are divided as to whether it may or may not have positive impacts. If these interim EPAs start to be applied, this will require internal adjustments in

## Trade priorities for 2015

order to implement the Common External Tariff, which may impact the anticipated economic and political gains from regional integration. There is likely to be important trade liberalisation in ACP countries through the EPA process, which in turn will impact integration in some regional economic communities.

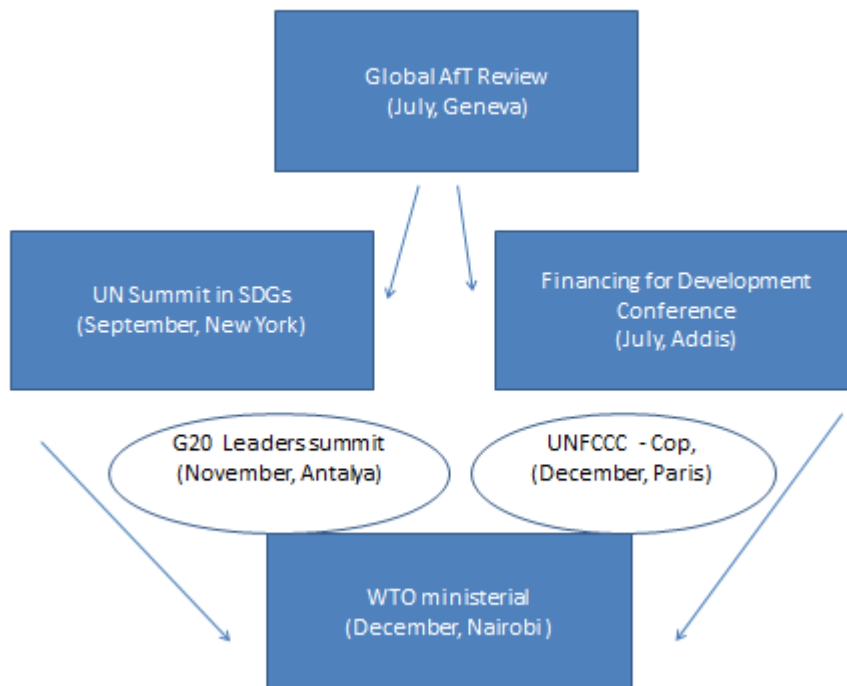
How can [EU trade policy help to ensure that mega-regionals and EPAs benefit development](#)? EU policy should ensure that its FTAs – above all, the forthcoming EU-US deal – do not disadvantage developing countries but improve their market access. The EU could also strengthen the link between development and trade in EU policy-making by establishing a unit within the EU Trade Commission focused on the impact of trade policy on development. The EU should implement the economic partnership agreements with the ACP countries flexibly.

## 6 Conclusions. Bringing it together: trade in the post-2015 agenda - *Dirk Willem te Velde*

The trade and development policy agendas are closely related. This has been true for a long time, as many countries have realised that it is not possible to create wealth and reduce poverty in a sustained manner without engaging in trade. However, this year there will be a once-in-a-generation opportunity to bring trade and development more closely together in global policy debates. This is because **there is the unique opportunity to both define a new development agenda and design its means of implementation.** It is similar to the previous occurrence when the 2000 Millennium Summit was followed by the 2002 Monterrey Financing for Development conference, although it is also different, as the means of implementation conference (Addis) now occurs *before* the goal-setting conference (New York).

There are at least four events that many trade and development experts will watch this year:

- the fifth global review of Aid for Trade at the World Trade Organization (WTO)
- the UN summit to agree sustainable development goals (SDGs)
- the financing for development conference
- the WTO ministerial



In addition there are efforts at a regional level that will be important for trade officials as they interact with the four meetings above: e.g. EU-US Transatlantic Trade and Investment Partnership (TTIP), Trans-Pacific Partnership (TPP), and in Africa the Continental Free Trade Area (CFTA) and Tripartite Free Trade Area (TFTA). Furthermore, whilst the G20 is a network of networks rather than a decision-making or implementing body, the leaders' summit in November 2015 in Antalya will be able to highlight trade issues and provide signals ahead of the WTO ministerial (frequently the G20 process

involves several meetings with trade ministers). Finally, the United Nations Climate Change Conference, COP21, will be held in Paris in December 2015, just days before the WTO ministerial. Climate and trade regimes are not always compatible, but there are also clear synergies between trade and addressing climate change which could be reaped (e.g. faster liberalisation of barriers to trade in environmental goods and services helps trade, technical change and the environment).

These **discussions are all interlinked**, but there is a sequence in time. Discussions at the Global Aid for Trade Review will be held just before the Addis Conference on Financing for Development, and trade links the two: aid can support trade and trade policy and can be a means of implementation of the post-2015 agenda. Trade could also be a target as part of the SDGs. And whatever is decided at the UN summit for the SDGs, it is likely to emphasise trade as a key component of (supporting) sustainable development, so attention might then shift to the WTO ministerial to make progress on this.

The development agenda that followed the 2002 Monterrey conference focused on aid (as an MoI) and social development (as a goal), but stakeholders (officials, experts, business) now have the opportunity to broaden up both the goals (balanced view of economic, social and environmental goals) and the MoI (broadening the implementation to include many different finance flows as well as policies) and to ensure that **trade and economic transformation is central to these debates**.

**This session could consider the following policy decisions as key targets for 2015** (which will be running through the meetings and conferences mentioned in this note):

- Increase Aid for Trade as a key factor in reducing trade costs.
- Countries to commit individually and globally to reduce trade costs in order to benefit from global value chains.
- Make the reduction in trade costs one of the targets in the post-2015 development agenda.
- Formulate appropriate trade policy (e.g. rules of origin, tariff liberalisation, harmonisation of standards, preferences, services) as key means of implementation for a transformative post-2015 development agenda (i.e. to include in the post-2015 related conferences, which aim to incentivise behaviour in the years to 2030), which combines economic, social and environmental dimensions.
- Agree a trade deal to follow up on the Bali package to implement all this.
- Ensure (mega-) regional integration efforts (e.g. TTIP and TPP) do not hinder but support the participation of developing countries in global value chains by putting in motion the process to multilateralise standards.
- Support regional efforts (e.g. CFTA, East African Community) by taking into account the lessons learned (e.g. consider deep integration and provision of regional public goods, recognising regional needs, rather than driving through top-down efforts).



# Part II: Contributions from organisations and researchers\*

*\*The notes are ordered according to the themes of different sessions of the workshop. However, some of the notes overlap more than one theme.*

# 1 Priorities for development issues in the post-Bali WTO work plan

## 1.1 Development issues in the post-Bali DDA - *Nicolas Imboden (IDEAS Centre)*

It is difficult to predict where these negotiations lead and hence what are the issues for developing countries.

The following elements seem to emerge:

- A rebalancing of the system in favour of developing countries will most likely not take place in the Doha Development Agenda (DDA).
- The developed countries are not ready to give further concessions to the emerging countries. They expect the emerging countries to move and offer further concessions first. This means that developing countries are not going to get preferences as long as the emerging countries are part of them.
- The emerging countries are not accepting to be treated as non-developing countries and don't want to contribute more than developed countries.
- It seems that developed countries will have to pay in agriculture to get something from the emerging countries in non-agricultural market access (NAMA) and services. The emerging countries believe that what they can get in agriculture is not worth concessions they would need to offer in return in other areas.
- An agreement and willingness exist to give 'something' to the Least Developed Countries (LDCs) and that way to cover the development part of the Round.

### **Where are we going?**

There are three possible scenarios:

- 1 A round based on bindings without liberalisation. Most countries would do substantial reduction in the 'water' without doing anything in terms of additional market access. Exceptions are the US in agriculture and China and South Africa in NAMA. The development round aspect would then be limited to some special measures for LDCs.
- 2 A liberalising round with some concrete and economically relevant liberalisation measures. This seems to be the approach of the Director general at the moment: identify concrete concessions that could be exchanged. This would put the emphasis on the deal between China and the USA.  
Most probably, it will be a combination of those two scenarios.
- 3 The most desirable, but the least likely, outcome would be a round that redefines some of the World Trade Organization (WTO) principles:
  - A differentiation among developing countries, probably based on 'voluntary' renunciation by emerging countries of some of the flexibilities provided for other developing countries.
  - Adaptation of the Agreement on Agriculture (AoA) to take into account the evolution in the market and the emerging of subsidies in developing countries to find a solution to the food security issue.
  - A new definition of Special and Differential (S&D) treatment by redefining it the following way:
    - development friendly and inclusively defined rules, rather than exemptions from rules

- implementation sequence defined according to each country's institutional and economic capability and its development objectives
- support to the poorer countries to link the fulfilling of their obligations with acquiring the capacity to implement them.

