
ENDNOTES

Chapter 1

1. Refers to either free-standing trade projects or projects with trade components exceeding 10 percent of total project costs.

2. The findings of several large multicountry comparative studies prepared during this period reinforced this message: Choksi and Papageorgiou (1986), Michaely and others (1991), Thomas and Nash (1991), Cooper and others (1991), and Krueger, Schiff, and Valdes (1991).

3. World Bank (1987). The WDR of 1986, which focused on agricultural development and liberalization, also covered a number of important trade issues, such as the distortions inherent in the policy-induced anti-trade biases in developing countries, as well as those arising from industrial country agriculture subsidies.

4. Operational Directive 8.60, which provides guidance *inter alia* on trade policy, was only issued at the end of 1992, when lending for trade adjustment was already declining. Sixty-one percent of all adjustment lending with trade content between fiscal years 1987 and 2004 had been approved by June 1992.

5. The Bank's work on commodities (which largely consists of market outlook and price projections) is not part of this review, except where it overlaps with market access considerations. In addition, links between trade and the environment, while important, are beyond the scope of the evaluation as outlined in the Approach Paper.

6. Previous IEG evaluations have looked at trade liberalization experience in nine countries, adjustment in Africa, support for industrial activities, agricultural sector adjustment loans, and lending for port development. In addition, the World Bank summarizes the Bank's conclusions from its dialogue with NGOs under the Structural Adjustment Participatory Review Initiative (SAPRI) and focuses on, among other things, the results for trade liberalization. Thomas and Nash

(1991) provide a comprehensive overview of lessons from trade reform up to the late 1980s.

7. The Approach Paper for this study (IEG 2004c) provides more detail on the evaluation methodology.

8. The criteria for selection were: (i) countries in which the Bank had a large and diversified trade portfolio; (ii) a geographically mixed group with diversity in country experience and performance; (iii) variation in the countries' approach to trade reform; (iv) variation in country size; and (v) availability of microeconomic data. In addition, desk reviews were conducted for other countries in the portfolio. IEG (2004c) includes the detailed terms of reference for the case studies.

Chapter 2

1. This evaluation is not a research project to analyze major questions such as whether integration into the world economy is good for development. It is mainly a study of the relevance and effectiveness of Bank trade assistance, but, in the process, it sheds light on issues such as desirable speed of adjustment, sequencing, and complementary policies.

2. The experience of the East Asian "tigers" that moved the furthest away from the import-substitution model was simplified and generalized to support the export-led growth model. See Amsden (1989), Wade (1990), Lall (1992), Rodrik (1995), and UNCTAD (2003) for differing and nuanced interpretations of East Asia's experience.

3. See, for example, Shafaeddin (1995).

4. Hall and Jones (1999) and Rodrik and others (2002) suggest that institutions are an important determinant of growth, while Acemoglu and Johnson (2003) and Chang and others (2005) delve more deeply into which institutions are most important.

5. Several studies carried out in the 1990s, such as Dollar (1992), Sachs and Warner (1995), Krueger (1998), Edwards (1998), and Frankel and Romer (1999), suggested that countries that are more open

grow faster. These studies typically measured openness to trade with what is more accurately described as a trade intensity index—defined as the ratio of trade (imports plus exports) to GDP. As Collier, Greenaway, and Gunning (1997) show, however, the trade intensity index may not be an appropriate indicator of a country's trade policy stance. The index may instead reflect an increase in aid flows or an improvement in a country's terms of trade rather than the extent of trade liberalization. Rodriguez and Rodrik (2000) criticize this literature, arguing that methodological problems with the empirical strategies used make interpreting results more ambiguous than the various authors assert. In particular, they criticize the use of the “openness” dummy variable in Sachs and Warner (1995) and used by several researchers subsequently. In their view, the dummy variable that aims to characterize the restrictiveness of a trade policy regime is often correlated with other measures of poor economic performance. Additional challenges to a simple link between growth and openness have come from Stiglitz (2002).

6. This section draws on Salinas (2003).

Chapter 3

1. Analysis of trade-related assistance is made difficult by the fact that until recently, “trade” did not constitute a formal sector (unlike economic policy, education, rural, or transport, for example) in the Bank's sector classification system. Earlier Bank definitions of “industry and integration” excluded several projects that trade economists would define as trade-related and included others that, while supporting economic integration, were not necessarily trade-related. Building on the original database, since 2002 the Trade Department has updated and maintained a database of trade-related projects. The 2002 OPCS reclassification of sector and thematic codes rectifies this difficulty for post-2000 projects.

