LEVERAGING TRADE FOR DEVELOPMENT AND INCLUSIVE GROWTH

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ABBREVIATIONS

AAA	Analytic and Advisory Activities
AERC	African Economic Research Consortium
ACP	African Caribbean Pacific Countries
ADB	Asian Development Bank
AfDB	African Development Bank Group
AfT	Aid for Trade
APEC	Asia-Pacific Economic Cooperation
ARD	Agriculture and Rural Development, World Bank
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated Systems for Customs Data, UNCTAD
BNPP	Bank Netherlands Partnership Program
BRIC	Brazil, Russia, India, and China
CAS	Country Assistance Strategy
CASAREM	Central Asia-South Asia Regional Electricity Market
CEM	Country Economic Memorandum
CIC/FIAS	Investment Climate Department (FPD-IFC)
CIDA	Canadian International Development Agency
CODE	Committee on Development Effectiveness
COMTRADE	United Nations Commodity Trade Statistics Database
CPI	Competitiveness Partnerships Initiative
CPIA	Country Policy and Institutional Assessment
DB	Doing Business
DDA	Doha Development Agenda
DEC	Development Economics, World Bank
DFID	Department for International Development, United Kingdom
DPL	Development Policy Loans
DPO	Development Policy Operation
DTIS	Diagnostic Trade Integration Study
EAP	East Asia Pacific unit, World Bank
EC	European Commission
ECA	Europe and Central Asia, World Bank
EERC	Economics Education and Research Consortium
EIF	Enhanced Integrated Framework
EMAF	Export Market Access Fund
EPA	Economic Partnership Agreement
ERF	Economic Research Forum
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FPD	Financial and Private Sector Development, World Bank
FTA	Free Trade Agreement
GCI	Global Competitiveness Indicators
GDN	Global Development Network
GDP	Gross Domestic Product
GEA	Global Express Association

GET	Global Expert Team
GNI	Gross National Income
GTAP	Global Trade Analysis Project
GTFP	Global Trade Finance Program
GTLP	Global Trade Liquidity Program
GTSF	Global Trade Supplier Finance
GVC	Global Value Chain
HDN	Human Development Network
HS	Harmonized System
IADB	Inter-American Development Bank
IBRD	International Bank of Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IDEP	African Institute for Economic Development and Planning
IDRC	International Development Research Centre
IEG	Independent Evaluation Group, World Bank
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Centre (Geneva)
JICA	Japan International Cooperation Agency
LAC	Latin America and Caribbean, World Bank
LEG	Legal Vice Presidency, World Bank
LEGPS	Legal Private Sector Development and Infrastructure Advisory Group
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle Income Country
LPI	Logistics Performance Index
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa, World Bank
MIC	Middle Income Country
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
NTB	Non Tariff Barriers
NTM	Non Tariff Measures
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OTRI	Overall Trade Restrictiveness Index
PCD	Post-Crisis Directions Report, World Bank
PREM	Poverty Reduction and Economic Management, World Bank
PRMGE	PREM Gender
PRMPR	PREM Poverty Reduction
PRMTR	PREM Trade
PPP	Public-Private Partnership
PRSC	Poverty Reduction Support Credit
PSD	Private Sector Development
PTA	Preferential Trade Agreement
RDB	Regional Development Bank
REC	Regional Economic Community

SACU	Southern African Customs Union
SAR	South Asia Region, World Bank
SDN	Sustainable Development Network, World Bank
SEZs	Special Economic Zones
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprise
SPCI	Services Policy Certainty Indicator
SPS	Sanitary and Phyto-Sanitary measures
SSA	Sub-Saharan Africa
STATCAP	Statistical Capacity Building Program
STRI	Services Trade Restrictiveness Index
TA	Technical Assistance
TBT	Technical Barriers to Trade
TFF	Trade Facilitation Facility
TFFA	Trade and Transport Facilitation Assessment
TFL	Trade Facilitation and Logistics
TIR	Transports Internationaux Routiers (International Road Transport)
TRAPCA	Trade Policy Training Centre in Africa
TRIST	Tariff Reform Impact Simulation Tool
TTBD	Temporary Trade Barriers Database
TTRI	Tariff Trade Restrictiveness Index
TWI	Transport, Water, and Information & Communication Technology Department, World Bank
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UNSD	United Nations Statistics Division
USAID	United States Agency for International Development
WBI	World Bank Institute
WBG	World Bank Group
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WITS	World Integrated Trade Solutions
WTO	World Trade Organization

EXECUTIVE SUMMARY

World trade has experienced a boom in the last decade, driven by large reductions in trade barriers and technological changes that have lowered the costs of communications and transport. The resulting globalization of production, with its associated "fragmentation" of the supply or value chain, has lowered prices and increased the variety of imported goods and services for firms and consumers. It has also led to unprecedented inter-linkages and inter-dependency among countries. As a group, developing countries are now a major driver of global trade. Many countries have benefited greatly from global integration, but the benefits are distributed unequally, both across countries and within them. The most dynamic have attracted large foreign direct investment inflows and are integrated into global value chains. But many low-income countries have been less successful in using trade as a means of creating jobs, increasing per capita incomes, and diversifying their economies. And poor households and communities in lagging regions continue to confront major challenges in dealing with external shocks, rising food costs and harnessing the opportunities offered by a more open world trading system.

Now is therefore a good time to take stock of the World Bank Group's (WBG) trade support programs. The global economic crisis underscored the value of WBG activities to promote economic diversification, trade facilitation, and international trade cooperation in support of economic growth and poverty reduction. The crisis has also led to demands for new types of assistance by the WBG, such as products to help firms in emerging markets access trade finance. At the same time, sweeping changes are afoot in the global economy. As the second decade of the 21^{st} century unfolds, and the world exits from the crisis, the growing importance of emerging markets is paving the way for a world economy with an increasingly multipolar character. The distribution of global growth is becoming more diffuse, with no single country dominating global trade. In addition, the consolidation in transport and logistics services markets, potentially higher future commodity prices – especially for oil and food – increasingly scarce natural resources (e.g. water) and policies to curb greenhouse gas emissions will have large, but still uncertain, effects on trade and sustainable growth for which the WBG must be able to respond in terms of the support it provides to developing countries.

Nevertheless, trade success *today* is determined by efficient internal transactions, low transport costs and easy access to quality services inputs. Traditional policies used to restrict trade (tariffs; non-tariff barriers) have proven to be largely ineffective instruments of economic policy for development. The priorities for current policy are to reduce trade costs for firms, including through more efficient trade facilitation and logistics; improve trade competitiveness by ensuring businesses have access to key inputs such as (trade) finance; and increase cooperation between trading partners to integrate markets, thereby allowing economies of scale to be realized and further specialization and diversification to occur. Such cooperation is being pursued regionally as well as through multilateral fora such as the World Trade Organization (WTO).

Concluding the long-running Doha Round of WTO trade negotiations would provide a boost to the world economy and be in the interest of developing countries. It would create greater security of market access through the negotiation of policy disciplines – such as placing tighter limits on the level of permitted tariffs and outlawing agricultural export subsidies. The primary deliverable would be policy bindings – enforceable commitments by governments that they will not raise support for domestic industries above a given level and will not use certain policies at all. Maintaining an open trade regime is an important foundation for the global recovery and the necessary reorientation of global supply and demand. This is especially true for developing countries as so many depend on export markets to finance growth-stimulating imports of goods, services and technologies.

In contrast to trade arrangements negotiated in the past, recent agreements seek to integrate markets for services and investment as well as for goods. Policymakers in developing countries therefore confront an increasingly complex trade agenda that spans numerous "behind-the-border" regulatory policies as well as traditional trade policies such as import tariffs. The international trade and investment agenda includes a plethora of policy areas that are the responsibility of many different parts of government. The challenges of assessing and understanding the trade implications of these various policies and their coherence with trade policy objectives, as well as identifying potential reforms to increase inclusive growth prospects, are daunting even for Organization for Economic Co-operation and Development (OECD) countries. They loom much larger for developing countries with limited human resources and administrative capacity.

Why a trade strategy? This is the first Trade Strategy of the WBG. In the last decade the WBG has significantly changed the focus of its trade activities, moving away from programs anchored in trade liberalization towards supporting diversification, lowering transport and other trade-related costs, improving access to trade finance and focusing more on the poverty impacts of trade and trade policies. This was in line with the recommendations of the 2006 Independent Evaluation Group report *Assessing World Bank Support for Trade, 1987 - 2004*. That evaluation commended the Bank's reengagement with the trade agenda in the early 2000s, noting that expanded research, analytical, and capacity-building activities helped the Bank become more closely identified as an advocate of poor countries on trade issues at the global level. But the report also argued that the Bank paid insufficient attention to countries' external environment and to complementary policies that can improve their competitiveness in world markets and promote greater inclusion.

In response to these recommendations the Bank expanded analysis of the poverty implications of changes in trade policy and, more generally, the linkages between trade and poverty reduction. This led to the conclusion that changes in trade policies do not often generate large effects for the poor, whether positive or negative, because changes in prices due to these changes are mostly small. Much more important are complementary measures that must be pursued to allow poor households to benefit from trade opportunities and to help them manage the impacts of major changes in world market prices generated by exogenous shocks.

There have also been other lessons from Bank trade support and activities since the IEG evaluation. First, research and analysis undertaken in recent years illustrate that improving "connectivity" is essential to increasing the benefits of trade for the poor, including projects to reduce trade transactions and information costs (such as trade facilitation, infrastructure, etc.) that limit their integration with both domestic and global markets as well as supply chains. The costs of "connectivity" are often fixed, and so disproportionately affect small firms, farmers and the poor, prohibiting their participation in trade and limiting inclusiveness. Tackling trade costs, therefore, is a core element of the Trade Strategy because they have a direct bearing on poverty reduction. Secondly, increasing the level of coordination on trade support activities, both within the World Bank Group as well as with other development partners, is critical to avoid duplication and to improve aid effectiveness. Thirdly, services trade has often been overlooked despite services being profoundly important for growth and development. Services increasingly determine competitiveness as they are important inputs into the production of goods and other services, thereby heavily influencing productivity growth performance.

Key challenges: A major objective of the Strategy is to capitalize on the increase in the Bank's trade efforts in recent years by responding more effectively to increased demand by clients for follow-on analysis, project identification and delivery. Doing so will require improvements in how the Bank organizes itself to help clients and operational teams make better use of existing knowledge and deliver assistance in real time. It also requires a stronger focus on ensuring that Bank support in key, specific areas of the trade agenda does not result in trade work being limited to narrowly-implemented technical activities. Trade is part of the core growth, inclusion and sustainability agenda at the country level, which implies that it must be integrated into national development strategies and associated Bank programs. The Strategy aims to help the Bank achieve these objectives through new instruments, including better use of external partnerships, and new coordination and collaboration mechanisms that aim to more effectively exploit synergies between sectors and regions.

The Trade Strategy does not propose a major change in the main areas of WBG support. It focuses instead on actions to improve the effectiveness of such support, while re-orienting activities in some areas to address key concerns and priorities that were identified in the consultation process, and establishing a framework for monitoring and evaluation of results. One motivation for the Strategy is to identify the areas in which the WBG has a comparative advantage and where other development partners are better positioned to provide support. The consultations on the Strategy suggest that both clients and partners perceive the WBG's comparative advantages to be centered on its financing capacity, its wide-spread country presence, broad research and analytical expertise and its multi-sectoral capacity and reach. There are also areas in which the WBG does not have a comparative advantage in delivering support and others are better placed to respond to country demand. Examples are building capacity to negotiate trade agreements or real-time advice on the substance of what is being negotiated; face-to-face "retail" training activities and in-depth technical training in the trade area; or technical assistance to export promotion or standards-setting agencies. Other agencies – such as the WTO, ITC, UNCTAD, and UNIDO – are better placed than the WBG to provide such specialized assistance.

FOUR PRIORITY AREAS

1. Trade Competitiveness and Diversification: Competitiveness, through employment generation, is central to harnessing private sector growth for sustainable poverty reduction and, ultimately, wealth creation. Firms, especially small- and medium-sized ones, in all sectors serving export and domestic markets, cannot exploit opportunities if they are burdened by costs outside of their control that make them uncompetitive. Increasing the number and value of products produced, the number of markets served, and the survival rate of firms is conditional on lowering such costs. Activities in this area will center on the economy-wide incentive framework created by prevailing policies and regulations, including trade policy (restrictions on imports and foreign direct investment); trade in services as a new means to access international best practices and expand exports; and the design and implementation of specific actions to address market and information failures. The emphasis will remain on the creation of enabling policy environments that are conducive to the emergence of successful firms in the production of goods and services for both export and domestic markets.

2. Trade Facilitation, Transport Logistics and Trade Finance: The objective of this pillar is to reduce the costs associated with moving goods along international supply chains, whether these are measured in terms of time, money, or reliability. Trade facilitation also lowers import costs and therefore has a direct impact on the prices paid by the poor for the goods they consume. Such costs are also partly determined by access to and the price of trade finance and associated export credit insurance products, a factor that has become more important for developing country exporters, especially small and medium enterprises, following the recent crisis and the higher financing costs that are expected to prevail in the medium-term. Priorities are to enhance the performance of trade corridors used by land-linked developing countries, especially in Africa; regional trade facilitation frameworks; improve markets for logistics services; increase the efficiency of border management; facilitate the cross-border movement of service suppliers; and improve access to trade finance and related insurance and guarantee products for SMEs.

3. Support for Market Access and International Trade Cooperation: A country's ability to use trade to advance its development objectives depends in part on the market access conditions that confront its exports and on the policies affecting imports of goods and services. The trade policies of developed countries, in particular, can have especially negative effects on developing countries– prominent examples include the support policies for agriculture in a number of high-income countries. Advocacy to remove such distortions, and make international trade rules and institutions more supportive of the needs of developing countries, can have a direct impact on the poor. There are three priorities in this area: (i) continued analysis of the impacts on developing countries of policies implemented by major countries, international trade rules and actions that would benefit economic development prospects; (ii) assisting governments to remove tariff and non-tariff barriers to regional market integration; and (iii) supporting international cooperation on trade-related regulatory reform (especially services policies).

4. Managing Shocks and Promoting Greater Inclusion: Making the gains from globalization more inclusive and beneficial to poor households while addressing the needs of the unemployed during transition periods is critical to poverty reduction. This is a cross-cutting pillar, in the sense that it connects closely with the other priorities of the Trade Strategy, with the objective of dealing with the impacts of trade-related shocks and allowing greater participation of poor households in the benefits of trade. Informal trade, in particular, often plays an important role in many developing countries, particularly in linking producers of food staples to regional markets. The magnitude of such trade is highly sensitive to the conditions faced by traders. Supporting informal traders in growing their businesses through lowering trade costs, including improving conditions they face at borders and allowing them to grow to more formal modes of exchange, is crucial if the potential for cross-border trade is to benefit the poor. The adjustment processes associated with trade openness contribute to skill- and gender-differentiated inequalities in labor market opportunities and outcomes. Similarly, the benefits from trade are often concentrated in the largest metropolitan areas, further exacerbating inter-regional inequalities. Promoting *internal* trade, as well as exports, therefore also matters; it is important to help connect lagging and more remote regions to high growth areas within countries as well as between them. The main priorities in this area include: (i) assisting the most vulnerable to manage trade shocks; (ii) making trade a more prominent part of the solution to global food price volatility, as opposed to part of the problem; (iii) doing more to address the gender dimension in trade support activities; and (iv) extending the benefits of trade to lagging regions within countries by ensuring that poor people in these areas can better connect to places where agglomeration occurs.

IMPLEMENTING THE TRADE STRATEGY

The Trade Strategy will be implemented through region-specific work programs and activities by central units. These will respond to the particular needs and challenges facing client countries and be determined by the depth and breadth of engagement at the country level as defined by Country Assistance Strategies. Three major instruments will be used: (i) lending and technical assistance; (ii) knowledge and policy dialogue; and (iii) external partnerships and better coordination with development partners on trade. Innovation in how these instruments are used, as well as flexibility in the types of trade support the WBG provides under them, will be encouraged by the Strategy.

Lending: Overall, much of the trade-related lending will take place as part of other sectoral projects (e.g., transport, private sector development, agriculture). Lending is likely to focus mainly on competitiveness, trade/transport logistics and trade finance. The Strategy proposes a stronger focus on the "software" (regulatory) dimensions of transport and facilitation projects; more emphasis on addressing sector-specific coordination failures in the context of competitiveness projects; and greater focus on regional integration of markets. Existing instruments can be used to allow such changes in emphasis to occur – e.g., through Development Policy Loans (DPLs) and corridor infrastructure investment projects.

Technical assistance and knowledge to support strategic priorities: The WBG will continue to focus on producing operationally relevant knowledge products aimed at identifying policies and institutions that promote trade and accelerate economic growth. Operational knowledge will be provided around four levers: (i) cross-country and cross-industry trade and policy indicators; (ii) diagnostic toolkits to identify key constraints; (iii) policy dialogue and project development; and (iv) research and analysis.

Partnerships and better coordination with development partners on trade: In addition to the extensive partnerships the WBG has in the trade area with other agencies, donors, research networks, and the private sector, three types of partnerships will figure more prominently in the implementation of the Strategy: (i) supporting clients through *knowledge platforms* that include a wide variety of external partners; (ii) cooperation and coordination with *specialized organizations* in the provision of technical assistance and services, such as the World Customs Organization, the International Trade Centre, and Export Credit Agencies; and (iii) collaboration and coordination with other international organizations and the international business community to provide *global public goods*, especially cross-country datasets and related tools.

Innovation: The Trade Strategy will continue to support innovation in trade support, much of which is already happening across the WBG. For example, IFC's new short-term finance products for supplier financing will use reverse factoring to provide better access to working capital at competitive rates to firms in developing countries, many of which are MSMEs. Also, MIGA is focusing the growth of its business on being the political risk insurance provider of reference for 'smart projects in difficult contexts', supporting high-value and creative projects.

Flexibility: The Trade Strategy will be implemented over ten years with the four priority areas currently identified being the focus of work for at least the next five. In order to allow for the possibility that trade priorities change for clients over the duration of the Strategy, an interim assessment will be undertaken in year three to take stock of progress and propose any necessary realignments to the four pillars.

STRENGTHENING INTERNAL AND EXTERNAL COORDINATION AND COOPERATION

Implementation of the Strategy will require actions to improve coordination and cooperation across the relevant parts of the WBG. The trade agenda spans multiple "sectors" and domestic policy areas, as well as traditional border policies. Numerous units within the WBG undertake activities that have a trade dimension. Examples of existing Regional and Sector collaboration include those on: (i) *jobs*, the FPD initiative on employment creation through coordinated and industrial development and the flagship on job creation in the South Asia region; (ii) *targeting the poor*, the partnership on the Development Impact Evaluation Initiative (DIME) with DEC; and (iii) *managing risk*, through work on food price inflation involving the Regions, PREM-Poverty, DEC and ARD.

Nevertheless, trade staff and skills generally remain fragmented across the institution and there is often overlap in activities, which can lead to uncoordinated views and policy advice across the WBG. This can give rise to coordination failures and opportunities for synergies and complementarities may be missed. Country teams and clients may be unaware where expertise exists or support can be sought.

While the consultation process used in formulating the Strategy has in itself identified potential synergies across the different Sectors of the Bank, there remains no formal internal coordination mechanism at present for trade – no sector board or equivalent entity of the type that exists for sectors and professional streams within the networks. To address these challenges the Strategy proposes four actions: (i) the development of multi-year trade programs by each of the Regions; (ii) establishing several new "communities of practice," (iii) creating an internal Bank Group-wide Trade Council to coordinate WBG trade support,[1] and (iv) establishing more regular interactions with key external partner organizations and trade practitioners.

The practices and the Council will support the implementation of the regional trade strategies and their work programs. The practices will center on the trade facilitation/logistics and competitiveness pillars of the Strategy as those are affected most by fragmentation of units and skills across different parts of the WBG. Work on adjustment and inclusiveness will be guided by the relevant sector strategies, with the Trade Department taking on an "integrator" role to work with the relevant units to support a focus on the trade dimensions of these issues. In addition, the Regions may also adopt a practice approach to improve intra-Regional cooperation and coordination of trade support activities.

A multi-donor trust fund: With the current multi-donor trust fund for trade (MDTF) expiring in June 2011, a new Bank-wide trust fund will be established to support the Strategy. While the implementation of the Strategy is not dependent on external resources, a central trust fund will enable the Regions and Networks engaged in trade activities to scale-up trade support and engage more comprehensively on trade issues, especially those that are of a cross-cutting nature. The latter include global research and the collection, maintenance and updating of cross-country datasets and related analysis and tools. The current MDTF has allowed the number of trust funds supporting trade work at the Bank to be reduced by rationalizing the various contributions from the different donors under one umbrella. Use of the new trust fund will be linked to the implementation of the Trade Strategy, through work programs developed by the Regions/central units and approved by the Trade Council, which will provide for greater strategic oversight in the utilization of resources by Bank staff while ensuring that donor funding is allocated to the priorities that are defined by the Strategy. This is consistent with the 2011 IEG Evaluation of Trust Fund Support for Development *An Evaluation of the World Bank's Trust Fund Portfolio,* which recommends that the Bank and donors agree to a more strategic and disciplined approach to Bank acceptance and management of these funds.

[1] The Trade Council will not, and cannot, be a Sector Board because trade is not a Sector. Trade is a cross-cutting issue with trade-related tasks being undertaken by many of the Sectors as part of their work programs. Consequently membership of a Trade Sector Board would be too large to be efficient. The formation of a Trade Council will allow the process of strategic oversight to be efficient while making WBG support for trade more effective.

Results Framework

The Strategy identifies three broad categories of results: (i) results by the WBG (operational and organizational effectiveness); (ii) WBG-supported results in client countries (outcomes and results in the main priority areas of the Trade Strategy); and (iii) indicators of global progress (aligned with WBG overall objectives).

TRADE AND THE WORLD BANK GROUP

Trade is an important part of the economic growth agenda of developing countries—more than 65 percent of Country Assistance Strategies include trade or trade-related activities in their programs. Yet to date the WBG has not prepared a formal Trade Strategy. Instead the Bank's trade program has been driven by demand from clients and guided by the 1987 World Development Report; the 1988 Development Committee paper on trade; the section on trade adjustment lending in Operational Directive 8.60 prior to 2001; and a 2002 Board report on trade.

This is therefore the first Trade Strategy for the WBG. It is intended to inform and guide the WBG's programs on international trade over the coming decade. It lays out priority areas for lending, technical assistance, and policy advice for the WBG in the trade area. It also provides a framework for monitoring and evaluation of results and for improving internal and external coordination in the delivery of trade programs and assistance.

