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Policy Brief

Trade, Development and the MDGs
Acknowledgements

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# ABBREVIATIONS AND ACRONYMS

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<th>Full Form</th>
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<tbody>
<tr>
<td>AANZFTA</td>
<td>ASEAN-Australia-New Zealand Free Trade Agreement</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AT</td>
<td>Aid for Trade</td>
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<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>AusAID</td>
<td>Australian Agency for International Development</td>
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<td>CMA</td>
<td>Critical Mass Agreement</td>
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<td>DDA</td>
<td>Doha Development Agenda</td>
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<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<td>DFQF</td>
<td>Duty Free Quota Free</td>
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<td>EFIC</td>
<td>Export Finance and Insurance Corporation</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GIDD</td>
<td>Global Income Distribution Dynamics</td>
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<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>Institute for International Trade</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>LDCs</td>
<td>Least Developed Countries</td>
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<td>LLDCs</td>
<td>Landlocked developing countries</td>
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<td>MC8</td>
<td>The WTO’s Eighth Ministerial Conference</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>MTS</td>
<td>Multilateral Trading System</td>
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<td>NAMA</td>
<td>Non Agricultural Market Access</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PACER</td>
<td>Pacific Agreement on Closer Economic Relations</td>
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<td>RFTP</td>
<td>Regional Trade Facilitation Programme</td>
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<td>RTA</td>
<td>Regional Trade Agreement</td>
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<td>SDT</td>
<td>Special and Differential Treatment</td>
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<td>STDF</td>
<td>Standards and Trade Development Facility</td>
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<td>SIDS</td>
<td>Small Island Developing States</td>
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<td>SMEs</td>
<td>Small and Medium-Sized Enterprises</td>
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<td>SPS</td>
<td>Sanitary and Phytosanitary Measures</td>
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<td>SVEs</td>
<td>Small, Vulnerable Economies</td>
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<td>TAFE</td>
<td>Technical and Further Education</td>
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<td>TBT</td>
<td>Technical Barriers to Trade</td>
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<td>TRIPS</td>
<td>Trade-Related Aspects of Intellectual Property Rights</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>USA</td>
<td>United States of America</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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Executive Summary

International trade can assist in the achievement of the Millenium Development Goals (MDGs), with Aid for Trade (AfT) playing a vital role. The World Trade Organisation (WTO) can assist in this process by adopting policy measures in support of Least Developed Countries (LDCs) and development generally, as well as in support of a predictable program of well-funded AfT.

The complexity of the trade-poverty reduction relationship is widely recognised. However, the increasing weight of evidence supports the proposition that well planned and strategically executed trade policy initiatives, including those supported by Aid for Trade, can and do impact positively on poverty reduction. This is why trade has become such an important factor in contributing to the achievement of the MDGs.

This policy brief reinforces the view that international trade can be a powerful engine for economic growth and development, but that trade cannot work in isolation. Trade-related poverty reduction needs to be associated with context specific domestic reform and other measures including, for example, stable macroeconomic policies, pro-competitive regulation, good distributional policy, investment regulations, and access to the markets of major trading nations.

Under such conditions, trade can both directly and indirectly assist developing countries achieve the MDGs. The six targets identified under MDG 8 underpin the notion that open trade is an important engine for development. The recent initiative adopted by most developed country members of the WTO to grant ‘duty free, quota free’ market access for 97% of LDC exports is a clear example of the global community recognising trade as a tool for development.

Trade also impacts the other MDGs. For example, the success of initiatives like the village-phone by South African Telecom firm MTN in Uganda, Vodafone’s M-PESA in Kenya and Smart-Money in the Philippines, demonstrate how the liberalisation of education and telecommunication services have contributed to the improvement of the situation of women (MDG 3) around the world by increasing access not only to education (MDG 2) but also by providing access to jobs outside the agriculture sector.

A very clear message from this report is that the WTO Doha Round needs to be concluded with special consideration for the needs of LDCs and low income countries. Through its rules-based system and principles of openness, non-discrimination, transparency and predictability, the WTO offers developing countries the best chance for favourable trading conditions and realizing gains from trade liberalization. The completion of the Doha Round is therefore a fundamentally important contribution by the WTO to the realization of the MDGs. The Doha Round provides a unique opportunity for the international community to tackle issues in international trade that cannot be addressed in other forums. It is also the only forum capable of delivering the multilateral reform required to bring down the agricultural protectionism that is so damaging to the income and food security needs of poor farmers in developing countries.
This report also puts forward a number of market access initiatives that the global community and the Australian Government may consider, for example in the areas of labour market liberalisation commitments and support for an LDC package at the WTO 8th Ministerial Conference.

Market access issues for low income developing countries represent only one side of the development challenge. Most LDCs and many developing countries generally are plagued by severe supply side constraints, lack of infrastructural development and low levels of human and institutional capacity necessary to capture the benefits of international trade.

The Aid for Trade initiative, launched at the WTO Hong Kong Ministerial Conference in 2005, seeks to target such capacity and supply side challenges. The good news is that, to date, notwithstanding a limited period of evaluation, AfT is delivering results. The most recent global review of AfT, held in 2011, showed that AfT impacts ranged from increased export volumes to more employment, notably of women, as well as faster customs clearance and border transit times and impacts on poverty. This is why the global community, in spite of the Global Financial Crisis, has continued to maintain funding commitments in support of AfT.

This is also good news for Australia as a strong supporter of the MDGs and donor of significant AfT to the Asia Pacific region. Australia is involved in a wide-range of AfT programs with a strong track record in effective delivery outcomes consistent with the recent review of Australia’s aid effectiveness.

The report acknowledges that it is of course early days in the delivery of AfT, and issues such as duplication of effort among multilateral, regional and bilateral donors, as well as the accuracy of data in some LDCs, mean the international community and Australia can still refine and focus their AfT efforts.

Recommendations are therefore put forward with respect to global AfT and Australian AfT on the basis that an increase in the funding and predictability of AfT, as well as for Trade Finance sources, reflects a growing view about the unique role AfT can play in assisting developing countries to much greater long-term economic self-reliance, away from aid dependence and towards realisation of the MDGs.

**Recommendations**

**Global Initiatives**

The preparatory process for the WTO’s Eighth Ministerial Conference (MC8) has seen agreement among Members on the consensus part of the Chairman's statement. No other decisions are expected at the MC8 although it is anticipated that the Chairman will provide his own summary of discussions among Ministers in a separate section. As such, the following recommendations are put forward for in-principle consideration and support at the MC8 and for implementation into the future.
WTO

1. The global community should continue to work for the best possible outcome from Doha, paying particular attention to the needs of developing countries and LDCs whether this be through the single undertaking, a critical mass approach or a sectoral approach, in order to maximise trade impact in support of the MDGs.

2. The MC8 should endeavour to pursue a package of trade related development outcomes on the basis of paragraph 47 of the Doha Ministerial Declaration. The package would ideally include trade facilitation, measures, agricultural market access, the SDT monitoring mechanism, and progress on fisheries subsidies and on trade in environmental goods and services.

3. The MC8 should also support special measures for LDCs, including DFQF market access and simpler ROOs, a step forward on the cotton issue and a services waiver.

4. WTO members should consider further support for increased labour market access through mode 4, and through other memoranda of understanding as appropriate, with an emphasis on access for the lower skilled workers.

5. WTO members should support multilateral and regional trade negotiations to reduce tariffs and other trade barriers to market openings for environmentally friendly goods and services.

Global Aid for Trade

6. The donor community should consider greater support for trade facilitation harmonisation and related infrastructural capacity building at multilateral and regional levels, which could have a marked impact on both North-South trade and, importantly, on South-South trade.

7. Donors should support a major focus on technical assistance in support of services liberalisation, especially for LDCs, SVEs and LLDCs, including strong capacity building support for appropriate regulation of education, health, transport, financial and ICT services.

8. Donors should consider more emphasis through their AfT programs on a private sector focus, but with increased emphasis on the informal sector, SMEs and women’s cooperatives and enterprises.

9. Multilateral institutions should continue to examine how credit agencies and financial institutions can increase affordable trade finance options for low income developing countries.

10. Donors of AfT should strengthen their efforts, not only to avoid duplication between multilateral, regional and bilateral donors, but also to reinforce an integrated approach to AfT that recognizes the important linkages between trade, the environment, food security and more equitable gender outcomes.
Australian Initiatives (based on OECD categories for Aid for Trade)

Trade Policy and Regulations

1. Australia should continue to support and strengthen the human resource and institutional capacity building required for developing countries and LDCs to develop an understanding of the potential benefits of trade reform, while building the expertise of government officials in negotiating and implementing trade agreements consistent with their national sustainable development objectives.

2. Australia should offer ongoing support for LDC and developing country inclusion and active participation in multilateral, regional and bilateral negotiations.

Trade related infrastructure

3. Australia could give particular attention to the infrastructural needs of Pacific Forum Island Countries and focus on infrastructure programs in support of the development of their services industries, such as the ICT sector.

Building productive capacity

4. Australia has the opportunity to increase support for customs and trade facilitation activities. Australia should continue to build the capacity of primary producers and manufacturers to meet Australian standards and therefore those of many other OECD countries.

5. Australia has recently contributed to the Enhanced Integrated Framework (EIF) Trust Fund and has been actively supporting EIF in-country implementation, particularly in Laos. Australia should build on this positive experience and look to support EIF implementation in other LDCs, especially in the Pacific.

6. Australia should support regional and, where appropriate, bilateral programs which provide trade finance by way of access to credit and finance for poorer communities to access export markets.

Adjustment Programs – A Labour Market Focus

7. Australia should continue and strengthen its AIT focus on building the capacity of developing countries in the region to adjust to trade reform and liberalisation, through a comprehensive program of education and training integrated with the provision of social infrastructure and support for mode 4 supply of temporary labour market schemes as follows:

- Training and education on minimum labour standards, incomes and retirement policy;
- Promoting and supplying TAFE-style adult education in relevant trades, with an emphasis on regional and rural centres;
• Building on the guest worker program, and matching shortages in Australia with oversupply of young and semi-skilled people from developing countries in the region.