2. Bank trade lending rose rapidly in the 1980s because: (i) the Bank underwent an ideological shift from bottlenecks as presented in the two-gap models of growth developed by the Bank in the 1970s to a more market-oriented view of the world; (ii) in line with this, trade was seen as a way out of the debt problems of the 1980s.

3. Defined as lending operations whose trade components accounted for 50 percent or more of total commitments.

4. This trend is consistent when comparing the amount of lending spent for each component. Lending for the institutional and infrastructure aspects increased from 9 percent and 10 percent, respectively, for the period between 1987 and 1994, to 18 percent and 71 percent, respectively, for the period between 2000 and 2004.

5. Technical assistance is a subset of trade capacity building and focuses on enabling a client to implement reform or strengthen institutions.

6. Unless otherwise noted, this section draws on Tsikata (2005), which reviews trade conditionality in World Bank projects between 1987 and 2004.

7. The trade share in an adjustment loan is approximated by the proportion of actions in the policy matrix that are trade-related: that is, the trade share is the number of trade-related actions divided by the total number of actions included in the policy matrix of the Project Appraisal Document. The total trade cost is thus the trade share multiplied by the total project cost.

8. In some Regions, such as Africa, other policy aspects historically have been intertwined with trade, such as marketing. For example, government parastatals often controlled key exports (such as groundnuts in Senegal, cocoa in Côte d'Ivoire and Ghana, tobacco in Malawi, and tea in Tanzania), taxing them inefficiently and constraining entry into the sector by others.

9. *Conditions* refer to both legally binding conditions and “desired” conditions as spelled out in the president's report of the project.

10. The “Concordat” refers to the joint memorandum from the President of the World Bank and the Managing Director of the Fund entitled Bank/Fund Collaboration in Assisting Member Countries (SM/89/54, Revision 1 and R89-45), March 31, 1989.

11. In four cases, reference was made to a reform program detailed in the letter of development policy.

12. Because in the long run all countries face a balance of trade constraint, import liberalization is in effect export promotion (economists call this “Lerner symmetry”).

13. This approach is analogous to IEG 1997, which focuses on adjustment lending in Sub-Saharan Africa. As that report notes, if the recommended reforms were implemented, but results were not achieved, then the quality of conditionality and exogenous factors have to be examined as potential explanations.

This approach also enables the implicit construction of a control group (countries that did not implement the agreed upon conditionality).

14. A caveat is in order. By the nature of the process, “grading” implementation inevitably includes an element of subjectivity. For trade conditionality, however, this assessment is often easier than other elements of adjustment due to a combination of the quantitative requirements in some cases, and the need for legislation in others.

15. In addition to the more formal and legally binding conditions, IEG also assesses the evolution of other “conditions” included in the policy matrix of lending operations. While these lack the legal standing (and associated “sanction”) of the more formal conditions, these nonbinding “matrix” conditions represent policy agreements and benchmarks (albeit informal) between the Bank and its client countries, which the Bank views as desirable for the country to meet. The ambiguity of their standing notwithstanding, clients often viewed them as part of the Bank’s conditionality. As such, they are useful in understanding the evolution of the policy dialogue and agreements between the Bank and its clients. Together the legally binding and matrix conditions allow an overview of aggregate conditionality.

16. “From Adjustment Lending to Development Policy Lending,” OPCS, August 2004 and the “Adjustment Lending Retrospective,” OPCS, June 15, 2001 illustrate the evolution of Bank views on conditionality toward single-tranche operations as part of a series of development policy loans. The new OP 8.60 on Development Policy Lending codifies the move away from prescription, toward country-owned conditionality.

17. The Bank’s nonlending inputs are more typically defined by analytical and advisory activities (AAA) which in addition to ESW include policy dialogue, nonlending technical assistance, and donor coordination. While policy dialogue is a particularly important part of Bank advice to clients, it is difficult to measure. The other two components of AAA are dealt with under the broader rubric of trade-related capacity building, which is a more relevant and commonly accepted classification for client country officials and donors working in trade than is AAA.

18. The discussion in this section focuses on reports that are almost exclusively focused on trade. Bank Country Economic Memoranda almost invariably in-

clude a chapter on trade, but our interest lies in more extensive trade analysis that merits an entire report. Thus, the figures for trade-related ESW presented here are an underestimation.

