



Trade Returns to the Agenda, 2001–04

Difficulties at the 1999 Seattle trade ministerial meeting of the World Trade Organization (WTO) and growing pressure to deliver on the Millennium Development Goals led the World Bank to reappraise its trade activities, which had diminished during the 1990s.

After the discussion in April 2001 of a Development Committee paper, *Leveraging Trade for Development*, the Bank expanded its work on trade issues considerably¹ (Appendix A1).²

The Bank trade program, as revamped in 2001, has two objectives:

- (1) Make the world trading system “friendlier” to development—that is, make it a reciprocally open trading system.
- (2) Make trade an important part of country development strategies (World Bank 2002d).

Following the recommendations laid out in the Development Committee paper, the trade-for-development agenda was to be pursued by the Bank at three levels: global, Regional, and national.³

In early 2001, the Bank began collaborating with other agencies on how best to help the least-developed countries. By July 2002, a new sector unit dedicated to trade had been established. In addition, the Bank formally created a virtual Trade Department (TD) made up of staff working on trade issues from the Development Economics Vice-Presidency (DEC), the Poverty Reduction

and Economic Management Network (PREM), and the World Bank Institute (WBI) (Appendix E1).⁴

Anticipating that trade-related work would decline after the conclusion of the Doha Development Round (initiated in 2001 and originally expected to conclude in 2005), a sunset clause was established for July 2005, with the virtual Trade Department to be subjected to “major review” at that time (Appendix E2). *This evaluation does not evaluate the Trade Department, though its findings are expected to contribute to this review and to the work of the department and other Bank units working on trade-related issues.*

This chapter draws in part on an evaluation of the Bank’s revamped trade program between 2001 and 2004 commissioned by IEG (De Melo 2005). That evaluation examined the effectiveness of the Bank instru-

Since 2001 the Bank has expanded its focus on trade issues considerably.

Objectives are to support development of a reciprocally open trading system and to make trade an important part of country development strategies.

ments employed—research, participation in global policy discussions and advocacy, trade capacity building, and mainstreaming of trade—and assessed progress on the two objectives outlined above.

IEG finds the objectives to be relevant, timely, and responsive to the rapidly changing global environment on trade issues. However, it recommends greater attention in the future to the balance between the two objectives. In particular, given the Bank's limited direct role in global negotiations, and the importance of country-specific policy dialogue, the study recommends strengthening the analytical tools, processes, and systematic interactions within Bank operations.

Within the Bank, global advocacy can be handled by the Trade Department and senior management alone. But the other impediments to global integration

Advocacy to redress issues in the global trading system can be handled by the Trade Department and senior management alone. *have to be dealt with in concert with other sector networks within the Bank and with the support of Country Management Units.*

In areas where the Trade Department worked with other networks or provided intellectual leadership—such as sanitary and phytosanitary standards and trade facilitation—the Bank has been successful in ensuring the operational relevance of its activities. In other areas where the Bank could have potentially made an impact—agricultural trade and policies, trade and poverty linkages—inadequate investment by the Bank and relatively little intellectual leadership early on has resulted in less success on the operational side.

To enhance the effectiveness of its trade activities, the Bank will have to face more squarely the multisectoral nature of the current trade agenda. It will have to improve links between the various sectors and the Trade Department on

trade issues on all fronts (research, trade-related capacity building, knowledge management, and development of tools and templates). In particular, the Trade Department can bring the global perspective to bear on sector issues. Success on this front will be the difference between individually competent analytical pieces of work and a more synergistic approach.

Research

Research on trade issues never declined as dramatically as did economic and sector work (see Chapter 3). This made it easier for DEC to gear up quickly in 2001 when interest in trade surged once again. The Bank's trade research has been marked by close collaboration with academia, notably in the Americas and Western Europe.⁵ This cross-fertilization has been important in disseminating the Bank's research, while at the same time influencing it.

The Bank's volume of trade-related research has grown rapidly in recent years. Much has been published in respected journals.⁶ Since 2001, when the Bank's program on trade was re-energized, Bank staff and collaborators have produced 125 research papers in the World Bank Policy Research Working Paper series⁷ and published more than two dozen books and major reports. Forty-three papers have been published (or are forthcoming) in journals (83, counting all refereed journals).⁸

The Bank's trade research focused on the global economy and growth, regionalism, and development; firm-level analysis of the productivity impact of trade policies and foreign direct investment (FDI); trade in services; and some of the behind-the-border barriers to trade.⁹ In addition to the Regional ESW that covers Regional trade integration issues and earlier DEC work on regionalism (both covered in Chapter 3), DEC has continued to carry out major research in this area. For example, Schiff and Winters (2003), an expository volume on regionalism, and *Global Economic Prospects (GEP) 2005* contributed to better understanding of the benefits and obstacles that regionalism presents for the world trading system (see box 5.1). A significant portion of Bank research was innovative (leading in new fields such as

services, agricultural standards, transport costs, and other behind-the-border issues). Particularly successful research (in terms of quality of research and links to operational activities) has been done on agricultural standards.

Bank research on several issues related to the multilateral trading system was timely. In the run-up to the Doha Trade Ministerial, for example, Bank staff contributed significantly to a *World Economy* volume on how to ensure that developing countries were full and active participants (Hoekman 2000) and released the *Global Economic Prospects* report *Making Trade Work for the World's Poor* (2002). *Global Economic Prospects: Realizing the Development Promise of the Doha Agenda* (2004) was published in the run-up to the Cancun Trade Ministerial. In the structured interviews that IEG carried out for this study, WTO members said that these studies contributed positively to their understanding of the issues and the debate (Appendix E5).