**Monitoring and Evaluation**

8. Australia can continue to strengthen its overall Ait by developing specific performance indicators and benchmarking consistent with aid-effective principles of ownership, alignment and integrated coordination of Ait-funded programs.
1. **Trade and Development Linkages**

1.1 **Trade Openness and Development**

Trade openness\(^1\), if well managed, can play an important role in poverty reduction and sustainable development. Trade can be a powerful engine for economic growth and development. At the same time, trade cannot work in isolation. Associated domestic and market access measures, such as sound and stable macroeconomic policies, pro-competitive regulation, good distributional policy, investment regulations and access to the markets of major trading nations, are equally critical.

It is generally accepted that trade contributes to the development process through increased competition which, in turn, leads to greater efficiencies and productivity gains. Trade also has the potential to increase employment and income, although it is important to recognize that certain adjustment costs are inevitable. Trade openness facilitates access to essential inputs for industrial development, including to investment and technology, leading to the transfer of valuable skills and innovation. The development of a vibrant private sector and closer regional trade integration will contribute significantly towards more diversified and robust economies.

Gains from trade need to be measured against the degree to which growth actually translates into jobs and higher incomes. Other important variables include the extent to which sectors are able to absorb excess labour which may have come about as a result of adjustment to reform, and how well equipped the poor are to take advantage of new opportunities created by trade.

According to well renowned economist Jeffrey Sachs, trade openness is very important for sustainable development, but it is not sufficient in itself: "Much depends on the way a country opens up, the sequence that is followed, the speed and internal capacity to manage the process and a comprehensive policy for human resource and infrastructure development"\(^2\).

In other words, the impact of trade and trade reform will vary among different sectors of society. It is crucial that trade liberalization is accompanied by macroeconomic stability measures and institutional capacity building to deal with potential social instability and threats of policy reversal. Therefore, the overall impact of trade on poverty depends on many factors based on country-specific conditions, the nature of policy implementation, the institutional framework and the international trading environment.

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\(^1\) Openness in trade refers to the degrees to which countries or economies permit or have trade with other countries or economies.

1.2 Trade and Development Linkages

Over the years, trade openness has contributed considerably to enhancing developing countries’ participation in the global economy. From 1990 to 2008, the volume of exports from developing countries consistently grew faster than exports from developed countries as did the share of developing countries’ exports in the value of total world exports. For example, between 2000 and 2008 the volume of developing countries’ exports almost doubled, while world exports increased by only 50 per cent. Trade between developing countries, South-South trade, has also seen a marked increase. The share of developing countries’ exports going to developing countries increased from 29 per cent in 1990 to 47 per cent in 2008³.

During the global financial crisis developing country exports have also performed comparatively better than their developed counterparts. For instance, relative to the first quarter of 2007, developing and developed country exports fell by 28 and 35 per cent respectively in the second quarter of 2009. Similarly, developing countries’ exports have recovered more quickly from the depth of the crisis⁴.

However, as already indicated, not all developing countries participate equally in international trade. Asia is by far the most important exporting region in the developing country group, with a 21 per cent share of world exports in 2009. Africa had the smallest share in world exports at 3 per cent in 2009. In addition, the LDC share of the value of exports from the developing country group remained virtually unchanged between 1990 and 2009 at 2.8 per cent⁵.

There has been significant progress but it is clear that, if trade is to have a serious impact on poverty reduction, we must meet the challenge of ensuring the wider participation of developing countries. A successful conclusion to the Doha Round would be a major step in this direction, as developing countries would stand to increase the welfare benefits they gain from trade, contributing to the achievement of the MDGs.

As distinct from regional and bilateral trade negotiations, multilateral trade negotiations are inclusive of all developing and LDC members of the WTO. Most developed or larger developing countries have little or no interest in negotiating a trade agreement with a poorer country and, as such, these poorer countries’ best chance for realising gains from trade liberalization lies in the multilateral forum. Even a ‘critical mass agreement’ (CMA) negotiated under WTO auspices would be of greater benefit to the poorer countries than regional initiatives, because in a CMA the obligations may be accepted only by a limited number of WTO Members but the benefits of the resulting liberalization would be extended to all on a Most Favoured Nation (MFN⁶) basis.

³ The WTO and the Millenium Development Goals, wto.org/milleniumgoals.
⁴ Ibid.
⁵ Ibid.
⁶ All members of the World Trade Organization (WTO) receive the Most Favoured Nation Status. This means they all receive the same trade benefits as all other members. This is critically important for smaller members, because it lowers the cost of their exports and makes them more competitive. This, in turn, increases their exports and their country’s economic growth.
1.3 Recent Literature and Case-Studies

Winters (2004) provides a comprehensive overview of the literature on trade liberalisation and economic growth\(^7\). Although important methodological challenges and disagreements about the strength of the evidence remain, the most plausible conclusion is that liberalisation generally induces an increase in growth, and that a significant component of this is an increase in productivity. The paper highlights the role and importance of other factors in achieving growth, including policies, investment and institutions. However, he draws attention to the implementation of trade liberalisation measures in support of the benefits of a simpler and transparent trade regime, which helps to improve policies dealing with corruption and inflation. These points are also touched upon by Hoekman et al. (2010)\(^8\) in the context of the importance of monitoring and evaluation of multilateral AfT programs.

Rodrik (2000) points to the important role of institutions if trade is to produce sustainable growth and economic development. He lists property rights, the vital role of regulatory institutions to correct market failures, institutions for macroeconomic stabilisation, and social insurance institutions to assist with adjustment issues such as job losses and re-training.

MacMillan (2009) has attempted recently to describe the transmission mechanisms from trade to poverty alleviation\(^9\). His description uses as the unit of analysis the ‘farm household’, which is defined as any household which makes production, consumption and labour-supply decisions. Thus, household welfare in these cases depends upon the income received from the factors of production owned by the household, the prices of all goods and services that the household buys and sells, and the value of net transfers between the household and its government. Accordingly, MacMillan (following Winters) posits that there are 3 main transmission mechanisms from trade to poverty alleviation: (i) the distribution channel (affecting the price of imports consumed and the price received for self-produced export goods); the enterprise channel (affecting the wages received); and the government channel (affecting the taxes paid and the social spending received, as well as the policies that interact with the trade poverty relationship).

While MacMillan’s approach is useful in explaining the channels and transmission mechanisms through which border price changes associated with trade policy reforms impact at the household level, it does not paint the full picture. The United Nations Conference on Trade and Development (UNCTAD) has been critical of an economic approach that is too narrowly focused on the impact of trade liberalisation on poverty at the household level, while failing to place sufficient emphasis on the most effective combination of national and international policies to ensure that trade supports sustained economic growth and leads to poverty reduction in the long term.

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The analytical core of this development approach is the idea that sustained poverty reduction occurs through the efficient development and utilization of productive capacities, in a manner in which the working age population becomes more fully and productively employed. International trade can facilitate, hinder or modify this process. This approach thus encompasses both the long-term and indirect impact of trade on people’s lives and livelihoods through the development of productive capacities, as well as the short-term and direct impact which is currently considered in the literature on trade liberalisation and poverty. UNCTAD’s approach encompasses analysis of the way in which poverty reduction affects trade, and concludes that it is necessary to have an international trade regime which does not constrain the national policies of developing countries in the development of their productive capacities.

The Institute for International Trade argues that the effects of trade on poverty reduction tend to be highly context-specific. Trade can be more beneficial to the poor if it is accompanied by domestic policies that promote pro-poor growth strategies, providing the social and physical infrastructure required for a growing economy, and directly assisting specific national target groups among whom poverty rates are highest. The policy conclusion is that pro-poor trade policies must be concentrated on the specific sectors where poor people work, in the areas where poor people live, and using the resources to which poor people have access.

In reconciling the different emphases of the analyses discussed above, it is useful to summarise the findings of the recently published book, “Trade and Poverty Reduction in the Asia Pacific Region”. Based on both quantitative and qualitative analyses in the 33 articles and case-studies that comprise the book, five general factors are highlighted as necessary broad based preconditions if trade is to effectively assist in sustainable poverty reduction and therefore assist in the achievement of the MDGs:

- Openness to trade, meaning a firm commitment to reducing or eliminating barriers to trade and investment;
- A strong commitment to domestic reform and strategic trade liberalisation in developing countries (integrating trade policy with long-term development objectives);
- A firm resolution from developed countries to increase market access along with funded commitments to trade related capacity building;
- The existence of a sound and flourishing private sector as the engine for growth in developing countries; and
- Political commitment to close cooperation across national, regional and multilateral levels to ensure that trade reform is pro-poor.

The editors also identify a number of specific factors that will further enhance the effective impact of trade on poverty reduction, including:

- Training and education strategies to assist low income communities to participate in and benefit from trade;
- Focus on competitive advantage to ensure the most efficient allocation of labour resources, and in more populous countries on labour intensive industries or sectors;
- Support for supply-side reform and export diversification to the private sector;
- Expanding the vital role of services liberalisation in developing countries with attendant regulatory reform that is pro-competitive and pro-poor, for example through ensuring universal access to services;
- Investment in lifting agricultural productivity and capacity to market and export produce;
- Building institutional capacity to implement reform;
- Support for essential trade related infrastructure;
- Technology transfer from developed countries through transnational companies or AfT;
- Good governance, political stability and sound distributional policies; and
- The provision of ‘safety nets’ for those who may initially be impacted negatively.

Case-studies in the book examine the links between services liberalisation and development, such as the impact of Uganda's liberalisation of its telecommunication policies on poverty, and the impact for Tonga or Bangladesh of labour market liberalisation policies through the temporary employment of low paid workers, and the value of resultant remittances. The editors conclude that, under the right conditions, many of which have been outlined by Winters, Rodrik, UNCTAD and others in this section, international trade can have both a direct and indirect impact on poverty reduction.