19. Developed in mid-2001, the Diagnostic Trade Integration Study is a major economic report focused on trade. It is essential to the Integrated Framework process and used to identify trade-related capacity building needs. While final content varies among countries, the core template comprises: brief macroeconomic overview; review of trade performance; regional and global context for country’s trade; institutional framework for trade policy and development; trade logistics; constraints to competitiveness including standards; subsector competitiveness analysis; and links between trade and the country’s poverty reduction strategy.

20. Gelb and others (2000), which focuses on growth more broadly, includes a chapter on trade. Hinkle and others (2003) carries out a review of first-generation trade reforms.

21. EAC refers to East African Community; ECOWAS refers to Economic Community of West African States; UMOEA refers to West African Economic and Financial Union.

Chapter 4

1. IEG rates every completed project against its objectives as stated in the Project Appraisal Document in terms of its relevance, efficiency, and efficacy. A project’s outcome is rated as “satisfactory” when the project achieves or is expected to achieve most of its major relevant objectives efficiently, with only minor shortcomings. The rating “moderately satisfactory” applies when the project achieves or is expected to achieve most of its major relevant objectives efficiently, but with either significant shortcomings or modest overall relevance. A project is rated as “unsatisfactory” when it fails to achieve and is not expected to achieve most of its major relevant objectives and delivers only minor development benefits.

2. Following an initial divergence, the performance of adjustment and investment loans has converged in the past five years. After initially performing well in the first decade of their introduction, trade adjustment loans performed poorly between 1995 and 1999 (in part because of crises-related loans in Asia, Brazil, and Russia). In contrast, trade investment loans improved steadily over the same period, reflecting the

reduction in poorly performing state-led and public sector-driven projects.

3. While some of these actions may be subsequently reversed, this is not evident at the time that closed projects are reviewed, as these are often relatively quick-disbursing loans. Overall, the evaluation did not find significant evidence of policy reversal in trade liberalization.

4. The full set of loans approved after 1995 had appreciably better outcomes (statistically speaking) than those before 1995. They were also more likely to be sustainable and to have had a greater institutional development impact. Given the Bank's extensive experience with lending for trade and the switch in the portfolio toward operations with more and financially larger institutional components, these are not surprising results. The estimation also found that projects in middle-income countries were more likely to perform better, exhibit greater sustainability, and have more institutional development impact than those being implemented in low-income countries. In the Regions, trade projects in Europe and Central Asia were more likely to have unsatisfactory performance outcomes than those in other Regions. The estimation also found that conditionality was associated with worse project outcomes—that is, more poorly performing projects were associated with greater trade conditionality. This may reflect that higher conditionality was, in essence, an attempt to enforce implementation in situations where doubts may have existed about country commitment. Higher than average conditionality thus may be a red flag.

5. The CPIA index assesses how conducive a country's policy and institutional framework is in that year to fostering sustainable, poverty-reducing growth and the capacity of the country to effectively use development assistance. This exercise is done annually for all IBRD and IDA borrowers. Operationally, it is based on a set of 20 unweighted indicators in four categories: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. Countries are rated on their current status in each of these performance criteria, with scores from 1 (lowest) to 6 (highest). The index is only available for a complete set of countries starting in 1998, but the index is available for a smaller set of countries prior to 1998.

6. Between 1987 and 2000 only a fraction of trade adjustment loans introduced social safety net com-

ponents or other measures to cushion transitional adjustment arising from liberalization.

7. Mexico's Second Trade Policy Loan Project (FY88).

8. The NTB frequency ratio is defined as the percentage share of import tariff lines covered by nontariff barriers.

9. By Region, the highest levels of import duties prevailed in South Asia. Nontariff barriers were exceptionally high in Europe and Central Asia (97 percent) and South Asia (74 percent).

10. Considerable Regional differences lie behind these aggregate numbers. High and persistent inflation was clearly a Latin American (and thus largely middle-income) problem. External imbalances were most pronounced in Africa, where current account deficits, terms of trade deterioration, and external debt difficulties were pervasive. Economic growth was largely modest for all but East Asian economies. With average investment rates below 20 percent, meager foreign direct investment inflows, and anemic trade performance, GDP growth averaged below 3 percent for the sample (even including the fast-growing East Asian economies). This relatively low growth rate barely kept up with population growth in Africa, the Middle East, and Latin America.