In other words, the Trade Facilitation Agreement approach as the basis of the system.

### **The way ahead – some suggestions**

First priority in the present situation is to come to a consensus decision that allows the World Trade Organization (WTO) to close the DDA and save the multilateral system. This means the ambitions have to be scaled down substantially.

The priority for LDCs is to table concrete, economically relevant and consensus-oriented proposals.

Developing countries (without emerging economies) could concentrate on some specific rules for which they could promote a Trade facilitation Agreement approach, i.e. same rules for everybody, but individual adaptation in the implementation coupled with assistance where needed.

Trade Policy Unit (TPU) may want to take a longer-term view. The DDA will most likely end by not addressing the basic challenges of the global trading system.

A longer-term approach addressing some basic issues – along the lines the Department for International Development (DFID) used for the Trade-Related Intellectual Property Rights (TRIPs) issue, i.e. combining research and negotiation issues – would be useful.

The following topics might be of interest:

- What is the role of the inclusive WTO system in a world where rules and liberalisation is driven by plurilaterals, mega deals and other non-inclusive integration efforts? How can WTO ensure that the interests of the poorer countries are not fully marginalised?

Investment may be an issue where a lot of traction could be achieved, if it is defined in a development-relevant way. Moreover, through investment some of the other new issues like environmental considerations, labour, etc. will also have to be addressed. All poorer developing countries have an objective to promote investments and technology transfers and at the same time little negotiating power with the multinational companies. Newly negotiated multilateral investment rules which would define minimum standards may protect them against a race to the bottom.

## 1.2 Priorities for development issues in the post-Bali WTO work plan - *Jamie Morrison (Food and Agriculture Organization)*

A number of factors combine to create significant challenges in the formulation of a new multilateral trade agreement that can ensure adequate flexibilities in the use of trade and related policies in pursuit of legitimate national objectives, whilst constraining the use of these policies when potentially detrimental to the interests of trading partners:

the significant heterogeneity across countries in their agricultural trade balances, the role of their agriculture sectors, the level of commercialisation of these sectors, and hence in the appropriateness of different policy interventions.

the fact that a given policy can have very different effects on different countries and on different groups within countries, compounded by the specificity of design and implementation. For example, the impact of public stockholding depends on the objectives, design and implementation during each of procurement, stockholding and release.

the current approach to special and differential treatment being hampered by the fact that countries are categorised into a relatively small number of large groups (Developed, Developing, Least Developed Countries (LDCs), Recently Acceded Members (RAMs), small vulnerable economies (SVEs) etc.), which tend to include countries with significantly diverse requirements of flexibilities.

the different philosophical positions on the relationship between trade and food security, trade and growth, trade and poverty reduction. Positions that are reflected in processes of negotiations that are not renowned for being well informed by neutral analysis and debate.

It is no real surprise that even seemingly limited and uncontroversial changes to the current agreement on agriculture have proved to be so elusive, particularly when it comes to granting flexibilities to the general pursuit of greater opening to trade.

Among the keys to ensuring that development priorities are adequately addressed in the post-Bali work plan are the following:

### **(i) Acknowledging that appropriate policy interventions change during transformation**

During processes of structural change, agriculture sectors have generally transformed from those characterised by semi-subsistence production (albeit with a diverse range of producer positions vis-à-vis their participation in markets) in a context of poorly functioning input and output markets, to those in which it is the norm for producers to be commercially oriented, not reliant on their own production for food security and/or family employment, and with access to sophisticated risk mitigation measures. During this transformation, policy objectives can also change from incentivising production towards income support in ways that don't incentivise production. Different types of policy intervention will therefore be required at different stages of transformation.

In the early stages of transformation there is a strong case for public investment in establishing the basics (infrastructure, R&D, extension, etc.), with a primacy of policies compatible with *the Green box and Article 6.2*. Ensuring that any tightening of the Green Box to prevent box-sifting does not constrain these provisions for developing countries continues to be an issue.

Even with the basics in place, if markets are not functioning well, private sector investment will be limited. In kick-starting markets during transformation, there is a requirement for stable and remunerative environments for private sector investment in market development. In addition to policies available through *Article 6.2*, *price policy and a degree of border protection* are likely to be necessary. The debate over the use of *public stockholding schemes*, which can play a key role where domestic markets function imperfectly, is symptomatic of the difficulties that negotiators face in crafting agreements on flexibilities in the use of domestic support and border policies.

- More challenging is governments' withdrawal as markets develop. At this stage, policy should be focused on preventing short-term disruption to domestic sectors with still limited access to risk management instruments through *safeguards*, (e.g. *Special Safeguard Mechanism SSM*), in conjunction with *non-distortive Green box policies*.

## **(ii) Not attempting to create a 'one size fits all' solution**

The tendency towards increasing levels of support to agricultural producers in some developing countries has caused disquiet. Concerns about this tendency are wide ranging – in addition to that of disruptive effects on trade and on global markets, other concerns such as wasteful use of scarce budgetary resources; scope for corruption; regressive benefits favouring larger producers; and unsustainable use of natural resources have been cited by those arguing that increased use of support policies is inappropriate.

Unfortunately, the merits of some of these arguments have been overshadowed by the use of a rather blunt argument based on the premise 'Don't make the same mistakes that we made', an articulation reflecting the fact that the use of support policies in contemporary developed countries has long passed the point at which diminishing, and in many cases negative, returns to such support set in. The fact that these policies are now inconsistent with contemporary objectives is hard to dispute. However, the same policies may well have gone some way to achieving the objectives to which they were targeted when introduced some decades ago.

More problematically, the assumption that policies inappropriate for countries with efficient, commercialised sectors are also inappropriate in countries with sectors at quite different levels of development and with quite different policy objectives is misleading and risks translation into poor policy guidance and worse, inappropriate constraints on their use.

Equally, the trade stance of developing countries differs significantly, with Net Food-Importing Developing Countries (NFIDCs) and more competitive exporting countries having divergent needs in terms of the flexibilities under both the market access and export competition pillars.

Clearly, unconstrained use of such policies can be detrimental both to the implementing country and to its trading partners. However, a more nuanced debate, reflecting the needs of different developing countries, is required if rules are to be crafted to allow the implementation of policies supportive of the adoption of/investment in productivity enhancing technology.

### 1.3 Priorities for development issues in the post-Bali WTO work plan\* - *Teddy Y. Soobramanien and Mohammad Razzaque (Commonwealth Secretariat)*

The Doha Ministerial Declaration recognises that 'International Trade can play a major role in the promotion of Economic Development and the alleviation of poverty'. The Declaration further recognised that the majority of World Trade Organization (WTO) members are developing countries, and thus affirmed that the Round must 'seek to place their needs and interests at the heart of the Work Programme'. Fourteen years later, the negotiations of this 'Development Round', the longest in the history of the multilateral trading system, are yet to be concluded. At its 9<sup>th</sup> WTO Ministerial Conference held in Bali in 2013, WTO, for the first time in its history, delivered a full-fledged agreement – the Trade Facilitation Agreement – and instructed the Trade Negotiations Committee to prepare a clearly defined work programme on the remaining Doha Development Agenda (DDA) issues.<sup>19</sup>

The successive delays and failures in reaching an outcome to the Doha Round have undermined trade multilateralism, thereby contributing to the rise of plurilateral negotiations outside the WTO and the so-called 'mega-regional trade agreements' (mega-RTAs). Unlike plurilateral processes, the multilateral trading system affords predictability and security to the international trading community, and protection to the least developed, smallest and most vulnerable of members through collective bargaining and the pooling of interests. **In the first instance, therefore, the conclusion of the negotiations in all the areas initially mandated is of paramount importance if one is to fulfil the development objectives enshrined in the Declaration. In the same vein, full implementation of the Bali Outcome, including the Trade Facilitation Agreement as well as progress in operationalising the Special and Differential Treatment (S&DT) monitoring mechanism and effectively addressing S&DT provisions are essential ingredients in fostering confidence and further strengthening the system.**

Obviously, there remain a number of issues of major interest to developing countries which are still on the negotiating table. These can be pursued by being mindful of the **need to strike an overall balance of interests in the negotiations**. The Doha Declaration provides for the negotiations to be conducted on the basis of the 'single undertaking', but provision was also made in the Declaration for 'agreements reached at an early stage may be implemented on a provisional or a definitive basis'. The Declaration went on further to specify that 'Early agreements shall be taken into account in assessing the overall balance of the negotiations'. **Linkages with other issues will be inevitable in the process if this overall balance is to be achieved and an outcome to be legitimately owned.** The recent delays encountered for the coming into force of the Trade Facilitation Agreement is a case in point. An early agreement reached can be problematic if progress is not achieved in other areas of the negotiations as well.<sup>20</sup> **Therefore, intensive efforts will be required and substantial progress made in the three main market access areas of the negotiations – agriculture, non-agricultural market access (NAMA) and services – while keeping in view the need for flexibilities for developing countries and the need to take on board their concerns and interests including**

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\*This note has been prepared by the International Trade Policy Section, Commonwealth Secretariat.

