



# Introduction

Economists have long viewed international trade as an engine of overall economic growth. Greater volumes of trade among countries have partly fuelled the expansion of the global economy and increased wealth for many of its members, although the distribution of the gains has been unequal.

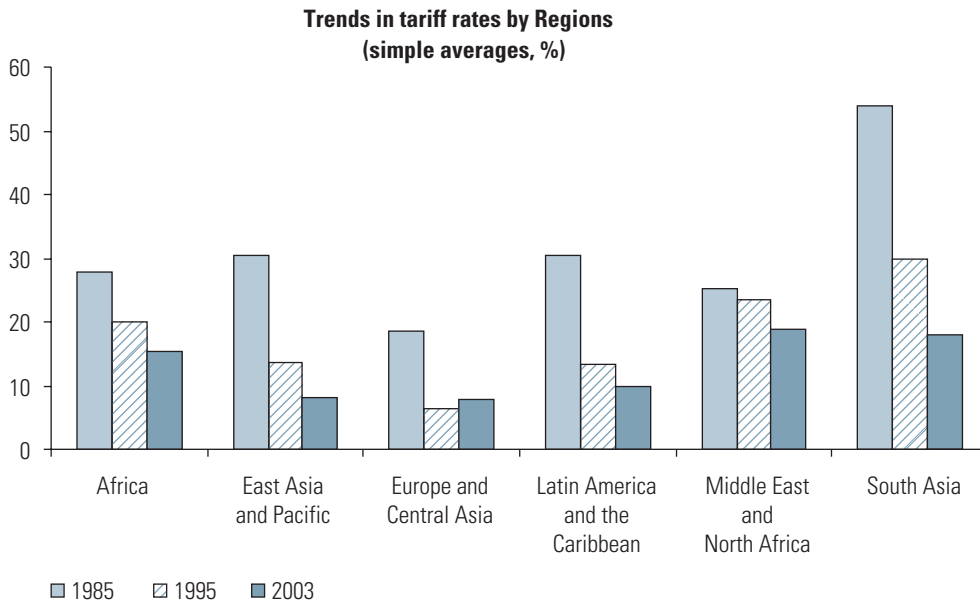
The Bank has supported the reform of trade policies and the strengthening of trade-related institutions and infrastructure in its client countries. Between fiscal years 1987 and 2004, about 8.1 percent of total Bank commitments (or \$38 billion) went to 117 countries to help them better integrate into the global economy.<sup>1</sup> This financing has been accompanied by a large volume of analytical work in the form of operational economic and sector work, numerous research publications on trade, and working papers on trade-related topics.

This period also coincides with a worldwide expansion of trade and trade liberalization in developing countries. Export growth has outpaced growth in gross domestic product (GDP) over the past three decades, and average tariffs have fallen steadily globally (figure 1.1). The Bank has both influenced and been influenced by these developments. Appendix A1 highlights key developments in international trade both inside and outside the Bank over the past two decades.

## Rationale for Bank Involvement

The Bank's interest in trade has gone through three phases. During the first phase (starting in the 1980s and extending to the mid-1990s), the Bank based its involvement on the perceived importance of trade for economic growth and on the role of openness in enhancing a country's economic efficiency. Important channels between trade and growth were assumed to include improved resource allocation from changes in relative prices, stronger incentives for adaptation and innovation, cheaper capital goods, and higher foreign direct investment flows associated with new trade opportunities. By increasing incentives and the profitability of exporting, Bank support for trade reform was expected to help expand and diversify exports by improving what was then known as the *enabling environment* (now commonly referred to as the *investment climate*).<sup>2</sup>

*The Bank has strongly supported trade-related policies, institutions, and infrastructure.*

**Figure 1.1: Declining Import Tariffs, But Some Regions Still Significantly Protected**

Sources: WTO, IDB CD ROM database and Trade Policy Review — Country Report, various issues, 1990-2003, and IMF Global Monitoring Tariff Data.