1. A CHANGING TRADE LANDSCAPE

Trade is a key driver of growth and development. No country in the last 50 years has sustained high levels of growth and significantly increased per capita incomes without greatly expanding trade. Trade allows countries to exploit their comparative advantage. It permits firms to sell to customers in any country and to source goods, services and technologies from the most efficient suppliers, in the process generating better jobs and raising household incomes, thus helping to reduce poverty. While trade has only temporary direct effects on a country's growth rate, the indirect productivity effects associated with opening markets to new imported varieties of goods account for 10 to 25 percent of the typical country's per capita income growth (Broda, Greenfield and Weinstein, 2010).

Developing countries are new drivers of global trade. Trade grew rapidly in the 1990s and 2000s (Figure 1), driven by a mix of technological change and policy reforms (Hummels, 2007; WTO, 2008). Global merchandise trade in 2009 was some $13 trillion, up from $3.5 trillion in 1990 (in constant dollars). Developing countries account for a steadily increasing share of the global total: their volume of exports rose more than four-fold between 1990 and 2009. Between 2000 and 2009 their exports rose by 80 percent, compared to only 40 percent for the world as a whole.[2] The rapid rise of South-South trade in the last decade is a reflection of the new market opportunities that have been created.[3]

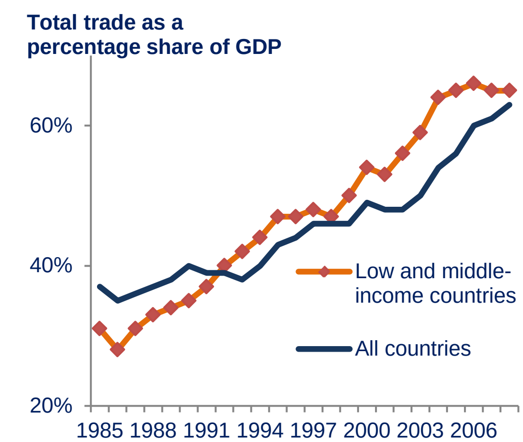
China has become the world's largest exporter and will be the world's largest economy in GDP (PPP) terms by a significant margin in 2020 (with India projected to be the 3rd largest after the US). The growth of China significantly changes the "trade landscape" for other developing countries. China, together with large, rapidly growing nations such as Brazil, India and other middle-income countries, creates major opportunities for diversification as well as likely prospects for sustained higher prices for natural resource-based exports (Canuto and Giugale, 2010). But these nations are

[2] http://www.wto.org/english/thewto_e/coher_e/mdg_e/development_e.htm.

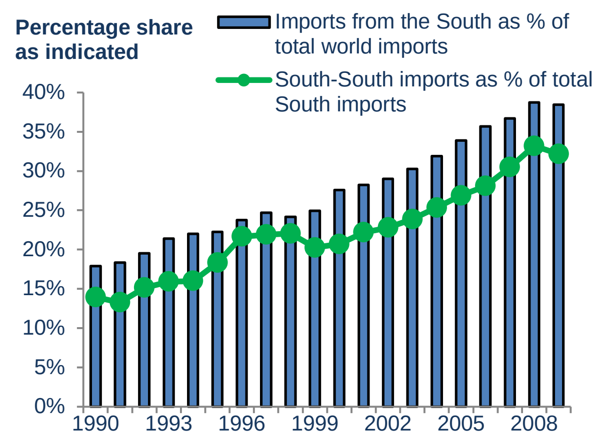
[3] Low and middle income countries' share in total world imports has nearly tripled, from 12 percent in 1996 to 31 percent in 2008. The global import share of the BRICs more than tripled, from 4 percent to 12 percent. Consequently, high income countries now account for less than 70 percent of world imports, compared with nearly 90 percent a little over a decade ago (Hanson, 2011). During 2000-2008, Africa's exports grew by 18 percent per year, mainly driven by exports to low and middle income countries, with exports to the BRICs increasing by over 30 percent per year during this period.

also a potent source of competition, putting greater pressure on firms in other developing economies to improve productivity and reduce their costs, as well as making it more difficult to attract FDI.

Figure 1: Trade integration has been increasing steadily, as has South-South trade



Source: World Development Indicators



Source: World Development Indicators

The structure of global production has been transformed. While many firms have had international operations and trading relationships for decades, global value chains (GVCs) have become much more prevalent and elaborate in the past 10 - 15 years.[4] Their expansion has created both new opportunities and challenges. Characterized by ever more refined degrees of specialization, GVCs have allowed developing and developed countries alike to better exploit their respective comparative advantages.

Entering into GVCs requires considerable competence on the part of suppliers and a capacity to cost-effectively move goods to where they are needed according to tight manufacturing schedules. GVCs contain tightly integrated activities, often managed on a day-to-day basis. Just-in-time manufacturing practices mean that firms and workers in widely separated locations affect one another more than they have in the past. Moreover, this form of production is more sensitive to disruptions in trade credit - if component exporters cannot get credit, then assemblers cannot get parts, and the production cycle is interrupted. Even a limited financial disruption can affect the entire chain. Post-crisis, evidence points to GVCs being geographically consolidated (Milberg and Winkler, 2010), contributing to fiercer competition for developing countries seeking to enter or upgrade within a value chain. New strategies are needed for developing countries to benefit from the growing importance of these production networks (Cattaneo, Gereffi, Staritz, 2010).

Many countries continue to depend on a small number of exports. Many countries have benefited greatly from global integration, using trade and FDI as elements of a successful growth strategy. Many of the most dynamic developing countries have integrated into GVCs – often associated with inward FDI – and become exporters of parts and components as locations for assembly of finished

[4] The value chain describes the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a GVC can be contained within a single firm or divided among different firms, may involve goods or services, and are often spread over a large number of countries.

goods. Others, especially least-developed countries (LDCs), have benefited less, not shifting away much from traditional exports of primary commodities. Most continue to rely on a highly concentrated export bundle, comprising mainly natural resources and agricultural products, exported to just a handful of markets. Indeed, the share of minerals and fuels in total LDC exports stands at some 67 percent, up from 43 percent in 2000 (UNCTAD, 2010). Much of the trade dynamism of developing countries as a group is driven by Asian economies, which have collectively more than doubled their share of global exports since 1990. Other regions have seen much smaller increases in market share. Most of the recent African trade growth is due to increases in natural resource exports, both in volume and value (better terms of trade).

Low-income country export structures are often highly concentrated, not only in terms of products and markets (Cadot, Carrère and Strauss-Kahn 2011) but also in terms of the number of exporters (Freund and Pierola, 2010). Export diversification[5] remains a key means for developing countries to leverage trade for growth. In the last decade a much better understanding has developed of the links between diversification and economic growth.[6] Diversification is also a means to help manage the risks that can come with openness. Countries with more diversified export bundles exhibit a weaker link between openness and increased volatility of output growth (Haddad et al., 2010). To some extent, the process of market diversification is already well under way with the rise of South-South trade. There is still great scope, however, to intensify the process, and in particular to further diversify at the product level.

Trade in services, particularly business services, has become a dynamic component of trade as well as a source of export diversification for many developing countries. During 2000 – 2007, trade in services grew as fast as trade in goods, at an average rate of 12 percent per year. India's success is well known: exports of software and business process services account for approximately 33 percent of India's total exports. Many other countries have also increased services exports, but there remains significant scope for further growth (Cattaneo, Engman, Saez and Stern, 2010).

Openness brings opportunities, but also vulnerability to global shocks. Globalization creates immense opportunities for countries to leverage global demand for goods and services. It allows countries to benefit from the knowledge and technologies that have been developed anywhere in the world, whether embodied in machinery, intermediates, FDI or people. At the same time it greatly increases the need for governments to ensure that citizens are able to benefit from these opportunities: workers must be able to acquire the needed skills; firms need to be able to access credit to finance profitable investment opportunities; and farmers need to be connected to markets (Porto and Hoekman, 2010). Greater openness also increases the vulnerability of countries to global shocks, with potentially major adverse consequences for the poorest households that do not have the savings needed to survive a period of unemployment or sharp falls in the prices of their outputs (and thus incomes) resulting from global competition. The recent financial crisis demonstrated the importance of complementing greater openness with domestic policies and mechanisms to help poor households (Haddad and Shepherd, 2011). Commodities are experiencing strong and sustained demand from developing countries — especially China. Price prospects looking forward are strong in energy and agricultural markets alike. Although this is good news for commodity exporters, for agricultural commodity importers food insecurity could have severe implications for their populations, particularly among the poor.

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[5] I.e. producing and exporting existing products to new markets and new products to new markets (the so-called extensive margin of trade).

[6] See e.g., Broda and Weinstein (2006); Felbermayr and Kohler (2006); Newfarmer, Shaw and Walkenhorst (2009); and Broda, Greenfield and Weinstein (2010).

Tariffs are no longer the centerpiece of the policy debate. The policy responses to the recent crisis suggest that the incentives to use traditional trade policies have changed. In contrast to the last global recession, in the early 1980s, this time there was no widespread resort to use import tariffs and quotas to support domestic production (Evenett, Hoekman and Cattaneo, 2009; Kee, Neagu and Nicita 2010). Instead, the focus of policy was on supporting domestic demand and providing specific industries with financial assistance. Insofar as trade policies are being used extensively in a manner that distorts global markets, this is largely limited to agriculture — including both import protection and export restrictions by net exporting countries.

This does not mean that import tariffs and other border barriers have become irrelevant. For example, barriers frequently arise in those African countries where tariff peaks persist and in those sectors where ad hoc import bans and quotas are sometimes used to ensure domestic production is consumed first. Concluding the long-running Doha Round of trade negotiations would provide a boost to the world economy. It would create greater security of market access, through the negotiation of policy disciplines – such as placing tighter limits on the level of permitted tariffs and outlawing agricultural export subsidies. The primary deliverable would be policy bindings – enforceable commitments by governments that they will not raise production/support for domestic industries above a given level and will not use certain policies at all. Maintaining an open trade regime is, therefore, an important foundation for the global recovery and the necessary reorientation of global supply and demand. This is especially true for developing countries as so many depend on export markets to finance growth-stimulating imports of goods, services and technologies. One reflection of this is the engagement of governments in reciprocal preferential trade agreements (PTAs), which have come to be the major focal point for international cooperation on trade and investment policies. In contrast to the PTAs negotiated in the 1990s, the recent agreements seek to integrate markets for services and investment as well as for goods. Much of the policy focus of PTAs – including those between low-income countries – centers on regulatory cooperation/convergence and actions to reduce trade costs. The latter is particularly important for landlocked countries.

More generally, reducing the costs that limit the “connectivity” of firms, farmers and households to markets and supply chains is critical for trade opportunities to generate the investments and economic activities that will help to reduce poverty. Disciplines to reduce such costs are on the agenda of the WTO (e.g., disciplines on trade and investment in services, NTBs and trade facilitation) but are increasingly taking center stage in regional trade agreements. “Connectivity” is often also a critical domestic constraint, especially in large countries and island economies.

Longer-term challenges loom on the horizon. Climate change poses major challenges of mitigation and adaptation for developing countries. There are likely to be important consequences for patterns of production and trade in agricultural products and for food security. Climate-related policies may have implications for trade, especially if they involve direct interventions at the border. Trade also offers opportunities to adapt to a changing climate, including through the acquisition and use of technology.

In short, ***developing country policymakers now confront a more complex trade agenda***: international trade negotiations increasingly revolve around behind-the-border regulatory policies, not just import tariffs. Also, the findings of research show that trade success is determined by behind-the-border factors such as low internal transactions and transport costs and efficient access to quality services inputs (e.g., Djankov, Freund and Pham, 2010). An implication is that traditional trade policies (tariffs, NTBs) are largely ineffective instruments of industrial or economic development policy (Pack and Saggi, 2006; Harrison and Rodriguez-Clare, 2010).

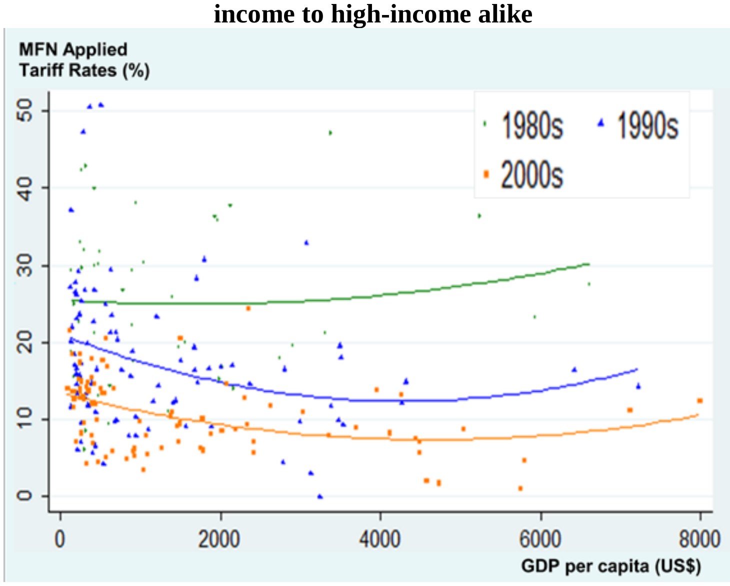
Another implication is that the international trade and investment policy agenda increasingly lies outside the traditional domain of trade ministries. Instead it spans a plethora of policy areas that are the responsibility of other parts of government, including a variety of regulatory agencies. These bodies often do not consider the trade repercussions of their actions. The challenges of assessing and understanding the impact, identifying possible modalities for international cooperation to reduce trade costs without undermining the attainment of regulatory objectives, and obtaining a national consensus on policy reforms that will support larger, more integrated markets can be daunting even for OECD countries, let alone for poor developing countries with limited human resources and administrative capacity.

2. Changes in World Bank Group Trade Activities

The change in the global trade landscape was reflected prominently in consultations that were held during 2010 on this Trade Strategy. The WBG has already significantly changed the focus of its trade activities in the last decade as a result of changing demands for assistance from clients, research results and the findings of the 2006 IEG evaluation of WBG trade programs and projects.

During the 1980s and 1990s, trade activities focused to a great extent on trade liberalization and structural adjustment, often as part of macroeconomic stabilization programs.[7] As governments reduced tariff barriers to trade (see Figure 2), behind-the-border policies have become increasingly prominent. A 2001 Development Committee paper reported that "virtually all our client countries are paying increased attention to 'behind-the-border' issues to ensure that producers can take full advantage of the opportunities globalization presents."[8]

Figure 2: Tariffs have steadily fallen across all countries, low-income to high-income alike



Source: Mattoo and Neagu (2011)

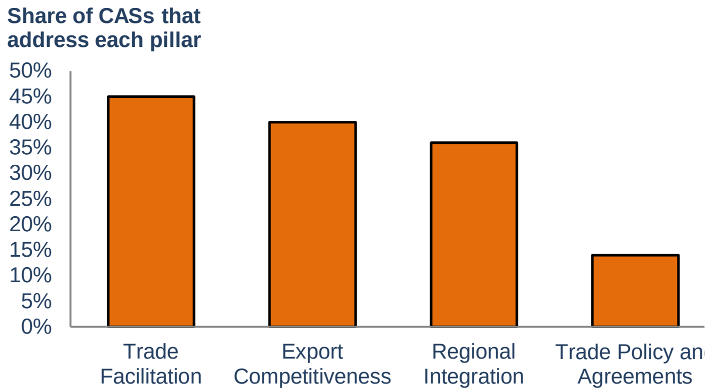
Starting in the late 1990s, there has been a steady shift away from programs anchored primarily on trade liberalization. The focus has increasingly turned to support for diversification, reducing trade costs for firms and improving their access to key inputs, including "backbone services," as well as a greater focus on assessments of the poverty impact of trade integration related reforms. Country assistance

[7] Objectives of the Bank's work on trade policy reform and analytical support for this work are presented in World Bank (1987) and World Bank (1989).

[8] World Bank (2001b). Progress reports to the Board—initially prepared quarterly—were presented by the trade units in DEC, PREM and WBI. The most recent report was presented in August 2009.

strategies (CASs) reflect the WBG's increasing emphasis on trade facilitation and the 'behind-the-border' policy agenda.[9] Trade components of CASs approved during FY2005–2009 most frequently identify trade facilitation as an important issue, followed closely by export competitiveness, as shown in Figure 3 (World Bank, 2009a).[10]

Figure 3: Major Trade Themes in CASs



Source: World Bank (2009)

The 2006 IEG evaluation of World Bank support for trade: The WBG trade program to date has been guided by the 1987 World Development Report, a 1988 Development Committee paper on trade, the section on trade adjustment lending in Operational Directive 8.60 prior to 2001, and a 2002 report to the Board on trade. In 2006, the IEG released the report "Assessing World Bank Support for Trade, 1987–2004," a comprehensive review of the Bank's trade programs.[11] IEG applauded the Bank's reengagement with the trade agenda that commenced in the early 2000s, noting that expanded research, analytical, and capacity-building activities had helped the Bank become more closely identified as an advocate of poor countries on trade issues at the global level. The IEG report found that trade liberalization often resulted in increased productivity growth, but that export supply responses and distributional outcomes were mixed. The report argued that the Bank paid insufficient attention to trade-related operations; countries' external environments; and to complementary policies that can improve their competitiveness in world markets. Consequently, many countries had not been successful in translating tariff liberalization into dynamic, fast-growing tradable sectors. IEG recommended including systematic poverty assessments of projects with trade policy components, greater formal cross-unit collaboration to address multi-sectoral issues (e.g., poverty, agriculture, and services trade), and strengthened knowledge management.

These recommendations have been taken on board and will be pursued further through implementation of this Strategy. Since 2005 the Bank has undertaken a significant effort to assess the poverty implications of changes in trade policy and more generally the linkages between trade and poverty.[12] This includes numerous Diagnostic Trade Integration studies done by the World Bank in the context of the Integrated Framework for Trade-Related Technical Assistance. This

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[9] The CAS is determined through dialogue with governments and stakeholders in borrowing countries and defines the priority areas for WBG support.
[10] World Bank (2009b) provides a detailed description of recent developments in the WBG's trade programs.
[11] Independent Evaluation Group, Assessing World Bank Support for Trade, 1987–2004, CODE2005-0114, 2006. Earlier assessments that cover the trade reform programs and the assistance provided by the World Bank in the broader context of adjustment lending programs include World Bank (1992) and World Bank (2001a).
[12] This took the form of an extensive research program, building on the methodological framework developed by Winters (2002) and Winters, McCulloch and MacKay (2004). The results of this research can be found in a number of edited volumes – Hertel and Winters (2006); Hoekman and Olarreaga (2007); Porto and Hoekman (2010) and Aksoy and Hoekman (2010) – as well as in numerous working papers, reports and journal articles, e.g., Nicita (2009), Porto (2005, 2006, 2008) and Porto, Chauvin and Olarreaga (2011). In addition to this research, the Bank (in cooperation with partners) undertook a large number of Diagnostic Trade Integration Studies for LDCs, which included a focus on trade-poverty linkages.

work led to the conclusion that the direct linkages between trade and poverty are limited in the sense that the effects of changes in trade policies will generally not generate large effects for poor households, whether positive or negative, because of limited pass-through of price changes and the fact that changes in prices due to changes in trade policies are mostly small. More important are complementary measures to allow poor households to benefit from new policy-induced trade opportunities and measures to help manage large world price changes and volatility caused by exogenous shocks and global market developments. One result has been that WBG operations now focus much more on actions that will benefit the poor – including projects to reduce the trade transactions and information costs that limit their "connectivity" to international markets (through trade facilitation, infrastructure, etc.). Many of the trade-related lending operations in recent years have focused on enhancing competitiveness and lowering trade costs, as opposed to traditional trade liberalization. The potential adverse consequences for poverty of such operations are typically limited; instead the challenge is to overcome resistance by groups that benefit from the status quo policies (who generally will not be the poor) and to make the benefits of such projects more inclusive.

The WBG has also made progress in pursuing collaboration across sector units. In the context of the internal reforms several new communities of practice are emerging connecting specialists from different parts of the WBG, notably in the areas of trade facilitation, services trade, agriculture (food prices and security) and export competitiveness. Internal training programs have been strengthened, as have systems for sharing knowledge and experience among staff. A Trade Department was created in the PREM Anchor in 2008, and Regional Integration Departments or Advisors are now in place in most Regions. However, to date no formal set of arrangements between operations, networks and the Trade Department has been put in place. This Strategy proposes to do so.

The Bank has in recent years undertaken a major effort to expand both country-level and global analysis of trade issues through numerous diagnostic studies and knowledge products. Much has been learned about the practical barriers and constraints that affect the ability of firms in developing countries to compete and grow. As noted, this has already resulted in a substantial shift in the focus of Bank programs and projects, but the changes in the trade landscape summarized in the previous section imply increasing demand for assistance and trade-related support by the Bank and other development partners in policy areas that are increasingly multi-dimensional in nature.

The World Bank Group is just one provider of assistance on trade issues. A number of other international organizations engage in trade activities and provide significant support to developing countries. These include the IMF, WTO, numerous UN agencies and specialized entities, the regional development banks, the EU as well as bilateral development agencies and international NGOs. To some extent the activities and services of these entities overlap with those of the WBG. The launch of the Aid for Trade (AfT) initiative at the 2005 WTO Ministerial meeting in Hong Kong, SAR, China provided a focal point for greater concentration on – and coordination of – assistance to developing countries to bolster their trade capacity. In the last decade there has been a greater focus on increasing the coherence between global trade policies and trade assistance, ensuring that AfT is allocated to priorities that are established by national governments, and avoiding duplication in responses in addressing priority trade needs of developing countries. The creation of the Enhanced Integrated Framework (EIF) for trade-related assistance for LDCs was an important milestone. One motivation for the Strategy is to identify the areas in which the WBG has a comparative advantage and where others are better placed to provide support. The consultations on the Strategy suggest that clients and partners perceive the WBG's comparative advantages to be centered on its financing capacity, its wide-spread country presence, broad research and analytical expertise and its multi-sectoral capacity and reach.

The challenge looking forward is to capitalize on the increase in the Bank's trade efforts in recent years by responding to increased demand by clients for operations and assisting task managers in the Regions with timely analysis, updates, project identification and delivery. Doing so requires improvements in how the institution organizes itself to help client countries and operational teams make better use of existing knowledge and deliver assistance in real time in each of the priority areas. It also requires a stronger focus on ensuring that Bank support in the specific areas of the trade agenda is not limited to narrowly-implemented technical activities. Trade is part of the core growth, inclusion and sustainability agenda at the country level, which implies that work on trade competitiveness, diversification, market integration, poverty reduction and making the gains from trade more inclusive, must be integrated into national development strategies and associated programs. The Strategy aims to help the Bank achieve these objectives through more effective exploitation of synergies between Sectors and Regions as a result of new coordination and collaboration mechanisms, and better use of external partnerships.