<sup>19</sup> See Commonwealth Trade Hot Topics – Issue 103, The Bali Package – A Breath of Fresh Air to the Doha Round, Teddy Y. Soobramanien, Stephen Fevrier - [http://www.thecommonwealth-ilibrary.org/commonwealth/trade/trade-hot-topics\\_20719914](http://www.thecommonwealth-ilibrary.org/commonwealth/trade/trade-hot-topics_20719914)

<sup>20</sup> See Commonwealth Trade Hot Topics – Issue 115, Sequencing the Implementation of Obligations in WTO Negotiations, Lorand Bartels - [http://www.thecommonwealth-ilibrary.org/commonwealth/trade/trade-hot-topics\\_20719914](http://www.thecommonwealth-ilibrary.org/commonwealth/trade/trade-hot-topics_20719914)

**those for Least Developed Countries (LDCs) and small vulnerable economies (SVEs).** The modalities texts on the table in these areas of the negotiations already contain some 'acquis' for developing countries which might need to be preserved or amplified, as the case may be, in light of developments in recent years.

A number of critical issues for LDCs were addressed in Bali but in most cases as non-binding, best endeavour or further work for future reporting.<sup>21</sup> **While developing the Post-Bali Work Programme, it will be critical to achieve progress on LDCs issues and, in particular, work towards achieving binding enforceable language, where applicable, and full operationalisation of LDCs' requests so that the demands of LDCs can be delivered to them in concrete terms. With regard to Cotton, the decision adopted in Bali only recognises that the WTO is yet to deliver on the cotton initiative and stresses the importance of pursuing progress in this area. Finding a permanent solution to food security, given the challenges being faced by a number of developing countries, will also be an important element in ensuring that a package is balanced and addresses major and contemporary development challenges.**

Given the myriad of country interests in the WTO, many observers think an 'à la carte' approach might be particularly dangerous at this stage. A package, 'small' or 'big', will definitely have to strike a right balance where the interests of one and all are taken on board, hence the importance, in the first instance, of **having a well-balanced Work Programme** to achieve that outcome. Progress on the core negotiating issues of agriculture, NAMA and services will be critical, but progress would have to be made on critical development issues as well. Keeping within sight and achieving progress on development issues outside the negotiations ambit per se will ensure effective participation of all countries in the multilateral trading system and allow them to derive development benefits. In that respect, the Work Programme for Small Vulnerable Economies is absolutely crucial for this group of countries.

It is essential that **the process underpinning the Post-Bali Work Programme is as inclusive and transparent as possible to ensure participation of all members and to facilitate the ownership of the final package.**

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<sup>21</sup> See Commonwealth Trade Hot Topics – Issue 106, The Bali LDC Package, Shishir Priyadarshi, Taufiqur Rahman - [http://www.thecommonwealth-ilibrary.org/commonwealth/trade/trade-hot-topics\\_20719914](http://www.thecommonwealth-ilibrary.org/commonwealth/trade/trade-hot-topics_20719914)

## 1.4 Prioritising development issues in the post-Bali WTO work plan: some thoughts - *Rashid S. Kaukab (CUTS International)*

While the Doha Round aims to place 'development' at the centre of these negotiations (thus the title 'Doha Development Agenda' (DDA)), it has never been easy to define what constitutes 'development issues'. At the start of the Round, a set of three issues – Trade-Related Intellectual Property Rights (TRIPS) and Public Health, Implementation-Related Issues and Concerns, and Special and Differential Treatment (S&D) – were considered to be the priority development issues in DDA. But much has happened since then, and one needs to take a fresh look at the issues.

The debates in the World Trade Organization (WTO) on the development dimension in DDA have been polemic, without leading to any agreed understanding. Two extreme views could be discerned in these debates. On the one extreme were those who defined 'development dimension' as flexibility in undertaking obligations, while on the other 'development' was presented as equal to opening markets. It was no surprise then that the debates degenerated into ideological battles and arguments.

It was also asserted, with acceptance by many though not all Members, that development issues are those that are presented as such by developing countries. It was easy to apply this rule of thumb to the requests and concerns of Least Developed Countries (LDCs), small vulnerable economies (SVEs) and other smaller developing countries. However, there was opposition to giving this right to emerging economies. This has become even more apparent given the ever-increasing economic prowess of emerging economies since the launch of DDA.

A further complicating factor, in the context of the post-Bali work plan, is the overall level of ambition. It seems that to achieve results in a relatively shorter time (and to avoid getting stuck again in long, protracted negotiations), the overall level of ambition of DDA outcome would have to be moderated. This will affect the level of ambition for development issues as well. For example, in a scenario of a modest DDA outcome, it is difficult to conceive that the S&D architecture in the multilateral trading system can be thoroughly examined and reformed.

On the other hand, DDA cannot be concluded without showing progress on some development issues. Following are some ideas to identify these priority development issues in the post-Bali work plan, keeping in mind the above mentioned challenges.

- 1 Addressing specific interests of LDCs and SVEs: This should be the obvious first choice as these countries are small and do not pose any meaningful commercial threat to other WTO Members. Moreover, many of their interests are already reflected in the existing draft modalities on agriculture and non-agricultural market access (NAMA), as well as the discussions and understandings in the services negotiations (for example, the progress made in the High Level Meeting on LDC Services Waiver held in the WTO on 5 February 2015). Adhering to the relevant elements of draft modalities should also to some extent take care of the concerns of preference-receiving countries.
- 2 Assisting in taking advantage of commitments: This may not have been given due consideration in the past, but should be at the centre of efforts to emphasise the development dimension of DDA. Several examples can be offered to clarify this point. One, alongside providing market access opportunities in NAMA, agriculture and services, developing countries should be given assistance to take advantage of these opportunities. This could include building their capacity in meeting the technical and sanitary standards, providing access to relevant market information, and improving rules of origin. Two, where developing countries open their markets, particularly in services, assistance should be provided so that they are able to utilise this for their structural transformation. This could include assistance in building their regulatory



capacities, facilitating technology transfer, and improving access to participate in global value chains.

- 3 Replicating the S&D Model in the Trade Facilitation Agreement (TFA): The S&D component in the TFA is truly a breakthrough. By linking the implementation of obligations to the capacities and required assistance, it has opened an exciting possibility for the future of S&D in the multilateral trading system. Admittedly, such an approach may not be readily suited to other areas of negotiations. However, innovative and constructive ways can be found in some areas; for example, linking the provision of assistance by developed countries to meet the technical and sanitary standards with the opening of markets by developing countries.

## 2 Understanding global value chains: how should global policy processes react?

### 2.1 Global value chains: some policy issues\* - *Jodie Keane and Mohammad Razzaque (Commonwealth Secretariat)*

New measurements of global value chain (GVC) participation show how shares of global trade in value added remain highly concentrated amongst developed countries,<sup>22</sup> and tightly coordinated by lead firms.<sup>23</sup> There are two aspects of GVC participation which require much greater attention: cost considerations (which of course can be influenced by trade facilitation improvements) and capabilities. Within the context of more hierarchical GVCs – as more recent data on intra-firm trade suggests – a much greater emphasis should be placed on governance capabilities; this includes getting industrial policy frameworks in place, and considering both trade and finance issues.

The new GVC literature reveals the more thinly sliced nature of GVCs now compared to in the past, which policy-makers must be sensitised to. Industrial policy formulation is required at a finer level of disaggregation – the ‘task’, as well as sectoral, level.<sup>24</sup> With regard to accessing light manufacturing GVCs, cost considerations related to exchange rate volatility, particularly for African economies highly dependent on commodity exports, deserve further scrutiny. The current literature completely bypasses any discussion of trade and finance considerations. This is all the more surprising in the African context, where successful GVC integration for Least Developed Countries like Ethiopia has been accompanied by careful management of capital account transactions and exchange rate management: in order to keep trading costs relatively low but also stable.

#### Specific Policy Considerations

Other trade rules matter for countries trying to achieve inclusion in GVCs. Rules of origin (RoO) are one aspect where Least Developed Countries (LDCs) have called for action as part of the ‘Bali Package’ agreed by World Trade Organization (WTO) members. This is in addition to the operationalisation of the services waiver. There are important relationships to consider between modes of service delivery and investment flows within a GVC context.

