



Findings and Recommendations

Since the 1980s the Bank has committed about \$38 billion to developing countries in all Regions through a diverse group of stand-alone trade adjustment and investment loans, as well as trade components of loans. It has also conducted wide-ranging trade-related analysis and supported trade-related capacity building.

Bank assistance on trade issues encompasses three phases of intervention, as noted in Chapter 1—two intensive phases with a lull in-between. The earlier intensive phase focused to a greater degree on the traditional trade agenda related to opening up trade regimes in developing countries. It was characterized by significant trade adjustment lending.

Following a slowdown in trade activities during the second half of the 1990s, the WTO Trade Ministerial in Doha catalyzed a resurgence of Bank work on trade after 2001. This recent intensive phase has focused on the global trading system and “behind-the-border” barriers to trade. This phase has not focused so much on lending as on analytical research, trade-related capacity building, and advocacy on behalf of the developing countries.

Findings

Was the Bank’s Assistance Relevant?

1987–2001 period

The objectives of the Bank’s trade assistance,

notably in lending, between 1987 and 2001 were to improve resource allocation, expand and diversify exports, enhance client integration into the global economy, and contribute to overall economic growth. These objectives were relevant and appropriate.

In spite of the absence of formal strategies governing trade for part of the review period, the implicit strategies that existed provided an adequate framework at the general level, were broadly consistent with the literature, and succeeded in providing a clear sense of the Bank’s views and approach. The focus on removing other domestic market distortions to complement trade reform was also appropriate.

The strategy was too narrow, however, in terms of its focus on what matters for trade and growth. Specifically, it underestimated the complexity and sequencing of other complementary policies, the role of the external environment, the importance of institutions, and the interaction between trade and distributional outcomes. Consequently, the Bank was too optimistic about the benefits from trade.

Domestic distortions. The focus on marketing and pricing distortions in domestic markets to support the traditional trade agenda was appropriate given the poor performance arising out of the latter stages of import substitution, distortions in the client countries, and the bias against the rural sector and exporting inherent in the initial trade regimes.

Complementary policies. While the Bank correctly identified the importance of complementary supply-side policies, it underestimated the complexity and difficulties of implementing those reforms. Conditions related to these complementary policies have been repeated over time in lending operations, reflecting partial implementation from the time they were first recommended. Compliance with policies intended to improve the regulatory framework and the competitive environment lagged behind compliance with trade policies. These policies, which now commonly fall under the rubric of the investment climate, influence overall outcomes from trade policies.

External environment. Through its balance-of-payments support, the Bank provided general support during exogenous shocks for several countries, and trade elements were often present in the context of those loans. Through its ESW and research, the Bank provided advice on agricultural policy reform. Yet overall, the Bank was sometimes slow to react. For example, despite several attempts, until recently exogenous shocks and external factors were also not systematically addressed or acknowledged in project design and ESW, despite being an important factor in poor project performance.¹ However, until recently, no overarching strategic advice or instruments existed to help developing countries to manage commodity shocks, which are particularly important given the continued agricultural dependence of many client countries.

A missed opportunity was an issue that cut across several developing countries—the phasing out of the multi-fibre arrangement (later renamed Agreement on Textiles and Clothing). This was anticipated for several

years. Yet despite the importance of garments and textiles for many Bank clients, no cross-country analysis was carried out and individual country analysis (such as for Nepal) was late. In this context, the Bank's country and Regional focus may not have lent itself efficiently enough to issues that cut across countries.

Trade and poverty linkages. Social and economic vulnerability was not addressed sufficiently. Economic and sector work, as well as project design, were weak in systematically incorporating or monitoring social outcomes such as poverty and employment, even where economic analysis existed. While earlier on, the issue appeared to be one of low prioritization, that no longer appears to be the case. Surveys of Bank staff and managers indicated considerable interest in the links between trade and poverty. The difficulty in incorporating poverty considerations appears to be a combination of having the right expertise at the operational level (staff skilled in designing these types of interventions); the complexity of the issue, which requires a multidisciplinary team cutting across the Bank's sector/network boundaries; and, in some cases, lack of data to underpin the required analysis.

2001–04 period

The objectives of the Bank's activities in trade since 2001 were to make the world trading system more reciprocally open and to make trade an important part of country development strategies. These objectives were appropriate and relevant given the importance of the WTO in the multilateral trading system, the difficulties with the Seattle trade meeting in 1999, the linkages between trade and other aspects of development, and the potential benefits to its clients of improved trade performance.

The Bank's strategy, however, did not articulate clearly enough the separation of the Bank's research and its advocacy, its limitations with respect to influencing change, or identify risks associated with the strategy.² The Bank could have presented a more nuanced message from the start that distinguished between groups of

developing countries and also clarified the relative importance of the multilateral system for different developing countries. For example, the emphasis on the multilateral trading system may have been misplaced in the case of individual countries where the more pressing demand was in the context of regional trading arrangements (especially Free Trade Association Agreements) and the need for those countries to make decisions in the negotiating context. Insufficient attention was given to the non-agricultural market access aspects of the global negotiations.