A number of pieces of DEC research had important implications for the poor. Work on preferences (Schiff 2002) and research on China and India (referred to in Chapter 3), where many of the world's poor live, was particularly significant. Missing was research on some trade areas with implications for the Bank's poorest clients, such as the impact of external (including commodity) trade-related shocks. For example, despite the long-anticipated phase-out of the multi-fibre arrangement in 2005 and its implications for several of the Bank's clients (such as Bangladesh, Dominican Republic, El Salvador, Kenya, Lesotho, Mauritius, and Nepal), no major cross-country strategic analysis was done. Another gap in research, until recently, has been migration.¹⁰

Migratory pressures have been building up internationally since the breakdown of communism, but the Bank is only beginning to focus on this issue.¹¹ The Bank has a natural comparative advantage in studying migration (a global issue that requires data-gathering expertise and facility and a cross-country focus), yet it has not taken the lead. A critical amount of work in this area might have given

the Bank the information necessary to participate more actively in the debate that is building in the context of the Doha Round. Such research also might have enabled the Bank to assume leadership similar to the way it has in the debate on regionalism.

In addition, several areas in the trade agenda have been slow to yield important insights. Much of the more detailed work relating to market access in agriculture—and to the effects of a reduction in barriers to trade in agriculture, in general—became available only in late 2004 and has yet to have an observable impact on country programs. As to the functioning of the world trading system, quantitative work on the functioning of the Dispute Settlement Understanding has started only recently.

Because research is a long process, the Bank can experience gains from being forward-looking and anticipating topics likely to be on the policy agenda soon. Five topics were covered only marginally in the review period but merited more resources. These are discussed in the following paragraphs.

Export-processing zones. For political economy reasons, reducing protection unilaterally may be difficult. Some countries (China, Madagascar, and Mauritius) have managed to integrate into the world economy by relying on export-processing zones rather than tariff reductions. The Bank has carried out relatively little research in this area (Madani 1999).

Agricultural trade and policies. While advocacy and analytical work for agriculture have long been important Bank activities, the amount of research published in refereed journals has

Bank trade-related research has often been timely and is of high quality.

But research on some areas that affect the Bank's poorest clients was missing, and several areas have been slow to yield insights.

Five topics were covered only marginally in the review period but merited more resources.

Box 5.1: Do Regional Trading Arrangements Help Liberalize Trade?

Regional preferential trading arrangements (bilateral and plurilateral) have mushroomed in every region of the world. There are currently over 300 RTAs.^a Several factors underlie the proliferation of RTAs—strategic and geopolitical interests, uncertainties about the future of the multilateral trading system following the failure to launch a round in Seattle and the subsequent difficulties in reaching agreements following the Doha Ministerial meeting, and a desire to leverage the strength of numbers into larger markets and enhance regional cooperation on a range of trade and non-trade issues. The Asia-Pacific Economic Cooperation (APEC) arrangement, the European Union, the Southern Common Market (MERCOSUR), the North American Free Trade Agreement (NAFTA), and numerous other free trade areas and customs unions now exist with the multilateral system and its rules. In the view of some researchers, these arrangements reduce global welfare and undermine the institutional architecture of the multilateral trading system.

There are two schools of thought on whether RTAs should be viewed as “building blocks” or “stumbling blocks” to liberalizing trade.^b Supporters of RTAs discount the extent to which trade diversion exceeds trade creation under RTAs, and argue that in some circumstances smaller RTAs may be easier for countries to

negotiate. Those skeptical of RTAs argue that they are likely to result in a “hub and spoke” type of growth, with the smaller spokes being disadvantaged.

Empirical evidence on the extent to which RTAs help liberalize and expand trade is less common and, similar to the theoretical literature, there is no clear consensus. In a recent review of regional trading arrangements in Africa, which is home to over 30 RTAs (or an average of 4 per country),^c Yang and Gupta (2005) find that RTAs have been ineffective in expanding trade or investment. Limão (2005) shows empirically that U.S. preferential trading arrangements have harmed multilateral liberalization.

Given the proliferation of RTAs, the issue then is no longer one of whether or not to have RTAs, but of how to use them in ways that are complementary to the multilateral trading system. The issues revolve around the following themes:

- How can RTAs be implemented to maximize benefits (internalizing externalities at the regional level and coordinating on standards) and to minimize negative spillovers (reduction in market access to non-partners)?
- How can RTAs be negotiated to bring about “deep integration” beyond what one might expect is possible at the multilateral level?

a. Global Economic Prospects 2005 (World Bank 2004b) provides an up-to-date and comprehensive overview of current RTAs.

b. The theoretical literature on preferential trade agreements is reviewed in Baldwin and Venables (1996), Bhagwati and Panagariya (1997), and Panagariya (2000). Schiff and Winters (2003) and World Bank (2000, 2004a) review the empirical literature and place it in a development context.

c. World Bank (2004b).

been relatively low: only 4 of 83 articles appeared in specialized and refereed academic journals.¹² Developing countries continue to need specific advice on appropriate policy in the transition to a fully liberalized global agricultural system. Such advice requires additional analysis. While more attention is now being paid to the impact of the external environment through, for example, a series of commodity market studies edited by Aksoy and Beghin (2005), a more systematic approach that integrates research, operational implications, and capacity-building is needed.

Trade-poverty linkages and adjustment costs. Until recently, little research had been done on trade and poverty. Given the importance of the topic—and surrounding controversies—

carefully chosen case studies might have helped the Bank’s understanding. Because gains from trade liberalization are diffuse and sometimes barely visible in the short run, and losses are all too visible, generating support for reform is difficult. This suggests not only spreading the benefits of reforms to the extent possible to reduce the bias against reform, but, more important, looking into the adjustment costs with a view to minimizing them. So far, research and Bank country programs have largely neglected this area, despite high-level expressions of support and intent by senior managers.¹³

Micro-level adjustment. Another aspect of adjustment that was inadequately researched between 2001 and 2004 is the response of firms

to trade liberalization. The emphasis of macro-level aggregates such as exports, imports, and GDP masks firm-level transitions such as the exit and entry of firms, and individual responses such as movements in and out of employment.

Services liberalization. Considering that services research is a relatively new area, the Bank has produced timely results, including articles in journals. Its research has provided useful estimates of the efficiency benefits from well-functioning regulatory environments, demonstrated the necessity of drawing distinctions in policy advice across different types of services, and underlined the importance of a complementary regulatory environment. However, the research results have not yet been effectively translated into policy advice or changes in lending activities. This would require more resources than have been allocated thus far, as well as a clearer strategy to engage operational staff.