Because the dust has settled on the negotiations for the trade in goods component of the European Union - African, Caribbean and Pacific Group of States Economic Partnership Agreements (EU-ACP EPAs), there is a need to next examine the changes in the fine print including RoO. This information should be communicated to businesses under the Capturing the Gains and UK’s Trade in Global Value Chains research network. The rules specified in the text could then be compared to information obtained from business on commercially relevant thresholds, which can affect the sourcing strategies of lead firms.<sup>25</sup> The legal scrubbing process of many of the initialled texts remains work in progress.

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\*This note has been prepared by the International Trade Policy Section, Commonwealth Secretariat.

<sup>22</sup> At the current time around 85% of trade in value added – or intermediate goods trade – takes place in and around three hubs and the three regional blocks of East Asia, Europe and North America (African Development Bank (AfDB) et al., 2014). New estimates by United Nations Conference on Trade and Development (UNCTAD) (2013) suggest 80% of global trade occurs within networks coordinated by MNEs, and 30% is intra-firm trade.

<sup>23</sup> New estimates suggest that around 80% of all trade takes place within the international production networks of transnational corporations (TNCs); around one-third of global trade is now estimated to be intra-firm trade.

<sup>24</sup> See Keane and Basnett (2015) forthcoming.

<sup>25</sup> Examples include textiles and clothing sectors, or fisheries and the canned tuna sector.

Generally, more up to date impact assessments of the agreed texts could be undertaken and monitoring mechanisms for implementation established. This is because trade outcomes modelled under the EU's Sustainability Impact Assessments bear little resemblance to what is agreed in practice, as the impact assessment is undertaken on a hypothetical agreement and before negotiations are concluded. Mixed methodological approaches are required to really capture the effect of other rules and regulations included in legal texts, including on global and regional value chains.

There are areas of trade policy improvements which could be made for countries which still rely on the EU's Generalised System of Preferences and the more limited tariff rent it offers. For example, major players such as the EU could offer LDCs the same RoO that they have within their free trade agreements (FTAs) on trade in goods as well as services. Not all of the potential lessons from a comparison of RoO have been heeded and this includes with regards to cumulation processes, as well as the mutual recognition of schemes. There may be new opportunities to do so in view of the EU-US Transatlantic Trade and Investment Partnership (TTIP) negotiations and African Growth and Opportunity Act (AGOA) renewal.

Weak/non-existent investment policy is a challenge across LDCs. It remains on the negotiation agenda for the ACP countries with the EU, as the services component of Economic Partnership Agreements has only been agreed with one region, the Forum of the Caribbean Group of African, Caribbean and Pacific States (CARIFORUM). In view of what has already been agreed, there is a need for a stronger focus on investment policy (so as to ensure an expansion of formal employment opportunities and maximise domestic value added, spillovers from foreign direct investment (FDI) and so on).

To conclude, past performance in GVC participation is not the best guide to the future. There is a need for more careful consideration as to how new data on trade in value added really assists countries in terms of thinking through how to maximise domestic value added or benefit from spillovers through increased foreign value added in their exports. Little analysis within specific country contexts has actually been conducted. Just how in the past the World Bank 'East Asia miracle' study shifted the debate in the 1990s away from bland, prescriptive notions of trade liberalisation towards more practical considerations, so too have other more recent studies within the context of GVCs and evolving production networks, sought to shift the debate;<sup>26</sup> this includes regarding consideration of behind-the-border issues and the management of FDI.

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<sup>26</sup> See WTO and IDE-JETRO (2011) *Trade Patterns and Global Value Chains in East Asia: From Trade in Goods to Trade in Tasks*. [http://www.ide.go.jp/English/Press/pdf/20110606\\_news.pdf](http://www.ide.go.jp/English/Press/pdf/20110606_news.pdf)

## 2.2 Policy options for supporting trade potential in Africa - Benjamin Leo and Vijaya Ramachandran (Center for Global Development)

The US government should pursue a number of policy and programmatic reforms to better incentivise, and support, improvements in African economies' business environment. Ultimately, all of these measures should target firms' most binding competitiveness constraints. This includes indirect costs (e.g. electricity and transport, corruption, and licensing requirements) and regional diseconomies of scale.

1. **The US Congress, working with the Obama Administration, should consider revising the African Growth and Opportunity Act (AGOA) eligibility requirements to include explicit business environment criteria.** Following an appropriate transitional period, countries would be required to demonstrate 'continual progress' by reducing barriers to trading across borders, improving access to credit, and improving contract enforcement.<sup>27</sup> Along with the democracy and human rights criteria, these measures would become a central determining factor for country eligibility.
2. **The Obama Administration should establish a centralised policy body, with appropriate budgetary authority, to focus and streamline US trade capacity building (TCB) programmes.** This policy-making body should: (i) establish a guiding framework for determining region- and country-level TCB assistance allocations; and (ii) oversee budgetary submissions for final sign off with the Office of Management and Budget. Allocation decisions should be based upon a clearly delineated methodology that incorporates factors such as: competitiveness constraints analysis, market size, trade and investment potential, political will to implement reforms, and sector diversification opportunities. To improve country level coordination, the US ambassador should approve all TCB-related activities in the field.
3. **USAID should increase support for regional bodies that are pursuing concerted efforts to support integration and harmonised policies.** Through the Trade Africa Initiative, the Obama Administration has reprogrammed existing budgetary resources to take the first step with the East African Community. Resources outside of USAID's development assistance account should be redirected to support similar programmes with the Economic Community of West African States (ECOWAS) and Southern African Development Community (SADC). Additional efforts with the Intergovernmental Authority on Development (IGAD)<sup>28</sup> and the Economic Community of Central African States (ECCAS)<sup>29</sup> could be considered at a future date.
4. **The US Congress should protect and expand funding for the Millennium Challenge Corporation (MCC), which has been the US government's leading TCB assistance vehicle.** Without MCC compacts, US support for trade and investment capacity would be very modest. Moreover, MCC has established processes (i.e. international competitive bidding), capacity, and a growing track record in addressing certain constraints to economic growth and trade competitiveness, such as transport infrastructure.
5. **The US government should increase support, through multilateral and other bilateral vehicles, for electricity and transport infrastructure.** The Power Africa Initiative, if successful, will help to address firms' power constraints in the six focus

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<sup>27</sup> For example, the US government could track country progress for a period of three years before implementing the new eligibility requirement. This would provide African governments with time to consider targeted reforms and investments to address related trade competitiveness constraints.

<sup>28</sup>IGAD country membership includes: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan, and Uganda.

<sup>29</sup> ECCAS country membership includes: Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Equatorial Guinea, Gabon, and Sao Tome and Principe.

countries. Future MCC compacts will also likely deliver sizable electricity and transport investments in a limited set of countries. However, these issues will remain a binding challenge in many other economies. Therefore, the US government should increase support through other vehicles such as the Overseas Private Investment Corporation, USAID, the African Development Bank, and the World Bank. The House of Representatives' Electrify Africa Act and the forthcoming Senate version present an opportunity to promote these vehicles.

## 3 How to support regional integration in developing countries, including the role of Aid for Trade

### 3.1 Regional integration in sub-Saharan Africa: policy issues and challenges\* - *Brendan Vickers and Mohammad Razzaque (Commonwealth Secretariat)*

African governments are today accelerating ambitious plans for regional and continental integration. There is growing recognition that the barriers to intra-regional trade in Africa may have more to do with underdeveloped production structures and inadequate infrastructure, rather than tariffs or regulatory barriers. For this reason, African countries are today seeking to advance 'developmental integration', which is an approach that prioritises three pillars: *market integration; infrastructure; and industrial development* by building regional value-chains in goods and services.

There is a strong commitment by African leaders to advance this pan-African vision, reflected in recent African Union (AU) plans and policies to boost intra-African trade, fast-track the Continental Free Trade Area (CFTA) by 2017, and diversify production to place the African continent on a more sustainable industrial development path. In reality, however, regional integration in Africa presents a mixed picture, as discussed below.

#### 1. *Intra-African trade may be higher and more diversified than expected*

Although overall intra-African trade remains low, trade among African countries may be considerably higher and more important than the official figures suggest. When excluding the major oil exporting African countries that trade little with their African peers, the simple average share of intra-African trade in African countries' exports may be as high as 21% of total exports, which is double the overall figure for Africa.<sup>30</sup> In addition, official trade figures do not take into account unrecorded intra-African trade flows, such as informal cross-border trade that is growing, while obtaining reliable data on intra-regional trade in services remains a challenge.

It is also significant that intra-regional trade among sub-Saharan African (SSA) countries is relatively diversified, with manufacturing accounting for 40% of exports. This provides an existing basis to further advance Africa's structural transformation objectives.