3. Looking Forward: Strategic Priorities in Trade

This Strategy is intended to inform and guide WBG programs on international trade for the coming decade. It lays out strategic directions and priority areas for lending, technical assistance, and policy advice. It also provides a framework for monitoring and evaluation of results achieved and for managing internal and external coordination.

The Strategy was developed through extensive internal and external consultations.[13] A concept note was circulated for internal review by the Operational Vice Presidents in December 2009, and a revised note was discussed by the Committee on Development Effectiveness (CODE) in March 2010. Using the concept note as a basis for discussion, staff held consultative meetings with a wide range of stakeholders during the spring and summer of 2010—with government authorities (from both Part II and Part I countries), the private sector, civil society, international organizations, and academia. The consultations were instrumental in gathering feedback on past WBG trade programs and where priorities should be placed for future ones.

The Strategy takes into account the changes that have occurred during the past decade which have important implications for how developing countries attempt to integrate into the world economy and use trade to advance their national development strategies.

The Strategy identifies four priority areas:

- Enhancing trade competitiveness and diversification of developing country exports;
- Reducing trade costs through support for trade facilitation, transport logistics and trade finance;
- Supporting expanded market access and international trade cooperation; and
- Managing shocks and making the gains from trade more inclusive.

[13] Annex 1 summarizes views expressed during consultative meetings and Bank Group responses. A full listing of meetings—including lists of participants and summaries of interventions—along with feedback submitted directly to the WBG is available from the Trade Strategy website: www.worldbank.org/tradestrategy.

These four areas of focus were raised repeatedly in consultations and take into consideration the comparative strengths of the WBG relative to other providers of financial and technical support in the trade area. Achieving progress in all four areas is critical to attaining the overall goal of the Strategy: to better help developing countries use trade as an instrument for inclusive growth. These areas are also key for the realization of the objectives laid out in recent regional World Bank strategies. Thus, the new Strategy for Africa has the vision of an Africa that in ten years time will have a per-capita income 50 percent higher than in 2010;[14] a considerably more diversified production mix; a share of world trade that is double what it is today (growing to 8 percent); and regionally integrated infrastructure that provides services at globally competitive costs. Similarly, MENA's strategic directions paper aims at facilitating the region's economic integration and competitiveness in order to create opportunities for growth and jobs.[15]

The extent to which WBG support in each of these four areas is achieving results is measurable, as described by the results-framework discussed below. The instruments that will be used to achieve and monitor results include improving trade knowledge and tools; compiling cross-country datasets on policies and performance measures; producing research and analytical work; financing trade projects and programs at the country and regional levels (lending, technical assistance); and strengthening coordination and collaboration within the WBG so as to assist in the implementation of regional trade work programs.

Two overarching implementation principles will guide the pursuit of these priorities.

First ***improving internal coordination and cooperation across the relevant parts of the WBG***. The trade agenda spans multiple "sectors" and domestic policy areas, as well as traditional border policies. A result is that trade may not be considered in the design of projects and programs that have an important bearing on the ability of firms and farms to benefit from trade opportunities, be they in transport, agriculture, the financial sector, or other areas. In the WBG trade is not a "sector," reflecting the fact that trade is inherently a cross-cutting issue. Numerous units across the various networks undertake activities that have a trade dimension, including Finance and Private Sector Development (FPD), Agriculture and Rural Development (ARD), Transport, ICT, Regional Integration Departments (in Africa, South Asia, and MENA), Investment Climate Advisory Services (CIC- FIAS), IFC, PREM, DEC, and WBI. Many of these entities have both central and regional units. A consequence is that coordination failures can easily occur and opportunities for synergies and complementarities are missed.[16] The formulation of the Strategy has helped identify potential synergies across the Bank through the consultation process. For example, in the Africa Region a work program is being developed on regional trade in food staples to ameliorate the effects of increasing global food prices. With PREM taking a coordinating role, there has been strong interest from staff in other Sectors of the Bank to pursue and participate in this activity. Nevertheless, more needs to be done to strengthen internal coordination on trade. Specific internal

[14] I.e. per capita GDP growth rates of 3-4 percent a year for at least 20 countries over the ten year period; see http://go.worldbank.org/0PJJBZYPG0

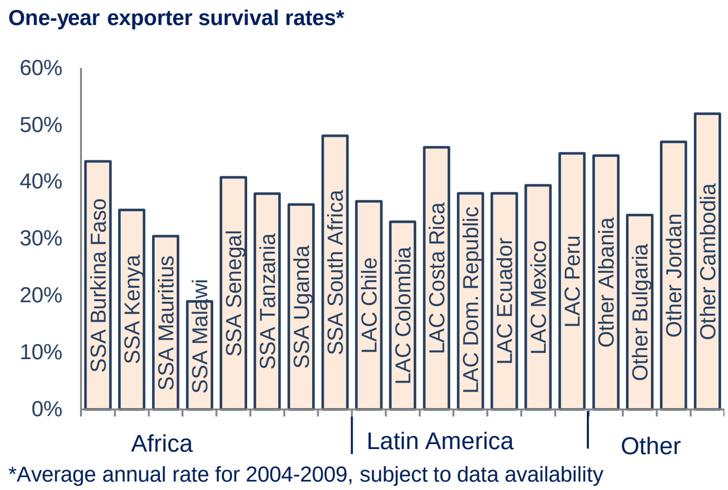
[15] http://siteresources.worldbank.org/INTMENA/Resources/MENA_Strategic_Directions_2009.pdf

[16] A similar challenge confronts governments: one reason why trade-related investment and policy reform priorities can receive inadequate attention by governments is that Trade ministries often do not have the mandate or the capacity to provide the needed "coordination services."

coordination mechanisms are proposed below to address this issue. These mechanisms will also help to link the Strategy to other sector strategies.[17]

The second priority is to place ***a continued emphasis on knowledge-generation and analysis, and on monitoring and evaluation of results.*** The Strategy consultations revealed that the provision of cross-country datasets and the research and analysis undertaken by the WBG at both the country and regional/global levels are highly regarded and appreciated. There were frequent calls for the WBG to continue to build on its established track record of providing high-quality analysis to support advocacy for global cooperation in the trade area to promote development and to continue disseminating this widely through intensive outreach activities. More generally, determination of priorities for trade-related projects, programs and policy reforms needs to be informed by objective, evidence-based analysis. The same is true for effective monitoring and evaluation of the outcomes of WBG activities and support.

Figure 4: Exporters in developing countries stand less than half a chance of surviving the first year of operation



Source: Freund and Pierola (2010), Global Patterns in Exporter Entry and Exit (mimeo), World Bank.

These strategic priorities are in line with the 2010 WBG Post-Crisis Directions (PCD) paper. The PCD highlights the new challenges that have emerged: the need to foster multi-polar growth; respond to complex global interactions; and anticipate risks, potential new shocks and crises. The PCD calls for supporting the expansion of global demand by creating new markets and opportunities in emerging countries; strengthening the global trading system while minimizing protection; responding to agriculture and food security needs; and managing risks from increasing global integration.

FOUR PRIORITY THEMES FOR WORLD BANK TRADE SUPPORT ACTIVITIES

- **Trade Competitiveness and Diversification**

Increased competitiveness, through employment generation, is central to harnessing private sector growth for sustainable poverty reduction and, ultimately, wealth creation. The objective of this pillar is to leverage global trade opportunities for the poor by increasing the number and value of exports, the number of export markets, and the survival rate of exporters. It will also support

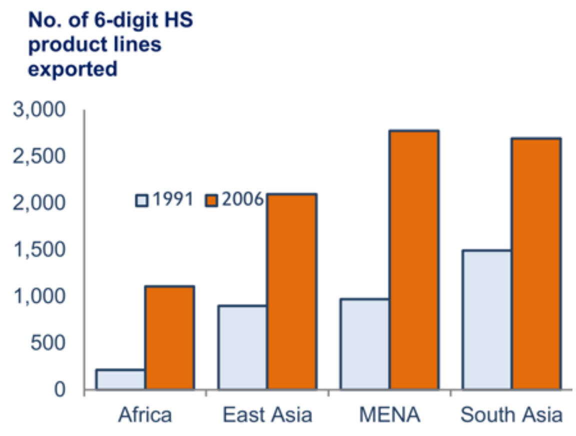
[17] The Trade Strategy supports objectives in a number of Sector strategy papers. Examples include the Transport Business Strategy, which calls for work on the institutional infrastructure for "transport for trade"; the Agriculture Action Plan, which includes a focus on linking farmers to markets and strengthening value chains, and recognizes that food security is linked closely to trade integration; and the Energy Strategy approach paper, which highlights the role of energy trade in meeting demand, addressing energy security, and mitigating climate change. The Environment Strategy consultations (currently underway) include a focus on tax and regulatory measures that have implications for trade flows and trade agreements.

domestic reforms for creating conducive policy environments for growing poor households, farms and small firms out of the informal sector by graduation into the formal one. Firms in developing countries cannot exploit opportunities in domestic nor export markets if they are burdened by costs that are out of their control and that make them uncompetitive. Exporters' survival rates (a proxy for export competitiveness) vary tremendously across countries (Figure 4).

Low survival rates can indicate high mortality of start-ups, many of which incur sunk costs which are lost upon exit. Low firm survival also increases volatility in the incomes of the poor employed by those firms that fail prematurely. Increasing the ability of firms and farms to compete requires addressing coordination failures and increasing their access to higher quality and lower cost inputs of both goods and services. In part the agenda revolves around complementing broader efforts to improve the business environment with more proactive policies to address market and information failures. This may include measures to connect producers with GVCs and become suppliers to foreign firms that have invested in the country. A recurrent message from the consultations on the Strategy was a demand that the WBG go beyond efforts to help improve the investment climate.

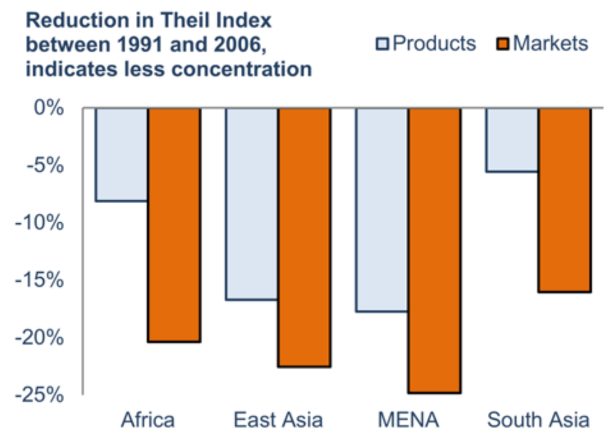
A key focus of activities in this area is to assist countries to ***diversify exports***, both in terms of new products and in penetrating new geographic markets. Many low-income countries continue to rely

Figure 5: Export diversification in goods has more than doubled for all regions



Source: COMTRADE

Figure 6: MENA diversified export markets by 25% and exported products by 18% in 15 years

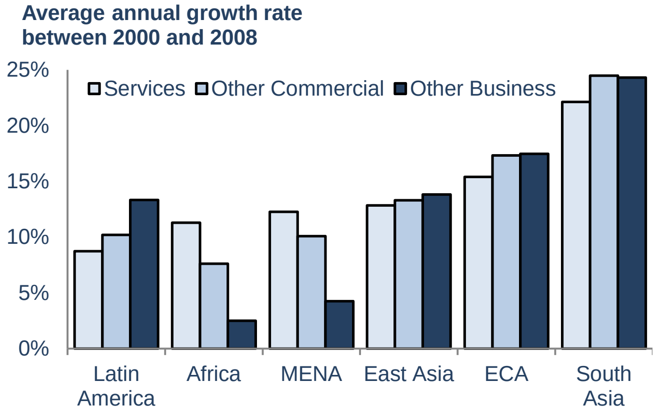


Source: COMTRADE

heavily on a small number of exported products. Although many low-income countries have registered large increases in the number of products they export (Figure 5 and Figure 6), new products often account for just a very small share of total exports. Countries have generally achieved greater diversification across markets than across products. The recent crisis has highlighted the critical importance of diversification in reducing the risks of volatility in global demand. Evidence suggests it is not natural resource dependence per se that increases risk, but rather the concentration of exports (Lederman and Maloney, 2007). Indeed, with the demand for commodities rising, and likely to be sustained over the medium term, diversification *into* agricultural and mineral commodities is rising in the agenda of low-income countries. Increasingly, services trade has also become an important source of export diversification.

There are three types of activities that will be undertaken. The first centers on ***the economy-wide incentive framework*** that is created by prevailing policies and regulation. This includes the real exchange rate, traditional trade policies that impede imports and inward FDI, and determinants of firm competitiveness and productivity such as access to efficiently-produced backbone services. Countries where firms have to pay more than their competitors for energy, finance, telecommunications, customs services, transport, logistics, and business registration and operations, will find it increasingly hard to compete on global markets.[18]

Figure 7: Services exports grew the most in South Asia, 2000-2008



Source: IMF

A second area of focus will be on ***trade in services*** – both cross-border trade in digitized commercial services, business process outsourcing etc., and trade that involves the movement of services suppliers, whether of natural persons (e.g., professionals) or enterprises (FDI) as well as consumers (tourism). Services are a critical determinant of growth, and trade in services can result in improved access, lower prices and higher quality inputs for firms (Hoekman and Mattoo, 2009). Exports of services have been dynamic in most countries but there is scope for further increasing their growth (Figure 7).

Work in this area includes a focus on monitoring and analyzing policies affecting trade and investment in services and designing interventions that will facilitate greater trade. Research has shown that inward FDI in services is a key channel for new knowledge and technology, and can have a significant impact on the productivity of firms that use services as inputs (Francois and Hoekman, 2010). Moreover, services are an important source of job creation – increasing labor productivity in services requires investment in skills, improvement in labor regulations that protect workers while allowing firms to grow, and moving firms from the informal sector to the formal sector. Services trade can also help reduce volatility: in the recent financial crisis, trade in business and other private services proved remarkably resilient as compared to the steep fall in goods trade (Borchert and Mattoo 2010).

The third set of activities revolves around the ***design and implementation of specific actions to address market and information failures*** that prevent the exploitation of agglomeration economies and inter-industry externalities. One example is assistance to promote adherence to international standards for products and business management.[19] This increasingly goes beyond product quality certification and related metrology and enforcement institutions, as buyers (consumers) seek to source from "green" supply chains and firms are incentivized to reduce their carbon footprints in logistics, warehousing, packaging and handling. Work in this area will also extend to measures aimed at assisting or promoting certain types of activities; attracting and regulating FDI; encouraging the establishment of linkages to domestic firms; and encouraging the targeted use of government procurement.

Achieving successful and sustainable diversification requires a mix of public and private sector activism to address coordination failures and support the entry of firms into new activities. Be it in

[18] See, e.g., Porter (1990); Limao and Venables (2001); Noland and Pack (2003); Anderson and van Wincoop (2004); Bolaky and Freund (2008).

[19] Chen and Mattoo (2008), Shepherd (2008), Czubala, Shepherd and Wilson (2009), and Portugal-Perez, Reyes, and Wilson (2010) assess the importance of international harmonization of standards for expanding trade flows.

electronics in Malaysia and Singapore, car parts and assembly in Morocco or central and eastern Europe, wine from South Africa, salmon from Chile or fresh asparagus from Peru, governments – in some cases with support from international donors – have played an active role in creating the foundation for sustained trade expansion and job creation (Box 1). The success stories have proven difficult to replicate, however, as the associated interventions require a certain level of institutional and governance quality and are generally conditional on a variety of complementary factors (educational atainment; infrastructure; etc.) being in place (Pack and Saggi, 2006). The challenge is to identify interventions that can be replicated under different circumstances and that are sustainable in terms of their impact, for example, on natural resources.

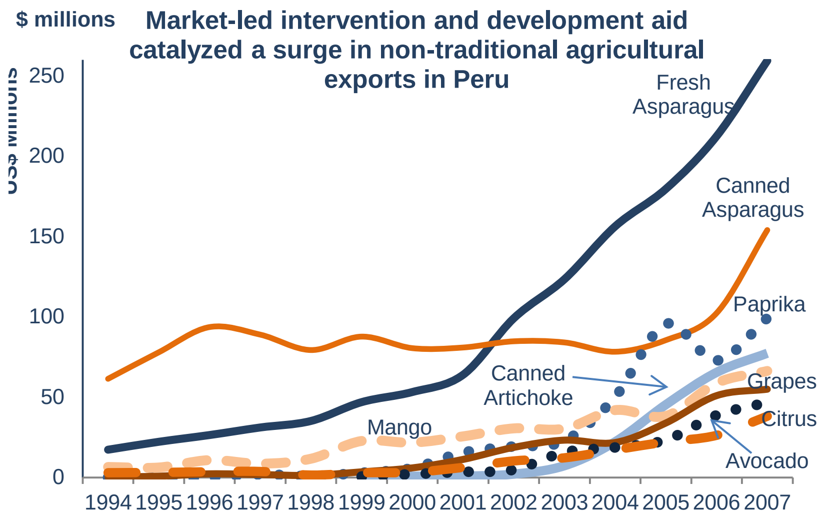
The approach that is being developed to meet demands for more specific support will revolve around national public-private competitiveness partnerships with the aim of developing industries that can compete effectively in global markets. This approach is being developed by FPD as part of its restructuring into global practices that cut across regions. Under this approach, governments, firms, and other market players will jointly identify areas of comparative advantage and the constraints that inhibit firms from competing effectively. Once these focus areas and constraints are identified and agreed on, the market players will establish a formal competitiveness partnership which will define and initiate a targeted Action Plan to systematically remove constraints. The WBG will support the competitiveness partnerships through diagnostic and technical analysis, lending operations (to the government) and direct investments with the private sector (through IFC).

- **Trade Facilitation, Transport Logistics, and Trade Finance**

The objective of this pillar is to reduce the costs of trade-related transport and logistics and increase their timeliness and reliability. Research has clearly demonstrated that high trade transaction costs are among the most important obstacles that developing countries currently face in exploiting the trade opportunities presented by the world trading system (Wilson, Mann and Otsuki, 2003; Hoekman and Nicita, 2008). These costs are often fixed and disproportionately affect small firms, farmers and the poor, prohibiting their participation in trade and limiting inclusiveness. Tackling costs associated with inefficient trade facilitation, weak logistics and trade finance are, therefore, core elements of the Trade Strategy because they have a direct bearing on poverty reduction. Trade facilitation also lowers import costs, which have a direct impact on the prices paid by the poor for the goods they consume. The objective of support in this area is to reduce the costs associated with moving goods and services, including along international supply chains, whether these are measured in terms of time, money, or reliability. Such costs are also, in part, determined by access to and the price of trade finance, a factor that has become more important for developing country exporters, especially SMEs, following the recent crisis and the higher financing costs that will prevail in the medium-term (Chauffour and Malouche, 2011). Smaller, poorer markets and SMEs in developing countries are expected to confront a more constrained financing environment in the coming years relative to before the financial crisis, impacting on their ability to engage in export and import activities, including to source raw materials and capital equipment to develop viable growth industries and to import critical foodstuffs to help address food security. Connecting the poor to international markets by lowering trade costs potentially expands their employment, income and consumption opportunities, thereby contributing to the WBG’s central mission of poverty reduction.

Box 1: Export growth in developing countries and the impact of specific interventions

Stories of export growth in developing countries have been increasing in the last years, and so has the economic significance that they entail for some developing countries. For instance, the non-traditional agricultural sector in Peru grew seven-fold over the period 1994-2007 (Freund and Pierola, 2010). Stories like that of asparagus in Peru and mangoes in Mali are becoming more widely known and are being analyzed further to better understand the driving factors and enable lessons to be learned, including on their impacts for sustainable natural resource management. Success stories seem to be explained by a combination of different factors, some with general characteristics such as the removal of trade barriers, specific resource endowments (e.g. water), etc., while others have an idiosyncratic nature (Easterly and Reshef, 2010). In some instances, specific interventions by the international donor community in the form of investment in the discovery process or in the value chain of exportable products were crucial and in that sense, there is an important role for them. We present two of these cases below.



Source: Freund and Pierola (2010)

The development of the non-traditional agricultural sector in Peru is both an export success story that started with the development of fresh asparagus that then spread to other crops but also a compelling case on the importance of ensuring sustainability of natural resources, specifically water.

The story of the development of fresh asparagus is one where private sector initiatives and donor aid (USAID) were crucial. A Peruvian producers' association explored options to replace traditional crops with export crops and with funding from USAID, many products were studied. Of them, asparagus was the most profitable and, as a result, a new variety of asparagus seed for export was introduced successfully. After some time exports of asparagus took off but growth is now threatened as diverting water to the asparagus fields for export production has disturbed the fragile balance of water supply and demand in the Ica Valley. Nevertheless, the development of asparagus for export has strengthened the awakening of a very dynamic class of Peruvian entrepreneurs. Other crops, each with particular stories, have started to develop. Today, this is a sector with high sustained growth rates of exports and where exporters continue exploring opportunities for growth (see figure). The increase in exports of non-traditional tradables was reflected in the share of total exports (excluding main export commodities). In Africa, the development of mangoes for export in Mali is a well known case of export success. The exports of fresh mangoes have increased six-fold in the period 1993 - 2008 (World Bank, 2010). The story behind this success is one of close partnership between the government, the international donor community (USAID and World Bank), and the private sector. In the 1990s, the government decided to implement a strategy of export diversification, particularly toward high-value, non-traditional agricultural products. They focused first on mangoes due to the favorable natural conditions for the crop in some regions of Mali and to the rapidly growing demand for mangoes in Europe. Given the size of the demand in Europe and the transport limitations in landlocked Mali, an experiment supported by the World Bank and USAID was put in place whereby a multi-modal transportation system (involving a combination of road, rail and sea freight) was tested in partnership with private operators (Sangho, Labaste and Ravry, 2010). As a result, a cold-chain system was developed, phytosanitary improvements were made, certification and traceability programs were implemented, and training in orchard management practices and post-harvest handling was offered to Malian agricultural workers. Exports of mangoes have now been able to reach the European market in a more efficient manner while improving the income and employment opportunities in the production areas in Mali.

Priorities for trade facilitation and logistics have been evolving in the last few years and vary across countries. Increasingly, major bottlenecks and sources of trade costs are now often due to other more cross-cutting and complex causes, especially those associated with private sector service providers and ineffective and anti-competitive regulation. As a result, and in the context of evolving demand, needs and priorities are shifting to include a range of new issues: broader border management reform extending beyond customs modernization; making transit systems work; improving the quality of services; and facilitating the cross-border movement of service suppliers.