During the second phase, from the mid to late 1990s, the Bank's focus on trade diminished. Analytical work and (to a lesser extent) lending were reduced from the first phase. The most evident aspect of the diminished attention to trade was the merging of two trade units and an accompanying reduction in the number of staff working on trade issues. The concurrent elimination of the old technical units under the reorganization of 1996 dispersed trade experts throughout the institution, and several subsequently moved on to work on non-trade issues.

Following this lull in Bank trade activities during the second half of the 1990s, when trade lending slowed considerably, the Bank expanded its trade work following the Doha Trade Ministerial in 2001—through research, advocacy, capacity

*Since 2001, the Bank has viewed the multilateral trading system as a framework for clients to achieve greater economic integration.*

building, and operational activities. The Bank established a Trade Department in July 2002, comprising units from the Development Economics (DEC) Vice-Presidency, Poverty Reduction and

Economic Management (PREM) Vice-Presidency, and World Bank Institute (WBI) to help further the trade agenda.

In this third phase, the Bank's increased interest in and support for the current multilateral trade liberalization talks rests on several assumptions. First is the idea, as outlined in a 2001 trade development report, that progress on important issues such as agriculture and services liberalization is most likely to occur in a multilateral framework. Second, smaller countries would have greater bargaining power and protection in the multilateral system. Third, larger developing countries would benefit from the dispute settlement mechanism. The fourth assumption is that developing country participation in the World Trade Organization (WTO) would help lock in domestic trade reforms, and thereby boost investor confidence. Above all, there was an implicit assumption that the Bank's client countries would benefit from having the institution act as an "honest broker"—a counterweight to the interests of the developed world.

Despite the importance of trade in the Bank's corporate agenda over the past three decades,

the institution did not have a formal strategy until recently. During the 1980s, however, some influential research appears to have guided operational policies on trade liberalization (and indeed, the intellectual environment within the Bank for trade reform). The Bank-sponsored work of Balassa, Choksi, Krueger, Michaely, Papageorgiou, and others outside the Bank played an important role. These earlier studies noted the complexity of trade reform and emphasized sequencing (with stabilization preceding other reforms in the presence of high inflation). They also highlighted the need to consider the fiscal implications of trade liberalization, and noted the importance of complementary policies (elimination of price controls and regulations, financial policy reforms, labor market liberalization, infrastructure improvements, and institutional reforms) to improve the payoff to trade reform.

While there was no formal trade strategy prior to 2001, three key documents provided strategic and technical guidance on Bank trade policy advice. These are the *1987 World Development Report (Industrialization and Foreign Trade)*, a 1989 report on strengthening trade policy, and the section on trade adjustment lending in Operational Directive 8.60.<sup>3</sup>

The main policy reforms embedded in these documents included replacing quantitative restrictions with tariffs as a useful first stage of trade liberalization, maintaining low and relatively uniform tariffs for reasons of efficiency and political economy, realistic exchange rates requiring low inflation, studies of the economic costs of existing policies and evaluations of the expected benefits of reform, improved data on indicators and measures of nominal and effective protection, and strengthened capacity of reforming countries to assess their own policies. The *World Development Report (WDR)* also supported the increased use of conditionality in structural adjustment lending as a catalyst for trade reform. Operational Directive 8.60 contained additional guidance that eventual tariff levels were to range between 5 and 20 percent.<sup>4</sup>

Current Bank objectives in trade (first articulated in a 2002 trade progress report) are

twofold. At the global level, the Bank assumes a much more proactive role. Specifically, it aims to promote changes in the world trading system to make it supportive of development—especially of the poorest of the developing countries and of the poor across the developing world. At the country level, the Bank aims to promote integration through trade as a core aspect of country development strategies.

### Objective of the Evaluation

This evaluation assesses the effectiveness of the Bank's assistance to client countries for trade between fiscal years 1987 and 2004, based on the Bank's strategies and objectives embedded in the 1987 WDR (and later codified in OD 8.60) and the 2002 trade progress report.

Trade assistance in this context refers to lending operations, analytical work (research as well as economic and sector work [ESW]), advocacy, and capacity building activities that are intended to enhance the environment and capabilities of Bank clients to produce and trade goods and services in the global economy.<sup>5</sup>

Capturing the effectiveness of the Bank's trade work is challenging for at least three reasons. First, country conditions influence the effectiveness of trade reforms and assistance, including macroeconomic environment, endowments, non-trade investment climate factors (notably institutions), governance and political economy dynamics, and institutional capacity. It is often difficult to disentangle trade's contribution from these other determinants.