#### 2. *The pace of regional integration in Africa remains uneven*

Progress in deepening regional integration has been uneven across the various Regional Economic Communities (RECs) in Africa. The Economic Community of Central African States (ECCAS) and the Southern African Development Community (SADC) have launched free trade agreements (FTAs); the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS) have launched customs unions; and the East African Community (EAC) has gone further, creating a common market in East Africa. Rationalising the number of RECs remains a priority, especially to address the 'spaghetti bowl' effect of overlapping memberships. In that regard, the launch of the Tripartite Free Trade Area (TFTA) later this year will be a major

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\*This note has been prepared by the International Trade Policy Section, Commonwealth Secretariat.

<sup>30</sup> United Nations Conference on Trade and Development (UNCTAD) (2009) *Economic Development in Africa Report 2009: Strengthening Regional Economic Integration for Africa's Development*. Geneva: UNCTAD.

milestone for Africa's integration agenda. It will also lay the basis for the envisaged CFTA, although there is still no clear plan on how to advance from the TFTA to the CFTA.

Despite formal political commitments to advance Africa's integration, one of the major constraints is the prevalence of national interests, and a reluctance to sacrifice policy space and sovereignty. This is reflected in the slow progress when addressing the new generation trade agenda, including services and other 'behind-the-border' measures; the lack of implementation of signed and ratified regional agreements or protocols; and the reluctance to empower supranational REC Institutions to promote regional integration on behalf of member states.

To increase Africa's competitiveness, especially for integrating into global value chains (GVCs), African policy-makers should start to address some of the more challenging policy issues. A deeper integration agenda that includes services, investment, competition policy, and other 'behind-the-border issues' can help to address the African continent's supply-side constraints far more effectively than an agenda that focuses almost exclusively on border measures. Harmonising and upgrading standards at the regional level will also be key for African countries to compete in a world where tariff preferences are eroding, while proposed 'mega trading' blocs like the Trans-Pacific Partnership (TPP) and EU-US Transatlantic Trade and Investment Partnership (TTIP) may set prohibitive international standards for Africa's participation in world trade.

### *3. Strategically harnessing external partnerships to support Africa's vision*

African countries will need to carefully manage their external partnerships to ensure coherence across multiple trading agreements, and that the latter do not undermine Africa's integration and structural transformation objectives. The recent conclusion of Economic Partnership Agreements (EPAs) with the EU present a puzzle for Africa's integration agenda. Since the various EPA Groups in Africa have negotiated different tariff and legal provisions with the EU, a comparative stocktaking is required to assess their effects and the policy implications. For example, intra-regional trade may be adversely affected where EPA tariff preferences favour EU exporters over African traders. However, African countries can also use their new EPA market access into Europe to attract export-oriented investment, especially from the BRICS (Brazil, Russia, India, China and South Africa).

Africa's growing trade and investment relations with the BRICS countries requires deeper applied analysis. It is still uncertain whether the role of the BRICS will be complementary to Africa's integration and region-building objectives. A major priority for Africa is to shift the structure of trade, whereby African countries export commodities in return for manufactures. It will also be important to consider new policy instruments and approaches to promote more value-added exports from Africa, and for Africa to attract investment that refines and processes minerals at source in the continent. The BRICS-led New Development Bank may have an important role to play in financing these projects at concessional rates, and this should be further explored.

### *4. The above mixed picture on regional integration in Africa raises important policy priorities:*

- Ensuring that existing free trade agreements (FTAs) in Africa provide real and tangible market access opportunities by implementing agreed tariff schedules, fast-tracking the elimination of non-tariff barriers (NTBs), simplifying rules of origin, facilitating trade (e.g. one-stop border posts), and harmonising regional standards and technical regulations;
- Designing and strengthening governance arrangements for regional trade agreements (RTAs), such as dispute settlement mechanisms, to address the lack of implementation of regional agreements or protocols;

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- Exploring ways to manage the distribution of gains among REC members, such as in the TFTA and CFTA, where weaker economies are likely to lose due to trade diversion (e.g. greater cooperation in services, transit trade, investment, and regional infrastructure development);
- Channelling Aid for Trade to the RECs to support Africa's 'development integration' agenda premised on market access, infrastructure, and industrial development; and
- Strategically harnessing external partnerships to support the AU's 'Vision 2063'.



## 3.2 Supporting African regional integration: looking *ahead* - Tom Pengelly and Quentin de Roquefeuil (Saana Institute)

There is little doubt that regional integration should be a continuing priority for African countries and donors. In this endeavour, the donor community has the benefit of hindsight. Even just looking at recent efforts, the UK Department for International Development (DFID) has been supporting regional integration intensively in Africa for over a decade. Time is therefore ripe to take stock of our experience.

This note raises three key issues that can usefully guide the reflections as we move ahead: focus, governance and delivery.

### **Are we focusing on the right issues?**

Thematically, much of the regional integration agenda in Africa has been centred on a relatively traditional set of trade topics: tariffs, rules of origin, and Non-Tariff Barriers (NTBs). Significant progress has been achieved in these areas by Regional Economic Communities (RECs) and their Member States, with the support of the donor community. For example, ECOWAS has just begun implementing its Common External Tariff, and the East African Community (EAC) has made considerable progress in consolidating its internal trading arrangements under its Customs Union protocol, by, for example, rolling out its single customs territory.

But are these 21<sup>st</sup> century issues that will allow African countries and groupings to reap the benefits of globalisation and integrate into the world economy and into global value chains? The recent literature suggests that these will not go far enough.

In fact, over recent decades and following successive liberalisation initiatives, the impact of tariffs has diminished. Issues like trade in services, investment regimes, infrastructure development and “behind the border” regulatory issues are taking on more importance, since they are key to promoting more productive capacity, export diversification and inclusive growth. Quite often, it is the infrastructure provision, investment and regulatory climate that constrains regional trade, not tariffs, suggesting that donor support might have attached more importance to first generation “trade in goods” issues than is warranted in terms of relevance for Africa’s economic development.

### **What about governance (and politics)?**

A second area where the donor community could have invested more effort is governance. The spotty track record that RECs’ member states have in implementing their commitments with their neighbours is, in part, a result of the lack of implementing and enforcement mechanisms that characterise African regional trade agreements. For example, the EAC Treaty sets out very lucidly a wide range of regional liberalisation and harmonisation objectives, but the Community itself has no enforcement machinery beyond a commitment to policy coordination, and application of the Treaty and its implementing Protocols depends on action, where possible coordinated action, by the partner state Governments.

RECs generally either lack a dispute settlement mechanism or do not use it. African states do not litigate against each other in trade matters, most importantly in the World Trade Organization, and trade disputes are often settled bilaterally, behind closed doors, increasing uncertainty for businesses. This raises a fundamental question for donors investing in African regional integration: if negotiated treaties cannot be effectively implemented and are not respected, what is the point of negotiating (or supporting) them in the first place?

Yet, support to the governance of RECs has been a relatively low priority for most donors. Some donors have supported RECs in their monitoring efforts (e.g. the “gap” analysis

undertaken by the USAID West African Trade Hub, the SADC FTA 'audit' by the USAID Southern African Trade Hub and TMEA's work on tackling NTBs in the EAC). But this remains the exception rather than the rule. Going beyond the monitoring of the implementation of commitments by African Member States, what would an agenda that attempted to enhance the rules based nature of African RECs look like?

### **Do we know how to deliver support effectively?**

Do we know what support modalities work best in the case of regional integration? After over a decade of designing support programmes to regional integration, we can say that yes, we have an idea. Supporting regional integration is an intricate affair: it requires working at the regional and national level, building and navigating alliances with a wide range of stakeholders within and across countries to secure ownership and buy-in. It requires scale and resources. It also requires time, patience and humility as to what donors can ultimately achieve.

Achieving the kinds of results and transformation changes for delivering African regional integration in practice is very difficult to do well if donor support is fragmented across a multitude of short-term projects (each with different modalities), focus countries, implementing agencies, results frameworks and time frames. Regional integration is already a complex affair. Development partners should not add another layer of complexity for RECs and their Member States. Equally, development partners should not overly rely on RECs given their limited delivery capacity at country level.

On balance large, multi-donor funded and purpose-built delivery vehicles are likely to be the most effective at supporting regional integration in Africa. They have the scale, resources, durability and ultimately the integrated approach necessary to support extremely complex endeavours in multiple theatres simultaneously and in a synchronised fashion.

Regional integration requires African countries to recognise that their best advantage, certainly in the areas of economics and trade, lies in pooling some of their sovereignty. Supporting it effectively requires of donors to do the same with how they deliver their support.