Improving trade corridors and regional trade facilitation frameworks*:* This is a critically important issue for transit trade of landlocked developing countries (Arvis, Carruthers, Smith and Willoughby, 2011). On most trade corridors, existing or projected investment in infrastructure will not deliver benefits in the absence of effective transit systems. The efficient movement of goods and vehicles across borders and overland over long distances relies on having in place a seamless transit system at the regional level (or at the very least bilaterally between neighboring countries). While in many cases formal regional and bilateral agreements are already in place, implementation is often jeopardized by poor cross-country cooperation.

In geographically large countries, the performance of internal corridors (or inter-island connectivity for island economies) is a key priority for reducing poverty in lagging regions and addressing rising concerns about development disparities across regions within countries (Kunaka, 2010)**.** While the focus to date has largely been on international trade facilitation reforms, recent empirical evidence suggests that measures to improve logistics performance at the sub-national level in order to facilitate connections to international trade corridors and supply chains is as, if not more, important.

Improving markets for logistics services: Regulations often reduce the efficiency of trucking markets, while prevailing business and operating practices may interfere with the integration of domestic supply chains into the networks of global logistics providers. Recent trucking surveys in low-income countries indicate that differences in freight costs among countries are largely due to the market structure for transport providers, regulatory barriers, and the degree of competition (Arvis, Raballand, and Marteau, 2010). Rationalizing and simplifying regulations and increasing the competitiveness of a range of service providers can enable trade to be faster and more cost-effective, thus helping attract private investment in export industries, infrastructure, as well as logistics and ancillary services (Teravaninthorn and Raballand, 2009).

Improving border management: Reform of customs administrations, policies and practices continues to be a high priority for many countries, and the WBG will continue to provide technical assistance in this area. However, recent survey data such as the LPI (World Bank 2010) and analytical work by the WBG (McLinden, Fanta, Widdowson and Doyle, 2011) make clear that the focus should be on managing the border more generally, reforming and modernizing not just customs but also focusing on other border management agencies (including health, agriculture, quarantine, police, immigration, standards etc). Information-sharing between trading communities (e.g., freight forwarders) and trade-related agencies, in the same country or between countries, is also emphasized.

Trade finance*:* Access to trade credit is an important determinant of the ability of firms to engage in trade. IFC is proposing to increase its short-term finance products, especially trade finance, with its focus on frontier countries and on MSMEs. IFC has two major trade finance programs, one of which will continue to be pursued during the period of the Strategy while the other has become a 'sunset' platform and is being gradually phased out by 2012.

The Global Trade Finance Program (GTFP) is a vehicle to facilitate the provision of trade finance to banks in emerging markets, with particular emphasis on IDA countries and smaller institutions which serve SME clients. The GTFP has been operational for over five years, with a strong track record of development results: since its inception, 51 percent of the dollar volume of guarantees issued has been for banks in IDA countries, 34 percent South-South (i.e. between emerging market banks), a third related to agribusiness, and 83 percent of underlying trade transactions are considered SME. To date, more than 8,400 guarantees with a median value of $164,000 have been issued without loss. Building on the success of the GTFP, the Global Trade Liquidity Program (GTLP) was created in 2009 as a key IFC crisis response initiative to secure liquidity for trade in the developing world. This is now being phased out as the financial crisis has come to an end and the global economic recovery has begun. New short-term finance products under development include Global Trade Supplier Finance (GTSF) which, through reverse factoring, will provide MSMEs in emerging markets with better access to finance. The target size of MSMEs reached through this program will be smaller than those IFC can usually reach directly. In addition, a Global Warehouse Receipts program is being rolled out, initially in Africa, LAC and MENA, including to ten IDA countries. This program aims to provide better access to finance for farmers looking to raise funds post-harvest thereby relieving them of the necessity to sell their crop immediately, since harvest time is often when commodity prices are at their lowest.

Complementing these efforts by the IFC, and in close cooperation with them, MIGA is in the process of developing a Conflict Affected and Fragile Economies Facility which seeks, among one of its two main pillars, to support longer-term trade finance guarantees to this set of countries. The second pillar is to support domestic investments through the provision of guarantees, thus complementing MIGA's traditional cross-border guarantees program.

- **Support for Market Access and International Trade Cooperation**

The objective of this pillar is to reduce tariff and non-tariff barriers that hamper access to markets for goods and services. In an interdependent global economy many trade challenges confronting developing countries cannot be addressed solely by unilateral action. A country's ability to use trade to advance its development objectives depends in part on the market access conditions that confront its exports and on the extent to which it is affected by agreements that limit its ability to use specific policies. National trade policies can impose externalities, both positive and negative, on other countries. Identifying negative spillovers and inducing trading partners to attenuate these is a major challenge for many developing countries. There are three priorities in this area:

The first priority is to continue to engage in analysis and advocacy to ***make international trade rules and institutions more supportive of the needs of developing countries***. The WBG will continue to examine policies that create major distortions in global markets and adversely affect the poor (e.g. agricultural subsidies, including for biofuels) and advocate for their removal. During the past decade, the WBG has supported both regional and multilateral (WTO) trade negotiations through research and analysis of the effects of policies that have negative effects on developing countries – such as agricultural export subsidies, restrictive rules of origin, tariff peaks and escalation, and the implications of potential international disciplines regarding regulatory policies affecting investment, competition, procurement, the protection of intellectual property and bio-diversity. The WBG will continue to undertake such research and analysis with a view to promoting pro-development outcomes through multilateral cooperation as well as to identify policy options that can help governments achieve desired outcomes. Examples include analysis to underpin advocacy for duty-free quota-free access to G20 markets for LDCs; rules of origin reform; mechanisms to support the opening of markets for services suppliers from low-income countries, including through the temporary movement of natural persons; the interaction between intellectual property protection, trade, FDI and growth; the appropriate design of trade agreements and linkages with AfT ("coherence"); agricultural policy reforms to reduce the volatility of world food prices and expand access to food; and analysis of the trade dimensions of climate change and related policies, including the need for financial support mechanisms and multilateral rules to address potential negative spillovers for developing countries.

An important dimension to such activities is the collection and reporting of comparable and consistent data on applied policies across countries and on outcomes. As discussed below, cross-country datasets on trade barriers, non-tariff measures and policies that affect FDI and movement of services (such as the Services Trade Restrictiveness Index), as well as Investment Climate Assessments are key inputs into this type of analysis.

The second priority is to ***support the processes of regional integration of markets***. Regional trade agreements increasingly address policy areas that are entirely new to developing countries signing up to them. Regional trade agreements are no longer just about tariff reductions, but revolve increasingly around "behind-the-border" policies that will promote development and facilitate engagement in international supply chains (Chauffour and Maur, 2011). Experience suggests that what matters for developing countries in the design of such agreements is evidence-based analysis and policy advice on what works for economic development and the poor. The emergence of new global growth poles is also driving countries to form alliances with new partners. Major traders, including the EU, China and the US, have made preferential trade agreements a centerpiece of their trade policies. As these large regional groups/countries pursue agreements with each other and with smaller trading partners, it is important that governments of developing countries have access to information and analysis concerning the rule-making options they confront and their possible implications. The WBG will therefore continue to undertake analysis of prevailing PTAs, including in particular a greater focus on assessing country experiences with the implementation of specific PTA provisions on behind-the-border regulatory policies.

This is an agenda that increasingly involves efforts by developing countries to create larger, integrated markets. South-South trade arrangements now account for more than 50 percent of all new trade agreements. China has signed bilateral trade arrangements with numerous countries of the Asia-Pacific region, including ASEAN, Chile, and Pakistan. India is seeking out bilateral trade arrangements with many other developing countries – including Thailand, Chile, and Mercosur – and is in various stages of considering talks with Indonesia, Malaysia, China, South Korea, Israel, Egypt, SACU (Southern African Customs Union), and Russia. As is stressed in the new World Bank Strategy for Africa, the regional integration agenda is particularly central for that continent, as there is great scope for cooperation to help overcome market inefficiencies due to low scale and also to improve competitiveness with the rest of the world. The same is true for other regions.

The third priority is to support ***regulatory reform and cooperation***. Investments in regional infrastructure are key to support regional trade and market integration. Enterprises need cheap and reliable access to high-quality backbone services to compete effectively in output markets. However, inadequate inter-governmental cooperation often prevents building regional infrastructure that can realize welfare gains from regional trade. Similarly, regional cooperation on common standards and accreditation requirements is important for regional services trade. Of particular importance is to assist governments to reduce non-tariff barriers to trade through streamlining of existing measures and through the adoption of better regulatory practices. The International Trade Department is developing a toolkit for trade-impact assessment tailored to the needs of developing countries based on the principles of Regulatory Impact Assessment. The development of the Temporary Trade Barriers Database by DEC has been particularly useful in identifying these barriers, as will be the new NTM database (currently being developed in partnership with Geneva-based agencies and regional development banks) and cooperation on services data (with the OECD). Greater efforts will be made in strengthening the capacity of government bodies, regional secretariats and other relevant bodies through training, analytical support, development of quantitative tools and indicators as well as supporting regional harmonization of national regulations. As discussed below, a new instrument – knowledge platforms – will be deployed to support regional market integration, particularly in the area of services policies and associated capacity-building needs. The scarcity of data on services policies renders the WBG's efforts to collect such data as a global public good even more important. The WBG will work closely with the regional development banks and other providers of AfT that work actively in this area.

- **Managing Shocks and Promoting Greater Inclusion**

This is a cross-cutting pillar with the objective of dealing with the impact of trade-related shocks and to allow greater participation in the benefits of trade. Adjustment costs associated with trade liberalization were a major issue in the 1980s and 1990s, but have become increasingly less important with the liberalization of tariffs. Trade provides important opportunities for risk reduction through diversification (Caselli, Koren, Lisicky and Tenreyro, 2011). However, greater volatility and openness to shocks associated with greater integration into global markets can have significant adverse impacts for some groups (see Harrison 2007, Porto and Hoekman 2010). Trade integration may also contribute to skills- and gender-differentiated inequalities in labor market opportunities and outcomes. Similarly, the forces of economic geography imply that the benefits from trade are often concentrated in the largest metropolitan areas, so that greater trade may exacerbate inter-regional inequalities within countries. Making globalization more beneficial to the poorest households is critical for the sustainability of the gains that have been achieved by the world in recent decades. Informal trade also plays an important role in many developing countries, particularly in linking producers of food staples to regional markets, and the magnitude of such trade is highly sensitive to the conditions faced by traders. Supporting informal traders in growing their businesses, through lowering trade costs including through improving conditions they face at borders, and allowing them to grow to more formal modes of exchange, is also crucial if the potential for cross-border trade is to benefit the poor (see Box 2).

Four priorities have been identified. All are cross-cutting in nature in the sense that they connect closely to other Bank strategies and the activities of units in the Bank that do not primarily focus on international trade.

Assisting the most vulnerable to manage trade shocks: Labor market adjustments to trade opening and trade shocks can be significant. It is important that countries have in place mechanisms to assist those adversely affected by trade shocks. These mechanisms should be targeted towards those households that are most vulnerable and have to manage shocks. The WBG has become more systematic about assessing, *ex ante*, possible trade-related, poverty-distributional outcomes in both economic and sector work and in lending operations. Complementary or transitional policies as well as compensation mechanisms and targeted programs are also needed to ensure that firms and workers can benefit from the new opportunities generated by trade openness. Policies and actions to achieve these objectives require actions by labor and finance ministries and are not part of the mandate of trade ministries. Advice on and support for appropriate adjustment programs can be provided by the relevant units in the WBG – the key issue from the perspective of the Strategy is that teams working on trade projects and programs bring in colleagues working on safety nets and labor markets.

***Responding to food price increases and volatility**:* The food price shock of 2008 and the recent resurgence of food prices have highlighted the important linkages between trade, food security and poverty. Beggar-thy-neighbor national actions to mitigate the impact of domestic price increases magnify increases in world prices, and decrease the ability of trade to reduce volatility through diversification. Core elements of the Bank's response will include policy advice, financial support and global leadership to help countries identify the appropriate mix and sequencing of short- and medium-term policies needed to support vulnerable groups, while allowing for broader adjustments to the structural increases in food prices. The development of early warning systems is helping developing countries to anticipate and address sudden food shortages and price increases. The priority from the trade perspective is to ensure that work on this subject includes a focus on trade policies with a view to minimizing the use of policies with negative spillover effects for others. Key examples are export bans and restrictions and agricultural support policies in OECD countries that close off markets. Research will help identify policies that – unlike export bans and price insulation – raise rather than lower world welfare, and take into account the effects of national policies on trading partners. The policy options considered will include potential cooperative solutions and policy options that attempt to alleviate the concerns about the reliability of supply that lead many countries towards policies of self-sufficiency. The WBGs trade agenda will be mainstreamed into Agriculture Sector work, for which the framework is already in place within the Agriculture Action Plan. The longer-term agenda includes analysis and identification of the impacts of climate change on production and trade patterns and the implications for the design of appropriate trade-related policies.

Addressing the gender dimension in trade support activities: Trade-related policies and the process of globalization have gender-differentiated effects, because women and men typically work in different sectors and jobs, have differential access to resources and basic services, and play different roles in households, communities and the economy. The forthcoming World Development Report on Gender Equality specifically addresses the impact of globalization on gender-specific outcomes. In addition to the implications of trade-related adjustment on gender, dimensions of export competitiveness can also be explored - including gendered employment and income effects in new export sectors such as services; and gender implications of upgrading and industrial development of export sectors. Moreover, trade facilitation and logistics initiatives can help to reduce the negative impact of trade-related activities on women. In line with the strategic priorities laid out in the Three-Year Road Map for Gender Mainstreaming, three trade-gender guidance notes have been prepared to accompany the Trade Strategy and will be used to raise awareness of the need and the opportunities to incorporate gender dimensions into trade projects and support programs, as well as analytical work. Moreover, incentives will be provided to WBG task managers to consider gender issues and impact in proposed projects through the criteria that will be used to allocate any trust fund resources that are made available to the WBG to assist in implementing the Strategy.

***Extending the benefits of trade to lagging regions within countries*:** Metropolitan regions often capture most of the gains from rapid growth related to global integration. Non-core geographic areas, particularly those that are remote and sparsely populated, often lag behind as do sometimes even entire small island economies. Unless strategies are developed to improve competitiveness and the quality of logistics infrastructure and services at the sub-national level, large numbers of people may not benefit from globalization. This does not mean that economic activity in developing countries should necessarily be balanced or symmetric but rather that people in remote regions are able to connect to those places where agglomeration occurs, for example by connecting farmers to markets in urban centers or facilitating the movement of rural labor. Increasingly, Bank client countries are expressing the importance of making sure that growth is inclusive and the need to better integrate leading and lagging regions. More generally, consultations reveal a strong interest in a number of countries for a greater focus on *internal* trade, which in large part overlaps with the agenda of connecting lagging/more remote regions to high growth areas. The Strategy will address this need through activities under the other three pillars areas. As in the case of gender, a guidance note has been prepared to raise awareness of the importance of this issue, based on recent analytical work (Kunaka, 2010).

Box 2: Informal trade in the Democratic Republic of Congo (DRC): could mobile banking help?

"I buy my eggs in Rwanda, as soon as I cross to Congo I give one egg to every official who asks me. Some days I give away more than 30 eggs." An egg and sugar informal trader from Goma, DRC

A recent World Bank study[20] finds that of 181 informal-sector traders surveyed in the Great Lakes region of Africa, three-quarters are heavily dependent on their cross-border trading activity to feed their families. Almost all the traders are young women, and all of them aspire to grow their modest trading activity, but cite two constraints: (i) inefficiencies they face at border crossings; and (ii) a lack of access to finance. When cross-border trade is informal and hence, unregulated, traders often face unpredictable, extortionary and sometimes physically abusive border officials who impede the smooth flow of goods and deter trade. The study examined border crossings at four points between the Democratic Republic of Congo (DRC) and Burundi, Rwanda and Uganda and found that while 85% of traders are young women, 82% of the officials regulating the borders are men. The female traders most often face bribery, fines, sexual harassment, confiscation of goods, verbal abuse and long waits, at all four crossings. The state is also wasting resources: border crossings are glutted with not just customs officials, but immigration officers, the police, the army, and officials for health control. The oft-heard slogan is "sans argent, on ne passé pas" (no money, no passing). The 'petite barriere' through which informal traders are herded, is chaotic, crumbling, and lacks the paved roads and orderly crossing of the 'grande barriere' through which formal traders pass – though both are at the same formal border crossing point at Goma, DRC, leading into Rwanda. Poor, female, and, informal laborers by situation, these young traders are viewed by the officials as "smugglers", and harassed by "les viseurs" young, male 'watchers' employed by the state and given free rein to extract payments. The women report beatings, strippings and theft.

Could mobile banking offer a solution to their situation? A World Bank study in Southern Africa shows there is demand for mobile banking from informal cross-border traders.[21] Lying beyond the reach of the formal financial sector, these largely female, cross-border traders, and migrants, must carry cash on their person. They lack access to credit and have low savings. The study highlights the efficiency gains generated from integrating the informal sector valued at $17.6 billion per year in Southern Africa, into the formal financial system: giving traders access to credit, savings, and better physical security by not having to carry money on their person, and helping the formal financial system harness the positive externalities of these financial flows. Mobile banking could allow for faster and more efficient financial transfers of trade-related cross-border payments, in turn increasing trade volumes and payments to traders. It could facilitate remittances sent home by migrant workers trading their services in what is also often the informal sector. Some governments have recognized the importance of the issue: Zimbabwe and Malawi signed an MOU to facilitate informal trade, particularly between SMEs. Zambia, South Africa and Namibia are also following suit. But it is not easy to set up a sound financial system; nor is the telecommunications sector always well developed. Landlocked countries, in particular, are often unable to lay fibre-optic cables and rely on expensive satellite communications; monopolies of state-owned operators and service providers remain entrenched in many countries in the region. In such an environment, mobile banking can provide a medium-term solution while more fundamental financial systems are put in place and regional solutions are reached to overcome telecommunication problems.

[20] Brenton *et al.* (2011).
[21] Maimbo *et al.,* (2010).

4. IMPLEMENTATION

REGIONAL TRADE STRATEGIES AND WORK PROGRAMS

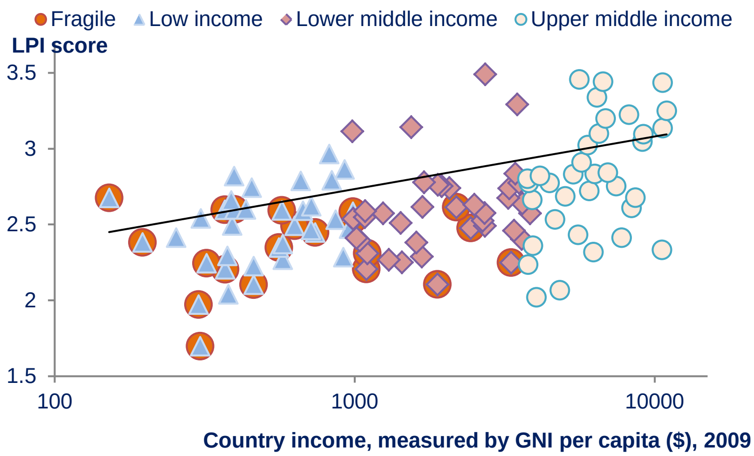
The Trade Strategy will be implemented through region-specific work programs and activities by central units. Regional activities will respond to the particular needs and challenges facing client countries and be determined by the depth and breadth of engagement at the country level as defined by the CAS. All Regions include trade in their strategies. The Africa strategy includes competitiveness as a key pillar to harnessing growth for sustainable poverty reduction. It focuses on traded goods as well as services. Moreover, it supports proactive interventions by government for industries and locations with latent comparative advantage, designed to minimize opportunities for rent seeking and capture. The East Asia strategy addresses the challenge of maintaining competitiveness for its middle-income countries by helping them move up the value chain. It seeks to seize the opportunity of regional growth for low-income countries by integrating them into the more prosperous economies in the region through more effective regional integration. The South Asia strategy highlights the significant potential gains from regional integration and aims at strengthening regional cooperation in trade and backbone services (water, electricity, transport). The ECA strategy includes competitiveness as a strategic pillar and aims at restoring exports as a major pre-crisis growth driver. A key MENA priority is to better integrate countries globally through removing non-tariff barriers and facilitating trade. The Arab World Initiative is promoting regional integration efforts in critical areas such as infrastructure and SME financing. In LAC, many lower-income countries are still dependent on commodities for their exports, while many large upper-income countries are net commodity exporters as well, making better management of commodity price volatility a priority.

ACTIVITIES WITHIN PRIORITY AREAS WILL DIFFER ACROSS REGIONS AND COUNTRIES

Although the specifics of WBG engagement and assistance will be defined by the needs of clients, recent policy dialogue and the Strategy consultations suggest that there are both commonalities and differences in the type of assistance that is deemed to be a priority. The PCD paper highlights the importance of the WBG's post-crisis engagement building on the strength of its country-based model, focusing on Africa, the "bottom billion" located in fragile and post-conflict states, and the 70 percent of the world's poor living in MICs. In line with the PCD paper, trade support activities by the WBG will vary across regions as well as broad categories of countries.

Fragile and post-conflict countries: Characterized by weak or dysfunctional institutions and trade policies, fragile and post-conflict countries need first to strengthen the institutional and policy environment and to build a foundation for further trade-related reforms. Trade policy making can be an active part of institution building, especially through regional trade agreements. The Logistics Performance Index for fragile states tends to be below average (Figure 8). While the majority of fragile states are low-income, some are middle-income. Priorities will therefore have to be carefully calibrated, based on a clear articulation of needs and implementation capacity, and consistent with the Bank's overall strategy in such circumstances, including reconstruction needs. Priorities are likely to include: (i) rapid diagnostic assessments of infrastructure, policy and institutional capacity; (ii) technical assistance to enhance capacity of customs and other border agencies to provide more transparent and predictable services and collect and report statistics on trade flows; and (iii) embedding trade-related reforms and interventions as part of larger programs of support, especially

Figure 8: Fragile states perform low on logistics



Source: World Bank (2010).

in investment operations in the areas of transportation infrastructure, agriculture, telecommunications, financial services, and private sector development.

In this context, MIGA's Conflict Affected and Fragile Economies Facility, mentioned above, seeks to support longer-term trade finance (one to seven years), which is aimed at addressing some of the difficulties that prevail in these environments. The second pillar of the Facility is aimed at providing support to domestic investors as they build up their operations to allow them to profit from potentially growing trade volumes in their economies.