The views of Bank staff surveyed for this evaluation overlapped with some of the points made above. In particular, when asked what the single most important area for further attention was, staff identified “adjustment and transitional costs from liberalization” and the “links between trade and poverty at the operational level.” In addition, the survey results suggested that staff felt it would be beneficial to have additional research drawing on country experience. This would take advantage of the Bank’s extensive knowledge of country experience. A review of the reasons why staff found particular trade reports useful emphasized the “presentation of new evidence” or “the existence of a new perspective.”

Conclusions. The Bank’s trade research between 2001 and 2004 has been of high quality and has contributed to ongoing debates, notably with respect to the global trade architecture and the multilateral trading system. To strengthen the ongoing work and enhance its contribution to the Bank’s mission, the Development Research Group (DECRG) needs to consider a more systematic and continuous assessment of the

operational linkages and impact of its research program on trade.

Bank Participation in Global Policy Discussions and Advocacy

For much of the 1980s and 1990s, the Bank’s approach to advocacy on trade was muted, taking the external trade environment as given,¹⁴

but the tenor, emphasis, and approach to advocacy intensified after 2000, and particularly in the run-up to the Doha Trade Ministerial meeting in November 2001. The collapse of the WTO talks in Seattle in 1999 and the urgency to retain the credibility of the multilateral trading system as a mechanism to improve the development prospects of the poorer countries galvanized the interest of all major development partners in a revitalized and fair global trading system.

Advocacy was first established as a formal objective soon after the Trade Department was created in July 2002 (World Bank 2002d, e). The rationale was for the Bank to use its influence with the Organisation for Economic Co-operation and Development (OECD) countries (notably the QUAD),¹⁵ to serve as a counterweight to the richer countries, and to promote a trading system that was more open, rule-based, predictable, and transparent and that addressed the needs of developing countries. In this role, since 2001, the Bank has emphasized more strongly the importance of reducing protectionism in both industrial and (more recently) developing countries.

This shift toward greater advocacy is viewed by surveyed Bank staff and WTO members as appropriate and relevant. In particular, Bank staff surveyed viewed the advocacy work as the single most important contribution of the Trade Department thus far. WTO members interviewed recognized the Bank’s advocacy efforts as important to the global dialogue on multilateral trade liberalization.

For much of the 1980s and 1990s, the Bank’s approach to advocacy was muted.

Advocacy was first established as a formal objective soon after the new Trade Department was created in July 2002.

Assessing and distinguishing the Bank's achievements in advocacy is difficult.

The Bank's main instruments of advocacy were initially research pieces, editorials by Bank management in influential media (*Financial Times*, *Washington Post*, *New York Times*, *Le Monde*), and speeches by senior management at the WTO, at conferences, and on country visits. These targeted and personal interventions were closely tied to major research outputs such as the *Global Economic Prospects* reports. Since 2004, the annual *Global Monitoring Report* (produced jointly by the IMF and World Bank) has been a major tool to synthesize the Bank's advocacy on trade issues.

Between 2000 and 2004, several speeches on trade by the Bank's chief economist and senior Bank management focused on market access in agriculture (Appendix E3). The Bank argued that tariff peaks and OECD agricultural subsidies were high (exceeding per capita aid contributions) and put developing countries at a competitive disadvantage (Rajapatirana 2003 and De Melo 2005 summarize these speeches). The increased emphasis was accompanied by a joint IMF-Bank paper to their respective Boards in 2003.¹⁶ Apart from market access, the most frequently reiterated message by the Bank was the importance of the Doha negotiations for development.

Broadly speaking, the research reports that underpin the advocacy work are well done, reach a broad audience, and are widely picked up by the popular press. But no appraisal of the volume or type of press coverage is available from the Trade Department. Members of the WTO and trade community spoke highly of these reports and indicated that they found them useful (Appendix E5). By contrast, the staff survey indicated that Bank staff found them less useful, indicating that they were sometimes repetitious (Appendix E6).

Given the proliferation of advocacy reports intended for broad audiences, the Bank should reflect on the extent of product differentiation across reports. The trade research and analytical work generated by the Bank (in collaboration with outsiders) warrants either fewer

reports, shorter reports, or less frequent reports to avoid repetition.

Assessing and distinguishing the Bank's achievements in advocacy is difficult for several reasons. First, the Bank has a somewhat circumscribed role in multilateral trade negotiations (given its observer status). Second, several other agencies have also been active in this area (for example, Oxfam and the U.K. Department of International Development [DFID]). Oxfam has been extremely active in carrying out advocacy (and some research) and in articulating its findings in an effort to draw attention to how the multilateral trading system can be made fairer. In some cases, their work preceded that of the Bank (as on the issue of cotton).¹⁷ DFID has been one of the most active development partners, producing extensive analytical work related to the Doha Development Round. Together with other development partners, it has been a consistently strong advocate for the Doha Development Agenda.¹⁸ Third, monitoring the impact of advocacy efforts requires not only an assessment of changes in policy, but also of their implementation and impact.

Though one can only guess what would have happened without Bank advocacy, even with the presence of other active partners, the Bank has positioned itself more effectively as an advocate for developing countries, compared with its stance in the 1980s. Given the wide reach of its publications, this has contributed to increasing awareness of the issues. The Bank has been successful in aligning itself with the view that the Doha Development Round must yield greater reciprocity. Surveys carried out for this study with Bank staff and other stakeholders confirmed a generally positive view of the Bank's contributions in the global dialogue.

The Bank has been less successful in changing actual outcomes, though it may still be too early to assess this given that the trade discussions are ongoing and the long-term nature of the change that is required. Participants in the talks (WTO members) felt that the Bank was limited in how much its actions could directly influence outcomes because of the complex political dynamics involved.¹⁹ WTO

members also expressed the view that the Bank was constrained in how sharply it could articulate messages, in contrast to nongovernmental (NGOs) and other organizations. The Bank's role could therefore be seen more accurately as indirect—contributing ideas and adding to the pressure to influence changes.