There is no doubt that trade strategies need to be context-specific based on a thorough analysis of the stage of development and prevailing global economic climate. The literature and practical lessons also clearly demonstrate the type of specific policy measures that need to be in place to enhance the effectiveness of trade policy in alleviating poverty. While the complexity of the trade-poverty reduction relationship is not in dispute, neither is the increasing weight of evidence that well planned and strategically executed trade policy initiatives can and do impact positively on sustainable poverty reduction. This is why trade has become such an important factor in contributing to the achievement of the MDGs.
2. Links Between Trade and the MDGs

In 2000, world leaders adopted a narrow set of development goals to be achieved by 2015. These eight development goals gathered broad support from both developed and developing countries, as well as international multilateral institutions. The overarching objective of the MDGs is the reduction of poverty in its different dimensions. The eight MDGs, which break down into 21 different targets and are measured by 60 indicators, provide a time-bound framework to track progress in global poverty reduction efforts. Although progress in achieving the MDGs has been mixed, and the ongoing relevance of the goals, targets, and indicators has sometimes been criticised, it is unquestionable that the MDGs are a significant improvement on the unfocused and wildly disparate agendas for reducing poverty that different countries around the world had pursued prior to their adoption. The following section summarises the links between trade, development and achievement of the MDGs, concludes that trade-led economic growth, while not a cure-all for development ailments, is indispensable for any sound poverty reduction strategy.

Goal 1: Eradicate extreme poverty and hunger
- Target 1a: Reduce by half the proportion of people living on less than a dollar a day
- Target 1b: Achieve full and productive employment and decent work for all, including women and young people
- Target 1c: Reduce by half the proportion of people who suffer from hunger

Goal 2: Achieve universal primary education
- Target 2a: Ensure that all boys and girls complete a full course of primary schooling

Goal 3: Promote gender equality and empower women
- Target 3a: Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

Goal 4: Reduce child mortality
- Target 4a: Reduce by two thirds the mortality rate among children under five

Goal 5: Improve maternal health
- Target 5a: Reduce by three quarters the maternal mortality ratio
- Target 5b: Achieve, by 2015, universal access to reproductive health

Goal 6: Combat HIV/AIDS, malaria and other diseases
- Target 6a: Halt and begin to reverse the spread of HIV/AIDS
- Target 6b: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it
- Target 6c: Halt and begin to reverse the incidence of malaria and other major diseases

Goal 7: Ensure environmental sustainability
- Target 7a: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources
- Target 7b: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss
- Target 7c: Reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation
- Target 7d: Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020
Goal 8: Develop a Global Partnership for Development
Target 8a: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system
Target 8b: Address the special needs of the least developed countries
Target 8c: Address the special needs of landlocked developing countries and small island developing States
Target 8d: Deal comprehensively with the debt problems of developing countries
Target 8e: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
Target 8f: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

As argued in the previous section of this brief, international trade has an important role to play when it comes to economic growth and development. The Marrakesh Agreement establishing the WTO in 1995 has at its core the objective of ensuring that developing countries and especially the least-developed countries, secure a share in the growth in international trade commensurate with the needs of their economic development. Similarly, the launch of the WTO Doha Development Agenda (DDA) in 2001 signalled that the multilateral trading system would place development at the centre of these negotiations. Finally, in 2005 the introduction of the Aid for Trade program expanded WTO’s commitment to assist developing countries develop the trade-related skills and infrastructure that is needed to implement and benefit from WTO agreements, and to expand their trade. The following section focuses on further evidence of the link between the multilateral trading system and the MDGs.

2.1 Trade and MDG 8
The work of the WTO is relevant to achieving a number of the MDGs, but specifically the sub-objectives of MDG 8 (see above), a global partnership for development. MDG 8 was born from the recognition that, for poorer countries to achieve the other MDGs, it is important to create an international trade environment that facilitates their attainment by 2015. Although all MDGs are important and have a role in helping countries to reach a level of development conducive to the elimination of extreme poverty, MDG 8 is the precondition for all of these goals to be sustainable in the long run.

MDG 8 recognizes that the ability of developing countries to reach sustainable levels of growth depends to a large extent on the international trading environment. We noted in the previous section the importance of developed countries providing market access and trade capacity building support as one of the key conditions for trade liberalisation to effect poverty reduction. By acting for an open and predictable multilateral trading system, the WTO’s contribution is crucial in building more favourable global trading conditions for developing countries.

The original idea behind the WTO Coherence mandate was to further cooperation with the International Monetary Fund (IMF) and the World Bank. However, over the past 15 years the WTO has pushed the scope of the mandate to include cooperation with the UN system, the Organization for Economic Cooperation and Development (OECD) and other international partners on a wide range of issues. The extent and nature of this cooperation can vary depending on the issue, but there is little doubt that this coordination contributes to the creation of a comprehensive approach in addressing global problems.

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The six targets identified under MDG 8 underpin the notion that open trade is an important engine for development. For trade to deliver real economic growth effectively, it needs to be “open, rule-based, predictable and non-discriminatory”, as recognized in Target A. This corresponds to the WTO’s core business of regulating international trade, reducing market barriers and ensuring a level playing field for all its Members.

In addition, trade opening promoted by the WTO takes into account the development challenges faced by many of its Members. For example, it is generally recognized that poor countries often face considerable and complex constraints when engaging in international trade. WTO Members have therefore committed themselves to ensuring that developing countries, and especially the LDCs, share in the growth in international trade in keeping with their economic development needs. In line with Target B of MDG 8, i.e. addressing the special needs of the LDCs, the WTO is also committed to working towards enhancing the benefits that can accrue to the poorest of its Members. The WTO recognizes the capacity constraints of these countries in taking on trade-related commitments, which is why appropriate flexibilities are made available to the LDCs.

The WTO also has a work programme for the small island developing states and contributes to international efforts to address the needs of the landlocked developing countries, as well as small and vulnerable economies— in keeping with Target C of MDG 8.

In line with Target E, namely providing access to affordable medicines in developing countries, WTO Members have amended relevant WTO rules to give developing countries greater access to essential drugs, thereby contributing to wider national and international action to address public health problems.

Target F, i.e. making available the benefits of new technologies, is to a significant degree covered by WTO work to increase transfers of technology to developing countries. Discussions in the WTO show that there is general agreement that technology and innovation are critical drivers of economic growth and Members continue to discuss specific steps that might be taken within the WTO to further increase flows of technology to developing countries.

MDG 8 also calls for an increase in ODA and, more specifically, includes as an indicator of achievement the proportion of ODA provided to help build trade capacity. This goes to the core of the AfT initiative, and we shall return to this in greater detail in a later section.

2.2 Trade and the Other MDGs
One aspect that is less well covered in the literature is how trade reform and trade liberalisation can contribute to the achievement of the non-trade related MDGs. However, such possible links have not been fully explored and there may be some counterintuitive negative impacts that have not been assessed, against the possible benefits that such measures could bring. Below, we shall attempt to present some of these links, while at the same time highlighting that they are fertile ground for further academic research.
• On MDG 1, regarding the eradication of extreme poverty and hunger, trade can act as a catalyst for economic growth which, combined with the right domestic redistributive policies, can make a significant difference in reducing poverty. When it comes to reducing hunger, it is important to remember that food security is not the same as food self-sufficiency. Open trade enhances food security by encouraging the efficient allocation of resources. At the same time, lowering the cost of imports may in many cases give access to cheaper foodstuffs. Some issues that are currently discussed in the Doha Round may have a significant impact on this MDG. This includes, for example, improving disciplines on the provision of food aid with the objective of ensuring that such aid does not displace local production or unnecessarily distort trade. The negotiations have also taken into consideration the situation of the net food-importing developing countries (NFIDCs), in trying to minimize the impact that the reduction in agricultural subsidies may have on the prices of food in those countries.

• With respect to MDG 2, the liberalisation of education services combined with prudential regulations may help increase access to schools and education technologies. A similar situation could arguably be present in MDG 4 on reducing child mortality and MDG 5 regarding improving maternal health, where the liberalisation of health services may improve access to medicines, medical staff and doctors. However, the issue of trade liberalisation in basic services should be approached with caution. Trade in health services, including by developing health tourism, may enable developing countries to increase foreign exchange intakes and revenue for investment in health-care, as well as improve the quality of health care available to parts of the population. On the other hand, increased commercialization of health services without an appropriate regulatory framework and safeguards on access and equity, may result in an under-resourced and low-quality public health system for the poor. Similarly, education regulations should be implemented to ensure the quality of foreign suppliers, maximising their positive impact on the national education system while reducing their negative impact in terms of draining resources, and ensuring universal access to high quality education.

• On MDG 3, the liberalisation of education and telecommunication services could contribute to the improvement of the situation of women around the world, by increasing access to education and also providing access to jobs outside the agriculture sector, as shown by the success of certain initiatives like the village-phone by South African Telecom firm MTN in Uganda, Vodafone’s M-PESA in Kenya, and Smart-Money in the Philippines.

• MDG 6 on combating HIV/AIDS, malaria and other diseases has, as mentioned in the previous section, a trade related component as demonstrated by the 2003 decision on Trade Related Intellectual Property Rights (TRIPS) and public health in the WTO.

• Sustainable development, which is the subject of MDG 7, is also one of the recognized core objectives of the WTO. As such, discussions on sustainable development are part of the work of various bodies within the WTO. Paragraph 51 of the Doha Ministerial Declaration has given a specific mandate to the Committees on Trade and Development, and Trade and Environment to ensure that sustainable development is appropriately reflected in the Doha Round negotiations. The DDA also contains specific negotiations on the liberalisation of trade in environmental goods and services, the relationship between the WTO and Multilateral Environmental Agreements, and also gives particular focus to the issue of the relationship between the TRIPS Agreement and the Convention on Bio-Diversity.
The above illustrates the extent to which trade and the WTO interlink with several of the non-trade specific MDGs. The development dimension of the DDA and the launch of the AfT initiative have accentuated these links.