11. Good historical overviews of trade regimes can be found in Oyejide, Ndulu and Gunning (1999) and Hinkle, Herrou-Aragon, and Kubota and others (2003) for Africa, Noguees and Gulati (1992) and Ganuza and others (2004) for Latin America, and Michalopoulos and Tarr (1994) and Kaminski and others (1996) for the transition economies.

12. Many of the nonreformers would consist of countries in crisis or where economic data are difficult to obtain. More appropriate would be a comparison of gradual versus less-gradual reformers.

13. While trade protection in Tunisia remains rather high on a most favored nation (MFN) basis, the trade regime with its largest trading partner, the European Union, is being liberalized more significantly under an association agreement signed in 1995.

14. Countries were classified as rapid reformers if their trade reform process was completed in three years or less (20 countries). All other countries were classified as gradual reformers. This classification was based primarily on the qualitative description provided in economic reports and on the evolution of average tariffs and NTB coverage. Appendix D5 in-

dicates the classification for individual countries in the sample.

15. See Haque and Khan (1998) and Jinjarak and others (2005) for a detailed exposition of the approach discussed here.

16. The methodology used is a “difference-in-differences” approach, which compares changes in various target variables before and after Bank-supported trade reform with changes in those same variables with countries that did not reform with Bank support. This approach further corrects for any potential sample selection bias by using a Heckman selection procedure to model the decision that results in a Bank loan. The correction replaces the presence of a Bank loan with the predicted likelihood of a Bank loan based on some observable characteristics of the country (such as balance of payments difficulties).

17. Assuming constant prices, the following equation is used: $\Delta Y = \Delta DD + \Delta IS + \Delta EE$, where y is real GDP, DD is total domestic demand, EE is export expansion and IS is import substitution. Assuming constant prices, the following detailed equation was used:

$$Y_t - Y_{t-1} = a_{t-1}(D_t - D_{t-1}) + (a_t - a_{t-1})S_t + a_{t-1}(X_t - X_{t-1})$$

GDP increase = Total domestic demand contribution + Import substitution contribution + Export expansion contribution, where,

Y = GDP

D = Total domestic demand (or availability) = $Y + M - X$

S = total supply = $Y + M$

X = total exports of goods and services (free on board [FOB])

M = total imports of goods and services (CIF)

a = GDP as share of total supply (Y/S)

t = final year of period

$t-1$ = initial year of period

18. If s_{ij} is the current share of product i in country j 's exports, and R_j is the rate of growth of the product in world trade. The export prospects index (P_j) is defined as, $P_j = [\sum s_{ij} R_i] / R_w$, where R_w is the rate of growth of world trade in all products. An index value of 0.50 indicates that country's exports grow at one-half the rate of world trade. A value of 1.50 suggests that the country's exports should grow 50 percent faster (see Ng and Yeats 2005 for the application and caveats).

19. This approach based originally on General Agreement on Tariffs and Trade - GATT (1966), used extensively by Ng and Yeats in Africa (2002, 2005) and East Asia (2003).

20. See Tybout (2000); Paus, Reinhardt, and Robinson (2003); Amity and Konings (2005); Muendler (2004); Topalova (2004); and Van Briesbock (2005). These gains are maintained even after institutional quality and geography are controlled for; see Alcalá and Ciccone (2004).

21. This analogy is due to Hill and McPherson (2004), as cited in the Zambia Country Case Study.

22. The 1988 and 1990 Country Economic Memoranda, in particular, made cogent arguments about the links between the two and the risks of additional industrial liberalization in a highly protected environment.

23. According to Bank staff, this may reflect a misunderstanding by Senegalese policy makers. Senegal reformed its tariff within the UMEOA customs union process, not under any WTO negotiating process, which could have provided for a “more lenient tariff reduction schedule.”

Chapter 5

1. The Articles of Agreement of the International Bank for Reconstruction and Development (World Bank 1989) call for the Bank to promote the “long-range balanced growth of international trade” (Article I).

2. Around the Doha meeting in November 2001, there was extraordinary Board attention to trade issues, with 12 informal meetings in 2002, 2003, and 2004. Initial quarterly meetings and accompanying trade progress reports and monthly meetings with the managing director responsible for trade issues are reduced to bi-annual meetings with briefing meetings beforehand as necessary. This schedule is still uncommon, because most informal Board meetings are ad hoc. The only other example of informal meetings held with such regularity is that of meetings held to discuss Poverty Reduction Strategy Progress Reports.