The Bank's support for TCB lacks a holistic strategy. The Bank has attempted to respond to developing country demand for TCB by working with external partners (U.N. agencies, bilateral and multilateral donors) through the Integrated Framework for Trade-Related Technical Assistance (IF) initiative. While the revamped IF has dealt partly with the risks associated with donor commitment and funding for analysis, it has made less progress in streamlining processes and accelerating implementation, and continues to be marked by the absence of a results-based management system (IEG 2004a; Capra-TFOC 2003). Weaknesses in the existing set-up for the IF pose risks for timely and relevant delivery of TCB to meet LDC needs and represent a potential reputational risk for the Bank (and other agencies involved in the initiative).

Was the Bank's Assistance Effective?

1987–2001 period

The Bank was effective in helping countries liberalize their trade regimes. Average tariffs fell, coverage of nontariff barriers diminished, foreign exchange shortages became nonexistent, and the exchange rate was reinstated as a viable instrument for export development. Overall, the Bank has helped its clients reduce the bias against exports considerably.

Exports grew in most countries and the associated industrial policy reforms (such as those in competition policy) contributed toward a more open playing field. Countries that received Bank loans were able to free up their

imports. Countries undertaking trade reform with Bank support experienced greater economic growth than those that did not, but this outcome may also reflect the larger set of economic reforms they undertook concurrently.

Despite these gains, Bank assistance has in some cases fallen short in important aspects. Many of the Bank's clients, notably in Africa, have not been successful at diversifying their exports, and they continue to be vulnerable to commodity price shocks. Because of the lack of diversity in their exports, some countries have not successfully integrated into the global economy and have actually lost market share. The Bank's interventions in aspects of trade logistics (ports, customs, and trade finance) and export incentives have had a mixed but improving record. The investment response was slow in a number of countries—reflecting, perhaps, credibility of policies and government crowding out.

The evaluation found that some countries experienced both faster export growth and declining per capita consumption. Three factors appear to underlie why the link between export performance and poverty reduction has been weaker than theory would predict. First, export growth has a better chance of reducing poverty if it is broad-based. In countries where exports baskets continue to be narrowly based, the benefits of good export performance may not reach the poor for geographic reasons or because transfer/distributional mechanisms are inadequate. Second, for some of the Bank's clients, exports have grown in goods for which there is a declining world demand, capping the extent to which they can derive benefits. Third, in many countries there has not been a strategic approach to incorporating trade in a national development strategy, except at a superficial level.

2001–04 period

While the objectives of the Bank's strategy were relevant, the institution could have defined more clearly how it would monitor and operationalize the strategy. Partly because of donor and other external interest and pressures associated with the WTO negotiating timetable,

the Bank has put more emphasis on this aspect of the strategy (through Board progress reports, partnerships, outside media) than on operationalizing trade at the country level.

The Bank's research and advocacy on the multilateral trading system has, in the eyes of international trade officials and non-Trade Department Bank staff surveyed for this study, contributed to increased awareness of the costs associated with tariff peaks and agricultural protection in OECD countries.

Bank research has contributed significantly to the thinking on trade in several different areas. External surveys and interviews indicate that its research on services liberalization, the global trade architecture, and agricultural standards are viewed as innovative and of high quality.

Greater research and operational attention is needed, however, in the following areas: agricultural trade and policies, links between trade and poverty and adjustment costs associated with trade, and migration.

The Bank has been slow to translate its extensive work on the development aspects of WTO issues into practical policy advice for staff. Services liberalization is a particular gap in this regard. Despite high-quality work at the center, there appears to be no clear strategy on how to share this knowledge and apply it to operational work, particularly in the financial and private sector units.³ This is particularly critical given the complexity of the services negotiations and the sectors that they span. In another example, no strategic approach has been planned for the 26 countries (all Bank clients) currently in the process of accession to the WTO. The poorest and those least likely to have the capacity to articulate their needs have received less support (such as Cape Verde and Sao Tome and Principe) and have been in the accession process for several years.

The greatest operational successes have occurred where the Trade Department has provided intellectual leadership and put together a team involving the networks and operational staff, such as in standards and trade facilitation. Conversely, priority areas such as agricultural trade, services liberalization, and the distributional outcomes associated with trade

have suffered from the lack of intra- and inter-sectoral partnerships. The incorporation of trade into country development and Bank assistance strategies has been uneven and little guidance has been given to country teams on incorporating trade considerations in their work.

Recommendations

Key challenges lie ahead in trade for the Bank's clients, as trade issues increasingly cut across multiple sectors and involve complex negotiations at the bilateral, Regional, and multilateral levels. But there are also opportunities as a result of heightened interest in Africa by development partners, greater attention to an equitable global trade system, the building of coalitions that may help various groupings of developing countries negotiate more strategically and effectively in the global arena, and continued interest in aid and trade-related capacity building to support developing countries in their trade and growth agendas.