The Bank's initial narrow focus on OECD agricultural subsidies may have been at the expense of emphasizing other areas where improvements would also lead to a better functioning of the world trading system (such as nonagricultural market access, reducing protection in developing countries, and reducing barriers to the temporary movement of people). It was also at odds with the Bank's own research, which suggested that the bulk of gains for many developing countries would be derived from addressing “behind-the-border” constraints. However, with agricultural subsidies as an egregious example of the unequal global trading system that is widely perceived as unfair by developing countries, one could argue that there were (and continue to be) relevant political economy arguments for the system to be reformed, and hence for the Bank's intense focus on subsidies.

In any event, the Bank's later messages have struck a more balanced note on the importance of both types of constraints (domestic developing country policies and market access considerations) and highlighted the importance of nuanced messages that take into account the varied outcomes for different groups of countries and commodities.

In this regard, the Bank's advocacy may have generated some unintended consequences. By emphasizing that a less than complete liberalization by the OECD will result in marginal benefits for many developing countries, the Bank may have raised the risk that those countries will be disappointed by what increasingly looks like a modest agricultural liberalization and will refrain from carrying out beneficial unilateral trade liberalization.²⁰

Building Trade Capacity

Trade-related capacity building (TCB) means different things to different people, but a

relatively recent Organisation for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC)/WTO definition is now commonly accepted (box 5.2).²¹

TCB has become a prominent part of the discussion of integration into the global economy. Three factors explain this increased interest:

- First, developing countries were “burned” by their experience with the Uruguay Round. They signed onto commitments that they were unable to meet, partly because of a lack of capacity, and partly because of inadequate programs to help build their capacity.
- Second, and related to this experience, the Doha and Monterey meetings featured far-reaching promises by development partners to provide TCB to developing countries.
- Third, the complexity and intensity of the trade-negotiating process for developing countries at several levels—the Doha Development Agenda, and various bilateral, plurilateral free trade arrangements in almost every Region of the world—have heightened realization that managing integration into the global economy is complex and demanding, and that achieving the benefits is more difficult than anticipated.

Therefore, increasing capacity to manage the process is more critical than ever.²²

The renewed interest in TCB at the global level has increased pressure for the Bank to identify and delineate its work in this area, even while Bank TCB continues in a dispersed fashion across the institution. Organizationally, TCB is spread over several units, with no single unit having overall responsibility for tracking institution-wide developments in TCB.

In its September 2003 trade progress report to the Executive Board, the Bank identified its objectives in TCB as “to build capacity in client

The Bank's advocacy work is viewed positively by staff and WTO members.

The Bank's influence is indirect—contributing ideas and adding to the pressure for change.

Box 5.2: What Is Trade-Related Capacity Building?

An activity is classified as trade-related technical assistance/capacity building if it is intended to enhance the ability of the recipient country to accomplish one of the following:

- Formulate and implement a trade development strategy and create an enabling environment for increasing the volume and value added of exports, diversifying export products and markets, and increasing foreign investment to generate jobs and trade.
- Stimulate trade by domestic firms and encourage investment in trade-oriented industries.
- Participate in and benefit from the institutions, negotiations,

and processes that shape national trade policy and the rules and practices of international commerce.

In addition, the activity should fulfill the following criteria for eligibility:

- Trade-related technical assistance/capacity building is explicitly promoted in activity documentation.
- The activity contains specific measures to develop trade policy and regulations, enhance the ability of enterprises to participate in international trade, or increase national capacity to participate in the multilateral trading system.

Source: OECD-DAC 2001.

The Bank's trade capacity objectives aim to help client countries participate more effectively in the global trading system.

countries to: (i) formulate and implement sound trade policy to enhance growth and reduce poverty; (ii) manage the adjustment costs of trade reform and external trade shocks; (iii) participate effectively in international negotiations; and (iv) develop appropriate regional trade policies" (World Bank 2003). The report identified as the main levers to achieve TCB objectives ongoing activities in project components, the Integrated Framework for Trade-Related Technical Assistance initiative, World Bank Institute training activities, and analytical work.

Capacity Building Components in Operational Lending

The Bank has augmented resources devoted to trade capacity building, and the Trade Department has extended its learning program to provide training and research support. New lending for TCB more than doubled, from \$132 million in 1998–2000 to \$267 million in 2001–03, resulting in a portfolio of 50 operations (or components in operations) as of September 30, 2003.²³ TCB has been concentrated in trade and transport facilitation (notably customs), agricultural standards, and

trade finance (Appendix E4, table E4.1b). This TCB is primarily intended to strengthen institutions. The Europe and Central Asia Region received the most assistance in TCB by an overwhelming margin—almost half of TCB components are in loans to the Region (Appendix E4, table E4.1a).

While the focus in TCB between fiscal years 2003 and 2004 was correctly targeted thematically toward areas identified in analytical work as critical (such as customs and standards), the TCB components of approved projects, for the most part, do not address the Bank's four strategic objectives, outlined above. Specifically, only 4 of the 15 TCB components addressed any of the 4 objectives outlined above (Appendix E4, table E4.1c). The most glaring gap is capacity building related to helping countries manage external shocks and adjustment costs related to trade liberalization. No project components address this; nor has the Bank done any major research in this area.

The Bank has sporadically helped a few countries participate effectively in international negotiations, but no new TCB loan components focus on negotiations, and other institutions are more important in supporting developing countries in this area. For example, in negotiations regarding training and improving country awareness of the rules of the game, a host of other international organizations are involved

(such as the International Trade Centre [ITC], United Nations Conference on Trade and Development [UNCTAD] and the WTO, and, increasingly, development partners such as the European Union [EU], the United Kingdom, and the United States). Bank support to countries acceding to the WTO has been, until recently, largely limited to the Bank's larger clients (China, Russia). Of the 11 least-developed countries in the accession process, 6 are still in the initial stage of negotiations, although some of them have been in the negotiating process for six to nine years.²⁴ Ethiopia and (more recently) Vietnam are the only ones being assisted by the Bank.