2.3 The Doha Round and Development
In launching the Doha Development Agenda (DDA) at the WTO’s Fourth Ministerial Conference held in Doha, Qatar, in November 2001, WTO Members placed developing countries’ needs and interests at the heart of the negotiations.

This section discusses briefly the principal components of the Doha Round negotiations and their specific relevance for development and developing countries. We also highlight some of the academic studies which have attempted to quantify the benefits of a successful conclusion of the Doha Round. Finally, we provide a brief evaluation of the current state of play in the Doha Round, including some of the issues which are attracting interest in the preparations for the WTO’s MC8 in December.

The Broad-Based Development Dimension
The development dimension permeates all areas of the Doha Round negotiations. At the core of this mandate is the determination to address the imbalances in trade rules that have hindered developing country exports. This is to ensure that developing countries are provided with real market opportunities and, accordingly, opportunities to enhance their development and growth prospects. When the Doha Round is concluded (whether through the single undertaking or using a Critical Mass Approach), the multilateral trading system will be more open – particularly for developing countries’ exports – and will have a strengthened rule-making structure that will be more balanced, and take better account of the needs of developing countries.

Subsequently, and as illustrated earlier, there is a clear connection between concluding the DDA negotiations and bringing about the MDGs, in particular MDG 8. The official MDG indicators, developed to assess progress towards achieving the goals, spell out the importance of increased market access in meeting the needs of developing and least-developed countries. These include: 1) increased duty-free access for developing countries, 2) tariff reduction (especially on agricultural products, textiles and clothing) and 3) the reduction of trade-distorting subsidies from developed countries. All of these elements are part of the WTO agreements and are subject to negotiations.

Market Access Issues
At the centre of the DDA agenda are the negotiations to address the trade distortions which plague the agriculture sector to the detriment of developing countries, many of which enjoy a comparative advantage in this sector. The agricultural sector has traditionally been a highly protected sector in many countries. A more open agricultural sector would allow for the diversification of agricultural production in developing countries. The agriculture negotiations aim to substantially cut tariff barriers and trade-distorting domestic support, and to eliminate agricultural export subsidies completely.
In the non-agricultural area, significant market access opportunities can similarly be expected for developing countries. Although industrial tariffs in developed countries are on average relatively low, some remaining tariffs on products of interest for developing countries remain high. The mandate for the industrial negotiations specifically calls for the reduction or elimination of trade barriers on products of export interest to developing countries.

**Duty-Free and Quota-Free (DFQF) Market Access**

DFQF market access for products originating in LDCs has been a long-standing aspiration of LDCs in the multilateral trading system and is a shared objective of the international community as expressed in the MDGs. WTO Members have agreed that developed country members and developing countries able to do so would provide DFQF market access for at least 97 per cent of products originating from LDCs.

**South-South Market Access Issues**

The indicators that have been chosen to monitor the achievement of MDG 8 fail to capture one important aspect of trade for the developing countries, and this is South-South or intra-developing country trade. This is an area of increasing importance since it is expected that most trade-growth for developing countries will come in their trade with other developing countries. The WTO reports that South-South trade rose on average by 18 percent per year from 2000 to 2008\(^{11}\). In 2008, South-South trade represented 46 percent of all developing economies exports and 54 percent of their imports (see Chart 1).

**Chart 1: Origin and Destination of Developing Economies' Trade by Economic Groupings, 2000-2008**

<table>
<thead>
<tr>
<th>(US$ billion)</th>
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<tbody>
<tr>
<td>3500</td>
</tr>
<tr>
<td>3000</td>
</tr>
<tr>
<td>2500</td>
</tr>
<tr>
<td>2000</td>
</tr>
<tr>
<td>1500</td>
</tr>
<tr>
<td>1000</td>
</tr>
<tr>
<td>500</td>
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<tr>
<td>0</td>
</tr>
</tbody>
</table>

Source: WTO (2010a)

For the LDCs, trade with other developing countries is also of increasing importance. This can be seen from the fact that in 2008 China became the biggest importer of products originating in the LDCs, overtaking the EU\textsuperscript{12}. But China is not the only developing country that is importing more from the LDCs - India, Thailand, Chinese Taipei, South Africa and Brazil have also greatly increased their imports from the LDCs, as can be seen from the following Chart 2:


Source: WTO (2010a)

It is also interesting to look at the market access conditions facing LDCs in the markets of developing countries. The WTO has looked at this issue by studying the treatment that LDCs imports have actually received when entering the markets of developing countries. The situation in 2006 is presented in Table 1.

**Table 1: Market access for LDC exports to developing countries, 2006**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of MFN duty-free tariff lines</th>
<th>Tariff lines with imports</th>
<th>MFN duty-free imports in percent of total imports</th>
<th>Weighted import duties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in percent of total tariff lines</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>66.8</td>
<td>12.2</td>
<td>73.2</td>
<td>11.9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>69.6</td>
<td>15.3</td>
<td>29.7</td>
<td>26.1</td>
</tr>
<tr>
<td>Non-agriculture</td>
<td>66.5</td>
<td>11.8</td>
<td>40.1</td>
<td>13.4</td>
</tr>
<tr>
<td>Ores</td>
<td>42.4</td>
<td>22.2</td>
<td>88.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Petroleum</td>
<td>57.1</td>
<td>66.7</td>
<td>87.3</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: WTO (2010a)

\textsuperscript{12} WTO (2010a), p 10.
The conclusion that can be drawn from the table above is that while the average tariffs are low and there are a significant proportion of products entering duty-free, there is still plenty of room for improving market access, particularly in the area of agriculture and manufactures. But tariff reduction should not be the sole focus of efforts to improve market access for the LDCs. Other issues such as non-tariff barriers in the form of TBT - including private sector standards, and SPS (or quarantine) requirements, as well as, rules of origin, may present significant impediments to trade from the LDCs.

Rules Issues
Another key component of the Doha Round negotiations consists of the determination to bring down other obstacles to merchandise trade. The aim of the trade facilitation negotiations is to improve the efficiency of transactions by expediting the movement, release and clearance of goods across borders, thereby reducing transaction and transit costs that are particularly important for landlocked developing countries. This negotiation, which seeks to further clarify and develop existing rules within the multilateral trading system, is particularly important for small and medium-sized enterprises in order to expand and participate more actively in international trade.

Trade in Services
Trade in services is the dominant economic activity across the world. Developing countries participate actively in the global services trade and have articulated their interest in many services sectors. The opening of services trade can provide many opportunities for developing countries, including through enhancing the scope and potential for South-South trade.

Konan and Maskus (2006) in their simulation of the Tunisian economy found that gains from services liberalisation would be more than three times the magnitude of estimated gains from goods trade liberalisation alone. Moreover, 75 percent of services liberalisation gains are to be achieved from the liberalisation of mode 3 barriers on commercial presence which impede foreign investment, and real household income also stood to gain by 4% by granting the right of establishment to foreign firms.

Specific negotiations are advancing to provide LDC service providers with preferential market access through a so-called waiver. The objective of the waiver is to allow developed and developing countries to grant preferences to LDCs without infringing upon their most favoured nation obligations in the GATS. This waiver decision would be drafted in a manner similar to other waiver provisions in the area of goods, in particular the “enabling clause”. A services waiver with a wide scope could help the LDCs in their efforts to diversify their export base and become competitive services providers. There are, however, issues relating to what would be the actual preferences granted, how these may work in the complex trade in services environment, and supply capacity constraints of the LDCs.

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13 For example professional services, computer and related services, telecommunication services, construction and related engineering services, distribution services, energy services, environmental services, financial services, tourism services and transport services.
15 Abenica, Findlay and Lim, p 345
Special and Differential Treatment

The process of strengthening the regulations governing the multilateral trading system will benefit all WTO members. Nevertheless, the fundamental principle of special and differential treatment (SDT) in favour of developing countries continues to govern all areas of negotiation in the Doha Round.

The Doha Round will provide for more transparency, predictability and therefore certainty in trading arrangements by securing binding commitments from Members. In summary, completion of the Doha Round would be a fundamentally important contribution by the WTO to the realization of the MDGs. The Doha Round provides a unique opportunity for the international community to tackle issues in international trade that cannot be addressed in other forums.

Potential Gains for Developing Countries

Making predictions about the potential gains from a successful conclusion of the Doha Round in general, and for developing countries in particular, is not only risky, but also somewhat arbitrary. Nevertheless, it is worthwhile recalling some earlier studies on this question.

A 2009 study by Adler et al. argued that the trade gains for a sample of 15 developing countries in agriculture, non-agricultural market access and services were estimated to be US$ 7.8 billion, US$ 38.9 billion and US$ 68.8 billion respectively. Kinman et al. (2007) showed that, in proportion to GDP, trade gains from the conclusion of the Doha Round are twice as large for developing countries and three times as large for least-developed countries as they are for developed countries, with the largest trade surge being South-South trade. Hoekman and Nicita (2010), taking into account the effects of the trade facilitation negotiations and the Aid for Trade initiative show that a marginal reduction in trade costs can boost the trade expansion effects of the Doha Round by a factor of two or more. Bouet and Laborde (2010) argue that a failure to conclude the Doha Round may also precipitate a worldwide move towards protectionism that would reduce world trade by US$ 808 billion.

The Doha Round – State of Play

The collective objective to conclude the Round by the end of 2011, as articulated by WTO Members, G20 Leaders and others will not be achieved. Following this realization earlier this year, Members embarked on a process aimed at delivering a smaller package by the MC8 on the basis of paragraph 47 of the Doha Ministerial Declaration. From the start of this process, it was clear that LDC issues – DFQF market access and associated simpler rules of origin; the LDC services waiver; and, a step forward on cotton – were a priority. However, some Members felt that the LDC

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component alone would not address their constituency requirements and that there had to be a "plus" element to the LDC part of the package, i.e. trade facilitation, the special and differential treatment (SDT) monitoring mechanism, export competition, a step forward on environmental goods and services, and a step forward on fisheries subsidies.