Second, international external factors also influence government attitudes toward trade and government's ability to implement policies supportive of trade.

Especially relevant are commodity price shocks; market access; and the country's participation

*No formal strategy guided the Bank's trade work in the 1980s and 1990s.*

*Instead, several Bank documents provided guidance for reforms.*

*This study evaluates lending and nonlending assistance for trade between fiscal years 1987 and 2004.*

in regional, bilateral, or multilateral trading arrangements.

Third, other actors, such as the private sector, bilateral and multilateral development agencies, and nongovernmental organizations (NGOs), influence the pace and nature of reforms.

The broad evaluative question relates to the development effectiveness of the Bank's assistance on trade, specifically, growth and poverty reduction. In addition, the evaluation addresses the following two questions:

*Evaluative questions examine the relevance and effectiveness of Bank trade assistance and its impact on growth and poverty reduction.*

- **Relevance of Bank assistance:** *Was the Bank's trade-related assistance relevant to promoting improved trade and economic outcomes? Did the Bank "do the right things"?* Specific examples include whether the advised speed and sequencing of trade reforms and associated conditionality were appropriate, and to what extent these inputs were grounded in adequate research and analytical work. To what extent did Bank trade advice and support take key external factors (such as multilateral trade liberalization, multilateral institutions/rules, industrial country policies, and the rise of regionalism) into account? Was the Bank's trade support accompanied by appropriate and relevant complementary policy and institutional reforms in the countries? To what extent did the Bank's assistance on trade focus on poverty and distributional outcomes?
- **Effectiveness of Bank assistance:** *Were Bank-supported interventions effective and efficient in achieving their stated objectives? Did the Bank "do things right"?* Specific questions include whether Bank-supported interventions facilitated trade reforms. What was the impact of Bank trade assistance on specific outcomes

*A logical framework linking Bank inputs to outcomes underpins the evaluation.*

such as protection, import liberalization, export supply response, and economic growth? What were the distributional outcomes? In the more recent

period, did the Bank succeed in integrating trade in Country Assistance Strategies?

This report is timely for two reasons. One is that no comprehensive and independent evaluation of Bank assistance on trade has been done since the early 1990s.<sup>6</sup> The second reason is the recent resurgence in Bank attention to trade issues; the evaluation is intended to shed some light on where to go from here.