While the Bank's advocacy focus has been on multilateral negotiations, it appears that countries face more pressing demands at the regional level, such as recently completed negotiations in Central America (CAFTA), ongoing negotiations in Africa (EPA), and bilateral free trade arrangements. The extent of Bank support for regional negotiations has varied across regions, but even in regions where it was largely reactive, greater attention is now being paid to how the Bank can best assist regional groupings.

The Integrated Framework for Trade-Related Technical Assistance

The Integrated Framework for Trade-Related Technical Assistance ("the IF") is another instrument in the Bank's TCB portfolio, but has a role and benefits that go beyond TCB.²⁵ In addition to helping the least-developed countries identify their trade capacity needs, the economic analysis in the Diagnostic Trade Integration Studies (DTIS) is intended to be a useful source for smaller countries that might otherwise not receive that magnitude of resources for diagnosis. As of June 2005, 14 diagnostic studies had been completed, 12 national consultative workshops had taken place, and 4 follow-up donor meetings had been held; 8 diagnostic studies are ongoing.

Two independent evaluations of the IF were undertaken in 2003 and 2004 by Capra (a consulting firm hired by the IF partners) and IEG (as an input into its review of Global Public

Programs).²⁶ The main evaluative findings are summarized in box 5.3. Three key findings are that:

- Despite the 2001 restructuring, weaknesses from the original program remain, including insufficient focus on improved trade outcomes rather than on the process alone, and the shortage of funds (financial and administrative) to meet the identified demands for technical assistance in developing countries.
- There is a divergence in perceptions of the IF within the Bank. The Trade Department provided resources to Regional economists for the management of the DTIS, to increase ownership, to mobilize trade-investment resources, and to offset the initial lack of Regional ownership and the perception of a supply-driven mandate. While Regional management ownership has increased, decentralization of the IF has not fully filtered down to task team leaders in affected sectors at the country level; this has been compounded by the lack of on-the-ground presence.
- The full potential of the IF is not being realized, because the rich analytical work is not being fully translated into operations, highlighting the need to strengthen implementation.

IEG's review of 26 global public programs provides some useful lessons (IEG 2004a). The most relevant for the IF are the need to link financing to priorities in a systematic fashion, to strengthen and streamline the governance and management of programs, and to develop a results-based management framework.

After a slow start, concrete proposals and approvals for trade capacity projects are finally emerging. As of May 30, 2005, 23 activities (\$8.1 million) had been approved. A review of the proposed activities suggests that some overlap

The capacity building components of approved projects generally do not address the Bank's four strategic objectives.

Two independent evaluations of the Integrated Framework initiative suggest that its capacity building impact had been limited.

Box 5.3: Independent Evaluations of the Integrated Framework**Relevance: Are the program's objectives right?**

- Yes, but outcomes will be limited for some unless external market access and supply-side constraints are addressed.

Efficacy: Has the program met its stated objectives?

- Mainstreaming of trade limited; concrete country-level results highly variable.
- Bridge funding mechanism of \$1 million is dwarfed by identified needs in IF matrix and no systematic way of addressing those needs.
- IF raised awareness of trade issues in Bank and participating countries, but country economists stress gap between amounts available for investments and gaps in donor and developing country expectations.
- IF needs to establish a range of concrete country-level outcomes and related performance indicators, with a focus on

results and on monitoring outcomes and impacts. IF should monitor changes in donor policies, processes, and practices that inhibit LDC trade performance as identified in the DTIS.

Efficiency: Has the program been cost-effective?

- Still too early to assess if the IF benefits outweigh its high transactions costs.
- Bank Regional staff: Clarifying financing arrangements for identified investment needs critical.
- DEC/PREM staff: individual follow-up examples exist.

Challenges ahead

- Divergence in perceptions of LDCs and participating international agencies on IF role.
- Strong ownership by Bank and partner donor agencies, but developing country ownership limited.

Source: Agarwal and Cutura (2004), Case Study prepared for IEG 2004a; CAPRA-TFOC Consortium 2003.

Concrete trade capacity projects are finally emerging, but they are dwarfed by the identified needs.

with other donor activities persists in some cases, defeating the purpose of donor harmonization.²⁷ More generally, the pace appears slow relative to the Doha negotiations and the needs identified in the DTIS, and there is no mechanism to ensure that the most critical priorities are funded first.

External Training

WBI has provided external training with the support of other Trade Department staff, primarily the trade researchers in the Development Research Group (DECRG). While the number of staff dedicated to trade in WBI has increased from a single staff member in 2001, the current number of staff (4.5) directly assigned or dedicated to trade training activities

WBI has taken a selective approach to capacity building.

remains relatively low.²⁸ With existing resources, the institute's strategy has been to deliver

services (mostly training) and provide research support to selected networks (for example, on Doha issues to the African Economic Research Consortium [AERC] in partnership with country and Regional institutions), rather than to deliver more self-standing products (such as handbooks). Between fiscal years 2002 and 2005, the WBI increased its delivery of learning events from 12 to 61, reaching 3,869 participants (10, 542 participant training days).

While the WBI has been selective in its approach to capacity building, it has used its relatively limited resources effectively and has built capacity in its narrowly focused agenda. Its activities on WTO-related issues that have built capacity on trade issues in China and Vietnam, for example, as well as among African trade researchers, have been timely, have cross-fertilized ideas and experience across countries, and have been identified by the clients as valuable (box 5.4).

Given the importance of TCB in the trade agenda, too few resources have been devoted to training activities. Well-designed training would probably have greater long-run payoff in

influence and advocacy than some of the other products reviewed earlier in this chapter, such as GEPs, which have a rather short shelf life.

Tools for trade policy analysis are a product that the Bank could have made available much earlier, had there been emphasis (and resources) to do so. The Bank has finally made the trade database and simulation tool, the World Integrated Trade Solution (WITS), widely available. The current WITS program appears to meet external demands. It provides data and simple simulation programs for trade analysts, thereby helping to develop local trade research capacity in Bank client countries. The number of external users (split evenly between developing and developed countries) has been growing steadily, and they currently account for over three-fourths of all users.