In ***low-income countries*** the main challenges are to mainstream trade in the overall policy framework, improve productivity of farms and firms, facilitate production that meets standards in overseas markets, better integrate producers into regional and global supply chains and promote export diversification. To address these challenges WBG support is likely to center on: (i) improving the business environment to attract investment (both local and FDI) and create the conditions for sustainable growth, especially in key services sectors, including guarantees to support both domestic and cross-border private investors; (ii) measures to diversify away from natural resource-based exports, where they are dominant; (iii) investment in trade-related infrastructure in ports, roads, etc.; (iv) automation and information sharing among customs and other border agencies; (v) support for regional cooperation to address trade facilitation constraints and specifically for landlocked countries, support systems, investment and reforms to tackle constraints along the length of regional trade corridors; (vi) strengthening the capacity of the agencies involved in trade policy formulation and implementation and addressing market failures; and (vii) increasing access to short-term finance and export credit products.

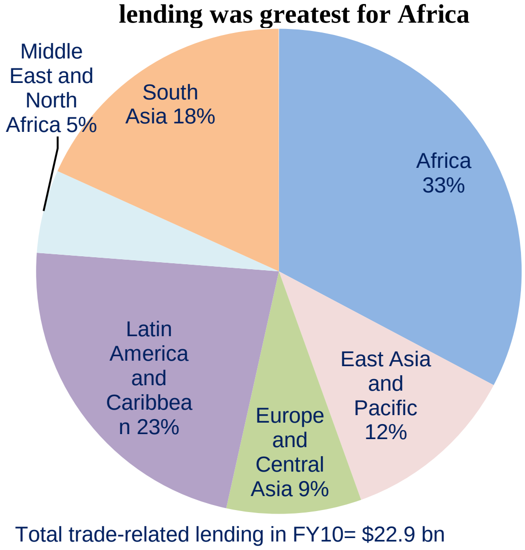
In ***middle-income countries*** policy dialogue and the Strategy consultations suggest the main need is to assist in moving up the value chain into more sophisticated products and to avoid a "middle income trap" where comparative advantage in low-skill, low-wage products is lost but firms are not yet competitive in higher value products. This suggests demand for WBG support will be in the area of trade competitiveness and adjustment/inclusion, including support for: (i) innovation policies to facilitate greater sophistication and quality of products and services exported; (ii) export diversification, including into services; (iii) upgrading of infrastructure and logistics services to help integrate into high-value global production networks; and (iv) support programs to make growth more spatially inclusive, via programs and projects aimed at the sub-national level to address local constraints to competitiveness.

Most of the priority areas of the Strategy are directly relevant to the needs of ***small states:*** improving competitiveness; identifying policy options to help overcome distance and geography-related barriers to trade by leveraging opportunities for trade in services and supporting efforts to enhance access to export markets through the temporary movement of service suppliers (natural persons); support for regional integration and cooperation to capture economies of scale in the provision of public services to support trade; improving access to trade finance; and analysis of the design and potential impacts of trade agreements. One issue identified by small states in the consultations as well as by fragile and post-conflict countries was assistance to collect trade data on a sustainable basis.

INSTRUMENTS

Implementation of the Strategy will occur through three major instruments: (i) lending; (ii) technical assistance and knowledge to support strategic priorities; and (iii) partnerships. The intensity or relevance of each of these instruments will vary across the four priority areas. Which instruments are used and which areas will be given the greatest focus at country/regional level will be driven by the needs of clients. Implementation will also be influenced by monitoring and evaluation of the results of Bank assistance and activities. Better internal coordination and cooperation between units in the WBG that are active in each of the four priority areas will be a major determinant of success in increasing the effectiveness and impact of WBG trade support activities. Overall the implementation of the Strategy will not require a major departure of what is currently being done, but more a refocusing of these existing efforts with better coordination.

Figure 9a: FY2010 World Bank trade-related lending was greatest for Africa



Source: Business Warehouse

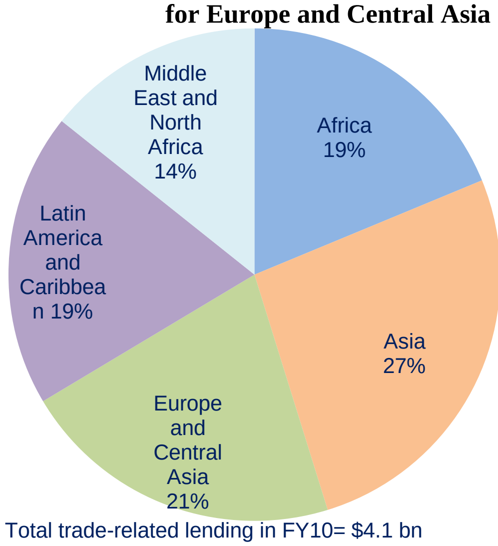
- **Lending**

Financial assistance in the form of grants, loans, and credits are key instruments through which the WBG can help developing countries achieve their trade integration and reform objectives. Financial assistance to support the Strategy will focus mainly on competitiveness/diversification, trade facilitation, and trade finance. Financial or technical assistance for market access and regional integration will be undertaken mainly through competitiveness and trade facilitation projects. The IDA regional project envelope will further strengthen regional integration through improving transport connectivity, facilitating trade corridors for landlocked countries, and creating conditions for improved trade between countries.[22] Financial or technical assistance for adjustment and inclusion will be undertaken either as components of competitiveness DPLs or as components of agriculture and social projects. The Strategy will rely on the broader

[22]In IDA 16 the requirement for a regional project has been relaxed to two countries instead of three, if at least one of the countries is fragile or conflict-affected.

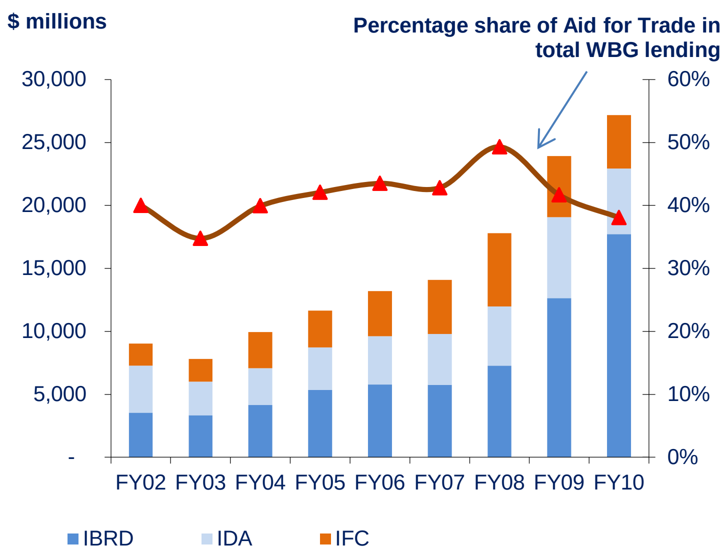
WBG lending agenda on social protection to address these important issues in a more comprehensive manner. The availability of IDA resources will allow further support for managing shocks and improving the distribution of trade benefits, especially through IDA grant resources and the IDA Crisis Window, which has been set up as part of IDA 16 to assist IDA countries affected by severe exogenous economic crises and natural disasters.

Figure 9b: IFC trade-related lending in FY2010 was high for Europe and Central Asia



Source: Business Warehouse

Figure 10: WBG Aid for Trade lending grew in FY09 and FY10



Source: SAP/Business Warehouse and IDesk

Much of the trade lending will take place as part of other sectoral projects (e.g., transport, private sector development, agriculture). The Strategy proposes a continuation of the current lending trend, but with a stronger focus on the "software" (regulatory) dimensions of transport and facilitation projects; more emphasis on sector-specific interventions in the context of competitiveness projects, including services; and greater focus on regional integration of markets. Existing instruments allow such changes in emphasis to occur – through, for example, competitiveness DPLs or corridor infrastructure investment projects.

Lending is a key instrument of the WBG's efforts to help developing countries achieve their trade integration and reform objectives. Since 2001, the Bank has approved 437 trade-related lending operations in 90 countries. The Africa region accounts for one-third of these operations (Figures 9a & 9b). The WBG is the largest provider of Aid for Trade. Based on the OECD/WTO definition of AfT,[23] the Bank provided an average of almost $15 billion per

[23] The OECD/WTO definition of Aid for Trade excludes trade finance and includes infrastructure. The sectors that fall under this AfT definition are as follows. For IBRD/IDA, the list of sectors comprises: Agriculture, Fishing, & Forestry; Information & Communication; Energy & Mining; Transportation; and Industry & Trade. For IFC, the list comprises: Agriculture & Forestry; Information; Oil, Gas & Mining; Chemical; Utilities; Transportation & Warehousing; Construction & Real Estate; Food & Beverages; Nonmetallic Mineral Product Manufacturing; Primary Metals; Pulp & Paper; Textiles, Apparel & Leather; Plastics & Rubber; Industrial & Consumer Products; Wholesale and Retail Trade; Professional, Scientific and Technical Services; and Accommodation & Tourism Services.

year in AfT to low-income and middle-income countries over FY02-FY10, to assist in building productive capacity and infrastructure (Figure 10).

The absolute amount of loans and credits on the basis of this broad definition of AfT has risen steadily since FY03, and increased more rapidly since FY07. The falling share of trade-related lending after FY08 reflects the surge in support to countries in response to the financial crisis that erupted in mid-2008. Of a total amount of AfT lending of $27 billion from the WBG in FY10, non-concessional IBRD lending amounted to some $18 billion (this excludes the important IFC trade finance programs, which are not captured by the OECD/WTO definition).

On the basis of the Bank's own classification of lending activities, in FY10 the World Bank provided a total of $1.8 billion in trade-related lending. This is narrowly defined to cover only lending that is coded to the World Bank's Trade and Integration themes: export development and competitiveness; regional integration; technology diffusion; and trade facilitation and market access. It excludes infrastructure projects and trade finance. About 19 percent of this pertained to DPLs. Lending in FY10 represented a three-fold increase from FY03 levels, when it amounted to $566 million. The share of trade-related projects in total Bank lending also shows a rising trend in recent years, from an average of 2 percent for FY02-FY03 to an average of about 6 percent for FY09-FY10. Nearly half (46 percent) of trade-related projects in FY10 were in the areas of trade facilitation and market access. Regional integration (29 percent), export development and competitiveness (22 percent), and technology diffusion (3 percent) accounted for the remainder.[24]

While trade-related lending and investment programs have increased in recent years and have focused more on behind-the-border issues as recommended by the 2006 IEG report (World Bank, 2006), they have been spread out in terms of coverage and motivation. This Strategy proposes a continuation of the current lending trend, but with some changes in emphasis:

- Include more "software" (policy and regulatory reform) in transport and trade facilitation projects
- A greater focus on working with the private sector to address sector-specific constraints in competitiveness projects
- Increased focus on projects and support for regional integration

More "software" in transport and trade facilitation projects: The largest trade-related lending to the public sector includes infrastructure improvements such as roads, railways, and gateway infrastructure (port and airports). Other lending includes customs modernization, logistics, and multimodal transport. Ongoing work in collaboration with the Global Express Association (GEA) has looked to utilize private sector-developed risk assessment software in customs modernization projects. The IFC makes equity investments in public-private partnerships for trade-related infrastructure as well as in companies that provide logistics services. Increasingly, WBG projects are focusing on overcoming the varying constraints through a range of instruments designed around supply chains.

The use of supply-chain logic is appropriate from the perspective of firm competitiveness, since the ability of firms to connect effectively to international markets depends in part on the performance of the entire chain in terms of cost, time, and reliability. The performance of trade supply chains is determined by a complex set of factors in three broad and interdependent categories: investments in

[24] The SDN Network accounts for a little over 70 percent of these activities, followed by PREM with approximately 19 percent and FPD with 2 percent.

trade-related infrastructure, improvement in the quality of private-sector services, and simplification and harmonization of trade procedures and regulations. The Strategy will continue to exploit the WBG's unique ability to support activities related to all three intertwined areas, and will further integrate the soft side of trade facilitation (logistics service providers, procedures and regulations) into infrastructure projects.

The use of political risk guarantees by MIGA in support of various aspects of trade logistics is another important element as it allows the mobilization of private capital and introduction of best managerial practices and technological innovation in developing countries. Examples of the use of these guarantees by MIGA across the supply chain includes partnerships with Dubai Port Worlds in support of its concession for the ports of Djibouti and Dakar, Senegal; partnership with specialized firms such as COTECNA and SGS in support of their customs clearance contracts with governments in countries such as Madagascar, Nigeria, and Senegal; and working with logistic managers, such as Hamburger Hafen-und Lagerhaus Aktiengesellschaft, in support of their operations in developing countries.

Although lending for policy reform or logistics services is not large in comparison to infrastructure, it often has a significant impact. Thus, a relatively small investment in key trucking companies in Kenya produced a strong demonstration effect that served as a catalyst to modernize the entire industry. DPLs are increasingly employed to support trade facilitation and logistics reforms, as well as improving regulatory frameworks. Recent DPLs to Cambodia and Afghanistan that supported efforts to revise regulations of entry in key logistics professions and simplify border management procedures are examples of new generation projects (Box 3).

Box 3: Customs Modernization and Corridor Management Projects

Afghanistan Emergency Customs Modernization and Trade Facilitation Project ($32 million)

The project will provide Afghanistan with a functioning Customs administration and IT system to process import, export and transit trade in order to facilitate legitimate trade, control rampant corruption and secure effective collection of government revenue. The project has contributed to increasing revenue collections by more than 600 percent in the past five years and in spite of significantly increased trade volumes, clearance times have fallen drastically. For example, clearance times at the Towrkham border have fallen from an average of over 16 hours in 2003 to 90 minutes for 90 percent of trucks. A second $22 million follow-on project is currently under development and focuses on infrastructure improvements and stronger anti-corruption measures. To minimize duplication of effort and to give consistent advice, the Bank has established close working relationships with all key donors active in the field.

Cambodia Trade Facilitation and Competitiveness Project ($10 million)

The project is designed to promote economic growth by reducing the trade transaction costs faced by traders and facilitating access to export markets. The project includes deployment of UNCTAD's ASYCUDA Customs computer system Sihanoukville port and other key sites throughout the country. In addition, Cambodia has introduced a single goods declaration consistent with international standards and has introduced a coordinated approach to risk management. While the project is performing satisfactorily it faced a number of challenges that are typical in improving trade facilitation results in low-capacity environments. For example, it has been difficult to source the required IT skills and hardware within the country.

More targeted interventions in competitiveness projects: A significant part of the Bank's policy lending activities is focused on competitiveness projects. Typically, these are large DPLs supporting reforms in a new generation of issues under the competitiveness agenda (e.g., innovation and technology, intellectual property protection, business regulation, etc.). Most of the actions included in these loans are horizontal, but recent DPLs have included sector-specific actions as well, especially in the areas of services (e.g., the Armenia PRSC and the examples of Mauritius and Tunisia detailed in Box 4). A matching grant program funded through a series of export development loans in Tunisia represents a good example of World Bank investment lending for trade competitiveness, which focuses more public sector support for improving the capacity of firms. The Export Market Access Fund (EMAF) supported by these operations provides co-financing to help firms invest in market research and provides technical assistance that improves the ability of firms to access export markets. Preliminary results from an impact-evaluation of EMAF II suggest that participation in the program is associated with increased growth of Tunisian firms' total exports, number of export market destinations, and number of products exported, although there is indication that this impact dissipated in a few years after the receipt of EMAF assistance (Gourdon et al. 2011).

IFC plays an important role in this area through equity participation and joint ventures. For example, as part of its agribusiness program, the IFC invests in sustainable productivity increases through improvements in efficiencies and the adoption of better technologies, integration of farmers into commercial supply chains, and the development of the facilitating institutional and physical infrastructure.

Box 4: A New Generation of Competitiveness DPLs

Mauritius Trade and Competitiveness DPL

The fourth Mauritius Trade and Competitiveness DPL ($50 million), approved in November 2009, supports reforms that respond to two major challenges facing Mauritius: the "triple trade shock" of trade preference erosion in sugar and apparel and high oil prices, and the transition from a low-wage, low-skill sugar and apparel exporter to an innovative, knowledge- and skill-based services economy. The government's reform program focuses on consolidating fiscal performance, improving trade competitiveness, improving the investment climate and widening the circle of opportunity through participation, social inclusion, and sustainability. In parallel the country team produced a report ("Enhancing and Sustaining Competitiveness in Mauritius: Policy Notes on Trade and Labor"), highlighting the main constraints faced by exporters in the country.

Tunisia Integration and Competitiveness DPL

A matching grant program funded through a series of export development loans in Tunisia represents a good example of World Bank investment lending for trade competitiveness, which focuses more public sector support for improving the capacity of firms. The Export Market Access Fund (EMAF) supported by these operations provides co-financing to help firms invest in market research and provides technical assistance that improves the ability of firms to access export markets.

More support for regional integration through regional lending, especially involving IDA countries: A greater focus on regional integration is an important element of implementing the Strategy. Investment in regional infrastructure – which typically requires intergovernmental cooperation to build – helps countries connect to the world market as well as to regional ones. Investment in backbone services helps enterprises access cheaper and more reliable inputs to compete more effectively in output markets. Regional cooperation can also help address externalities – for example, the costs created by uncoordinated and duplicative regulations. The WBG has been expanding its assistance for regional infrastructure in recent years (see Box 5 for an example on energy trade between Central and Southern Asia).

Box 5: Building a Regional Electricity Market in Asia to Increase Trade and Improve Services

The Central Asia–South Asia Regional Electricity Market (CASAREM) is a concept for developing electricity trade in Asia through a set of projects and investments, underpinned by the relevant institutional arrangements and legal agreements. CASAREM links energy-rich countries in Central Asia (notably those with unrealized hydropower potential) with energy-deficient countries in Southern Asia, such as Afghanistan and Pakistan. The IFC and World Bank are working closely with national governments, regional development banks (ADB, EBRD, Islamic Development Bank), private investors, and bilateral donors to develop CASAREM. The Bank Group has been providing analytical and technical assistance. It is currently working with partners on a lending project that contributes to the development of CASAREM through physical infrastructure (transmission systems linking hydropower facilities in Tajikistan and Kyrgyz Republic with Pakistan and Afghanistan) and constructing the necessary legal and regulatory framework to enable energy trade. Total financing by all parties is expected to be around $700 million. The project not only reduces electricity costs and increases reliability of electricity services in the region, but it also increases trade in electricity.

There are strong synergies between IDA activities and regional programs as they benefit from more IDA allocations. A clear candidate for regional IDA projects is trade facilitation and logistics. IDA trade- and transport-related lending has grown rapidly over the past decade - from $140 million in 2001 to $908 million in 2010. Building on the Regional Pilot Program, initiated in 2003, IDA is in a position to support the development of infrastructure linkages that are critical to the integration of LDCs into regional and global markets.

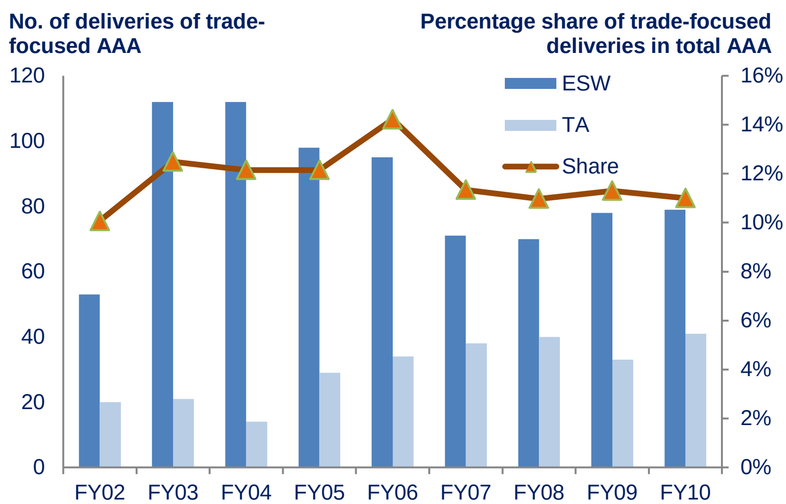
Multi-country lending projects are inherently more difficult to implement than single-country activities. Beneficiary demand may not be strongly expressed, since regional and global issues are typically neglected in countries' national development strategies, and may therefore not feature prominently in Country Assistance Strategies either. A number of Regions within the Bank have established a regional department or have a regional advisor focusing on the regional dimension of the Bank's portfolio. This has led to a greater focus on regional (multi-country) infrastructure projects. There has been less of a focus on projects and programs that address policy reforms across multiple countries that would help to reduce regional barriers to trade and more effective or intensive use of regional infrastructure networks. Greater scrutiny during quality assurance reviews of Country Assistance Strategies and lending operations to address regional externalities and support regional integration objectives could help identify such complementary actions.

Participants at many consultative meetings called on the WBG to increase support for regional economic communities (RECs) and regional integration of markets. In addition to investing in physical infrastructure, the WBG will increasingly assist with strengthening the institutional framework at the regional level, both through building capacity of regional bodies as well as supporting regional harmonization of national regulations, particularly those governing services trade. The WBG will work closely with the Regional Development Banks and other providers of AfT that work actively in this area.

The Bank's Institutional Development Fund is an important source of funding for assistance to regional organizations to promote regional cooperation, particularly in the light of limits they face in borrowing on IDA/IBRD terms. Two recent examples are a grant to the Secretariat for Economic Integration in Central America for training on trade policy and agreements and a grant to the United Nations Economic Commission for Africa (UNECA) to further develop the online Regional Integration Observatory, a "one-stop-shop" that compiles and organizes information about all regional integration activities on the continent and invites feedback and discussion from users. As with multi-country lending, the incentive structure for allocating resources within the Bank tends to result in underfunding for regional technical assistance.

Finally, regional Development Policy Operations (DPOs) could be used to encourage regional institutional and policy reforms within a sub-regional grouping or to develop the enabling environment for regional infrastructure cooperation. Using existing instruments already available to the WBG, the concept of regional DPOs is being explored in the Africa region, where it has already been confirmed that the IDA Regional Program could be used to finance such operations if consistent with the established eligibility criteria (i.e., the operation involves three or more participating countries, generates benefits that spill over country boundaries, and shows clear evidence of country or regional ownership and commitment. Moreover, as part of IDA 16, special consideration has been given to fragile states whereby the three-country requirement for a regional project will be relaxed to two countries, if at least one of the two countries is a fragile or conflict-affected country). The specific modalities of how to structure a regional DPO are complex and require more in-depth discussion but this could potentially be an important instrument for the implementation of the Strategy.

Figure 11: Deliveries of Trade-Focused ESW and TA, 2002 - 2009



Source: SAP / Business Warehouse

- **Technical Assistance and Knowledge to Support Strategic Priorities**

Research and analytical work remains an important strategic asset of the WBG. Of all the ESW and technical assistance (TA) that the WBG has delivered since FY02, about 12 percent (a total of 1,038 pieces of ESW and TA work) focused specifically on trade (Figure 11). Trade-focused Analytical and Advisory (AAA) deliveries similarly accounted for about 11 percent of total AAA deliveries.[25] Just under half of the trade-focused AAA work addresses trade facilitation, market access and regional integration issues, while one-third address export development. The surge in trade-focused AAA work between FY02-FY06 is attributable in part to a substantial effort to conduct comprehensive country trade diagnostic studies in LDCs and other low-income countries.