In July 2011, it became clear that maintaining expectations for an LDC-Plus package that did not look doable by the MC8 would put the credibility of the Organization at risk. Although some continue to believe in and push for some LDC deliverables at the MC8, it seems highly unlikely at this stage that this will materialize in any meaningful way. On a more general level, the fundamental question about the right level of ambition, particularly in the area of non-industrial market access, continue to divide a few key Members. The political will and energy among the membership to push for any substantive outcome, even if only a partial one, is virtually non-existent. Trade has fallen down the list of priorities of most governments and election campaigns around the world gear up. It could be argued that the WTO is facing an acute failure of its negotiating function and an inability to adapt and adjust to emerging global trade priorities. This paralysis of the WTO's legislative function will feature prominently at the Geneva Ministerial gathering in December and may well lead to a more serious discussion about the value of a Critical Mass Approach, as supported in one form or another by various WTO members, including Australia.

Completing the Doha Round will also be important for restoring and maintaining countries' faith in the multilateral trading system. WTO Members' continued respect of their trade obligations was responsible for the fact that only a relatively small portion of the collapse in world trade in the global financial crisis could be attributed to increased protectionism. At the same time, the significant decline in global trade demonstrated the vulnerabilities of poor countries. Possibly the biggest drop in trade by sector of relevance to poverty was in staple foods, especially rice, as some food-exporting developing countries restricted sales abroad so as to reduce the rise in domestic food prices – in the process exacerbating the price rise in food importing countries, including in those that temporarily lowered or suspended their import tariffs. Reforms in international agricultural trade policy that would reduce the potential for a repeat of this situation can only be locked in through a successful conclusion of the Doha Round.

The 8th Ministerial Conference
The 2011 Ministerial Conference of the WTO will be held in Geneva from 15 to 17 December with a formal and informal track. As far as the informal track is concerned, preparatory discussions have divided their work into three themes, i.e. systemic issues, development and DDA. There is agreement the MC8 should not engage in substantive negotiations on the DDA. At the same time it is generally accepted that the current impasse in the DDA cannot be ignored. It is considered that the theme of the first informal working session is broad enough to allow Ministers to address any systemic aspect of the multilateral trading system. The second theme will allow for the focus to turn to the development dimension of the Round. The third and final theme will provide a platform for Ministers to address the state and future of the Doha Round negotiations, including ideas on how to break the current gridlock. The meeting will almost certainly also entertain some discussions on systemic and institutional challenges facing the WTO, including climate change, energy markets, currency issues, coherence and global governance.
**Critical Mass Agreements**

In the informal session on the DDA, the inability of WTO Members to conclude the Doha Round as a “Single Undertaking” where “nothing is agreed until everything is agreed” will likely provide the backdrop of a discussion of so-called “critical mass” agreements\(^\text{20}\). Such an approach would allow a group of countries to negotiate and conclude a substantive agreement while extending MFN treatment to non-participants. The negotiation and conclusion of agreements on Financial Services and Information Technology products in 1997 provide precedents within the WTO of such agreements.

Paragraph 47 of the Doha Declaration states that “[...] agreements reached at an early stage may be implemented on a provisional or a definitive basis. Early agreements shall be taken into account in assessing the overall balance of the negotiations.” Although this is, strictly speaking, not the same as a critical mass agreement, some Members have been arguing that this paragraph provides the legal and practical solution to sidestep the current gridlock of the Single Undertaking. Paragraph 47 has in fact been applied during the Doha Round as WTO members formally adopted a new Transparency Mechanism for RTAs on 14 December 2006. The mechanism, adopted on a provisional basis within the Single Undertaking, establishes a standardised review process for all RTAs.

Finally, it is anticipated that AfT will feature on the Ministerial Conference agenda is some shape or form, and possibly on the informal as well as the formal track. Given that the Third Global Review took place in July this year, it is unlikely that AfT will feature as an item for decision. However, Ministers will undoubtedly wish to take note of the Aid for Trade Work Programme as adopted by the Committee on Trade and Development. Similarly, the AfT initiative is an important achievement in the context of the development dimension of the WTO.

3. Using Aid for Trade to Support Development

3.1 Background and Objectives
The Aid for Trade (AfT) Initiative was launched at the WTO Hong Kong Ministerial Conference in December 2005. Ministers declared that "Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade".

WTO members agreed that a number of significant trade barriers constrained developing countries and LDCs. For example, LDCs share of world trade in goods is around 1 per cent, yet for a large majority of them trade comprises around 50 per cent of their GDP. Unfortunately, however, there are a number of external barriers and internal constraints as to why LDCs are not reaping the full benefits from trade.

External constraints include external tariff and non-tariff market access barriers (trade policies of other countries), particularly in products of interest such as agricultural exports and textiles exports, significant barriers to the temporary movement of persons (mode 4), and supply-side constraints. These all prevent LDCs from taking advantage of market access opportunities. Internal constraints include poor governance, weak regulatory frameworks, lack of policy development and institutional capacity, the high costs of doing business and lack of adequate infrastructure, such as for transport and communications.

All of these factors mean that the AfT initiative needs to address a complex range of issues that will differ from one country to another. This highlights the importance of each country, together with donor countries, properly identifying the most binding constraints to trade, developing appropriate sequencing of trade reform, and ensuring that a broad-based and coherent set of policies are put in place.

As was made clear in section one of this brief, that low income countries will struggle to capture the gains of trade openness unless a number of other conditions are in place. Among the fundamental conditions is the need for sufficient human resources capacity, for institutional capacity and for infrastructure development. The AfT initiative would therefore require a commitment to a significant injection of funding if it were to be effective.

The WTO Director-General was instructed to establish a Task Force to operationalize AfT and to consult on securing additional financial resources for the initiative. Recent figures show that significant efforts have been made to commit to AfT financing as the following indicates:

- AfT now comprises approximately 30% of ODA provided globally
- There has been a 60% increase in AfT compared to the 2002-05 baseline, totalling US$40 billion for 2009
- Disbursements have been increasing at a constant rate of 11-12% for each year since 2006
The outlook for flows is stable, however growth rates are likely to diminish given the various financial crises facing Europe.

AfT to sub-Saharan Africa increased by 40% to US$13 billion, with Africa now receiving the largest regional share.

AfT declined to Asia by 18% and Oceania by 28%, however on a per capita basis small island states such as those in the Pacific are among the largest recipients of AfT.

LDCs’ share in total AfT has risen from 26% during the baseline period to 30% in 2009.

The pattern of the distribution of AfT is relatively concentrated, with 10 countries receiving 45% of total AfT commitments between 2002-2009 and the bottom 50 (of 157 ODA eligible countries) receiving less than 1.5 percent.\(^{21}\)

The top ten AfT donors provide just over 80% of total AfT, and include the World Bank, Japan, US, EC, Germany, ADB, UK, France, Korea and Spain.

The increase in global funding for AfT reflects the strong view of the unique role it can play in assisting LDCs and lower income developing countries to achieve much greater long-term economic self-reliance away from aid dependence. To measure and monitor the effectiveness of AfT, the OECD decided on four categories of AfT, consistent with the need to build the trade capacity and infrastructure that low income economies need to benefit from trade openness, namely:

1. Trade policy and regulations
2. Economic infrastructure
3. Building productive capacity (with a strong focus on the private sector)
4. Trade related adjustment

The AfT Initiative therefore includes: providing technical assistance to help countries develop trade strategies and negotiate more effectively, (category one above); building infrastructure including the roads, ports, and telecommunications that link domestic and global markets (category two); building productive capacity through investing in industries and sectors so as to enable countries to diversify exports and build on comparative advantages (category three), and lastly, providing adjustment assistance which would help cover the costs associated with tariff reductions, preference erosion, or declining terms of trade (category four).

\(^{21}\) Top 20: Vietnam, India, Afghanistan, Nigeria, Uganda, Indonesia, Pakistan, Kenya, Bangladesh, Ethiopia, Tanzania, Morocco, Philippines, DRC, Thailand, Ghana, Mali, China, Burkina Faso and Georgia
Examples of Supply-Side Challenges in Developing Countries

- Power generation costs in Burkina Faso are more than four times the costs in neighbouring Côte d'Ivoire – and ten times the cost in France
- Power outages in Malawi average 30 days per year – causing product damage and delays in production and packaging that add 25% to costs
- 116 days to move a container from the factory in Bangui in the Central African Republic to the nearest port
- The most direct flight between Chad and Niger is via France – over 4,000 km. Flights into Niue, one of the smallest islands in the Pacific, are once a week, severely limiting its capacity to develop its unique tourist and business enterprises.

Given these supply side challenges, AfT provides vital assistance in building the long-term competitive advantage that developing countries so urgently need to drive growth and poverty reduction.

Chart 3 provides a summary of the allocation of AfT to these four categories.

**Chart 3 - Total AfT commitments, 2002-2008**

This shows that infrastructure support continues to be the category receiving the most funding. Since infrastructure is highly capital intensive this is not surprising. Significant funds have also been invested into assisting the private sector to develop supply-side capacity and to overcome internal and external trade barriers, while smaller amounts focus on training and capacity building support for public policy makers and officials. Little has been spent on trade related adjustment costs. This is a serious point of concern as a number of LDCs require support for adjustment costs, for example for retraining where job losses result from trade liberalisation, or to assist with balance of payment difficulties following loss of tariff revenue.
Looking at how AfT is spread throughout the world, Africa received 41 percent of AfT in 2009, surpassing Asia for the first time (which received 38 percent), the remaining AfT was divided between Europe and the Americas, with Oceania receiving 1 percent.