### **Conclusion**

Progress in regional integration is slow, but the results are materialising. This note has argued that, as African countries move forward in their endeavours, a widening of the agenda is warranted to be more relevant to Africa's economic development imperatives, but that a strengthening of the governance of African RECs should not be neglected. Providing effective support mechanisms in this area will certainly demand a deeper understanding of the politics of African RECs, a topic that has recently begun gathering the attention of the donor community.

Lastly, donors have the benefit of hindsight when designing support mechanisms for regional integration. Past and current successes should provide a good measure of inspiration and development partners should be more determined in building on what has worked well, even if this may require some additional transaction costs and co-ordination efforts in the short term

### 3.3 Africa's Continental Free Trade Area and Boosting Intra-African Trade initiative as key pillars for growth, transformation and extreme poverty eradication - *David Luke (UN Economic Commission for Africa)*

The year 2015 offers an historical opportunity for a major step to be taken towards the integration of the African continent – the launch of negotiations for a Continental Free Trade Area (CFTA). This is in line with the 2012 Decision taken at the 18th Ordinary Session of the African Union Assembly of Heads of State and Government to begin negotiations for a CFTA by 2015, with 2017 as the indicative date for the finalisation of the essential core of an agreement. The summit Decision further provided for the CFTA initiative to be pursued hand-in-hand with implementation of a comprehensive strategy for boosting intra-African trade (BIAT), which was adopted at the same time (see box below). The BIAT has seven clusters that have been carefully designed to address well known policy, institutional and capacity gaps.

Various analytical assessments of the CFTA have underscored the dynamic impact of increased trade among African countries for industrial development, better infrastructure connectivity, scale economies, enhanced competitiveness and structural transformation.<sup>31</sup> Although intra-African trade hovers around an annual average of 13%, it is far more diversified than Africa's trade with the rest of the world. Over 48% of trade among African countries consists of processed goods compared to an 80% concentration of commodities in Africa's exports to non-African destinations. Services trade among African countries is also growing, particularly in financial, transport, logistics, business and construction services. The study *Assessing Regional Integration in Africa V: Towards an African Continental Free Trade Area*, projects a 50% increase in intra-African trade within five years of the CFTA coming into effect in 2017, with significant income gains.

More broadly, the CFTA is recognised in the African Union's Agenda 2063 as an important pillar for the realisation of the aspirations towards a prosperous Africa based on inclusive growth and sustainable development in an integrated economic space and continent-wide market of over a billion people and GDP approaching US\$2 trillion. It is further recognised that the CFTA provides a strategic route for Africa's integration into the global economy as a respected partner. Achievement of the CFTA will be an important milestone in the realisation of the Abuja Treaty Establishing the African Economic Community. The CFTA will build upon the progress in trade liberalisation that has been achieved with the existing regional economic communities and in particular the Tripartite Free Trade Area (TFTA) Agreement between the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) that is expected to be announced in May 2015.

At the global level, there is strong commitment to a new post-2015 development agenda which aims at eradicating extreme poverty by 2030. It is recognised that an essential requirement to achieve this will be a 'high level of ambition ... responsive, and transformational course of action'.<sup>32</sup> African Union (AU) member states through the Common African Position on the Post-2015 Development Agenda have reaffirmed the need to implement 'continental mechanisms to promote intra-African trade' in the context of the AU's Agenda 2063 'which presents the vision for the continent's development'.<sup>33</sup>

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<sup>31</sup> For example, United Nations Economic Commission for Africa (UNECA), African Union Commission (AUC) and African Development Bank (AfDB), *Assessing Regional Integration in Africa V: Towards an African Continental Free Trade Area* (Addis Ababa: UNECA, 2012).

<sup>32</sup> United Nations, *The Road to Dignity by 2030: Ending Poverty, Transforming all Lives and Protecting the Planet – Synthesis Report of the Secretary-General on the Post-2015 Development Agenda* (New York: United Nations), p.6.

<sup>33</sup> African Union, *Common African Position on the Post-2015 Development Agenda* (Addis Ababa: AUC), p.27, 25

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To this extent, the stakes in the CFTA negotiation are exceedingly high. The CFTA is not just about bringing down tariff and non-tariff barriers between African countries and regional economic communities. It is one of two key pillars – along with the BIAT initiative – in the continent’s overall strategy for transformation.

Under the post-2015 development agenda, Africa’s development partners are looking to the continent to play its own part in eradicating poverty by 2030. The AU’s Agenda 2063 and Common African Position on the Post-2015 Development Agenda have identified trade integration as a major enabler in the achievement of the post-2015 development agenda with positive externalities on inclusive growth, employment, productive capacities, and structural transformation. In this regard, successful implementation of the CFTA and BIAT are potential game-changers.

### Box: Boosting Intra-African Trade Initiative

Cluster	Goal/objective	Activity examples
1. Trade Policy	Fast tracking intra-African trade development	Mainstreaming of intra-African trade in national trade and development strategies
		Enhancing the role of the organised private sector, informal private sector and women in trade policy formulation
		Boost intra-African trade in food products
		Undertake commitments to liberalise trade-related service sectors: transport, professional, financial and ICT
		Commit to harmonise rules of origin and trade regimes
		Promoting ‘Buy in Africa’ and ‘Made in Africa’
2. Trade Facilitation	Reducing the time it takes to move goods from point one to another across borders, within and between regions	Removal of road blocks
		Harmonising and simplifying customs and transit procedures, documentation and regulations
		Establishment and operationalisation of One-Stop Border Posts
		Integrated Border Management
3. Productive Capacity	Creating regional and continental value chains/complementarity, to increase local production/ trade in goods produced in Africa	Prioritisation and implementation of continentally agreed programmes, for industrial development, agriculture productivity and food security.
		Establishment of integrated and inter-connected trade information systems
		Facilitating investments/FDI through established frameworks for the strengthening of regional and continental complementarities, and the development of regional enterprises and value chains
		Establishment of Regional Centers of Excellence for technology development, adaptation and diffusion
4. Trade-Related Infrastructure	Development of innovative, legal, financial and other mechanisms	Prioritising the implementation of the Programme for Infrastructure Development in Africa

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	for multi-country infrastructure development projects	<p>Mobilise resources for multi-country infrastructural projects</p> <p>Enabling environment for private sector participation in the development of infrastructure</p>
5. Trade Finance	Develop and strengthen African financial institutions and mechanisms to promote intra-African trade and investment	<p>Strengthening capacities of existing regional and continental financial institutions</p> <p>Improving payment systems</p> <p>Enabling environment for financial service companies to supply export credit and guarantees</p>
6. Trade Information	Bridging information gap to enhance opportunities for intra African trade	Creation of inter-connected centres of trade information exchange
7. Factor market integration	Increase intra-regional mobility of labour through harmonisation of labour, business and investment laws	<p>Operationalise the existing policies and protocols on free movement of people and labour migration</p> <p>Encourage and facilitate policies that increase the freedom of movement for business people</p> <p>Harmonise rules on cross-border establishment</p> <p>Establish agreements on mutual recognition of qualifications</p>

Source: Action Plan for Boosting Intra-African Trade (available on the AU web site)

## 4 How to ensure development benefits from mega-regionals and EU trade policy

### 4.1 How to ensure development benefits from mega-regionals: Options for the EU and US within the context of the Transatlantic Trade and Investment Partnership (TTIP) - *Sean Wolfrey (European Centre for Development Policy Management)*

The current prominence of mega-regional trade agreements (mega-regionals), such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), on the global trade agenda reflects a dissatisfaction with the lack of progress being made in multilateral trade negotiations at the World Trade Organization (WTO) and a desire for the establishment of trade governance frameworks that respond to the realities of 21st century trade. In turn, these mega-regionals create economic and geopolitical dynamics that will affect non-participating countries, including emerging and developing countries.

These agreements, assuming they are concluded, are likely to have a significant impact on trade and investment flows, the structure and regional orientation of global value chains, and the regulatory 'rules of the game' for international trade. Their direct effects on developing countries could include trade diversion and preference erosion, although studies suggest that these effects would probably not be that significant. In addition, the negotiation of standards through mega-regionals is likely to further entrench the position of developing countries as rule takers with regard to the setting of international standards. Indirectly, mega-regionals will also affect the developing world through their impact on the multilateral trading system. This may involve a marginalisation of the WTO, or the capture of WTO agenda-setting and negotiating processes, both of which would undermine developing countries' ability to pursue their trade-related interests.