Internally, additional functionality appears to be warranted. A review of trade-related ESW in the past three years and the results of the staff survey suggest that the demand is less for simulation of negotiating scenarios, and more for accessible

analysis of the fiscal and welfare implications of changes in tariff regimes, as well as comparative analysis related to international benchmarking and competitiveness assessments. For the future, the Bank will need to ensure that WITS is adequately funded, be more systematic about obtaining timely feedback from both groups of users, and streamline interface and report presentation and online help functions.

Conclusions: The above review of Bank TCB activities suggests that the institution is doing an uneven job of meeting its objectives as stated in the September 2003 trade progress report (Appendix E4). The content of the dramatically increased volume of trade-related analytical work that is the basis for country policy dialogue and the focus of TCB components of existing projects (half of TCB

Given the stated importance of capacity building in the trade agenda, too few resources have been devoted to training activities.

Box 5.4: Effective and Timely Leverage of Knowledge—WTO-Related Trade Capacity Building

Vietnam WTO accession assistance

The trade group has devoted considerable support to Vietnam as it negotiates accession to the WTO. Stakeholder workshops have been conducted to build political commitment among policy makers and parliamentarians, as well as to improve understanding in the private sector and civil society. In addition, the analytical capacity of the Vietnamese was strengthened by linking national researchers at the Institute of Economics with foreign experts and local policy makers to write sector and thematic papers. This has helped them understand when further liberalization might be in their national economic interest and has provided them with stronger arguments to resist pressures from WTO members where these pressures are considered to be inappropriate. The assistance was provided jointly by the Trade Department (WBI) and the Bank country team, which sees WTO accession as a critical entry point for a whole series of second-generation reforms.

AERC/African policy makers

The Trade Department (WBI and DEC) supported the African Eco-

nomics Research Consortium (AERC) between 2002 and 2004 to enhance understanding of trade liberalization, the constraints imposed by domestic supply conditions and foreign market access, and the ways in which African countries might use the WTO process to further their development objectives.

At the AERC gathering in November 2002 in Kampala, 50 researchers from 25 African countries presented work in progress on country case studies in the manufacturing, agriculture, and services sectors, reviewing each others' work and receiving feedback from WBI, World Bank, WTO, and AERC resource persons.

Several AERC researchers act as trade advisors to their governments and were critical to the preparations of both pre-Doha and pre-Cancun technical and ministerial meetings. Their active role was a major reason why Africa was decidedly better prepared for the launch of the new round than at the time of the Uruguay Round, and their contribution was formally acknowledged by the Africa Group at Doha. WBI support for African trade researchers is continuing, albeit through other channels, since the AERC is placing less emphasis on its trade-related activities.

Source: E-mail communications with Bank staff and partners.

interventions between 2003 and 2004 targeted this objective) suggests that the Bank is at least providing the inputs to meet its objective of helping countries formulate sound trade policy. The Bank is doing less well helping countries adopt appropriate regional policies (third objective) and participate more effectively in negotiations (fourth objective) and has been least effective thus far in helping countries manage external shocks (see box 5.5) and adjustment costs related to trade liberalization (second objective).

Knowledge Management

In the mid-1990s, the software for industrial, trade, and incentives analysis (SINTIA) that country economists used to analyze potential changes in country tariff regimes was decommissioned. Since then, simple tariff analysis tools have been introduced slowly. Not surprisingly, few trade reports contain simulations of fiscal or other implications of reforming the tariff regime. Even where they do, country economists essentially construct their own “model or program,” and therefore no standard set of tables appears across reports, and cross-country comparability is limited. The rollout of WITS will help fill this gap.

Two recent handbooks, on the WTO and customs modernization, illustrate the contribution that other products can make to internal and external learning and capacity building. The publication of the trade policy handbook *Development, Trade, and the WTO* in June 2002 (World Bank 2002a) was timely, and the handbook well-conceived. It summarized the economics of sound trade policy and offered guidance on many behind-the-border issues that were being discussed in the seven negotiation bodies under the Trade Negotiation Committee. The crisp and nontechnical handbook is accessible to trade negotiators and offers an opportunity for developing countries to

Handbooks and Trade Notes are contributing to internal and external learning and capacity building.

enhance their participation in trade negotiations.²⁹ The recently released *Customs Modernization Handbook* (World Bank 2005c) is another learning tool with advice,

best practice lessons, and templates dealing with managing and monitoring customs reform.

More generally, after a slow start, knowledge management activities are picking up. A series of *Trade Notes* was initiated in 2003 (Appendix E8 lists them). Learning activities targeted at Bank staff have focused on such timely matters as WTO-related issues, the new trade agenda, and standards-related activities. Acknowledging the need for a focal point on knowledge management issues, the PREM Network announced in April 2005 that the Trade Competitiveness Thematic Group, which had been defunct for several years, was to be reconstituted. This has not happened yet, however. But given the cross-sectoral nature of trade and the Bankwide movement to streamline thematic groups, the Bank may also wish to identify linkages with existing thematic groups.

However, a gap still exists between these knowledge management activities and the needs of country economists. Results from the survey of Bank country economists done for the evaluation suggested a desire for more knowledge about transitional costs associated with trade reform, empirical analyses, comparative analysis, and practical research on global value chains. No systematic method of gauging demand exists and, of necessity (and as currently designed), some of these activities, such as the trade brown bag lunches, remain driven by the interests of researchers (both inside and outside the Bank), rather than operational staff.

Mainstreaming Trade into Country Work

“Mainstreaming of trade” is one objective of the Bank’s trade strategy, but it is not clearly defined. A precise definition is important, because “mainstreaming” means different things to different people inside and outside the Bank. The use of the phrase in connection with trade appears to date back to a seminar convened under the auspices of the Integrated Framework initiative in January 2001. At that meeting the definition used was as follows: “mainstreaming trade involves the process and methods of identifying and integrating trade

Box 5.5: Minimizing the Effects of Commodity Shocks

Over a period of several years, the Bank has explored ways of helping developing countries minimize the effects of commodity shocks, including a Board paper in 2000, but until 2003, no concrete instruments had been developed. The introduction of a hedging product for IBRD clients that year is an innovation. In the past, the effort was hindered by the complexity of the issue, a lack of consensus on the definition of shocks, and differing views on the optimal triggers and approaches (ex-ante and ex-post).