The WTO Task Force recommendations on AfT, presented to the General Council in 2006, provided a framework for reviewing the work undertaken on AfT. Subsequent work on AfT has been guided by the structure of these recommendations and elaborated in work programmes, including the work programme for the period 2010-2011. Three Global Reviews have been held since the Hong Kong Ministerial Conference. The purpose of these Reviews is to survey AfT implementation, notably using the joint monitoring and evaluation framework established by the OECD and WTO, and it is instructive to look at the main outcomes of the most recent review.

3.2 The Third Global Review of Aid for Trade - Outcomes

The Third Global Review of AfT, held in Geneva on 18 and 19 July 2011, showed that AfT is achieving results. Impacts reported ranged from increased export volumes to more employment, notably of women, to faster customs clearance and border transit times and impacts on poverty. The Review advanced the debate on AfT from one based around discussion of priorities and resource mobilization to one which now also includes examination of the effectiveness of AfT - its impact on the ability of developing countries to trade, and associated impacts. The need for strengthened monitoring and accountability were guiding themes during the review.

Resource mobilization efforts have increased. AfT resources reached approximately USD 40 billion in 2009, a 60 per cent increase from the 2002-2005 baseline. The share of LDCs in total AfT has also increased from 26.5 per cent to 30.4 per cent in the same period. However, the rate of growth of AfT has slowed of late as the result of the global financial crisis and the budgetary constraints of donor governments. Flows grew by 2 per cent between 2008-2009 compared with the annual rates of increase of 10 per cent in the period 2006-2008. Recent donor submissions nevertheless indicate that the outlook for total AfT remains stable.

Significant progress is being made by developing countries in bringing trade considerations into planning frameworks, so-called trade mainstreaming, consultations with national stakeholders, and dialogue with donors. Amongst LDCs, the Enhanced Integrated Framework (EIF) is starting to have a positive and discernible impact on trade mainstreaming. This message is borne out both by the replies to the self-assessment questionnaire and the AfT analysis in Trade Policy Reviews conducted by the WTO Secretariat on a regular basis. Furthermore, the quality of these dialogues is improving, resulting in greater national ownership.

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22 WT/AFT/1
23 WT/AFT/W/16
A central recommendation of the Aid for Trade Task Force has been the need to devote more attention to regional, sub-regional and cross-border issues. The response from the AIT community has been noteworthy. The joint OECD-WTO report “Aid for Trade at a Glance 2011” highlights the impact that the AIT initiative has had on funding for regional programs. In 2009, USD 7 billion was committed to multi-country programs, that is, more than triple the amount allocated during the baseline period of 2002-2005.

Supporting Mekong Regional Connectivity to Reduce Poverty

Nearly two-thirds of Australia’s grant aid of $275 million to the countries that lie along the Mekong River and its tributaries, is now categorised as ‘Aid for Trade’, with a focus on reducing poverty through strengthened regional integration and increased trade and economic growth. ‘Connectivity’ encompasses infrastructure, energy links, and improvements to the ‘software’ of trade and regional cooperation.

Improving connectivity makes it easier for the poor to access new markets and reduces the cost of trading across borders. The Friendship Bridge between Thailand and Laos, opened in 1994, was the first major bridge across the lower Mekong. In 2000, the My Thuan Bridge became the first bridge across the Mekong River in Vietnam. Both were major infrastructure projects built with support from Australia’s Aid Program, and are early examples of investments to improve Mekong subregional connectivity.

Today, Australian funding totalling $127.8 million is spread across six infrastructure projects to improve trade-related road, rail and waterway links in Vietnam, Cambodia and Laos. These projects will connect countries along the Mekong with national markets, major cities, ports, border crossings and principal export destinations in Thailand and other countries. They include rehabilitation of the national rail network and improved national road maintenance in Cambodia, construction of a new highway through the Southern Coastal Corridor connecting the Delta region of southern Vietnam, along Cambodia’s coastline to Thailand’s Eastern Seaboard, support for a World Bank project improving road and waterway links between Mekong Delta communities, and a major road upgrade project in Northern Laos.

Infrastructure improvements create the potential for significant reduction in the time and cost of trading goods across borders. However, better trade and transport facilitation (streamlining customs processes, approval documentation, border inspections, and related procedures) will be required to improve this “soft infrastructure” which remains an impediment to maximising the gains. Therefore Australia’s Aid Program goes beyond its direct contributions to more than $1 billion of infrastructure projects led by the ADB and World Bank. It also provides expertise and experience on a range of issues, including trade facilitation and policy reform, promoting gender equality, the links between HIV transmission and infrastructure, and strong monitoring and evaluation.
The AfT community actively embraced the third monitoring exercise, submitting a total of 274 case stories and 140 self-assessment questionnaires. A significant amount of information has been collected from a diverse range of sources about the implementation and impact of AfT support. A strong narrative emerged of AfT building long-term capacity, along with a rich and varied picture of the impacts of AfT implementation activities on the ground. One innovation of the 2011 monitoring report was to examine AfT implementation through the lens of the aid effectiveness principles.\(^{25}\) Progress was registered in a number of areas including: alignment, national ownership, improved dialogue between donors and partner governments, and greater harmonization of efforts by donors. It was particularly encouraging that many of the improvements were reported by LDCs.

An important new feature of the Third Global Review was the substantive engagement of the private sector. Outreach activities undertaken by the World Bank and WTO in advance of the Review were important in attracting interest among large firms. Various case stories highlighted the increasingly active role of business in AfT activities, and the role which it can play in ensuring the sustainability of official development assistance projects, in addition to offering an opportunity to leverage additional funding.

The AfT initiative has emerged stronger from the Third Global Review and more robust in embracing accountability. While important results were shown, there was also recognition that further attention needs to be given to various areas, including improving the effectiveness of aid, strengthening confidence in reporting systems, more focus on the particular difficulties faced by some countries in mainstreaming processes, and accessing AfT funding, and further efforts to engage the private sector in the initiative, both in terms of implementation on the ground and as a potential source of financing. An additional theme identified during the Review was the "intersection" of trade with the broader sustainable development agenda, and important elements to this agenda such as, inter alia, food security, gender empowerment, green growth and energy. The new program for the Aid for Trade Initiative 2012-2013, has at its core the theme of "Deepening Coherence".

### 3.3 Australian Aid for Trade

AfT must be demand driven so that the beneficiary countries have a strong ownership of the process, consistent with good aid effectiveness principles. This is consistent with the Australian Government’s recent review of the aid program which underlined the importance of developing country ownership of aid priorities and clearer measurement of the long-term value of aid, including AfT programs. Australia's specific objectives which guide the AfT program are:

1. To help developing countries engage in the multilateral trading system and regional trade initiatives;
2. To boost trade and investment flows;
3. To encourage diversity in trade activities; and
4. To improve economic integration on a regional and global basis.

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\(^{25}\) The 2006 Task Force on Aid for Trade recommended that "Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved (donors, agencies and beneficiaries), including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of programme-based aid modalities, managing for result, transparency, and predictable and multi-year commitments, which should be built into all programming."
Australia does not have an overall AfT program or specific facility but in support of these objectives provides approximately 15% of our total ODA for AfT, and this continues to trend upward. Around 30% of Australia’s AfT is provided through multilateral organisations such as the WTO Global Trust Fund and the Enhanced Integrated Framework (EIF), and through regional channels such as the Oceania Customs Organisation in the Pacific. Approximately 35% of Australia’s AfT is directed to the East Asia region, followed by 23% to the Pacific region, with the largest bilateral recipient being Indonesia, followed by Papua New Guinea.

Much of Australia’s AfT is directed towards economic infrastructure in transport and storage and building productive capacity, particularly in the agriculture sector, with regional integration becoming a major driver of increased demand for AfT. Australia also gives AfT to assist developing countries in the implementation of trade agreements, for example AANZFTA in Asia, or towards participating in trade negotiations such as PACER Plus in the Pacific.

Better Trade Negotiators for the Pacific Islands

In September 2008, the Institute for International Trade (IIT) at the University of Adelaide, Australia, began delivering a series of 10 one-week intensive training modules for government trade negotiators from all 14 Pacific island countries who, together with Australia and New Zealand, constitute the membership of the Pacific Islands Forum. The first group of trainees completed the $1.34 million AusAID-funded program in August 2010 under the Australian Leadership Award (ALA) Trade Fellowships Training Program for Pacific Islanders.

The course, which would fit under OECD category one in support of ‘trade policy and regulations’, was designed by trade experts from the Pacific and Australia. Modules covered topics including trade in goods and services, customs and quarantine barriers, tariffs and rules of origin, data analysis, investment, trade facilitation and dispute settlement. A number of practical trade negotiation simulations, served to strengthen participants’ trade policy knowledge and capacity to negotiate trade agreements. The course also addressed the benefits and challenges of a future regional trade agreement currently being negotiated.

Following a comprehensive evaluation process, involving consultation with Pacific Island governments, private sector and the Pacific Islands Forum Secretariat, it was found that those participants who had completed the course had become discernably more proficient as negotiators in both PICTA and/or PACER Plus regional negotiations. As a result a second AusAID-sponsored trade training program commenced in August 2011 and continues to build capacity in the Pacific Islands to negotiate trade agreements successfully, whether for WTO accession, for EPA negotiations or for other regional agreements.

Overall, Australia has been a significant supporter of AfT and is playing a strong role in the region in the development of integrated AfT programs. Monitoring, reviewing and improving the effectiveness and coherence of AfT will be an ongoing challenge, not just for Australia but for all participating countries.
3.4 How can Global Aid for Trade Best Support Development in the Future
Given the discussion above, and in particular given the Third Review of global Aft, the Institute for International Trade believes there are some key areas where Aft can be strengthened, focussed or refined to help maximise impact on the MDGs.