The WBG will continue to focus on producing operationally relevant knowledge products aimed at identifying policies and institutions that promote trade and inclusive economic growth. Operational knowledge will be provided around four levers: (i) cross-country and cross-industry trade and policy indicators; (ii) diagnostic toolkits to identify key constraints; (iii) policy dialogue and project development; and (iv) research and analysis. Data and analysis are critical inputs into monitoring and evaluation of results. They are also crucial to build support for reforms by allowing stakeholders to identify and understand the magnitude and incidence of the costs that prevailing policies generate.

[25] Data are from SAP/Business Warehouse. Trade-related activities include at least one of the six trade thematic codes: export development and competitiveness, international financial architecture, regional integration, technology diffusion, trade facilitation and market access, and other trade and integration.

Cross-country and cross-industry trade and policy indicators: These are a powerful tool to raise awareness about a country's performance relative to others. The Trading Across Borders indicator (from the Doing Business report) and the Logistics Performance Index have often triggered reforms across many client countries. Looking forward, the WBG will continue to generate these indicators and develop specific cross-country measures of trade competitiveness, services trade restrictiveness, non-tariff measures and specific aspects of the supply chain (including ports and corridor performance indicators). The newly developed Services Policy Restrictiveness Database allows for the first time a comparison of impediments to services trade across major sectors and countries. Although there has been much improvement in the collection and availability of comprehensive multi-country datasets on trade statistics and trade policy information, important gaps remain. The public-good nature of the needed datasets often leads to under-investment in data collection even in wealthier countries. Addressing these constraints requires a concerted effort, working closely with partner organizations to share costs and avoid duplication.[26]

The strategy for providing data will proceed along two tracks:

- Helping countries mainstream trade into statistical development strategies at national and regional levels, as well as into government monitoring and evaluation systems.
- Expanding trade data and information systems available globally so that they can be used to assess regulatory and other barriers to trade (including services trade), as well as benchmark indicators to assess performance.

The WBG operates several programs and products designed to enhance countries trade statistical and analytical capacity. The Statistical Capacity Building Program (STATCAP) is designed to make it easier for developing countries to access regular World Bank financing for improving national statistical capacity.[27] The WBG also helps to build trade analytical capacity. The World Bank Institute provides regular training in the use of tools for accessing and analyzing trade data. Other WBG units organize customized training in trade data analysis on a less regular basis. The World Bank's research department has helped to build analytical trade capacity in think tanks and research organizations.

Leveraging greater capacity at the national level to gather trade data, the WBG also works at the global level to disseminate information on trade and develop tools for analyzing trade. In 2008 WBI launched the World Trade Indicators, a comprehensive dataset containing a broad set of trade indicators for 211 countries and territories to help policy makers, advisors and analysts identify border and behind-the-border constraints to trade integration. To expand the reach of these data, indicators from this dataset are now being incorporated into the WBG's World Development Indicators database, which enjoys a significantly larger user base and enhanced data analysis features.

The WBG has developed a number of cross-country benchmarking indicators, most notably the Doing Business Trading Across Borders indicator and the Logistics Performance Index. Depending on the demand and availability of robust information, the WBG may produce further indicators with

[26] DEC's data group has been working closely with partner organizations to redesign the World Integrated Trade Solutions (WITS) which is a critical vehicle for accessing trade and protection statistics. The World Bank Group is also playing a critical role in generating and providing information on non-tariff barriers through the Temporary Trade Barriers Database and the NTM database. Closer collaboration with partners, including the ITC, UNCTAD and the AfDB, has leveraged synergies between agencies with different comparative advantages.

[27] STATCAP projects typically finance the implementation of national statistical strategies or a similar comprehensive mid-term action plans, supported by a Trust Fund for Statistical Capacity Building that provides grant resources for this purpose. To date, STATCAP projects have tended not to accord much attention to trade statistical capacity. In the context of the trade strategy, the World Bank will increase efforts to help countries to incorporate trade concerns into their national statistical plans.

new and complementary perspectives. For example, an improved regulatory environment ensures that local economies benefit from FDI-related spillovers of supply-chain linkages, labor markets, and technology and knowledge transfers.

Diagnostic toolkits allow a more comprehensive assessment of the constraints behind the indicators. Existing diagnostic toolkits identify the various bottlenecks and their relative importance in export competitiveness, trade facilitation, and ports. The Trade and Transport Facilitation Assessment (TTFA) is the main reference product designed to diagnose such bottlenecks. TTFAs have been conducted in conjunction with most DTISs, so that virtually all LDCs have now been covered by a TTFA. There is now growing demand for analysis of specific commodities (e.g., food supply chains) and logistics services. Governments, development agencies, private sector associations, and others can use the tools as part of their own activities without the WBG being directly involved.

The WBG also produces tools to enable analysis of trade flows, policies and agreements. For example, the World Integrated Trade Solution (WITS) platform, developed jointly with UNCTAD, provides comprehensive access to the major international trade datasets and contains modules for analyzing trade policy reform and trade competitiveness. The Tariff Reform Impact Simulation Tool (TRIST), an interactive Excel-based tool to simulate the short-term impact of tariff reforms on fiscal revenue, imports and protection, developed by the WBG, is gaining usage in the policy community. The Trade Department is currently working on an extension of the tool to include non-tariff barriers. The World Bank is a member of the GTAP Consortium, which oversees this premier software tool and datasets for general equilibrium trade analysis.

Policy dialogue and project development: In-depth evaluations of specific issues identified in the diagnostic toolkits allows a better understanding of the bottlenecks and more concrete recommendations on specific areas of reforms. They provide policy makers with another means of implementing reforms and investments suggested by policy analysis. Demand is increasing for more efficient border management, promotion of export diversification, design of special economic zones, boosting competitiveness in lagging regions, and analysis of the technological sophistication of exports. The IFC’s Investment Climate Advisory Services program assists governments to strengthen laws, policies, and institutions that help attract and retain investors so that enterprises can connect responsibly to international markets.

Responding to specific requests from clients, the Bank also produces a large amount of innovative and detailed trade policy analysis at the sector, country or cross-country levels. For instance ground-breaking studies focusing on international trade in services (PREM, DEC, Africa and South Asia Regions) have contributed to raising the awareness of the importance of services for competitiveness and diversification. This work is further compiled and formatted to feed directly into capacity development and dialogue efforts undertaken by WBG units. For example, working in partnership with regional capacity building centers of excellence, such as IDEP in Senegal and TRAPCA in Tanzania, WBI has been providing training and policy dialogue around regional integration (such as regional services integration and regional public goods) and agricultural market dimensions (including export development and food security). In addition to policy toolkits, trade policy handbooks (recent ones cover services and regional trade integration) contribute to inform the policy dialogue.

In addition to the areas where knowledge is largely developed, the Bank will contribute directly to support other emerging sectors. The field is evolving rapidly, and the WBG must adapt swiftly to changing circumstances to remain relevant to the needs of developing countries. Emerging global concerns with climate change, food security, and the productivity of infrastructure investments are increasingly becoming part of the broader trade facilitation agenda. For example, the WBG's mandate in food security has shifted the attention to supply chains for food imports and the role of trade facilitation and logistics bottlenecks and inefficiencies which result in cost escalation.

Research and analysis: The Bank's research has placed it at the forefront of the global dialogue on the development challenges associated with economic globalization. At the same time, research informs policy and helps governments to identify reform priorities at the national level. For instance, the Handbook of International Trade in Services has become the standard text on services trade and services trade negotiations (Mattoo, Stern and Zanini, 2008). A large part of the Bank's research responds to demands from Bank operations, client countries and other stakeholders. The agenda has been evolving. While research has improved our understanding of conventional trade policy, other dimensions of international integration and policies affecting these - from export promotion to trade facilitation - are still poorly understood. These new dimensions have profound implications for development. The Strategy proposes to remedy such knowledge gaps through rigorous research that will facilitate informed policy-making in these new areas.

Looking ahead, research will continue to analyze new areas and reassess conventional wisdom, along three inter-related themes:

> ***Development implications of changing patterns of international integration***: For example, research will explore how the fragmentation of goods and services and growing trade in tasks are creating new opportunities and challenges for developing countries. Research will also attempt to identify the microeconomic and macroeconomic effects of changes in commodity prices and natural resource dependence. Another topic for future research will be the role of entrepreneurship in exporting.
>
> ***Priorities for policy reform in a changing world*****:** Research will examine the growing significance of non-tariff measures, particularly contingent protection (of still indeterminate significance), standards, and technical barriers to trade (of potentially huge significance when climate change-related regulation is considered). It will address the challenge that increased policy emphasis on targeted interventions to reduce trade costs and promote exports are still uninformed by rigorous analysis of what works and what does not. It will also analyze the responses of agricultural trade distortions to changes in world prices.
>
> ***New strategies for international cooperation for development***: The multiple dimensions of global trade integration mean that countries must also develop multi-layered trade strategies. Concluding the long-running Doha Round of trade negotiations would provide a boost to the global economic recovery. But what role can regional integration play? How can we facilitate regulatory cooperation in services (from prudential regulation in financial services, pro-competitive regulation in transport, to privacy regulation in electronic commerce) that is clearly a pre-condition for multilateral liberalization? Why have we seen so little international cooperation on migration? What can be done to address the big international effects of national policy choices? Finally, how must international cooperation of climate change be synchronized with international cooperation on trade so that climate change goals can be met without undermining openness?

- **External Partnerships**

Many other international organizations and bilateral donors provide assistance to developing countries in the area of trade (Annex 3). The WBG is distinct from other sources of expertise and support in having global reach and country presence. The WBG is also distinct in being able to combine loans/credits with policy dialogue and advice and in being active across all dimensions of development, thereby having the ability to consider trade issues in the context of its other sector interventions as well as through activities directed specifically to achieving trade objectives. However, this broad reach also implies that trade may be "crowded out" by other client priorities with the result that scarce resources are allocated to areas other than trade. There are also areas in which the WBG does not have a comparative advantage in delivering support and others are better placed to respond to country demand. Examples are building capacity to negotiate trade agreements or real time advice on the substance of what is being negotiated; face-to-face "retail" training activities and in-depth technical training in the trade area; or technical assistance to export promotion or standards-setting agencies. Other agencies – such as the WTO, ITC, UNCTAD, and UNIDO – are better placed than the WBG to provide such specialized assistance.

Working in partnership with other providers of trade support and in close cooperation with specialized trade organizations is important to avoid duplication of effort; prevent investments in areas where others are better placed to help; and to increase the effectiveness of Bank support. The Bank therefore is actively engaged in a wide range of partnerships. Examples include:

- *Providing global public goods:* working with other international organizations (UNCTAD, ITC) on improving the quality and timeliness of trade data; the Global Facilitation Partnership for Transportation and Trade; the Almaty Programme on landlocked countries.
- *Working with regional and global research networks* such as the Global Trade Analysis Project (GTAP); the Economic Research Forum for the Arab countries; the African Economic Research Consortium; GDN and many others – often in collaboration with bilateral agencies such as DFID and specialized organizations such as IDRC.
- *Delivering Aid for Trade:* the Enhanced Integrated Framework (Box 6); cooperation with the IMF and regional development banks at country level; with WTO, OECD and others at multilateral level; numerous WBI partnerships in the delivery of training; collaboration with the IMF and World Customs Organization on customs modernization projects; Standards Development Trade Facility (with WTO, FAO, the Codex Alimentarius Commission, etc.).
- *Private sector partnerships:* joint ventures with private sector groups such as the Global Express Association and logistics firms and freight forwarders, to collect, analyze and report data on trade facilitation performance.
- *Mobilizing resources:* e.g., during the recent crisis the IFC Global Trade Liquidity Program; the Trade Facilitation Facility; the Conflict Affected and Fragile Economies Facility (MIGA).
- *Facilitating South-South knowledge exchanges*: dialogues involving leaders and policy makers from client countries through the Global Development Learning Network.
- *Trade Finance*: dialogue and collaboration with official Export Credit Agencies both individually as well as through the Berne Union and its Prague Club.

Box 6: Participation in the Enhanced Integrated Framework

An important partnership on trade issues is the Enhanced Integrated Framework for Trade-Related Assistance for Least Developed Countries (EIF), a mechanism to assist LDCs define and address trade assistance priorities. This partnership brings together LDC governments, donors, ITC, UNCTAD, WTO, UNDP, IMF and the World Bank. The partnership provides resources and expertise to mainstream trade into LDCs' national development strategies, to identify constraints to their international integration, and to build capacity to overcome these constraints (for more information see www.enhancedif.org). The Bank is a founding member of this partnership and is committed to continuing to work with the EIF. The numerous Diagnostic Trade Integration studies the Bank has conducted in LDCs under the umbrella of the EIF represent a significant share of the trade-focused country analytical work the Bank has delivered in recent years. In several countries (notably Cambodia and Lao PDR), the Bank and IFC are implementing substantial assistance programs to implement DTIS recommendations in the context of sector-wide approaches.

The WBG will continue to work closely with development partners at the country, regional, and global levels in delivering AfT. Three specific types of new partnerships will figure more prominently in the framework of this Strategy: (i) supporting clients through knowledge platforms that include a wide variety of external partners; (ii) cooperation with specialized organizations in the provision of technical assistance; and (iii) collaborations to provide global public goods, especially datasets.

Knowledge Platforms: A new concept that has recently been developed in the context of the WBG's Knowledge Strategy, these fora will bring together trade and sectoral officials, regulators and national stakeholders as well as external experts to engage in a substantive, evidence-based discussion of the effects of regulatory policies and the appropriate design of sector-specific regulatory policies. In the context of the Strategy these platforms are expected to respond to demand from countries engaged in regional integration efforts and thus are likely to be "anchored" in regional economic communities/secretariats. The platforms will be supported through analysis and knowledge-sharing of the experience of countries in other parts of the world. Each platform will provide a forum for collaboration between the WBG, other partners (e.g., OECD, UN regional commissions, specialized agencies such as UNIDO and WIPO), the RDBs and other relevant regional institutions (e.g., the African Union, regional economic secretariats). The participation of partner institutions in the activities of a platform will depend on the issues that are raised by clients. A key feature of the platforms will be to act as a vehicle to bring in experts from countries outside of the regions concerned (e.g., the BRICs) and from the private sector. Each platform will also be a focal point through which expertise from the different parts of the WBG can be brought together.

Cooperation and coordination in the provision of technical assistance: A second type of partnership will revolve around collaboration and coordination with specialized agencies and other organizations to leverage the respective comparative advantages of different organizations and thereby avoid duplication and improve aid effectiveness. An example of collective action to assist a large number of countries is the support that has been provided to developing countries in the context of the WTO negotiations on trade facilitation (Box 7). Other areas where such joint action is likely to be pursued is regional integration (working with regional bodies and bilateral donors); trade facilitation; and trade and food security. The trade and competitiveness practices and trade facilitation GET will act as mechanisms to work with partners in responding to specific types of demand. In the area of customs, the customs practice already works closely with the WCO and directs certain types of requests to the WCO and vice versa, In the competitiveness area, support for export promotion agencies and addressing information externalities is a core competence of the ITC; negotiation training is a core activity of UNCTAD/WTO,[28] while FAO and UNIDO have significant expertise and capacity on issues concerning product standards.

Box 7: WTO Trade Facilitation Negotiations Support Program

In 2005 the Bank launched a program designed to support the achievement of an ambitious and development friendly WTO Trade Facilitation Agreement that would act as a catalyst for obtaining government commitment to deep trade facilitation related reforms in developing countries. The program has been led by the Bank and has involved close cooperation with the WTO Secretariat and several key partners including the IMF, WCO, UNCTAD, and the OECD. The Bank's work has been acknowledged by both developing and developed country members and has contributed to positive progress being realized in the negotiations. In addition, it has led to requests for Bank assistance in trade facilitation related areas in advance of a new WTO agreement. In several cases Bank projects are now under development as a direct result of the Bank's participation in these national needs assessments.

As part of the program the Bank developed a comprehensive tool for assessing technical assistance needs and priorities at the national level. The tool has now been deployed in over 100 countries as part of a partnership between the Bank, the WTO Secretariat and several key international organizations with financing provided through a multi-donor trust fund established specifically for this purpose. The next phase of support will involve the conduct of a series of detailed case studies to provide practical information to negotiators on the challenges associated with effective implementation of new trade facilitation commitments flowing from the negotiation process. While prospects for a successful conclusion to the trade facilitation negotiations are tied to the wider DDA there is significant potential for some form of practical early harvest at least in terms of the delivery of trade facilitation related development assistance. All members of the development community are already actively supporting trade facilitation reform and modernization and it is likely that they would respond positively to requests for implementation support in advance of the conclusion of the wider DDA particularly as it could be categorized as a positive Aid for Trade deliverable.

Trade and trade policy data generation and dissemination*:* As already mentioned, important gaps remain in the quality of trade and policy-related information. Addressing these constraints requires a concerted effort to share costs and avoid duplication. The Strategy will focus on helping countries mainstream trade into their statistical development strategies at national and regional levels, as well as into government results monitoring and evaluation systems, and expanding trade data and information systems available globally so that they can be used to assess regulatory and other barriers to trade (including services trade), as well benchmark indicators to assess performance.

Partnerships are a key element of the approach that will be taken to address data gaps and disseminate data. An important example is the Transparency in Trade (TNT) data initiative, a proposed partnership of the ITC, UNCTAD, AfDB and the WBG with support from UNSD that comprises a joint multi-year program of data collection, capacity building and open-access provision of trade and trade policy data. The objective is to join forces to collect data that complements what is reported by the WTO, integrate their use with each other and with related databases, and to build capacity at the national and regional levels to make its maintenance sustainable. The range of data already available under WITS, which includes trade volumes and values, and tariff schedules, is being extended to non-tariff measures, including anti-dumping and other contingent protection measures, and policies affecting trade in services. The partner

[28] And is also a focus of bilateral assistance. A recent example is the decision by the UK to establish an Advocacy Fund for LDCs and low-income countries to boost their capacity to develop negotiating strategies and to promote their interests in trade disputes and reforms to the policy-making architecture (UK, 2011).

organizations have already begun work to integrate WITS with the ITC's data tools. This will help users by reducing duplication in products offered by international organizations and to exploit synergies between them.

IMPROVING INTERNAL AND EXTERNAL COORDINATION

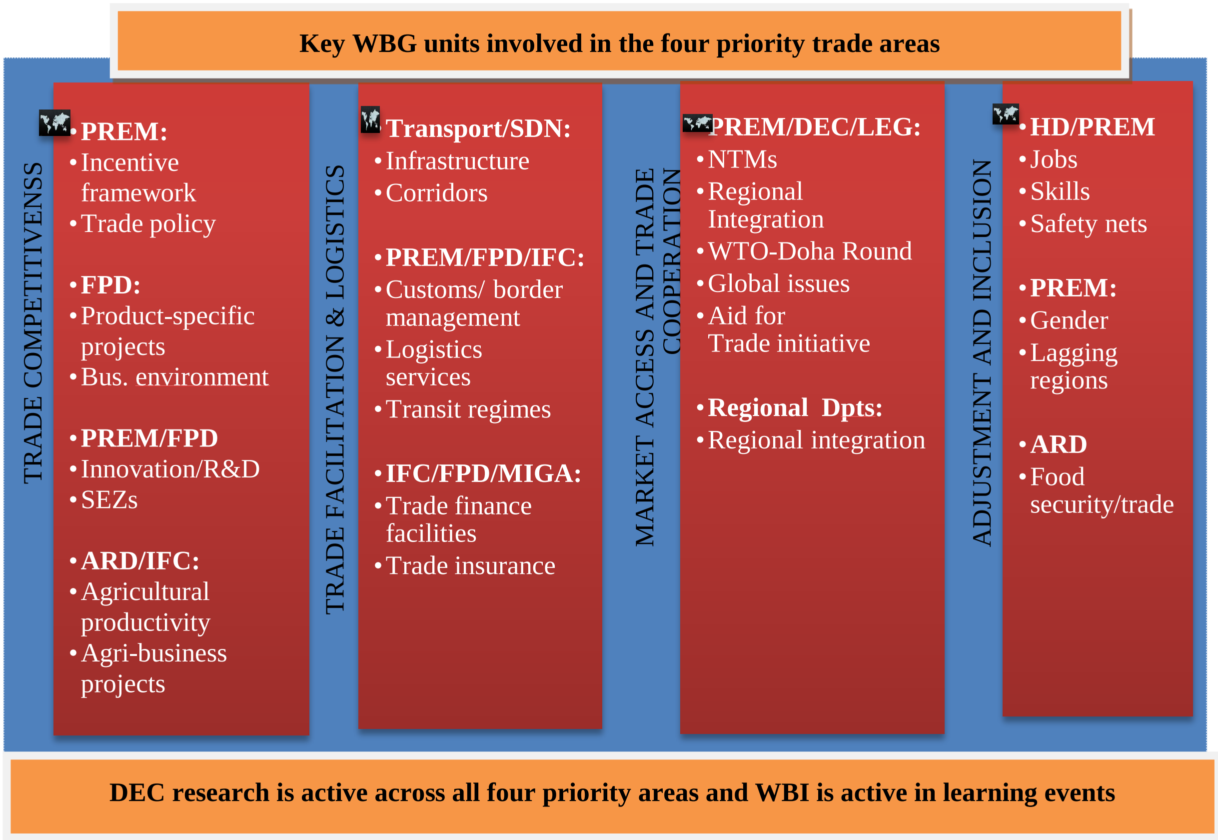
The trade agenda spans multiple "sectors" and domestic policy areas, as well as traditional border policies. A result is that trade may not be considered in the design of projects and programs that have an important bearing on the ability of firms and farms to benefit from trade opportunities, be they in transport, agriculture, the financial sector, and so forth. In the WBG, trade is not a "sector," reflecting the fact that trade is inherently a cross-cutting issue. As illustrated in Figure 12, numerous units across the various networks undertake activities that have a trade dimension, including Finance and Private Sector Development (FPD), Agriculture and Rural Development (ARD), Transport, ICT, Regional Integration Departments (in Africa, South Asia, and MENA), LEG (the LEGPS Trade Law Working Group), Investment Advisory Services (CIC), IFC, MIGA, PREM, DEC, WBI, and LEG. Many of these entities have both central and regional units.