3. As stated in the first progress report of July 2001 (World Bank 2001a, p.3), at the global level, the Bank's work would focus on promoting development through international cooperation on trade-related issues with the WTO. At the Regional level, the focus would be on promoting efficient Regional integration schemes consistent with multilateral principles and overcoming

ing trade-related obstacles to growth at the Regional level. Finally, at the national level, the focus would be on policies and institutions needed for trade to be an instrument of pro-poor growth.

4. Although housed in PREM, the director of the Trade Department reports jointly to the vice presidents for DEC, PREM, and WBI, underscoring efforts to strengthen collaboration among the three units. In addition, the director is also director of the Prospects Group in the Development Economics Unit, which handles work on global commodity markets.

5. There appears to have been far less collaboration with academics in developing countries in Asia and Africa.

6. A standard way of assessing the quality of research is through number of publications in journals. By this criterion, the Bank's output is large compared with other policy-oriented institutions, though less so when the criteria of publications in established journals is used. De Melo (2005) argues that based on the volume of research in other policy-oriented institutions—arguably the more relevant comparison—the volume of Bank research in refereed journals is high. Anderson (2003) reports six to eight papers per capita in his review of research at the International Food Policy Research Institute. For the three-year period under review, De Melo (2005) estimates a per capita publication record of 12 for the 12 staff in the trade unit of the Research Group.

7. Most papers appear first in the World Bank Working Paper Series, and some have appeared in other working paper series produced both inside and outside the Bank (for example, the Center for Economic Policy Research).

8. De Melo (2005) defines “established journals” as those that are in the top quarter in either of two classifications, based on the *Journal of Citation Reports* (JCR). The JCR ranks journals based on the number of citations received. This “raw” count, however, does not take into account the age of the journal, adjustment to exclude self-citations, and adjustments for the number of pages. The ranking in Kalaitzidakis and others (2003) corrects for the above shortcomings for articles published during the period 1994–98 for 160 economics journals. Because new journals have been added in recent years, and because potential errors in the adjustment made, De Melo (2005) classifies as established or “top” journals the top quintile (that is., the top 40 journals) by either of the above

criteria of the last year for which JCR has published its unadjusted rankings (2002). By this inclusive criterion, he obtains 61 journals for the top category.

9. The Bank's prodigious output over 2000–04 was achieved with the support of two bilateral donors. The Dutch (through the Bank-Netherlands Partnership Program (BNPP)), and the U.K. Department for International Development (DFID). These donors have maintained significant special programs targeted to trade. However, neither WBI nor DEC provided the requested trust fund data to enable an in-depth analysis.

10. This year's *Global Economic Prospects* is addressing migration.

11. The World Bank (Ellerman 2003) identifies the following areas of research: remittances; temporary movement of workers under the General Agreement on Trade Services (mode 4 negotiations), ties to the diaspora and return migration, and migration of skilled workers (“brain drain”).

12. Three observations lead to this conclusion. First, agriculture became controversial as soon as a new round of trade talks was announced. Second, despite successful obfuscation by all participants in the move toward “greater” transparency, unlike other new areas of negotiation (such as services), assessing the efficiency and rent-transfer effects of agricultural policies (border and internal) could rely on relatively established methodologies (for example, on bananas and cotton). Third, reasonable amounts of data were available since the tariffication process was started under the Uruguay Round Agreement at least over the 1995–98 period. In sum, more work would have been expected in specialized agricultural journals. The four articles are: Hertel, Ivanic, Preckel, Cranfield, and Martin (2003); Martin (2000); Otsuki, Wilson, and Se-wadeh (2001); and Anderson and Jackson (2003).

13. See, for example, speech by James Wolfensohn, Cancun Ministerial, Cancun, Mexico, September 2003.

14. While analyses undertaken in connection with the Uruguay Round and in subsequent *World Development Reports* highlighted inequities in the global trading system, there was no active attempt to disseminate these messages beyond the normal dissemination of research at the technical level. The Bank essentially assumed that the basic barriers were on the developing country side, not due to market access.

15. QUAD refers to Canada, the European Union, Japan, and the United States.

16. *Market Access for Developing Country Exports—Selected Issues*, September 2002, Joint paper prepared by the staff of the World Bank and IMF.

17. Oxfam's reach and influence are greater than may be commonly perceived. According to the Rushford Report, Oxfam spends \$500 million annually and has approximately 4,000 employees worldwide. For comparison, the Bank's annual operating budget in 2004 was \$1.5 billion and 9,300 employees worldwide.