Trade Finance
Trade finance warrants a special mention because it forms a vital part of building the productive capacity that allows trade to take place. Trade finance is at the low-risk, high collateral end of the credit spectrum, but this has not insulated it from the crunch of the global financial crisis. It is estimated that some 80% to 90% of world trade relies on trade finance (trade credit and insurance/guarantees), mostly of a short-term nature. After the outbreak of the financial crisis and the tightening of credit markets, trade finance dried up, thereby impacting developing-country trade, and in particular that of small and medium-sized enterprises26.

Issues surrounding the scarcity of trade finance for developing and low-income countries are not new. During the Asian financial crisis in 1997 this issue received considerable attention in the WTO. In response to the current global financial crisis, the G-20 in 2009 committed itself to mobilizing $250 billion for trade financing within two years27.

Although expert discussions held at the WTO over the past two years have indicated that the trade finance market has improved considerably of late, low-income countries in particular, especially those in sub-Saharan Africa, continue to face difficulties in accessing trade finance at an affordable cost. The WTO is at the forefront of efforts to mobilise public institutions to ensure better coordination between the providers of trade finance, including the International Chamber of Commerce, the IMF, the IFC, and the Berne Union, all of which aim at removing the obstacles to co-risk sharing and co-financing by various institutions. The Third Global Review on Aid for Trade in July 2011 addressed the importance of the development of competitive banks and export credit agencies as part of its mandate to improve trade-related infrastructure.

On 25 October the Basel Committee on Banking Supervision adopted two technical changes to the treatment of trade finance in the Basel II and III capital adequacy framework28. These changes have been welcomed by the WTO and the World Bank as important steps that will help promote trade with low income countries and provide tangible evidence of the international cooperation in this important area. Measures such as these are very useful and it is important for multilateral institutions in particular to continue to examine how credit agencies and financial institutions can develop affordable trade finance options for low income developing countries.

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26 For an extensive discussion of trade finance and the role of the WTO, see “Restoring trade finance during a period of financial crisis: Stock-taking of recent initiatives”, M. Auboin, WTO Working Paper Series 2009
28 www.bis.org/publ/bcbs205.pdf - Cached - Similar
Trade Facilitation

Given the supply-side need for improved infrastructure in support of more integrated and harmonised trade facilitation for developing countries, the Institute believes multilateral and regional donors should place strong priority on the provision of well targeted trade related infrastructure. This includes not only support for the development of the physical infrastructure but also support for those measures which assist in the reduction of costs and time associated with trade.

Trade in Services

From the perspective of poverty reduction, cheaper and more abundant services enhances the welfare of the poor. More efficient intermediate services such as finance, telecommunications, transportation and business services would improve economic performance overall and could potentially generate more jobs. Services such as education and health are also important for developing human capital.

Better access to services also supports productivity growth in other sectors. In sub-Saharan Africa, findings from Arnold, Mattoo and Narciso (2006)\textsuperscript{29} are consistent with the view that access to services inputs of competitive quality and prices matter for the productivity of firms, and are thus an essential element of a strategy for promoting growth and reducing poverty.\textsuperscript{30}

Support through AfT programs, with a major focus on services liberalisation especially for LDCs, SVEs, and LLDCs, including strong capacity building support for appropriate regulation of education, health, transport, financial and ICT services, would go a long way to assisting these economies to benefit from global trade.

The Private Sector and SMEs

Training and education strategies to assist low income communities to participate in and benefit from trade opportunities are a key part of the package needed to realize the MDGs. Developing a focus on relative competitive advantage will help to ensure the most efficient allocation of labour, and support for supply side reforms will help the private sector in necessary export diversification efforts. In addition, reforms such as those leading to the liberalisation of education and telecommunications services can play an important role in the improvement of the situation of women, by providing access to jobs outside of the agriculture sector.

Regional Dimension

In Africa alone, the Africa Infrastructure Country Diagnostic, a multi-stakeholder effort amongst multilateral and bilateral aid agencies, estimates that many billions of dollars will need to be spent each year for at least the next ten years, in order to reach rural Africa in a way meaningful enough to improve food security, reduce poverty and attain the MDGs. It is therefore necessary to match the supply with the needs and ramp up AfT.


\textsuperscript{30} Abrenica, Findlay and Lim, p 348.
Moreover, in order for A/T to be truly effective, it is important to reinforce its regional dimension. This is particularly crucial for the LLDCs that face high transport costs, red tape and corruption when their merchandises transit through other countries on their way to their destination markets. It is also necessary to enhance the role of the private sector in this initiative, through cooperation in public-private partnerships.

Policy Coherence
The Third Policy Review identified the "intersection" of trade with the broader sustainable development agenda, and important elements to this agenda such as, inter alia, food security, gender empowerment, green growth and energy. Given the new program for the Aid for Trade Initiative 2012-2013 has at its core the theme of "Deepening Coherence", global A/T will need to continue to strengthen its efforts not only to avoid duplication between multilateral, regional and bilateral donors, but also to reinforce an integrated approach to A/T that recognizes the close linkages between trade and national sustainable development needs. The following case-study on an integrated approach in support of improved trade facilitation and capacity building in Laos provides a useful example of such an approach.

Trade Development Facility in Laos – An Integrated Approach

The Trade Development Facility is a multi donor trust fund with initial financing from Australia and the European Commission. The objective of the TDF is to support a National Integrated Framework Governance Structure in Lao PDR and to put into operation activities facilitating trade and the increased cross-border movement of goods while increasing the capacity of the Government to undertake specific tasks related to regional and global economic integration. The TDF Grant Agreement was signed by the Government of Laos and the World Bank on August 2008, but the project was not declared effective until December 2008. The multi-donor trust fund is administered by the World Bank, and all activities are executed by the Government.

The TDF is financing technical assistance, capacity building and provision of goods for a total of US$6.82 million, in five components that cover (i) Trade facilitation – simplification and automation of procedures (ii) Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade (TBTs) – strengthening legal and regulatory frameworks; (iii) Export competitiveness and business environment – market driven interventions to improve productivity in key sectors; (iv) Capacity building, trade policy and agreements – technical assistance to support local policy analysis capacity, particularly with reference to ongoing trade negotiations; and (v) strengthening of the National Implementation Unit.

The Trade Development Facility is an innovative and important project for Lao PDR. Together with the Enhanced Integrated Framework system, the TDF has laid the basis for a sector wide approach to Trade and Private Sector Development in the country. It has provided a framework for the operation and development of the National Integrated Framework Governance Structure contributing both to the mainstreaming of trade within Government institutions, as well as implementation of trade related assistance through public sector mechanisms. From an initial investment from the Government of Australia and the European Union, the TDF has aligned additional development assistance with government priorities, guidance and implementation systems. Although this is an unique case, and local custom and design is of utmost importance, the TDF provides useful indicators for other programmes.
3.5 How can Australian Aid for Trade Best Support Development in the Future?

Australia's AfT activities, as with its broad trade policy directions, are on track and consistent with the objectives of poverty reduction and the MDG targets. Expenditure on infrastructure and building productive capacity – Australia spent over 68 percent of total AfT on these categories is an effective use of our limited AfT funding.

Australia's AfT geographic focus is probably about right in terms of MDG impact. Australia has an unique and significant role to play in support of its Pacific Island neighbours and Timor-Leste. Indonesia must also remain a high priority, along with LDCs in the Asia Pacific region such as Cambodia and Laos. Australia has recently contributed to the Enhanced Integrated Framework (EIF) Trust Fund and has been actively supporting EIF in-country implementation, particularly in Laos. Australia should build on this positive experience and look to support EIF implementation in other LDCs, especially in the Pacific. Australia has special expertise to offer to LDCs in Africa (in agriculture, trade, mining and services) and a focus on Africa is therefore important, but our AfT needs to be selective, well targeted and carefully coordinated with other donors.

AfT can always be improved and better focused by drawing on Australian expertise and Australia's comparative advantage. The following policy options offer a range of suggestions for consideration in the future, and are put forward broadly along the lines of the four OECD categories of AfT.

Trade Policy and Regulations

Australia is well placed to support the human resource and institutional capacity building required to develop an understanding of the potential benefits of trade reform, while building the expertise of government officials in negotiating and implementing trade agreements consistent with their national development objectives. The emphasis needs to be on building the human resource skills of officials, not only to develop their understanding of trade policy and to enhance their negotiating skills, but also to improve their ability to adopt a 'whole of government approach' and to increase their capacity to explain the potential benefits of a trade agreement to their governments, private sector and concerned citizens. Appropriate training programs, scholarships, support for community and national consultations, strategic media briefings, socialisation programs and further research on specific long-term benefits of trade reform for developing countries can assist developing countries officials to use trade policy to target the needs of the poor in their country.

Initiatives in this area should also target the training and increased awareness of private sector stakeholders. This will increase the private sector's ability to capture the benefits of trade and will improve the environment for future negotiations. Ultimately, a stronger private sector will lead to better trade outcomes from trade liberalisation and management of the trade liberalisation process.

In terms of policy development and regulations, high priority should be given to enhancing the capacity of developing countries to deliver trade in services reform. For many developing countries future economic development will depend on a successful transition from an essentially agricultural economy to a more services and manufactures based economy. A focus on improving the skills of younger people and women in
particular, to work in and manage services industries, could pay strong dividends. In a draft paper developed recently for AusAID on “Trade, Aid and Development in Indonesia”, the authors put forward the notion of a “Services Team”31, with an emphasis on an Australian-funded team of experts providing advice on the sequencing of regulatory reform, the technical side of legislative reform and enshrining fairness and, where possible, universality provisions, for example with respect to regulatory reforms in the ICT sector to drive ‘pro-poor’ access. Such an initiative would require support for institution building and up-skilling of administrators and managers to successfully implement important regulatory reform.

While an overlapping network of regional and bilateral trade agreements has its drawbacks, the proliferation of such trade agreements has positive trade-enhancing aspects. Therefore, they are likely to continue and can be utilised to reinforce trade related development outcomes. Consciously advocating and developing trade agreements that favour the needs of low income communities in developing countries can therefore be an effective tool in support of the MDGs, when Australia is involved in trade and economic negotiations that involve one or more developing countries.