A 2005 Board Paper, “Managing the Debt Risk of Exogenous Shocks in Low- Income Countries,” analyzes the risk of exogenous shocks in low-income countries and evaluates measures (such as financial instruments) to mitigate these risks. While IDA has been able to provide assistance to countries experiencing shocks, there are no automatic instruments to provide a given level of assistance in the face of a given shock.

The paper found that past instruments developed by the international community intended to address terms of trade shocks at the sovereign level have been “hampered by ... speed, conditionality and effectiveness” (p. 15). The Resource Mobilization

Department is currently undertaking further research to explore the feasibility of strengthening IDA countries’ response to shocks as a follow-up to the Board Paper, taking into consideration the roles of other entities, including the IMF.

The International Task Force (ITF) on Commodity Risk Management in Developing Countries is a public-private partnership established in 1999 to help small-scale farmers better manage their vulnerability to price and weather commodity risks. Within the Bank, the Commodity Risk Management Group is the implementing agency for the ITF. While a few successful pilot projects emerged early on, initial impact was modest, and ITF faced many challenges: scaling up their activities, mainstreaming the concept and garnering support within the Bank, and building capacity in the countries.

There is now evidence of successful scaling up. For example, a weather insurance pilot launched in India in 2003 for 27 farmers has now been replicated, and up to 150,000 farmers have currently bought weather insurance; an impact assessment suggests that the product is timely and meeting demand from farmers.

Source: Interviews with Bank Staff; World Bank 2005a.

priority areas of action into the framework of country development plans and poverty reduction strategies.” The Bank has largely followed this definition,³⁰ which this evaluation views as constituting an overly narrow and operationally incomplete picture of mainstreaming. An important aspect that it does not capture is the degree to which the current trade agenda overlaps with other sectoral agendas.

Accurately defined, mainstreaming trade in Bank operations has several dimensions (diagnostic work, trade in assistance strategies, knowledge management, and incorporation of relevant trade issues in sector activities and strategies). The Bank is doing better along some dimensions than others. The Bank has responded remarkably quickly to keep up with the global agenda and catalyze the rapid increase in trade-related analytical work in both the center and at the country level. Trade Department staff members have been an important part of this response—sharing their expertise through

mission participation, contributions to and leadership of reports, and as peer reviewers. Over 90 percent of trade reports done between 2001 and 2004 had Trade

Department involvement. At the Regional level, the Bank has increased its engagement with regional organizations and conducted additional (and timely) analysis on regional arrangements (for example, EPAs and common external tariffs in Africa, U.S.-CAFTA arrangement). The Bank has done less well in mainstreaming trade in Country Assistance Strategies and in sector activities and policies.

Trade in Country Assistance Strategies

A review of all Country Assistance Strategies (CASs)³¹ from 2001 to 2004 suggests that the importance of trade varies in Bank assistance to countries, but that the treatment of mainstreaming has improved over time. Trade was initially

But gaps persist between these knowledge management activities and the needs of country economists.

examined along three dimensions in CASs: (i) identification of issues; (ii) proposed actions to deal with the identified issues; and (iii) trade as part of the objectives (or pillars) of the strategy. About half of country strategies have an extended discussion of trade and about 60 percent of all strategies identify specific actions intended to support trade. However, the quality of the discussion and the extent to which trade's linkages with the macroeconomy and other sectors are analyzed varies significantly.

A more in-depth look confirms that the mainstreaming of trade in assistance strategies is uneven. The existence of trade-related ESW does not appear to make an appreciable difference in whether the CAS has a well-integrated, in-depth discussion of trade issues. In some cases, existing ESW is used effectively to underpin the trade analysis in the CAS, focus on the most critical constraints to expanded trade, and help identify the most critical interventions for the Bank (see box 5.6). In other cases, there is little or no analysis of trade, despite significant strategic issues associated with trade. Table 5.1 summarizes the results of the review, while Appendix E7 summarizes the main actions in more detail.

A comparison with earlier country strategies from 1998 to 2000 shows a mixed pattern in how attention to trade has evolved over time. In half the Regions (Africa, East Asia and the Pacific, Europe and Central Asia), trade is now more likely to be an objective of the strategy. In more recent CASs, trade is more likely to be the focus of a section of the report in four of the six Regions compared with past CASs, but trade-related activities (lending or nonlending) are less likely to be a focus, perhaps reflecting the lag between analytical work and lending.³²

Integrating Trade and Sector Activities

The Bank has had the most success in linking trade and sector strategies in the areas of sanitary and phytosanitary standards (SPS) and in trade facilitation. Particularly for SPS, the intellectual leadership of the Trade Department, backed by operationally relevant analytical work and close collaboration with key partners in the Agriculture and Rural Development (ARD) Department and operations, has led to actual changes in operational ESW and lending (box 5.7). For trade facilitation, while the intellectual leadership was more limited (and perhaps less essential), the Trade Facilita-

Box 5.6: Trade in Country Assistance Strategies: Mixed and Uneven

A few examples illustrate the diversity of trade-related issues across countries and Regions. In Sub-Saharan Africa, where much remains to be done to reduce constraints and barriers to trade, 12 of the 17 CASs examined mention trade as an objective. But in two reports, no specific measures were proposed. Nor was there any extensive supportive analysis (of the type that would refer to analytical work suggesting why trade is important). Generally, the reports emphasize the need for trade facilitation measures, and three reports cite the Diagnostic Trade Integration Studies carried out under the Integrated Framework as a basis for the Bank's strategy in the country (without further detail).

In Europe and Central Asia, mention of trade as an objective suggests diverse needs across the Region (for example, support

for WTO accession, a more export-friendly tariff structure, trade and transport facilitation, and one mention of a Diagnostic Trade Integration Study). In East Asia trade always figures prominently in the Country Assistance Strategy, most often in terms of enhancing competitiveness.