18. See CUTS (2003) for statements and editorials by various parties in the run-up to Cancun, for example.

19. It is also instructive that the WTO members interviewed urged the Bank to be more pragmatic about regional trading arrangements, saying they were here to stay and that their rise was not unexpected, given the slowness of the Doha negotiating agenda.

20. Panagariya (2005) is more critical, arguing that over-simplification of the facts and analyses by donors and big NGOs such as Oxfam are misleading and risk distorting the facts.

21. UNCTAD (2004) traces the evolution of the terminology.

22. To give an idea of the importance of TCB, half of submissions at the "pre-negotiation" phase included in the Ministerial declaration at Seattle came from developing countries, yet because of research and capacity constraints a proactive constructive approach was beyond their reach, and their submissions were not included in the agenda largely because they were insufficiently developed. If the asymmetry in outcomes on the agenda was also partly the result of the strategy of developing countries (insisting on "special and differential treatment," which also suited industrialized countries by allowing them not to address issues of interest to the developing countries), much of it is due to lack of negotiation and research capacity as the above example suggests (see for example, Blackhurst, Lyakurwa, and Oyejide [2000]).

23. The dollar equivalents of TCB components need to be treated with caution as the components are not always associated with a specific dollar amount. The dollar amount has to be imputed from the component actions as a share of the overall loan.

24. The six are Bhutan, Cape Verde, Ethiopia, Lao PDR, Sudan, and Yemen. Since late 2004, the Bank has been assisting Ethiopia in its accession negotiations.

25. The Integrated Framework for Trade-Related Technical Assistance is a multi-agency and donor ini-

tiative to provide trade-related technical assistance to the 49 least developed countries. First established in 1996 following a meeting of high-level ministers, the initiative was significantly revamped in 2001. The partners in the initiative consist of the six core agencies: IMF, the International Trade Centre, UNCTAD, UNDP, World Bank, and the WTO. In addition, 17 donors have contributed to the initiative and are partners. The main elements of the initiative are a Diagnostic Trade Integration Study to assess constraints to trade and identify technical assistance needs, as well as coordinate and harmonize donor trade-related technical assistance. Each agency has a defined role in the initiative; the Bank, in collaboration with the six core agencies, leads the diagnostic work. The Bank has also contributed to the capacity building fund for the IF and contributed an average of two staff trade economists to each diagnostic study. For more information see www.integratedframework.org.

26. A third evaluation of the Integrated Framework initiative, carried out by the Netherlands as part of a broader assessment of the country's TRTA, was expected to be published in October 2005. Preliminary findings rated the efficiency, effectiveness and relevance of a two country sample of IF as poor to weak.

27. For example, Malawi proposed a project for trade policy advisory services. The content of the assignment is similar to the support being provided the country under the DFID Trade Policy and Poverty project.

28. By comparison, the Inter-American Development Bank, which focuses solely on the Americas, has staff members dedicated to external training activities in trade.

29. The chief economist also organized a roundtable of experts on *Informing the Doha Development Agenda* in May 2002 and in the run-up to Cancun the Bank organized a meeting for African trade policy-makers.

30. See, for example, the March 2005 bi-annual progress report on trade.

31. The Country Assistance Strategy (CAS) is the World Bank's main instrument for defining country programs and investments. The CAS indicates how the Bank's objective of helping countries to reduce poverty and its sector objectives are incorporated into a strategy and reflected in the policy dialogue. Each CAS presents a comprehensive picture of a country's economic development, identifies the government's principal

concerns, and makes the case for new Bank services. CASs are usually undertaken every two to three years.

32. Country poverty reduction strategies are an indication of the extent to which client countries incorporate trade in their development strategies. A number of reviews (see for example, Hewitt and Gillson (2003); World Bank (2005b); Diop, Gust, and Khandelwal (2005)) suggest that trade issues (whether narrowly or broadly defined) have been incorporated only slowly by the countries, focused on a narrow set of trade issues and only poorly made the inter-linkages between trade and related complementary measures.

Chapter 6

1. Following a September 2004 report by the Bank's Debt Department on the volatility associated with exogenous shocks, the Bank is reviewing its instruments to see how it can better help low-income countries deal with external shocks in a timely objective manner, and facilitate their access to market-based instruments such as insurance facilities.