This can be implemented practically by Australia, for example through market access in support of agricultural exports, support for services liberalisation in sectors where low income communities can compete and benefit, support for labour market access, and through capacity building work programs in ‘Economic Cooperation’ chapters. Australia, through the work of DFAT and AusAID, is actively involved in this trade related development advocacy and technical assistance work.

Infrastructure

As suggested earlier, multilateral and regional institutions are often better placed to provide significant capital outlays where trade and economic infrastructure is clearly prioritised in the recipient country. However, Australia could give particular attention to the infrastructural needs of Pacific Islands in the region, and focus on infrastructure in support of the development of their services industries, such as the ICT sector. Australia could use its expertise in this area to help developing countries in implementing, for example, regulation of the ICT sector, including the establishment of an independent regulator. Vanuatu has shown the benefits of ICT services liberalisation in a developing country setting, provided that an adequate regulatory framework is in place. Improving the ICT sector would have positive externalities for other sectors in the economy, such as tourism. We see the development of ICT infrastructure and services as potentially a powerful tool for lifting farmers, women and the regionally disadvantaged out of poverty.

Building Productive Capacity (including Trade Development)

Australia should reinforce the emphasis of its AIT program on building the capacity of the private sector. For many developing countries, this necessarily includes support for small and medium-sized enterprises, for example for small-scale primary producers, women’s cooperatives in textiles, or in niche services industries, such as in the ICT sector.

Cambodia Mobile Payment Services

WING, a mobile banking company, was provided A$1.5 million through the Australian Government funded Enterprise Challenge Fund, to extend the outreach of their mobile payment platform to rural areas in Cambodia. In the last 24 months, WING Cambodia has successfully rolled the payment platform out to all provinces in Cambodia. WING built a network to support customers by:

- signing up with seven of the eight Cambodian mobile network operators
- developing a network of WING Cash Express outlets (supported by Master Cash Express – larger merchants with access to larger cash flows) outlets for cash in and cash out
- developing and training sales agents to cover all provinces that provide initial training and sign up to the WING system
- running training in financial literacy and marketing WING to rural communities through TV commercials and radio talk programs with a potential outreach to over 1.2 million Cambodians.

The advantage for WING customers particularly in rural areas is the reduced transaction costs for sending or receiving funds – often to or from relatives in other provinces, as a majority of rural Cambodians are unable to access bank accounts. Funds were traditionally transferred via friends or taxi drivers and were expensive - on average US$2 whereas via WING this transaction would cost US $0.50c – a saving of $1.50 per transfer.

WING is also expanding through targeting the suppliers and employees of businesses in urban and rural areas with bulk payment services for payroll or supplier payments. This could easily save days of time for larger factories in rural areas that pay in cash.

As at June 2011, WING had over 250,000 registered customers and recorded around 300,000 transactions for that month.

As part of this private sector approach, Australia needs to build the capacity of primary producers and manufacturers to meet Australian standards (and therefore those of many other OECD countries). Australia has the opportunity to increase support for customs and trade facilitation activities given our own expertise in this area, and though our funding support of the WTO-Standards and Trade Development Facility (STDF).

Australia should also support regional and, where appropriate, bilateral programs which provide trade finance by way of access to credit and finance to SMEs in poorer communities to improve access to export markets.
Trade Related Adjustment Programs – A Labour Market Focus

Walmsley and Winters (2003) estimate that an increase in developed countries' quotas on inward movements of both skilled and unskilled temporary workers, equivalent to 3 percent of their workforces, would generate an estimated increase in world welfare of about US$ 156 billion.

Despite the potentially huge gains from liberalising mode 4, and the commonality of interest between developing and developed countries, little has been achieved so far within the framework of the GATS. In existing GATS schedules, commitments for mode 4 tend to be far more restrictive than for other modes of supply. Of the commitments that have been taken up, there is a general bias in favour of highly skilled labour as compared to low or unskilled labour.

There is therefore the opportunity for Australia to advocate at both multilateral and regional levels, additional commitments to mode 4 market access, especially for low or unskilled labour. With regard to Aft, Australia could pursue the following policy initiative - which could probably fall within either category one or category four, and involves a major focus on labour market assistance or adjustment programs and temporary labour market access. Elements of such a focus could include:

- Training and education on minimum labour standards, incomes and retirement policy;
- Promoting and supplying TAFE-style adult education in relevant trades, with an emphasis on regional and rural centres, which could focus for example on ICT training needs, financial management and farming techniques. The Australian Pacific Technical College is an excellent example of this type of Aft and could be replicated in other regions or countries; and
- Build on the guest worker program matching shortages in Australia with oversupply of young and semi-skilled people from developing countries in the region – ensuring an emphasis on temporary movement with built-in training and up-skilling of those involved. Mode 4 presence for unskilled labour should continue to be piloted and pursued given the potential income impact for poorer agricultural labourers in the Asia Pacific region – as is being done for a small number of Pacific countries at present.

Such a strategy, if well executed, could be one of the most effective policy measures in support of the MDGs, in particular MDG 1.

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4. **Policy Options to Increase the Impact of Trade on the MDGs**

Following on from the discussion in the previous sections of this brief, this final section presents a number of recommendations for consideration by the global donor community and the Australian Government. It is divided into two parts. The first part is a summary of those policy initiatives that might be pursued at a global level by WTO members and the international community, both with respect to trade and market access issues and in terms of AfT initiatives. The second part also offers policy options for the Australian Government to consider with respect to market access and general trade policy, and in terms of AfT initiatives.

4.1 **Global Initiatives**

**WTO**

1. The global community should continue to work for the best possible outcome from Doha, paying particular attention to the needs of developing countries and LDCs whether this be through the single undertaking, a critical mass approach or a sectoral approach, in order to maximise trade impact in support of the MDGs.

2. The MC8 should endeavour to pursue a package of trade related development outcomes on the basis of paragraph 47 of the Doha Ministerial Declaration. The package would ideally include trade facilitation measures, agricultural market access, the SDT monitoring mechanism, and progress on fisheries subsidies and on trade in environmental goods and services.

3. The MC8 should also support special measures for LDCs, including DFQF market access and simpler ROOs, a step forward on the cotton issue and a services waiver.

4. WTO members should consider further support for increased labour market access through mode 4, and through other memoranda of understanding as appropriate, with an emphasis on access for the lower skilled workers.

5. WTO members should support multilateral and regional trade negotiations to reduce tariffs and other trade barriers to market openings for environmentally friendly goods and services.

**Global Aid for Trade**

6. The donor community should consider greater support for trade facilitation harmonisation and related infrastructural capacity building at multilateral and regional levels, which could have a marked impact on both North-South trade and, importantly, on South-South trade.

7. Donors should support a major focus on technical assistance in support of services liberalisation, especially for LDCs, SVEs, and LLDCs, including strong capacity building support for appropriate regulation of education, health, transport, financial and ICT services.
8. Donors should consider more emphasis through their Aft programs on a private sector focus, but with increased emphasis on the informal sector, SMEs and women’s cooperatives and enterprises.

9. Multilateral institutions in particular should continue to examine how credit agencies and financial institutions can increase affordable trade finance options for low income developing countries.

10. Global Aft donors should strengthen their efforts, not only to avoid duplication between multilateral, regional and bilateral donors, but also to reinforce an integrated approach to Aft that recognizes the important linkages between trade, the environment, food security and more equitable gender outcomes.

4.2 Australian Initiatives
The Australian Government has been a strong supporter of the MDGs, trade liberalisation and trade related capacity building in contributing to the achievement of the MDGs. In its broader trade policy role, Australia continues to provide full duty free quota free market access for LDCs, the participation of developing countries in multilateral, regional and bilateral trade negotiations, and a program of sustained Aft for developing countries. The following suggestions are put forward based in part on the Third Review of Aft, and also in light of current demand-driven needs, in order to further refine and strengthen Australia’s Aft.

Trade Policy and Regulations

1. Australia should continue to support and strengthen the human resource and institutional capacity building required for DCs and LDCs to develop an understanding of the potential benefits of trade reform, while building the expertise of government officials in negotiating and implementing trade agreements consistent with their national sustainable development objectives.

2. Australia should offer ongoing support for LDC and developing country inclusion and active participation in multilateral, regional and bilateral negotiations.

Trade Related Infrastructure

3. Australia could give particular attention to the infrastructural needs of Pacific Forum Island Countries, and focus on infrastructure programs in support of the developing their services industries, such as the ICT sector.

Building Productive Capacity

4. Australia has the opportunity to increase support for customs and trade facilitation activities. Australia should continue to build the capacity of primary producers and manufacturers to meet Australian standards (and therefore those of many other OECD countries).

5. Australia has recently contributed to the Enhanced Integrated Framework (EIF) Trust Fund and has been actively supporting EIF in-country implementation, particularly in Laos. Australia should build on this positive experience and look to support EIF implementation in other LDCs, especially in the Pacific.
6. Australia should support regional and, where appropriate, bilateral programs which provide trade finance by way of access to credit and finance for poorer communities to access export markets.

**Adjustment Programs – A Labour Market Focus**

7. Australia should continue and strengthen its AfT focus on building the capacity of developing countries in the region to adjust to trade reform and liberalisation, through a comprehensive program of education and training integrated with the provision of social infrastructure and support for mode 4 supply of temporary labour market schemes as follows:

- Training and education on minimum labour standards, incomes and retirement policy;
- Promoting and supplying TAFE-style adult education in relevant trades, with an emphasis on regional and rural centres
- Building on the guest worker program and matching shortages in Australia with oversupply of young and semi-skilled people from developing countries in the region

**Monitoring and Evaluation**

8. Australia can continue to strengthen its overall AfT by developing specific performance indicators and benchmarking consistent with aid-effective principles of ownership, alignment and integrated coordination of AfT-funded programs.