In Latin America and the Caribbean (13 CASs), trade figures prominently and precisely in a little under half (notably Chile, Colombia, and El Salvador) of the CASs. The Middle East and North Africa Region has only three country assistance strategy reports—one on Yemen states (without further details) that the Diagnostic Trade Integration Study had helped identify trade policy and technical assistance needs, and one on Jordan supports export development through enhanced logistics and fertilizer support.

Source: De Melo (2005).

Table 5.1: Trade in CASs by Region (fiscal 2001–04)

Region	Number of documents	Section (a)	Action (b)	Objectives (c)	Only briefly mentioned (d)
CASs	59	29	36	32	9
Africa	17	13	15	12	
East Asia and Pacific	6	2	5	5	
Europe and Central Asia	17	6	7	7	4
Latin America and the Caribbean	13	6	5	5	3
Middle East and North Africa	3	1	1	2	
South Asia	3	1	3	1	2

Source: Appendix E7.

a. Trade is the focus of a section in the report.

b. Trade-related action (lending or nonlending) is mentioned in the report.

c. Trade is part of the objectives (or pillars) of the strategy.

d. Trade and trade-related issues are only briefly mentioned in the report.

tion initiative and the Customs Handbook have benefited from good collaboration with the Transport Unit, the PREM Public Sector Unit, and the Regions internally, and with the World Customs Organization externally.

While the Bank has done well in cross-fertilizing trade issues in trade facilitation and agricultural standards, there is less coherence with other sectors, notably on agricultural policies with the Rural Development Department, on competitiveness issues with the Private Sector Development Vice-Presidency, on trade and environment issues with the Environmentally and Socially Sustainable Development (ESSD) Network and on poverty issues. There is no formal or informal understanding with the Private Sector Development Vice-Presidency (similar to those for Transport Logistics or with ARD), which is crucial given the synergies (and in some cases overlap) on competitiveness and supply-side issues that both groups cover.

Conclusions on Mainstreaming

The absence of a clear operational definition of “trade mainstreaming” is a disadvantage in several ways. First, given the Bank’s extensive relationship with developing countries on trade issues through its lending operations and

policy advice, its intellectual leadership is important in clarifying this concept. Second, in the absence of this

leadership, guidance and templates on how to incorporate trade at the operational level are also missing. They would help create a more systematic way for country and sector economists to ascertain the extent to which trade should fit into the Bank’s strategy of assistance. Third, given the neglect that trade faced in the early part of the decade, mainstreaming trade requires a more active approach.

In contrast, other thematic areas that have faced the task of mainstreaming (and other agencies that have faced the task of mainstreaming trade) have used more clearly defined and activist strategies to bridge the gap between the corporate mandate and agenda and the operational actions (table 5.2). They have also monitored regularly the progress in mainstreaming in their respective areas.

Experience from both the Gender and Environment Units in the Bank, each of which had to deal with mainstreaming their respective areas into sector operations, suggests that while senior management leadership and

The integration of trade into sector activities is mixed.

Box 5.7: Intellectual Leadership Plus Collaboration Yield Operational Relevance in Sanitary and Phytosanitary Standards

For SPS, a well-integrated program of analytical work and policy analysis has generated more detailed understanding of the economic, institutional, and policy aspects of standards and trade, including the strategic and policy options available to governments and the private sector in a range of developing countries.

This has been complemented operationally by an initiative to mainstream SPS through (i) participatory national strategies for strengthening capacities to manage sanitary, phytosanitary, and other standards for export and domestic markets; (ii) preparation of project subcomponents related specifically to capacity building for sanitary, phytosanitary, and other standards that will be integrated into Bank investment loans; (iii) design and implementation of pilot projects that effectively link smallholder farmers and small enterprises with larger agribusinesses or food distributors through coordinated supply chain pilots; and (iv) sharing implementation lessons. Stand-alone projects are unlikely; instead, small to medium-size (\$0.5 to \$15 million) components of agricultural services, export promotion, and competitiveness projects will likely be the norm.

The program has been accompanied by a rich learning program (including distance learning). Future learning events will be more operationally focused, involving Bank (and other development agency) field staff together with country (official and private) counterparts through facilitated e-learning courses and dialogue. Internally, the program has been marked by close collaboration between the operational Regions, the Agriculture and Rural Development Department, and the Trade Department. Externally, it involves active collaboration with various external agencies (public/private; bilateral/multilateral) that have greater technical expertise and/or implementation experience than the Bank in this field. The Bank is also trying to build bridges among practitioners working on SPS standards, on the one hand, and social and environmental standards, on the other, as such standards are increasingly bundled in agro-food trade and distribution channels, and developing country suppliers need to address the challenges and opportunities in these areas concurrently. The Bank's emerging comparative advantage in this field relates to economic analysis and in positioning SPS analytical and planning matters in the mainstream of (trade and agricultural) policy and planning.

Source: Interviews of Bank staff working on standards issues; World Bank Trade Web site: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE>.

Table 5.2: Trade Mainstreaming Lags behind Other Thematic Areas and Organizations

Action	World Bank			UK DFID
	Trade	Environment	Gender	Trade
Participatory institutional sector strategy prepared		X	X	X
Conceptual framework for integration of issue into operational strategy		X	X	
Development of diagnostic tools (ESW)	X	X	X	X
Identifiable staff tasked with helping to mainstream issue at operational level	Partial	X	X	X
Formal links with other related sectors	Partial (transport, ARD)	X	X	Partial
Upstream involvement of sector staff in CAS		X	X	X
Systematic monitoring of mainstreaming against benchmarks		X	X	X
Systematic identification of skills mix, gaps, and strategy for medium-term needs		X	X	

Sources: Interviews with network staff in Gender and ESSD and DFID staff in February–April 2005. DFID Trade Strategy paper (April 2005).

support is important and necessary, it is far from sufficient. To make an appreciable difference, the establishment of a widely disseminated conceptual framework, network intellectual and advisory support to Regional staff, dissemination of best practice examples, and proactive and upstream identification of the support needed are critical. While not guaranteeing immediate success, these actions lay its foundation. Together with monitoring against established benchmarks, they enable adjustments as needed.