A consequence is that coordination failures can easily occur and that opportunities for synergies and complementarities are missed. Staff and skills are fragmented across the World Bank and there is often overlap in activities, leading to instances of uncoordinated views and policy advice. For example, trade facilitation support to operations is handled by PREM, the Transport Anchor in SDN, and CIC/FIAS with only limited coordination across units. There is also little interaction across regions. Task managers in different regions often work on similar topics yet do not communicate because there are limited information-sharing opportunities and incentives at the staff level.

To address these challenges, the Strategy proposes four actions: (i) the development of multi-year trade programs by each of the Regions (discussed above); (ii) establishing several new "communities of practice"; (iii) creating an internal Bank Group-wide Trade Council to coordinate WBG trade support and, (iv) establishing more regular interactions between the Trade Department and key partner organizations, trade practitioners and policy institutes (e.g., directors of regional research networks).

The practices and the Council will support the implementation of the regional trade strategies and work programs. The practices will center on the trade facilitation/logistics and competitiveness pillars of the Strategy as those are affected most by the fragmentation of units and skills across different parts of the Group. In addition, the Regions may also adopt a practice approach to improve intra-Regional cooperation and coordination of trade support activities.

Figure 12: Trade activities cut across many parts of the WBG



Source: Bank staff.

- **Cooperation and coordination across the four pillars**

In the context of institutional reforms within the WBG to improve the operation of the matrix structure, several new communities of practice are being formed. These bring together specialists working on common issues from different Regional and Sector units. They are intended to provide a mechanism for sharing human resources across Regions and facilitating the transfer of knowledge and experience both horizontally (from one Region to another) and vertically (between downstream operations and upstream analysis). The specific institutional form these cross-cutting groups take will vary. The two models that are most appropriate to the trade area are global expert teams and communities of practice. The former will be put in place for the trade facilitation and logistics activities while the latter will be a key feature of trade competitiveness activities.

A global expert team (GET) for trade and transport facilitation/logistics: A GET comprises a group of staff with technical expertise in an area who work on either a cross-country basis (in a central, Network Anchor unit) or for a Region. A GET proposal has been developed for trade and transport logistics and submitted to the Bank's Knowledge Learning Council for approval. The GET would include staff from Transport, PREM, LEGPS, DEC, IFC Advisory Services, MIGA and FPD and would be managed by a senior technical specialist/advisor and provide the coordinating mechanism for work on this topic, including through identification of opportunities for allocating staff time across projects in different Regions depending on demand.

Box 8: The Competitive Industries Global Practice

During consultations on the trade strategy, many stakeholders called for product/sector-specific assistance that goes deeper than a focus on the broad investment climate. Middle-income countries in particular stressed the need for the WBG to provide advice and services that revolve around improving the conditions for investment in specific product lines and improving the operation of specific supply chains.

Responding to these calls, and as an element of its Competitive Industries practice, the Finance and Private Sector Development network of the World Bank Group is launching a new tool that supports public-private competitiveness partnership initiatives (CPI) for developing industries that can compete effectively in global markets. This program will operate through the following steps:

- Governments, firms, and other market players jointly identify areas of comparative advantage and constraints that inhibit firms from competing effectively. They establish a formal competitiveness partnership, which defines and initiates a targeted CPI Action Plan to systematically remove constraints. These plans will contain a set of clearly defined quantitative targets will be set to measure success, such as new employment generated directly (by market creators) and indirectly (by intermediates and foundation providers), amount of new investment generated, growth in sales and export revenue, etc.
- FPD will support the competitiveness partnership, first through a rapid analysis of the competitiveness of a country's existing industries (with a particular focus on the demand side), followed by detailed, technical analysis at the sub-industry/product level to identify binding constraints at the firm level, along the supply chain, in foreign markets, and in public-private interaction.
- The WBG, working jointly with other development partners, will assist in developing a support program in line with the CPI Action Plan. Making use of all tools at its disposal – be it financial support to the government through lending operations, analytics and advisory services as well as direct investments with the private sector - the WBG would structure its support so as to actively support the CPI in the targeted removal of constraints and systematic build-up of these identified industries.

Recognizing the multi-dimensional macro and micro complexities in delivering such a programmatic approach, the CPI umbrella would bring together a wide range of products and services across the institution.

A trade competitiveness practice: In the competitiveness area matters are more complex, given the multi-dimensional macro and micro dimensions of any effective programmatic approach. The aim is to use the Competitiveness Partnerships Initiative under FPD's Competitive Industries global practice umbrella (Box 8) to bring together a wide range of products and services across the institution, including FPD (removing binding constraints, investment attraction, financial markets), PREM (trade and export competitiveness), DEC (overall research), WBI (governance, political accountability and capacity building), IFC (investments and advisory services), MIGA (political risk guarantees), LEG (trade law, legal and regulatory adaptation, and trade dispute resolution mechanisms) and Regional WB teams (lending operations, special economic zones, inclusive growth through growth pole and competitiveness approaches, etc). The objective will be to leverage all internal resources in a coordinated manner to avoid fragmented operations and thereby maximize impact.

The precise contours and content of a trade competitiveness practice is still being developed as it must complement the structure that is being put in place in the ongoing restructuring of FPD. In the case of PREM, an ***integrated business line*** on growth, competitiveness and trade (led by PRMTR) has been established that connects staff members in PREM who are mapped to different units working on competitiveness-related projects, including macro/fiscal dimensions, innovation, skills and gender. The objective is to coordinate work programs to develop more integrated operational knowledge products, toolkits and delivery of services. At this time, discussion with some of the Regions suggests that a first step towards adopting a practice model is to bring together staff working on trade within the same Region. These staff will primarily be mapped to PREM, FPD, LEG, Transport and IFC (Advisory Services). The regional trade practices would be represented on the proposed new Trade Council.

Coordination of work in the third area will revolve primarily around central units (PRMTR, DEC, LEGPS) and the regional integration departments, with research on and delivery of knowledge products that have public good characteristics (tools, datasets, etc.) guided by the new Trade Council.

Finally, activities in the area of adjustment to trade shocks and inclusiveness do not require new coordination mechanisms as these are already the responsibility of specific sector units—e.g., PRMPR/HDN and the poverty sector board for labor market/adjustment policies and safety nets; PRMGE on gender,[29] ARD for food security, etc. Work in these areas will be guided by the relevant sector strategies, with the Trade Department and Regional PREM units taking on an "integrator" role to work with the relevant units to support a focus on the trade dimensions of these issues.

- **A Bank Group-wide Trade Council**

An internal Bank Group-wide Trade Council will be formed to guide and oversee implementation of the Trade Strategy and to ensure coordination in providing WBG support for trade.[30] Members will comprise the leaders of Regional trade practices/units, operational directors/managers of WBG units that undertake significant trade activities as well as central units (including DEC, IFC, MIGA, WBI, FPD, LEGPS, ARD and TWI). The Council will be chaired by the Director of the Trade Department.

The Council will meet regularly to discuss Regional work programs, monitor implementation, and develop collective responses to emerging trade issues. The Council will promote synergy between WBG activities at country, regional, and global levels and provide guidance on linkages between the Strategy and other sector strategies.[31]

The core functions of the Trade Council will include:

> ***Implementation of the Strategy***: discussing and sharing information on regional work programs; monitoring the functioning of the various trade practices – both regional and technical;

[29] The Trade and Gender units in PREM are jointly preparing guidance notes to help integrate gender dimensions into trade-related programs, especially the pillars, so as to show task managers how this can help create a winning situation all round.

[30] This entity would differ from existing sector boards in that it will have no responsibility for staff recruitment, mobility and advancement reflecting the multi-dimensional and cross-cutting nature of the trade agenda.

[31] The Trade Strategy supports the realization of the objectives in a number of sector strategy papers, including the Transport Business Strategy's call for work on the institutional infrastructure for "transport for trade"; the Agriculture Action Plan, which includes a focus on linking farmers to markets and strengthening value chains, and recognizes that food security is linked closely to trade integration; the Energy Strategy approach paper, which highlights the role of energy trade in meeting demand, addressing energy security, and mitigating climate change. The Environment Strategy consultations (currently underway) are exploring tax and regulatory measures that have implications for trade flows and trade agreements. See Annex 2 for a summary of linkages across strategies.

Knowledge management: systematize knowledge, improve the flow of knowledge within and across Bank teams, and increase interactions with outside knowledge partners;

Partnerships: help teams build on external partnerships to leverage the Bank's trade work and define and establish internal partnerships; and

Quality enhancement and staff training: promote strengthened and consistent quality of trade support across the Bank through tools, analytical work, and reviews and identification of staff training needs and delivery opportunities.

The Trade Council would report annually to the Board of Executive Directors on the progress that is being made in implementing the Strategy. The Council would also act as the internal governance mechanism for the allocation of donor-financed trust fund resources to support activities under each of the four pillars.

BANK RESOURCES AND FUNDING

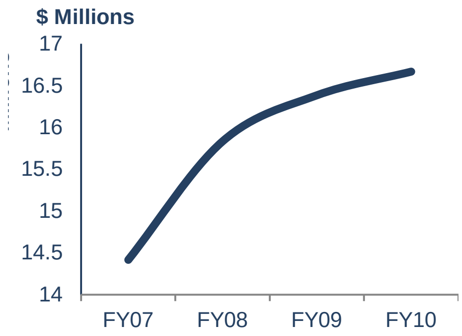
The implementation of the Trade Strategy assumes a flat budget – implementation is not conditional on and does not assume additional Bank resources. However, the budget situation implies that the Bank will be constrained in the volume of trade activities, especially in the provision of global public goods (e.g. cross-country data sets and related tools) and the knowledge agenda, by regional and central units. Trust funds, such as the MDTF, will allow the WBG to do more in these areas.

The WBG has been devoting significant resources to the trade agenda, a trend that has accelerated in recent years. This increase in Bank resources is illustrated by the creation of the International Trade Department in 2008 and a 38.6 percent increase in the budget allocated to trade by PREM between fiscal years 2008 and 2011. A similar trend is observed in several other networks and regions. The Africa region, for example, created a regional integration department in 2005 with the objective of investing 10 percent of IDA resources in regional projects, has hired four trade economists in recent years, and has a large number of trade-related projects underway ranging from corridors to border management improvement to SEZs and agribusiness. As important as the number of activities is the increasing attention on complementing infrastructure investments with initiatives to facilitate trade and remove policy barriers to cross-border trade. The Arab World Initiative has increased the focus in the MENA region on the regional trade agenda. IFC has very substantially ramped up its activities in support of the trade agenda by increasing its focus on trade finance, investments in trade facilitation and logistics, and distribution services for agribusiness and other sectors, as well as in providing advisory services. The same is true for MIGA.

Own Bank resources spent on ESW, TA[32] and Knowledge Product activities have increased steadily since FY07 (Figure 13). These are now being used to inform projects and lending programs at the country and regional levels. Bank resources allocated to trade activities are expected to continue to expand in relative terms to cover the costs associated with the various internal coordination mechanisms that are proposed to implement the Strategy.

[32] AAA activities include ESW, TA, impact evaluation (IE), donor aid coordination (DA). Other AAA product lines include research services (RF) and external training (TE), which are sponsored by DEC and WBI, respectively.

Figure 13: Bank Funding for ESW / TA / KP activities has been rising since FY07



Source: SAP / Business Warehouse

The WBG has benefitted from donor trust funds to co-finance various aspects of its trade program. Much of the pioneering research on the Doha Round negotiations, trade and poverty, agricultural policy distortions, and trade costs would likely not have taken place without these external resources. Large ($10–15 million) multi-donor trade trust funds established in Cambodia, Lao PDR, and Indonesia are supporting important technical assistance programs in those countries. The Bank has carried out comprehensive trade diagnostics in most LDCs, many of which were undertaken in the context of the Integrated Framework for Trade-Related Technical Assistance for LDCs (now the EIF). A multi-donor trust fund (MDTF) established in November 2007 to mainstream trade into country programs has been instrumental in increasing deliveries of trade-focused policy analysis and technical assistance, making especially important contributions in the areas of regional integration and services trade. In 2009 a $40 million Trade Facilitation Facility was launched to support technical assistance for trade facilitation reforms and investments, and an Aid for Trade Coordination Council, consisting of representatives from the Bank and donors contributing to Bank-wide trust funds, was established to ensure greater coordination of these trust funds.

As the existing MDTF expires in June 2011, a new multi-donor trust fund will be established to allow interested donors to support implementation of the Strategy. This new fund will support the Regions to allow them to scale up regional trade work programs, as well as global research, analysis and collection/maintenance of cross-country datasets.[33] The Trade Council would act as the internal governance mechanism for ensuring that Regional programs are consistent with the objectives of the Strategy.

FLEXIBILITY

The Trade Strategy will be implemented over ten years with the four priority areas currently identified being the focus of work for at least the next five years. In order to allow for the possibility that trade priorities change for clients over the duration of the Strategy an interim assessment will be undertaken in year three to take stock of progress and propose any necessary realignments to the four pillars.

[33] Since the benefits from research, the provision of cross-country datasets and diagnostic/analytical tools, and analysis-based advocacy on global trade-development issues are not country-specific, and in the wake of the recent crisis, budgets and staff time are being prioritized for supervision/implementation of a greatly expanded loan portfolio, resources for cross-country policy analysis, research, data and capacity-building are limited. A MDTF will allow the WBG to scale up its delivery in these areas.

5. MONITORING AND EVALUATION OF RESULTS

Aid effectiveness is a central issue for the WBG's trade-support activities as well as in the wider debate surrounding the impact of the multilateral Aid for Trade initiative. The Bank has established a robust results monitoring framework around a double objective: (i) to ensure that its activities, be they contributions to global public goods, knowledge and learning products, trade-related data, AAA, or Technical Assistance and lending, all contribute to achieving its overall mission; and (ii) to leverage the knowledge generated by its own activities for a better understanding of the binding constraints faced by traders in developing countries.

The results framework for trade-related activities is articulated into a series of performance measures, indicators, and measureable impacts. The WBG is working to improve this framework along two broad axes: (i) a stronger articulation of evaluation and data/knowledge-development strategies; (ii) improved monitoring and evaluation (M&E) methodologies.

Consistent monitoring of indicators at the country level requires a careful articulation of the M&E framework with long-term data and knowledge-product development strategies. Notwithstanding the conceptual difficulties raised by the use of synthetic indices, in particular in terms of attribution, indicators recently developed by Bank researchers provide useful metrics to monitor progress in many areas. For instance, improvements in border modernization and trade facilitation can be assessed partly through better Logistics Performance Index scores. Reductions in non-tariff barriers to trade can be monitored through the service-trade restrictiveness, NTM and TTBD databases. Competitiveness outcomes can be monitored through the transactions-level database developed with customs administrations. Critical information on the contribution of trade to poverty reduction can be garnered by combining trade data with household surveys. The WBG is devoting a great deal of attention to further developing and refining the accuracy of these and other available metrics.

While drawing on generally accepted M&E principles based on the logical sequence of activities (logframe), WBG evaluation methodologies for trade-related activities are improving through more systematic collection of specific data and adoption, wherever practical, of impact-evaluation (IE) methods used in other areas of development. For interventions such as export promotion or technical assistance that target individual stakeholders (e.g. exporters, SMEs, individual entrepreneurs, or farmers), IE methods rely on the benchmarking of the beneficiaries' performance against that of a "control group" of similar non-beneficiaries. This approach is not suitable for all trade-related activities but lends itself best to certain TA and lending activities explicitly benefitting firms and individuals. Examples of this approach include the recent DEC/PRMTR evaluation of Tunisia's export-promotion program (Gourdon et al. 2011). When benchmarking through a control group is not feasible, M&E relies on careful before and after comparisons of outcomes measured through surveys and quantitative data.

- **The Trade Strategy Results Framework**

Table 1 below summarizes the results framework. It is organized around three broad categories of results: (i) indicators of global progress; (ii) WBG-supported results in client countries; and (iii) results by the WBG.[34] The first category monitors very broad indicators of progress in the ability of firms in developing countries - especially low-income ones - to take advantage of opportunities on international markets. These indicators include sectoral diversification, market reach, and survival

[34] The results framework does not cover the IFC's trade finance programs and products; these are defined in the IFC Road Map FY12-14 – *Impact, Innovation and Partnership.*

on export markets, three important margins of export development and sustainability at the firm and country levels. They also include measures of the importance of services trade, both on the export side, which reflects service providers' competitiveness, and on the import side, which reflects the ability of firms in all sectors to benefit from high-quality service providers. These indicators primarily reflect the joint action of all stakeholders in the trade and development community.

The second bloc of results focuses on WBG-supported results in client countries, relying on indicators defined essentially at the country rather than project level, as well as indicators for developed countries in areas where the impacts of their trade policies (e.g. agricultural export subsidies; NTMs) are adverse for developing countries. These outcomes, while being influenced by WBG work and advocacy, are subject to many confounding factors, including many (non-trade) flanking policies which can work at cross-purposes with trade-opening agendas at the country level, pursuing different societal objectives such as conservation or consumer safety. Thus, the interpretation of these indicators and targets should make allowance for factors outside of the WBG's span of control and are best seen as relevant to the multilateral Aid for Trade initiative more broadly.

With this caveat, the wealth of country-level indicators used in this category is designed to provide a reasonably comprehensive picture of trade policies, taking into account their increasingly complex and multi-faceted nature. It reflects the considerable effort made by WBG staff to close existing knowledge gaps by creating indicators and databases that extend the well-established monitoring of tariffs (Tariff Trade Restrictiveness Index) to non-tariff measures (Overall Trade Restrictiveness Index, based on the new NTM database), contingent-protection measures (Temporary Trade Barriers Database), service-trade policies (Service-Trade Restrictiveness Index and Service Policy Certainty Index), and logistics (Logistics Performance Index). Some of these indicators are also aligned with the guideline indicators used in the Country Policy and Institutional Assessment (CPIA) criteria for donor aid allocation to low-income countries, specifically criteria (b) on structural policies, which also feeds into the IDA Resource Allocation Index.

Indicators on the development of national competitiveness and trade facilitation strategies are also important. While these themes are often subsumed in national development strategies, the use of competitiveness and logistics strategies as focal points raises the profile of trade in client countries. In addition, having access to strategies in specific areas relating to trade, serves as a legitimate basis for stakeholders within developing countries to build stronger constituencies for trade reform, including with Ministries of Finance that most often set the economic policy agenda and have the greatest convening power. The development of growth strategies alone will not have these impacts.

The third category covers organization and operational effectiveness. It spans outcomes and results in the main priority areas or themes identified by the Strategy. For knowledge products and AAA activities, indicators are relatively straightforward. For project activities in TA or lending, a distinction must be made between project-level and activity-level indicators. Project-level outcomes are measured by specific improvements directly attributable to each project (see Box 9 for an example), whereas activity-level outcomes are measured by the overall impact of "lines of products".

One of the Result Framework's key challenges is to define, for each category, indicators that are both reliable and meaningful in terms of achieving key development objectives. Measurable indicators imply, among other things, that a baseline is available at the start of the activity or the project, which in practice may constrain the choice of indicators.[35] Groups of activities with similar

[35] Where baseline information is not available attention is often given to its preparation during project identification.

focus should also share core indicators that can eventually be aggregated. For instance, trade facilitation projects monitor outcomes in terms of reductions in delays or improvements in reliability of international supply chains. Indicators typically include customs clearance times, dwell times in ports, or transit times in trade corridors. Data are generally available in these areas or can be collected relatively easily and are typically reliable enough to provide credible baseline values.

Box 9: Russia's Customs modernization project

In 2003, the Russian Federation's Federal Customs Service, with the support of the World Bank, launched the Russian Federation Customs Development Project, a reform and modernization project focused on achieving major improvements in the efficiency and effectiveness of customs operations in the Central and Northwest regions. The project aims to: promote internationally acceptable practices for processing of international trade flows by Customs to further integrate the country into the world trading community; increase taxpayer compliance with the Customs Code; increase transparency; and increase timely transfer of collected revenues to the Federal budget.

In 2010, a comparative analysis of project indicators was completed as part of the Bank's ongoing M&E process. Six primary-project-performance indicators, agreed on at the start of the project, are used to monitor progress. They focus on the percentage of declarations selected for inspection; the average customs clearance times for vehicles and shipments; the compliance gap and enforced compliance in tax/duty collection. As of 2010, the project had achieved a:

- 75 percent improvement in the percentage of import declarations selected for physical inspection;
- 88 percent improvement in the percentage of (non-energy) export declarations selected for physical inspection;
- 62 percent reduction in the average customs clearance times at the border (vehicle customs checkpoints);
- 80 percent reduction in the average customs-clearance times;
- 58 percent improvement in the compliance gap; and
- 97 percent improvement in the rate of enforced compliance in tax and duty collection.

- **Monitoring of Results**

Results will be monitored through i) continued data collection on the impact, outcome and performance indicators to be used in the results framework; ii) collaboration with DEC and their work program on impact evaluation of trade-related policy interventions; and iii) the Trade Council which will review and discuss progress on the results indicators.

Table 1: Results Framework

Impact Indicators

Indicator	Means of Verification	Baseline	Projections 2016
1. Impact: Global Progress			
Lower poverty through increased competitiveness and higher labor productivity	Population living on less than US$1.25/day (%) from PovcalNet	25.2% (2005 baseline)	14.4%
Increased diversification of low-income countries' exports	Sectoral concentration index from WITS (Herfindahl)	0.19 (average for LIC nonoil exports)	5-15 percent reduction
Increased market reach of low-income countries' exports	Geographical concentration index from WITS (Theil)	2.61 (average for LIC)	5-15 percent reduction
Export sustainability	Firm-level Customs data	38 percent (average first-year survival rate)	Improvement for at least 10 to 20 countries
Service-trade expansion	Share of service trade in GDP (IMF BOP)	11 percent (average for LIC)	14-18 percent
Improved logistics performance	Logistics Performance Index (LPI)	2.2 (average LPI score for bottom quintile)	15-20 percent increase for the bottom quintile.

Outcome Indicators

Indicator	Means of Verification	Baseline	Projections 2016[36]
2. WBG Supported Results			
Number of developing countries that have applied trade related diagnostic tools (Transport and Trade Facilitation audits, Competitiveness Diagnostics, etc)	World Bank data systems	5	20-30
Number of developing countries with CASs that address trade/gender linkages and/or informal trader issues	CAS	0	10
Number of developing countries adopting national trade facilitation strategies	TTFAs	10	20-30
Number of developing countries adopting national competitiveness strategies/partnerships	CPI M&E framework[37]	0	20-30
Number of developing countries showing progress in implementation of national competitive strategies	STRI[38], SPCI[39], TTRI[40], OTRI[41]	0	15-20

36 Projections are based on current estimates of future client demand.
37 CPI- Competitiveness Partnership Initiative
38 Services Trade Restrictiveness Index.
39 Services Policy Certainty Index.
40 Tariff Trade Restrictiveness Index.
41 Overall Trade Restrictiveness Index; includes non-tariff measures. Higher value means more protection.