In general, there is greater consensus on what constitutes an appropriate trade strategy,⁴ its limits in the context of the multilateral trading system, and the importance of complementary policies. "New industrial strategy" is being looked at again within the Bank to see how best the state can strategically support development by offsetting "market failures in information and communication" (see Leipziger 2005).

The current trade agenda is significantly more globalized than previously and very much tied in with overall economic growth. To pay greater attention to export-led growth in the future, continued efforts to reduce anti-export biases in trade policy are needed, with priority given to removing constraints to specific promising exports. Second, as is already emerging, greater attention needs to be paid to the investment climate, infrastructure, and trade facilitation more broadly. Third, selective promotion of export development, such as support for training, improved information about market opportunities, linkages, technology development, and so on would be useful.

The time is right to consider the direction of the Bank's future work in trade. The Doha trade

negotiations that catalyzed and invigorated trade work at the Bank are likely to conclude in the next few years. Moreover, the establishment of the Trade Department includes a sunset clause that requires revisiting its mandate in 2005. It is appropriate for management to look ahead and focus on future priorities. This study makes three recommendations.

***Recommendation 1:
Address Poverty-Distributional Outcomes and
External Shocks in a Balanced Approach***

This evaluation found that despite the increasing volume of research on poverty issues in the Trade Department and of poverty and social impact analysis more generally, trade-related projects do not consistently or systematically address poverty and distributional outcomes. While much import liberalization has already occurred, further liberalization appears possible for some developing countries, notably within agriculture. With that in mind, three actions are critical. First, IEG recommends that at the country level, all new projects with trade policy components include a discussion of this issue that, at a minimum, draws on the cross-sectoral expertise from economic policy, poverty, gender, PSD, and (as appropriate) agricultural and rural development units, as well as existing research in the country. Identification of possible transitional costs, an assessment of the existing institutional framework for cushioning shocks and actions to mitigate or minimize shocks would be important considerations in the discussion.⁵ Placing trade in a broader discussion of the determinants of poverty will help ensure that this is not a mechanical exercise, but rooted in its expected importance.

Second, at the institution-wide level, and following the Bank's statement at the Cancun Ministerial in 2003, IEG recommends that a concrete program of adjustment assistance be developed more rapidly to respond to trade-related shocks that developing countries may face.⁶ To the extent that such a program is no longer deemed relevant, it would be helpful for management to clarify this.

Third, IEG recommends a more systematic program of research on micro-level adjustment

to trade policies, looking at firms, individuals, and households.

***Recommendation 2:
Revisit the Balance between Global and
Country Agendas and Strengthen Operational
Links on Trade Issues***

IEG recommends that management revisit the balance between its activities at the global level on the one hand, and on the Regional and country agenda on the other. Given the multi-sector nature of trade issues, a participatory process that involves operational sector colleagues, other networks, and the Trade Department is likely to yield the greatest benefits. Operational linkages need to be strengthened between different units of the Bank, and greater emphasis placed on country and field operations.

Three actions are necessary. First, greater strategic and intellectual guidance is needed from the Trade Department with respect to the conceptual framework within which country teams should consider trade issues. The design of a guidance note and upstream support on a pilot basis to country teams planning Country Assistance Strategies would be practical first steps and would help determine those cases in which trade is logically a priority element in the country dialogue.

Second, in three thematic areas of focus, a more formal set of arrangements between operations, networks, and the Trade Department is needed to maximize synergies—agricultural trade and policies, services liberalization, and distributional outcomes associated with trade policies.

Third, as has been done between the Transport and Agriculture units on the one hand, and the Trade Department on the other, IEG recommends that working arrangements with the Private Sector Department Vice-Presidency be established to highlight the interface between the two areas and to bring the global dimension to bear more precisely. This cross-fertilization of trade and the need for better integration of trade and the Finance, Private Sector, and Infrastructure (FPSI) work program is especially evident in the work on

trade in services. Greater interaction between the Trade Department staff specialized in trade in services and the sub-sectoral expertise in transport, power, finance, telecoms and so on located in FPSI is needed.

***Recommendation 3:
Strengthen Knowledge Management Efforts***

Two actions are important.

First, a concerted effort to bring all country economists up to date with the main features and application of the WITS software would enhance their awareness of the global trade issues and implications for the countries they work on and enable them to supervise research assistants/consultants and seek further training, if and when needed.

Second, knowledge management efforts could reflect greater cross-fertilization with other networks and better integrate trade work

done in the center and country-level work on agriculture, economic policy, labor markets, and private sector development. As part of these efforts, the possibility of joint thematic groups with other networks should be explored.

More generally, IEG recommends a more effective use of knowledge management tools tailored to key target groups—across different sectors. A mechanism to obtain regular systematic feedback from operational staff on the most immediate and relevant trade-related topics would be helpful, as the survey identified gaps, despite the canvassing conducted by Regional trade coordinators during the year. Finally, greater sharing of country experience in particular areas, much as was done with the work in agricultural standards, is needed. This will require greater support from the center to ensure quality-at-entry for project design as well as economic and sector work.