2. The first statement explicitly acknowledging the risk associated with the ambitious goals set for the Doha Development Agenda was stated by management at an Executive Board Meeting in March 2005, four years after the resurgence and three years after the publication of the trade strategy.

3. The institution is only now considering a policy note for operational staff on the Doha Development Agenda, three-and-a-half years since Doha.

4. Dani Rodrik put it best in the context of Africa: "There is actually a fair bit of consensus on what constitutes a reasonable trade strategy... The consensus can be crudely expressed in terms of a number of do's and don'ts: de-monopolize trade; streamline the import regime, reduce red tape and implement transparent customs procedures; replace quantitative restrictions with tariffs; avoid extreme variation in tariff rates and excessively high rates of effective protection; allow exporters duty-free access to imported inputs; refrain from large doses of anti-export bias; do not tax exports too highly." Rodrik (1998).

5. Management sees Poverty and Social Impact Analysis (PSIA) as being mainly a tool for use by client countries and most effective when led by the country itself, rather than imposed from the outside. IEG does not see encouragement of staff to systematically consider the use of PSIA as equivalent to an imposition on the country. While in theory, country led

PSIAs are ideal, in practice in many of the poorest countries, capacity to carry out PSIA's may be limited. It would seem that staff carrying out policy dialogue on these issues would benefit from having an empirical basis for the advice they give regarding the potential distributional impacts.

6. Management notes that an Operational Committee meeting held before the Cancun Ministerial, discussed and rejected the notion of a separate facility, concluding that the Bank possessed adequate existing instruments to address requests for trade-related adjustment shocks. However the Bank statement at Cancun is somewhat ambiguous and has been interpreted by some developing country clients as referring to a dedicated fund.

Appendix B1

1. As Stiglitz (1996, p. 173) found, "exports provided a performance-based criterion for allocating (preferential and subsidized) credit, encouraged the adoption of international standards, and accelerated the diffusion of technology."

2. The experience of the East Asian "tigers" that moved the furthest away from the import substitution model was simplified and generalized to support the export-led growth model. See Amsden (1989), Wade (1990), Lall (1992), Rodrik (1995), Leipziger (1997), and UNCTAD (2003) for differing and more nuanced interpretations of the East Asia experience.

3. Rodrik (1992, p. 88) argues that "common sense would suggest that the conventional benefits of (trade) liberalization become muted, if not completely offset, under conditions of macro instability characterized by high and variable inflation on the one hand, and fiscal and balance of payments crises on the other." Such a macroeconomic environment may not be hospitable for trade policy reform for several reasons. High and variable inflation could distort the price signals through trade policy to induce resource allocation. To the extent that macroeconomic instability leads to a general reduction in the level of domestic activity, the structural changes that trade policy reform would induce could become more painful as transitional costs of adjustment rise. Attempts to implement stabilization and trade liberalization simultaneously may create further problems as the policy instruments needed for both may conflict. In particular, restoring macroeconomic stability may require allowing the real exchange rate to appreciate, while trade liberal-

ization may be unsustainable unless the real exchange rate is depreciated. In addition, uncontrolled inflation tends to undermine an attempt to reduce the anti-export bias of a trade regime through real devaluation.

4. Anti-export bias arises from two sources (Milner 1990): the “input tax” source and the “exchange rate tax” source. In a restrictive trade regime, trade barriers effectively increase the domestic currency price of imports relative to exports. To the extent that the export sector uses imported inputs, its cost rises and its output declines. Trade barriers also raise the equilibrium exchange rate, which by depressing the domestic currency price of exports, further penalizes that sector. For these reasons, import barriers translate into a tax on exports.

5. The typical trade policy reform package consists, on the export side, of elimination of quantitative restrictions on exports; measures to offset anti-export bias of the trade regime, especially access of exporters to imported inputs at world market prices; export incentives; and trade facilitation including improved customs administration. On the import side, the reform package usually includes elimination of quantitative restrictions (with or without substitution of tariff equivalents), reduction of tariff dispersion, lowering of average tariffs, and moves to achieve uniform tariff rates.

6. It has been shown that unrestricted access for all exports of Sub-Saharan Africa to the markets of the European Union, United States, Canada, and Japan could generate a 14 percent increase in the region’s non-oil exports as well as a 1.1 percent increase in welfare with very negligible costs to either other developing countries or the preference-granting countries (Ianchovichina and others 2001).