Outcome Indicators (continuation)			
Indicator	**Means of Verification**	**Baseline**	**Projections 2016**[42]
2. WBG Supported Results			
Number of developing countries with trade logistics TA and advisory services	IFC	FY08-10 average	20-25
Regional cooperation to improve transit regime on specific corridors	Transit agreements and regional guarantee schemes in place	0	3-5
Regional trade knowledge platforms established	World Bank data systems	0	3-5
Number of countries, both developing and developed, with fully transparent NTM disclosure	NTM databases, OTRI	20	40-50
Number of countries, both developing and developed, using trade impact assessments for NTMs	WB analytical work, OTRI	0	3-5

Performance Indicators (Change in Bank actions to support countries)			
Indicator	**Means of Verification**	**Baseline**	**Projections 2016**[43]
3. Operational Effectiveness			
Trade facilitation and trade competitiveness mainstreamed in policy dialogue	Number of Bank policy documents with substantial coverage of trade facilitation and competitiveness issues (World Bank data systems)	FY08-10 average	4-6 percent increase per year
Trade Portfolio performance	Percent commitments at risk	16% (avg FY-07-10)	Decrease to 12-14%
Use of impact evaluation for trade related projects	World Bank data systems	0	2-3
4. Organizational Effectiveness			
Regional trade strategies/work programs	Trade Council	0	4-6
Technical practices/GETs	Trade Council	1	3-4
Regional trade practices	Trade Council	0	2-4

[42] Projections are based on current estimates of future client demand.
[43] Projections are based on current estimates of future client demand.

Annex 1: World Bank Group Trade Strategy Consultations

The views of diverse stakeholders were expressed in consultations with the World Bank Group and informed the new Trade Strategy. These consultations were held with governments, the private sector, civil society, regional economic communities, RDBs, other international organizations and bilateral donors. The Strategy Approach Paper was also posted on the Web for public comment during April – September 2010 on www.worldbank.org/tradestrategy, where all the information related to the process can be found.

Overall there was strong support for the products and services that the WBG has been providing in the trade area. The four priority themes that are the core of the proposed Trade Strategy are ones that arose most frequently in the consultations. Issues and areas that were raised in many consultations included the following:

Governments, partners and NGOs looked to the Bank to increase its advocacy and research on global trade/development policy issues—an area where there was a general perception that the WB has a clear comparative advantage, capacity and track record. Subjects for such analysis and engagement that came up often included the operation of commodity markets (global prices; volatility of prices; food security), impacts of climate change and related policies on trade, and the repercussions of the financial crisis for global trade and investment patterns.

Agricultural trade issues figured prominently in many of consultations, with many suggestions for continued and expanded engagement by the WBG on agricultural trade at both the country and the regional/global levels.

A widely held view is that the WBG needs to expand its work at the regional level. Initiatives such as the creation of the Regional Integration Department in Africa were seen as a step in the right direction but many called for a greater focus on assistance to address challenges of integrating regional markets for goods and services as well as improving infrastructure. Specific suggestions that often came up included ESW, to identify options for regional regulatory cooperation (e.g., product standards; NTBs, services trade; "behind-the-border" policies that will promote development), and doing more to monitor implementation of regional integration agreements (in cooperation with RDBs and regional bodies). Regional energy and water infrastructure also came up in several meetings as important areas for expanded WBG support.

There were numerous calls for more product- or activity-specific assistance that goes deeper than a focus on the broad investment climate. Middle-income countries in particular stressed the need for the WBG to provide advice and services to improve the conditions for investment in specific activities and improving the operation of associated supply chains.

Related to this were frequent suggestions that the WBG do more to help strengthen the capacity of firms, NGOs (e.g., research institutions), and regional organizations, and not to focus primarily on capacity-building of national or local governments. The need to focus more on improving productivity and export competitiveness at the firm-level came up often.

There was universal agreement that results monitoring and evaluation are critical, and the need to ensure that the requisite data and indicators exist/are developed. There were frequent demands for better access to trade data and software tools—especially for building governments' own trade statistical capacity, but also for improving global datasets, monitoring indicators, and data tools.

A longer summary of how the trade strategy addresses frequently raised suggestions made during the multi-stakeholder consultations can be found on the Bank's trade website (www.worldbank.org/trade).

Annex 2: Linkages between Trade and Other Bank Strategies

Sector	Strategic Priorities	Linkages to Trade Strategy
Agriculture Action Plan (2010-2020)	1. Raise agricultural productivity 2. Link farmers to markets and strengthen value chains 3. Reduce risk and vulnerability 4. Facilitate agricultural entry and exit and raise rural non-farm incomes 5. Enhance environmental services and sustainability	**Trade contributes to Agriculture:** • Improve competitiveness through trade liberalization • Diversification into and within agriculture markets, creating opportunities for the rural poor, women and other vulnerable populations • Potential to increase food security and reduce food price volatility • Help farmers move from subsistence to market orientation and escape poverty **Agriculture contributes to Trade:** • Crop diversification lead to new export products • Improved productivity and efficiency promotes trade competitiveness
Private Sector Development 2002	1. Extend the Reach of Markets: sound investment climate for poor areas to create jobs and entrepreneurial opportunity 2. Basic Service Delivery: Where it makes sense, new entry of private providers, including by small and medium local entrepreneurs 3. PSD and environmental sustainability	**Trade contributes to PSD:** • Market access and trade liberalization extend the reach of markets • Open markets promote private sector efficiency • Increased export diversification contributes to economic growth • In small economies, trade and exports are critical for growth **PSD contributes to Trade:** • Improved investment climate lowers costs and risks, improving export competitiveness • Firm dynamism (entry and exit), innovation and quality are keys elements for export diversification and sophistication • Access to new service provider increase quality, and competitiveness of exports
Transport Business Strategy 2008-2012	1. Create conditions to increase support for transport investment 2. Deepen engagement in the roads and highways subsector and urban subsector 3. Diversify engagement in transport for trade 4. Transport and climate change: control emission and mitigating impact	**Trade contributes to Transport:** • Creates demand for investment in improved transport **Transport contributes to Trade:** • Better transport services and infrastructure facilitates and reduces cost of trade • Creates new trade linkages, especially for lagging regions, supporting the poor, women and other vulnerable populations
Governance and Anti-Corruption 2007	1. Recognize that a capable and accountable state creates opportunities for the poor 2. Country-driven Governance and Anticorruption policies & implementation 3. Support even poorly governed countries	**Trade contributes to Governance and Anti-Corruption:** • Trade agreements can curb corruption and promote improved governance • Trade facilitation measures reduce corruption and improve transparency at the border **Governance and Anti-Corruption contributes to Trade:** • Supports improved transparency of government agencies • Reduces opportunities/incentives for rent-seeking

Sector	Strategic Priorities	Linkages to Trade Strategy
World Bank Post-Crisis Strategy 2010	Goal: Overcome poverty 1. Target the poor and vulnerable 2. Create opportunities for growth 3. Provide cooperative models 4. Strengthen governance 5. Manage risk and prepare for crises	**Trade contributes to Post-Crisis Strategy:** • Strategy promotes inclusiveness, including poor, women and vulnerable populations • Trade creates opportunities for growth and job creation **Post-Crisis Strategy contributes to Trade:** • Supports governments to manage risks and vulnerabilities associated with more open markets
Information, Communications and Technology 2010	1. Connect: Expand affordable access to ICTs 2. Innovate: across the economy and promote the growth of IT Based service industries 3. Transform: Support ICT applications to transform efficiency and accountability of services	**Trade contributes to ICT:** • Improves market access for trade in services **ICT contributes to Trade:** • Enable cross-border trade in services • Improves efficiency/competitiveness of firms in traded sectors • ICT applications open new export marketing channels • ICT applications support trade facilitation
Science, Technology and Innovation Action Plan 2009	1. Form partnerships 2. Carry out Inclusive Innovation Assessments & Projects 3. Organize workshops and forum for promotion and dissemination 4. Provide policy advice and capacity building 5. Provide information on what other STI actors are doing	**STI contributes to Trade:** • Enhances competitiveness in traded sectors • Enables firms and countries to move up the value chain, promoting export diversification
Environment Strategy 2001 (new strategy still in progress)	1. Improve the quality of life 2. Improve the quality of growth 3. Protect the quality of the regional and global commons	**Trade contributes to Environment:** • Promotes competitiveness through trade in services, including energy- and environment goods and services
Energy Strategy Approach Paper	1. Improve the operational and financial performance of the energy sector 2. Strengthen governance	**Trade contributes to Energy:** • Promotes competitiveness through trade in services, including energy-related services **Energy contributes to Trade:** • Promotes trade competitiveness by promoting greater energy efficiency
Climate Change (Strategic Framework)	1. Support country-led climate action 2. Mobilize additional concessional and innovative, market-based finance 3. Leverage private sector resources 4. Accelerate development and deployment of new technologies 5. Step up policy research, knowledge and capacity building	**Trade contributes to Climate Change:** • Promotes trade in services, including renewable energy
Health, Nutrition and Population Results 2007	1. Improve level and distribution of HNP outcomes (e.g. MDGs), outputs, and system performance 2. Prevent poverty due to illness (by improving financial protection) 3. Improve financial sustainability of sector and contribution to macroeconomic and fiscal policy and to country competitiveness	**Trade contributes to Health:** • Improved market access and trade facilitation promotes food security and nutrition • Improved market access and trade facilitation improves access to pharmaceuticals and medical technologies **Health contributes to Trade:** • Improves competitiveness in a tradable sector (health tourism)

Sector	Strategic Priorities	Linkages to Trade Strategy
	4. Improve governance, accountability, and transparency of sector	
Education Strategy	1. Strengthen the Education System 2. Build a high quality knowledge base	**Trade contributes to Education:** • Creates demand for education and training services • Trade liberalization reduces costs and improves access to educational materials and supplied **Education contributes to Trade:** • Improves competitiveness in a traded service sector, including professional and ICT enabling services
Social Development Strategy 2005	1. Improve macro-level analysis that incorporate social development into poverty reduction/development strategies 2. Promote efficient mainstreaming of social development into projects 3. Improver research, capacity building and partnerships	**Trade contributes to Social Development:** • Strategy promotes inclusiveness and poverty reduction **Social Development contributes to Trade:** • Social analyses help identify factors affecting trade and consequences of policy options
Social Protection and Labor Strategy ***Emerging issues for 2012***	1. Prevention against income shocks 2. Protection from destitution and catastrophic losses in human capital losses 3. Promotion of improved opportunities and livelihoods, notably through access to better jobs and opportunities	**Trade contributes to SP+L:** • Promotes greater competitiveness, export growth and creation of better jobs **SP+L contributes to Trade:** • Social protections and liberalized labor markets reduce costs associated with trade adjustment • Labor market information facilitates trade-related structural adjustments
Three-Year Road Map for Gender Mainstreaming (2011-2013)	1. Address women's empowerment and gender equality issues to achieve sustainable development based on both internal and external analysis. 2. Monitor gender integration in operations, gender-informed policy dialogue, and direct project beneficiaries to strengthen a result oriented framework. 3. Work closely with clients to expand country counterparts' capacity to design, implement and monitor gender-sensitive policies and programs. 4.Strengthen data collection, capacity building; and country-specific gender analysis to strengthen gender diagnostics	**Trade contributes to gender** • Reshuffling resources across and within sectors, the adjustment process of trade liberalization can affect differently women and men labor market outcomes due to the presence of gender inequality • Reshuffling resources across firms, trade liberalization can affect differently the ability of female and male owned firms to survive and take advantage of new market access due to the difference in access to resources **Gender contributes to trade** • Gender inequalities (for example in labor force education, access to education, and to network) can affect the comparative advantage, and the productivity of the export sector
Urban and Local Government Strategy 2009	1. Focus on core elements of the city system: management, finance, and governance 2. Making pro-poor policies a city priority 3. Supporting city economies 4. Encouraging progressive urban land and housing markets 5. Promoting a safe and sustainable urban environment	**Urban strategy contributes to Trade:** • Promotes regional clustering of economic activity that can promote market linkages and greater competitiveness • Encourages public & private investments in support services, such as education, utilities and transport infrastructure • Promotes pro-poor policies • Promotes market linkages with lagging urban centers/regions

Sector	Strategic Priorities	Linkages to Trade Strategy
Water resources sector strategy 2004	1. Focus on management and connections between resource use and service management 2. Develop and improve management of infrastructure 3. Political economy of management reform	**Water contributes to Trade:** • Reliable water supply improves efficiency of water-intensive traded sectors

Annex 3: Strategic Trade Support Priorities of Selected Development Agencies and International Organizations

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
ADB	Monetary / financial cooperation and integration: mobilizing savings for trade-related infrastructure investments and possible trade finance; trade and investment cooperation and integration; cooperation in regional public goods		Regional / sub-regional economic cooperation: trade facilitation and customs modernization	Cross border infra-structure	Ramped up its Trade Finance Program during the crisis	Regional cooperation and integration strategy			
AfDB	Establish an effective institutional framework to promote trade and integration. Facilitate enabling policy framework for investment. Institutional capacity building.			Regional infra-structure	Especially during the crisis: Trade Finance Initiative	Regional integration main focus: financial and technical assistance; institutional support to aft process	Mobilize resources (financial, technical and knowledge		Partnerships & cross-cutting issues

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	**Export Competitiveness**	**Customs/ Border**	**Infra-structure**		**Regional Integration**	**Research, Capacity Building, Advocacy**		
CIDA	CIDA's Policy on Private Sector Development (2003) lists increased participation in regional and international markets and institutions by developing countries and countries in transition as one of five expected results. This will be pursued through initiatives such as: a. capacity building in analyzing, formulating, negotiating and implementing trade policy in developing countries and countries in transition	The provision of technical assistance for more secure trade, enhanced supply chain linkages, and local trade network development	Yes		Yes	Support for the participation of developing countries and countries in transition in regional trade bodies and the World Trade Organizatio n (WTO)	Capacity building in for trade policy in developing countries and countries in transition	CIDA's Sustainable Development Strategy, which focuses on support for equitable economic and social development, with particular emphasis on people living in poverty	Support environment / natural resources management; support progress in democratic governance / human rights; support for participation of developing/trans ition countries in IFIs Extensive work on integrating Gender equality into trade projects
DFID	Build countries' capacities to trade through national growth and competitiveness strategies	Key outcomes include increasing exports, export income and productivity, raising standards and making traders more competitive. The	Reducing border delays		Yes	Facilitate regional trade and integration and ensure Economic Partnership Agreements (EPAs) will be of benefit	Advocacy against protectionism	Ensure trade results in poverty reduction and inclusive growth. Currently, DFID India brings the voice of the	Gender: DFID to launch a new trade and gender programme.

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
		UK's Aid for Trade Strategy will also help to ease the costs of adjustment to a more open trading system.				to African Caribbean Pacific countries (ACPs).		poor to the Indian Ministry of Commerce making sure their concerns shape trade policy. Ensuring access for LDCs.	
Dutch Ministry of Foreign Affairs	Every year, the Netherlands provides €550 million towards trade-related capacity building, trade facilitation, trade-related infrastructure and private sector development; incl. trade financing			The widening of the aid-for-trade-agenda, to address supply side constraints	Yes	Initiate deeper liberalizatio n of regional trade (south-south) next to improved access to EU markets for ACP countries.		Advancing pro poor income distribution; increased donor support for SSA	Corporate social responsibility should not lead to protectionism but assist developing countries in their efforts to achieve higher standards for labor regulations, environment and climate protection norms and human rights

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
EBRD	The EBRD works at the project level, not at the level of national development strategies. Some 95% of project counterparts are in the private sector.	Support market-based institutions and the private sector in the formerly centrally planned economies of Central and Eastern Europe, the CIS and Mongolia. While many projects supported by EBRD promote trade, the Bank does not have a specific aid-for-trade strategy.	Cross-Border Transport and Storage 2002-2005: EUR 1.97 billion; 2005: EUR 650 million	Support for investments in cross-border transport infrastructure and regional power pools.	Active Trade Facilitation Program and dedicated trade financing programme designed to overcome counter-party risks in trade credits.	Regional Energy Supply and Generation	EBRD contributes to policy dialogue and provides technical assistance on trade issues		
EU	Support for trade policies in favour of developing the commercial sector, removing trade barriers, development of infrastructure, knowledge and production capacity.			Infrastructure projects		Supporting ACP regional integration processes and trade agreements with/among developing countries	Support all developing countries, especially LDCs to better integrate into the rules-based world trading system	Support all developing countries, especially LDCs to use trade to help achieve eradication of poverty in the context of sustainable development	Aid: Increasing EU AfT; Supporting effective AfT monitoring and reporting

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
Finland	Support developing countries to better integrate into world trade and bolster trade capacity.						Aim: to improve market access and to develop international trade rules that better take into account the special needs of poorest countries.	Poverty reduction focus; LDCs	
IDB	Strengthen productive supply-side capacities to benefit from freer trade	Assist LAC countries to design and implement effective policy tools for economic growth, competitiveness; export promotion		Strengthen trade-related infrastructure in transport, energy & telecoms	Trade finance scaled up during 2008-09 crisis: Trade Finance Reactivation Program; Trade Finance Facilitation Program	Develop new products, particularly region-wide approaches addressing the growing number of cross-border cooperation initiatives	Advance the frontiers of knowledge on trade and integration to build in-house expertise and provide a high quality product to Bank clients	Mainstream trade/ integration into development agenda, assist LAC countries to design & implement effective policy tools for growth & poverty reduction; support for trade-related adjustment programs	c) Mainstream trade and integration into Bank operations and products to facilitate effective delivery;
IMF	The IMF focuses on the overall		Fund experts provide			Trade policy advice is	Focused on exchange rate	In its areas of expertise, the	

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
	macroeconomic policy framework and balance of payments disequilibria The Trade Integration Mechanism (TIM) can assist member countries to meet balance of payments shortfalls that might result from multilateral trade liberalization. Coverage of specific trade policy issues may appear in analytical work and Art. IV surveillance activities and may be the subject of conditionality for lending programs.		significant technical assistance for trade data, customs reform, and tax and tariff reform, including to mitigate the revenue implications of liberalization.			incorporated in surveillance at the bilateral, regional and multilateral levels;	policies. The IMF also carries out research on trade policy issues; and in outreach activities.	IMF participates in the EIF. Trade policy may be part of structural conditionality in stand-by and Poverty Reduction and Growth Facility (PRGF) arrangements	
ITC	Support policy makers in integrating the business sector into the global economy. (trade policy and regulation)	Technical assistance delivered to:• Strengthen international competitiveness of enterprises;	ITC's new trade facilitation programme assists trade support institutions	Strengthening productive capacity via trade-related infrastructure	Trade Finance program for SMEs	Regional trade promotion programs	Yes		

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
		the new ITC approach places growing emphasis on sustainable development in exports development • Develop capacity of trade service providers to support businesses	and SMEs in getting their goods across borders faster and cheaper. We do this by facilitating tangible changes that reduce exporting bottlenecks.						
JICA	Policy and regulation reform: • Intellectual property rights, standardization and accreditation ; • Capacity development of trade promotion agency • Capacity development on international rules (WTO/FTA/EPA)	Strengthening private sector's competitiveness	Economic infrastructure (transport and energy), customs system, special economic zone	Supporting infrastructure by ODA; PPP infrastructure - Infrastructure development / management (e.g. power); ODA funded port/water facility management		Regional integration		BOP business support: survey, Microfinance; community support, Basic Human Needs etc	• Capacity development of investment promotion agency; • Investment promotion information service and networking

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
Norway	Trade policy: technical assistance and capacity building mainly - Increased AfT must be based on national development strategies, emphasize no conditioning upon liberalization and privatization. Donors must coordinate their efforts and help to build the capacity of the trade authorities; standards and trade: SPS and TBT, capacity building		Trade facilitation			Promoting regional integration, especially in Africa		Very strong poverty focus: vocational and social rights, food security, development, market access and beyond; SSA and LDCs; fair and responsible trade: support Fair Trade; ILO - labor standards	Gender focus; Environmental focus; Focus on involvement of the private sector in Norway and trade partner countries
SIDA	Trade development: a subcategory mainly found under business support, but also under banking and financial services, agriculture, fishing, industry and tourism; trade-related support will be concentrated to: i) trade in agricultural products (SPS and TBT), ii) power trading,		Trade-related support in (iii) transaction costs (Trade Facilitation and Transport)	Trade-related infrastructure, is a newer area in Sida's registration and reporting of TRA	Provision of guarantee set up with IFC's GTLP	Regional integration important; especially in SSA	iv) Trade development and v) research, training and policy processes.	All trade-related contributions to have a pro-poor growth and poverty reduction focus, be demand driven and integrated into the overall development cooperation.	Gender a key area of focus

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	**Export Competitiveness**	**Customs/ Border**	**Infra-structure**		**Regional Integration**	**Research, Capacity Building, Advocacy**		
UNCTAD	Strengthen service-sector capacities in developing countries; Provide support for participation of developing countries in international trade negotiations	Seek to enhance the contribution of the commodity sector to development through diversification and risk management	Active provider of technical assistance; ASYCUDA				Analyze issues related to competition law, policy and development	Promote development through trade	Promote the integration of trade, environment and development
UNDP	UNDP provides policy advice, conducts diagnostic studies to assess countries' trade capacity and helps to implement the recommendations of these studies. UNDP has helped conduct the diagnostic and needs assessment studies necessary for LDCs to benefit from the Aid for Trade initiative and the EIF. .	Priority area: The capacity to compete internationally by overcoming institutional, human, and other supply side bottlenecks.		Trade Integration Strategies for countries include Trade Facilitation components		Trade Integration Strategies include focus on FTAs	Focus on better understanding trade and human development relationship.	UNDP has prioritized trade policy issues at national, regional and global levels from a human development perspective.	Between 2009 and 2011, working with other agencies, UNDP will design and implement programmes in as many as 60 developing countries together with other UN and international agencies.
USAID	The agency helps developing countries establish open and competitive markets.	Assist local private sectors to meet product standards in	Support for improved customs management.		Yes, for SMEs	Support for human and institutional capacity	Help develop trade analysis expertise and enhance		

	Trade Competitiveness		Trade Facilitation		Trade Finance	Trade Cooperation		Poverty Focus	Other
	National Competitiveness	Export Competitiveness	Customs/ Border	Infra-structure		Regional Integration	Research, Capacity Building, Advocacy		
	Support to strengthen economic responsiveness to opportunities for trade through a wide range of trade-related economic growth projects that improve economic policies and institutions, transfer technology, reduce dependence on exports of unprocessed tropical agricultural commodities.	international markets and take advantage of preferential market access programs.				needed to implement trade agreements and participate in trade negotiations.	information resources available to trade analysts in partner countries		

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