Regardless of the exact economic impacts of mega-regionals, developing countries need to respond to the new reality of global trade governance being established by these agreements. Ignoring these developments is not an economically prudent option. There are a number of strategies that developing countries can pursue to ensure that an emerging mega-regional-dominated trade regime does not undermine their developmental prospects, including undertaking unilateral trade policy reform, recommitting to regional integration processes, and establishing or deepening alliances with key and emerging partners. There are also a number of actions that developed countries participating in mega-regional negotiations could take to ensure more development-friendly outcomes from these agreements. For instance, in the context of TTIP, the EU and US could:

- 1 *Simplify rules of origin.* Rules of origin in the EU and US are relatively complex. TTIP provides an opportunity to replace these complex rules with a simplified and more liberal approach. Developing countries and their exporters would benefit greatly if the EU and US adopted simplified, harmonised rules of origin.
- 2 *Extend mutual recognition to third countries.* If the EU and US are able to agree on mutual recognition of standards, such recognition could be extended to third countries meeting the requirements of either the EU or US. This would be particularly beneficial where the standards in question apply to products that developing countries export in large quantities to the TTIP market. The EU and US could also provide assistance to developing countries struggling to meet the standards recognised through TTIP.
- 3 *Reduce agricultural subsidies.* The EU and US are two of the largest providers of subsidies to agriculture. Any commitments made under TTIP to reduce such

subsidies would likely have a positive impact for agriculture-exporting developing countries, although the same cannot be said for net food-importing developing countries.

- 4 *Make provision for the participation of third countries.* A final TTIP agreement could include a membership clause providing for the agreement to be extended in the future to third countries, particularly developing countries.
- 5 *Ensure transparency in the TTIP process.* Given the significance of TTIP for world trade, effort should be made to ensure that developing countries are able to access information on the content and progress of the TTIP negotiations.
- 6 *Establish an impact-monitoring mechanism.* The EU and US could support the establishment of a mechanism for ex-post monitoring of the impact of TTIP. This in turn could help guide thinking on how, if at all, to assist any developing countries that are negatively impacted by the agreement.

In addition, there are other approaches that the EU and US could adopt in parallel to the TTIP negotiations to alleviate any anti-developmental impacts from TTIP. These could include:

- i. *Harmonising their preference systems for developing countries and, where possible, making these more generous.* The US could, for example, extend the African Growth and Opportunity Act (AGOA) to cover those agricultural products that are currently excluded.
  - ii. *Increasing Aid for Trade and technical assistance to developing countries.* This could include support for the implementation of Economic Partnership Agreements, support to regional integration processes, and technical and financial assistance to help developing countries to meet relevant standards.
  - iii. *Taking steps to strengthen multilateralism.* In particular, the EU and US could put more effort into pursuing reform of the WTO and addressing trade barriers that require dismantling at the multilateral level.
1. In the case of the EU, ensuring consistency with development policy. This would involve examining all issues on the TTIP agenda to ensure that an agreement on these issues does not detract from the EU's development goals.

## 4.2 New mega-trade deals: what implications for Africa? - *Isabelle Ramdoo (European Centre for Development Policy Management)*

### Key messages from [ECDPM Briefing Note73](#):

- The stalemate at the World Trade Organization (WTO) over the last two decades has been accompanied by a proliferation of bilateral and regional trade agreements, and more recently mega-trade agreements such as EU-US Transatlantic Trade and Investment Partnership (TTIP), Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and Free Trade Area of the Asia Pacific (FTAAP).
- Mega-trade deals will have an impact on trade flows, on the direction and intensity of investment, and on the structure of regional and global value chains, and will redefine the 'rules of the game'.
- Mega-trade deals are expected to be about WTO-plus issues and WTO-extra issues. For Africa, mega-trade deals will likely (i) lead to an erosion of the margin of preferences they enjoy to big markets, and (ii) further entrench the position of Africa as rule/standard taker.
- African policy-makers need to think 'outside the box' to forge strategic responses and alliances to avoid marginalisation and being rule takers.



## 5 Bringing it together: trade in the post-2015 agenda

### 5.1 Some Thoughts on Trade in the post-2015 Agenda - *Bernard Hoekman (European University Institute and Centre for Economic Policy Research)*

The trading system: Twenty years after the establishment of the World Trade Organization (WTO), the institution is 'stuck' with the Doha round. The negotiating agenda and modalities used have not permitted members to get to yes. One response in principle would be to reopen the agenda and add and subtract issues so as to define a negotiating set that offers more to the major players. In theory this makes a lot of sense; in practice it will be very difficult and will depend on what emerges from the Trans-Pacific Partnership (TPP), EU-US Transatlantic Trade and Investment Partnership (TTIP), Regional Comprehensive Economic Partnership (RCEP), Trade in Services Agreement (TiSA), etc. and the dynamics of the trade relationship between China and the US.

Preferential Trade Agreements (PTAs) are now the main focus of trade cooperation. They overlap and interact with each other. Differences in the rules applied in different PTAs generate additional costs for firms. Part of the solution to this is to increase the size/membership of PTAs, along the lines of what is being pursued in Africa and Asia. This is easier said than done, e.g. in Asia there are two parallel efforts – the TPP and RCEP. Pursuit of convergence across PTAs is a very complex and fraught exercise.

In practice it may be more effective to focus on multilateralising specific policy areas where differences in PTA rules impose the greatest trade distortions and/or where the objectives underlying PTA provisions are very similar. Two paths exist here: (i) critical mass agreements (CMAs) that involve negotiations among the major countries, letting small economies 'free ride' if they want, such as the ITA-2 talks and environmental goods negotiations; and (ii) formal plurilateral agreements (PAs) in the WTO under which subsets of WTO members agree to adopt common approaches. An example could be rules of origin, where differences across PTAs create excess costs for firms. Rather than the long-running and ineffective effort to agree to common rules of origin that apply to all WTO members, a step wise approach might be pursued where members of specific PTAs agree to cumulation for rule of origin purposes under the umbrella of a WTO plurilateral agreement. PAs also offer a substitute for PTAs as a mechanism for cooperation on new issues – e.g. data protection, local content policies, small and medium enterprises (SME) policies/subsidies, etc.

Transparency and learning: The plethora of PTAs generates negative spillovers on excluded countries, the magnitude of which depends on how much average trade and investment barriers are reduced on a discriminatory basis. However, new vintage PTAs also address the trade/investment-impeding effects of national regulatory regimes, offering potential benefits for non-members as well and opportunities to learn from the different approaches that are being pursued. The experiments that are successful in specific PTAs may be transferable to other PTAs and/or, eventually, the WTO. An implication is that non-members must have information on what is being done in the PTA context and how it works. If the WTO cannot be tasked with this, other international organisations should be asked to put in place a mechanism to document and analyse the effects of implementation of PTA disciplines.

Sustainable development goals (SDGs): Looking at the trade agenda through the lens of trade agreements and negotiations is much too narrow from a development perspective. They are just one way to enhance opportunities for firms to use trade and to increase real incomes in developing countries. The main payoff will come from autonomous policy action

that addresses major constraints on trade expansion, which may not be market access barriers. This is insufficiently emphasised in the SDGs discussion. There is still a significant traditional trade reform agenda in many countries, but more important are real trade costs more generally. In the SDG context the focus is arguably mostly 'business as usual': finish the Doha Development Agenda (DDA) and improve duty-free, quota-free (DFQF) programmes. The focus is not on what research suggests is a key impediment to trade expansion: high trade costs in developing countries. Embedding a trade cost reduction target in the SDGs would provide an operational focal point for action to reduce such costs and leverage efforts by the development community to support trade facilitation. This includes the new WTO agreement on trade facilitation but goes far beyond it. Advantages of a trade cost reduction target are that lowering trade costs is neutral in the sense of benefiting not just exporters but also importers and households in developing countries; it is left to governments to work with stakeholders/agencies to identify how best to reduce costs; and it ensures greater accountability for outcomes (how much did trade costs fall?) than under the Millennium Development Goals.

For elaboration, see

<http://globalgovernanceprogramme.eui.eu/research-areas/global-economics/>.