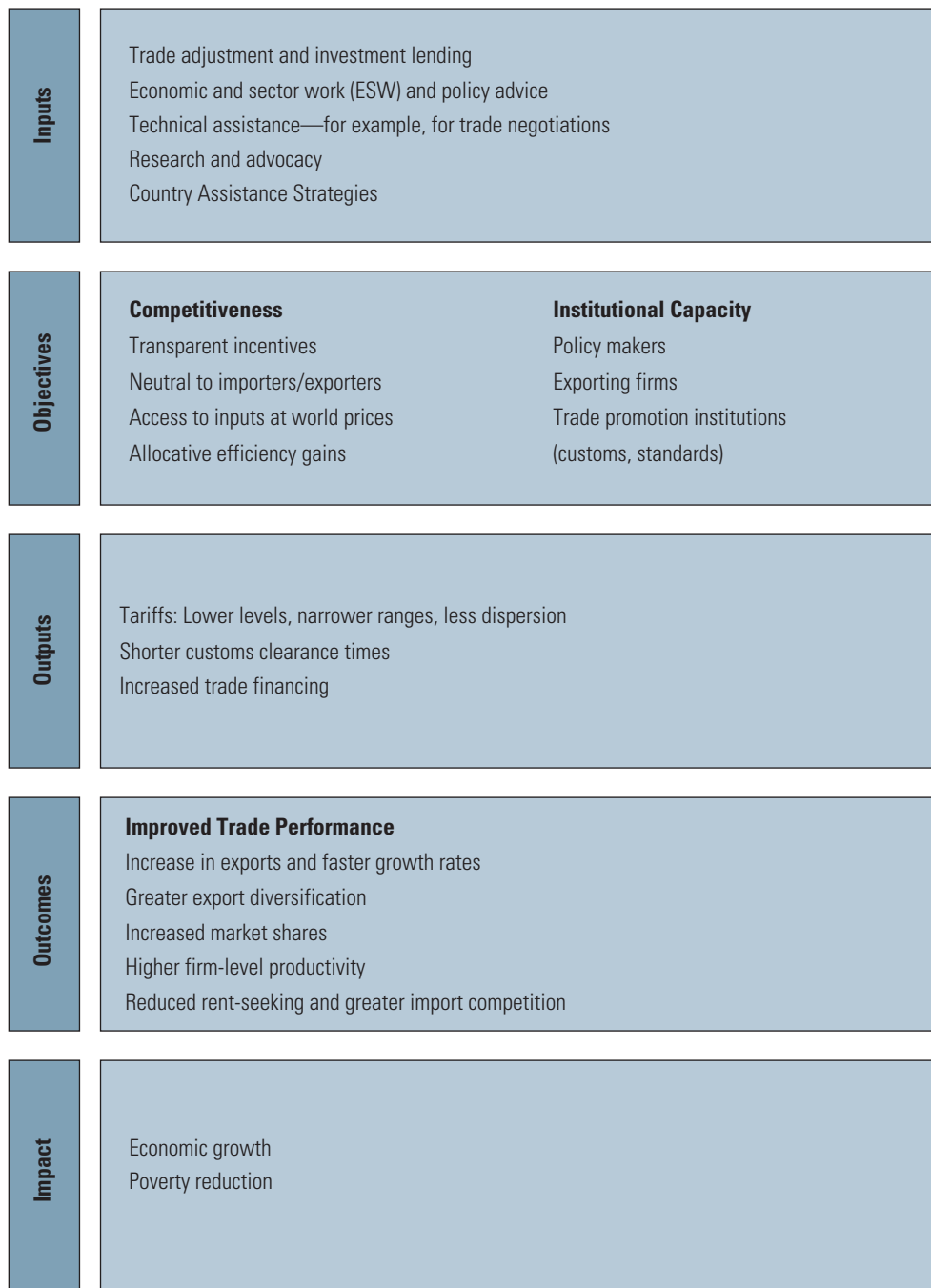
### Conceptual Framework and Methodology

The conceptual framework underpinning the evaluation builds on a logical framework of the links between Bank actions (inputs), desired objectives, outputs, outcomes, and impacts (figure 1.2 and Appendix A2 provide illustrative indicators).<sup>7</sup> The main desired immediate outcome of the Bank's support for trade (based on an analysis of project documents) is improved trade performance: higher export volumes, faster export growth rates, a more diversified basket of exports, cheaper and more readily available imports, and greater integration in the global economy. The underlying assumption behind these objectives (often explicitly stated) is that expanded trade will contribute to achieving the Bank's overarching goal of poverty reduction in two ways—by contributing to economic growth and by creating jobs (Wood 1997, 1995). The study's analysis takes place at the project, country, and global levels.

The evidence on which this evaluation rests includes an Independent Evaluation Group (IEG) portfolio review, background papers, interviews with key stakeholders, surveys, and country case studies and desk reviews.<sup>8</sup> In addition, it draws from the extensive literature on trade issues published inside and outside the Bank. Finally, as appropriate, it draws on related IEG reviews such as those of Global Public Goods (IEG 2004a), the Investment Climate (IEG 2004b), and Lines of Credit (IEG 2005).

The study has six chapters in line with the results-based approach outlined above. Chapter 1 comprises an introduction to the scope, objective, and organization of the report,

Figure 1.2: Conceptual Framework for the Evaluation



while Chapter 2 briefly reviews the literature. The next three chapters focus on inputs, outputs, and outcomes. Specifically, Chapter 3 examines the inputs, trends, and evolution of Bank assistance in trade, while Chapter 4

reviews the main economic outcomes and impacts. Chapter 5 analyzes the resurgence of Bank trade activities since 2001, while Chapter 6 concludes with the main findings and presents specific recommendations.