7. Anderson and others (2002, p. 248) show that “while the majority (60%) of the gains from such a reform would come from liberalization in the developing countries themselves, approximately 40% of the gains to developing countries would come from increases in market access in industrial countries.”

8. The most relevant complementary policies concern effectively channeling market signals and those that address supply response constraints. The first group includes measures aimed at creating critical economic institutions generally, such as building missing markets, integrating segmented ones and ensuring that these institutions continue to develop and respond effectively to the evolving needs of economic

agents. A second group of policies address supply response capacity constraints, such as policies aimed at establishing, developing, and maintaining a range of economic and social infrastructures. Both groups of policies aim to help reduce transactions costs and, thus, enhance productivity. The discussion in this chapter is not intended to be comprehensive. More panoramic surveys of the literature exist and are cited as appropriate.

9. See Amsden (1989), Wade (1990), Lall (1992), Rodrik (1995), Leipziger (1997), and UNCTAD (2003) for differing and more nuanced interpretations of the East Asia experience.

10. See, for example, the findings from the individual country studies from the Structural Adjustment Participatory Review Initiative http://www.saprin.org/SAPRI_Findings.pdf.

11. Hall and Jones (1999) and Rodrik and others (2004) suggest that institutions are an important determinant of growth while Acemoglu and Johnson (2003) delve more deeply into which institutions are most important.

12. Several studies carried out in the 1990s, such as Dollar (1992), Sachs and Warner (1995), Krueger (1998), Edwards (1998), and Frankel and Romer (1999), suggested that countries that are more open grow faster. These studies typically measured openness to trade with what is more accurately described as a trade intensity index—defined as the ratio of trade (imports plus exports) to GDP. As Collier, Greenaway, and Gunning (1997) show, however, the trade intensity index may not be an appropriate indicator of a country’s trade policy stance. The index may instead reflect an increase in aid flows or an improvement in a country’s terms of trade rather than the extent of trade liberalization. Rodriguez and Rodrik (2000) criticize this literature, arguing that methodological problems with the empirical strategies used make interpreting results more ambiguous than the various authors assert. In particular, they criticize the use of the “openness” dummy variable in Sachs and Warner (1995) and used by several researchers subsequently. In their view, the dummy variable that aims to characterize the restrictiveness of a trade policy regime is often correlated with other measures of poor economic performance. Additional challenges to a simple link between growth and openness have come from Stiglitz (2002).

13. Tybout (2003) and Amiti and Konings (2005) provide good surveys of the literature.

14. The Tokyo (1973-79) and Kennedy (1964-67) Rounds immediately preceded the Uruguay Round negotiations.

15. Finger and Schuler (2000) estimate that implementing three of the new areas—SPS, intellectual property rights and customs valuation—would cost the average developing country \$150 million.

16. The “hangover” analogy is due to Bernard Hoekman.

17. See, for example, Van der Mensbrugge 2005.

18. As De Melo (2005) notes, divergences in the perception of the world trading system run deep and are probably growing. The position of the critics of the single undertaking is well summarized in the following passage from Wade (2003) who argues that because of GATS, TRIMS, and TRIPS “...the ‘development space’ for diversification and upgrading policies is being shrunk behind the rhetorical commitment to universal liberalization and privatization. The rules being written into multilateral and bilateral agreements actively prevent developing countries from pursuing the kinds of industrial and technology policies adopted by the newly developing countries of East Asia and by the older developed countries when they were developing, policies aimed at accelerating the ‘internal’ articulation of the economy.” He continues: “All this constitutes a shrinkage not only of development space, but also of ‘self-determination’ pace. It ties the hands of developing

country governments ‘forever’ to the *North’s interpretation* of a market opening agenda (‘you open your markets and remove restrictions on incoming investment, in return for [promises of] improved access to our markets’),” as cited in De Melo (2005).

19. Also U.S. negotiating power ends in 2007.

20. These can be either bilateral or plurilateral.

21. Global Economic Prospects (2005) provides an up-to-date and comprehensive overview of current RTAs. Pomfret (2001) provides a good overview of the economic, historical, and political factors underlying the rise of regional trading arrangements.

22. 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.

23. World Bank (2004b).

24. Finger (1997); Martin and Ng (2004) “A Note on Sources of Tariff Reductions in Developing Countries, 1983-2003,” background note prepared for Global Economic Prospects 2005.

Appendix C3

1. Conditions refers to both legally binding conditions and “desired” conditions as spelled out in the President’s Report of the project.