## 5.2 Trade in post-2015 - *Arancha González (International Trade Centre)*

- 2015 is the year when the successor to the Millennium Development Goals will be adopted; when we take stock of the Beijing+20 process and progress; when the World Trade Organization (WTO) will be on the verge of adulthood as it reaches 20 years; and when the Financing for Development Conference and the 5th Global Aid for Trade Review will examine how the supply and demand of aid, finance and investment can be brought closer together to serve a global population which is increasingly looking to trade as a means of sustainable growth and job creation.
- The inclusion of measurable targets through which countries can better monitor and evaluate progress will be imperative. A post-2015 series of goals, targets and indicators that recognise the importance of economic growth as a central “anchor” component of a rights based approach to human rights, maternal rights, nutrition and peace and security will certainly send the right signals.
- It is also important to have the means to implement the SDGs. It is commendable that countries like the United Kingdom place a spotlight on aid and trade. A robust development budget is not just symbolic; it reassures that together with a private sector component SDG implementation is possible. A blended approach is critical.
- In the context of the global trade and development landscape, there is good news and bad news. There is a structural slowdown in trade growth, resulting from changes in how global value chains operate (driven mostly by a lot of insourcing). The good news however is the huge potential to expand value chain integration in Asia, Africa and Latin America.
- As mentioned in a [recent op-ed to the Guardian newspaper](#), broader market conditions do not look propitious for a renewed trade boom. In all advanced economies, income and demand are well below pre-crisis trend lines. There is no sign the United States wants to – or should – resume its prior role as the global consumer of first resort. China’s economy, the world’s main motor since the crisis, is cooling. Japan is back in recession. And the European Union is still digesting the effects of the 2008 crisis. The questions then are, first, where are the new poles of growth? And second, have we become too macro in our approach and ignored a whole sector of the population with the potential to bolster global growth and decrease global inequality?
- There is an opportunity. There is considerable scope for South East Asia, Latin America and sub-Saharan Africa to fill this gap. The potential of these countries to exploit this slowdown in the traditional poles of growth is there, especially if domestically these economies begin to increasingly focus on building skills and on creating a trade facilitative environment, and see the potential there within their own growing middle classes.
- Capitalizing on these opportunities calls for a focus on operationalizing aid for trade and a focus on trade policy.
- In the case of aid for trade, it will be important to support value addition in all sectors and also in the context of cross-border value chains. Aid for trade can positively impact on SME performance, rural development, women economic empowerment (the ‘third billion’), south-south trade cooperation as well as youth empowerment.

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- On the side of trade policy, non-tariff measures are the real obstacles to tackle – these include issues surrounding the regulatory aspects of trade and services, conformity with public and private standards and promoting dialogue between the public and private sectors.
- The International Trade Centre is committed to making economic development and trade more prominent in the post-2015 sustainable development agenda. This includes ensuring there are indicators to measure economic and transformational impacts of the sustainable development goals (SDGs). It also includes constructing and delivering results in support of aid for trade and trade policy objectives.



# Part III: Supplementary notes

# 1 PEAKS Trade Topic Guide - a summary

The Trade Topic Guide<sup>34</sup> reviews the key theoretical and practical issues relating to the role of trade in growth and development strategies. It is intended to assist economists working at the country level and on economic development programmes to become familiar with key concepts used in trade theory and trade policy circles. It also draws attention to the linkages between trade, growth and the achievement of structural transformation: the process which drives and sustains growth and poverty reduction strategies over time. This Guide is not intended to be exhaustive.

The Guide is organised into four main sections. Section 2 introduces some of the key concepts referred to in trade theory. It reviews two types of trade theory: neoclassical trade theory, based on perfect competition where gains from trade result from differences in terms of technology or factor endowments; and new trade theory and new economic geography where trade is based on economies of scale, agglomeration, and imperfect competition. In addition to potential welfare gains from trade, it is also recognised that there can be winners and losers from trade policy reform.

Section 3 discusses trends and patterns in global trade flows over recent years. This includes the increasing role of developing countries in global trade, increases in intermediate goods trade and services rather than finished final products. Over time global trade has become far more coordinated as countries have become more integrated within global value chains (GVCs) and production networks. This has in turn spurred the interest of policy-makers in better understanding both the scope and extent of participation in this type of trade, and firms' relative position within GVCs. This heightened awareness has subsequently drawn policy-makers' attention to the instruments available to assist firms in entering and securing their position at various stages of participation within GVCs, as well as participating more effectively.

Section 4 provides an overview of the outcomes from the most recent round of multilateral trade negotiations. We then discuss the next wave of mega-regional trade agreements (mega-RTAs), plurilaterals, as well as other free trade agreements (FTAs) that are likely to shape the global trade policy landscape in the future. This is followed by a discussion of some of the risks and benefits associated with these agreements, including with regard to achieving deeper economic integration. This is with a view to informing decisions about trade policy, ensuring that the next wave of trade agreements serve as building rather than stumbling blocks for developing countries.

Section 5 introduces some of the key debates about the link between trade and development by reviewing empirical evidence. It highlights the complexity of the debate. Finally, in Section 5 we introduce the Aid for Trade (AFT) initiative and describe how it has evolved in recent years. We discuss evidence of its effectiveness and some of the key factors which influence this, according to experiences and assessments to date. We conclude with reference to the future directions of the AFT agenda.

The Trade Topic Guide shows how trade theory, trade patterns and trade policy have evolved in recent years. To some extent these theoretical developments have been driven by the need to account for the ability of the emerging countries to sustain a trade-induced growth strategy over time, which has contributed to dramatic reductions in poverty and boosted human capital (which has subsequently helped sustain growth overtime). The role of trade within a poverty reducing growth strategy has been demonstrated in recent years to be very powerful force, if harnessed and managed in the right way.

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<sup>34</sup> This trade topic guide – Keane, J., Jouanjean, M-A., Basnett, Y., Kennan, J. (2014) **Trade Topic Guide**. EPS PEAKS – can be downloaded from <http://bit.ly/QcGKPC>

## 2 Summary of relevant EPS PEAKS helpdesk responses on trade issues

### **Southern African Trade and Investment Flows<sup>35</sup>**

This paper looks at trade and investment flows in Southern African countries. The paper highlights the major product group (both in and out) for Democratic Republic of Congo (DRC), Malawi, Zimbabwe, Zambia, Mozambique and South Africa.

Drawing primarily on data from the UN's COMTRADE and United Nations Conference on Trade and Development (UNCTAD) (investment data) databases, this paper presents brief trade and investment profiles for DRC, Malawi, Zimbabwe, Zambia, Mozambique and South Africa; the profiles are structured as follows:

### **Increasing Value Addition in Exports<sup>36</sup>**

This paper explores the emergence of Global Value Chains (GVCs) and the implications for developing countries, particularly in terms of what these countries need to do in order to effectively participate in these GVCs, and provides insights into the key issues or constraints which these countries need to address to build their competitiveness. These issues are explored in further detail through case studies of two countries: Malaysia and Mauritius.

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<sup>35</sup> By Niall Condon and Sasha Parameswaran of Nathan Associates London Ltd. May 2014

<sup>36</sup>By Niall Condon and Sasha Parameswaran of Nathan Associates London Ltd. February 2014



# 3 Supporting Economic Transformation (SET) and trade

## Overview

Supporting Economic Transformation (SET)<sup>37</sup> is a four year [Overseas Development Institute \(ODI\)](#) programme supported by the UK [Department for International Development \(DFID\)](#) over 2014-2018. The programme will look at promoting economic transformation in developing countries and aims to provide practical policy support to country governments and their partners.

## Background

The quality of economic growth matters. Economic transformation is needed for the type of growth that leads to poverty reduction. This is growth that (a) generates income broadly across the income distribution, (b) is robust against price shocks and price cycles, and (c) increases the opportunities and options for future economic growth. Focusing on economic transformation involves understanding determinants of growth and productivity at the micro/firm and macro level, including how resources shift to higher-value uses and diversification of a country's productive capabilities, including its exports. But the development community has traditionally paid relatively little attention to these long-term determinants.

We define economic transformation broadly as moving labour and other resources from lower to higher productive activities. This includes moving between sectors to higher-value activities (for example, from agriculture to manufacturing) and within sectors (for example, from subsistence farming to high-value crops) and value chains. It usually also involves diversification, discovering new capabilities and increased domestic value addition in trade.

A core of fundamental economic policies seem to be associated with diversification (International Monetary Fund (IMF) 2014): more open markets, the reduction of subsidies that distort investment priorities, efficient intermediation in the financial system, infrastructure and skills development. Well-designed industrial policies also have a role to play; there is healthy competition for ideas about smarter approaches to designing specific or industrial policies (Rodrik, Page, Lin) that learn from past success and failure.

But we do not know enough about policies and programmes to promote transformation in particular contexts. It is equally important that governments and their partners are sensitive to the range of opportunities for building tacit alliances and dealing with vested interests so that desired changes happen.

SET will provide policy-makers and donors with policy advice, research and analysis using both economic transformation and political economy lenses.

## The role of trade in economic transformation

No country has created wealth, transformed structurally, and reduced poverty in a sustained manner without engaging in trade. The nature of trade is crucial as increased complexity and diversification is correlated with higher productivity and economic transformation, a key objective for developing countries. In this context it is crucial to examine trade policy programmes through a transformation lens, e.g.

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## Trade priorities for 2015

- How can trade in services policy support diversification, productivity change and economic transformation; and how can this be achieved in practice?
- What do new trade analyses (e.g. Hausmann et al.) suggest are key targets for trade diversification? Which investments in which sectors have the greatest domestic value addition and spillover effects (using supply-use tables)?
- How can Aid for Trade programmes be focused on reducing trade costs, crucial for economic transformation (what works where and how)?