

WORLD TRADE
ORGANIZATION



INTER-AMERICAN
DEVELOPMENT BANK

Mobilizing Aid for Trade: Focus Latin America and the Caribbean

Report and Recommendations

Prepared by the Inter-American Development Bank (IDB)
and the World Trade Organization (WTO)
November 2007

Mobilizing Aid for Trade: Focus Latin America and the Caribbean

Report and Recommendations

Prepared by the Inter-American Development Bank (IDB) and the World Trade Organization (WTO)

INTRODUCTION

The Aid-for-Trade Regional Review for Latin America and the Caribbean was held in Lima, Peru, on 13 – 14 September 2007. It was the first of three high-level regional reviews organized as part of the World Trade Organization (WTO)'s Aid-for-Trade initiative launched at the 2005 Hong Kong Ministerial Conference. The conference was organized by the Inter-American Development Bank and the WTO, and was hosted by the Government of Peru, in cooperation with the World Bank. For the first time, it brought together trade and finance ministers, bilateral donors, regional and multilateral agencies and private sector representatives to discuss how to build the capacity and infrastructure that countries need to take advantage of – and connect to – today's dynamic global economy. An aim of the meeting was to shift the focus of the Aid-for-Trade initiative from policy debate to implementation, and to promote more effective policies, and it was itself a significant move in that direction.

The main objectives were to:

- underline the central importance of trade in development policies;
- identify the main capacity constraints to export growth;
- emphasize the importance of comprehensive national and regional trade strategies;
- highlight the need for increased and effective financing; and
- secure political commitment on the way forward.

The Lima conference spanned a day and a half of intensive and wide-ranging discussions. Some 300 participants from Latin America, the Caribbean, and elsewhere attended — including Peru's President, thirteen ministers of trade or finance, three heads of international organizations, senior government officials, leading private-sector representatives, and key donor agencies. The meeting began with an open dialogue on the relevance of the aid-for-trade initiative to the region, moved into parallel break-out sessions focused on key issues relevant to South America, Central America, and the Caribbean, followed with a discussion of financing partnerships, and concluded with a ministerial roundtable on priorities and next steps. Side meetings also examined the central role of the private sector, the importance of monitoring and evaluation, and the challenges involved in meeting international standards.

This report provides a brief summary of these discussions. It identifies some of the main themes that emerged, suggests broad objectives for future action, and offers recommendations on how these objectives can be met – providing an action plan to move the initiative forward in the medium term, while laying the foundation for a longer-term strategy. As such, it serves as an important contribution to the WTO Global Aid-for-Trade Review to be held in Geneva on 20-21 November 2007.

PLENARY SESSION

The meeting demonstrated a common understanding of the needs of the region and the importance of aid for trade. Globalization is changing the development dynamics, creating new opportunities for countries to harness trade for growth and poverty reduction, but also creating new pressures to strengthen competitiveness and to “connect” more effectively with global markets. These changes are particularly relevant to the countries of Latin America and the Caribbean, most of which are highly trade dependent and have economic strategies that hinge increasingly on export growth.

Participants acknowledged the challenges facing Latin America and the Caribbean in an increasingly competitive and interconnected global economy. The costs of trade are often higher in the region compared with many other developing countries because of gaps in physical infrastructure, institutional weaknesses, and inefficient regulatory structures. These costs reduce the region’s capacity to compete in global markets, and diminish the gains from trade, investment and technological innovation.

Trade, investment and global integration have become increasingly central priorities for many countries in the region, particularly those implementing ambitious trade agreements with large industrialized trading partners. Improved market access – including through the successful conclusion of the current Doha Round of multilateral negotiations – is critical to creating new trade and investment opportunities. This gives trade a central role in reducing poverty in the region, although all participants recognized that it can be only one element of the development strategy. There was a consensus that complementary national policies – particular those that tackle the distributional aspects of trade reform – are needed to take advantage of the gains from trade.

Over the course of the meeting there was a clear emphasis on the need for more – and more effective – financing, including by better leveraging development assistance and multilateral lending. More generally, it was recognized that trade, investment, and domestic reform, not aid alone, were the main drivers of economic development, but that financial assistance, strategically invested, could provide an important catalyst for export growth and competitiveness.

BREAKOUT SESSIONS

The working sessions showed a common understanding of the objectives of aid for trade and the region’s needs.

SESSION ON NATIONAL STRATEGIES: FOCUS ON SOUTH AMERICA

The session’s aim was to discuss how to mainstream trade into national development agendas. Participants examined a case study of Peru, but also benefited from hearing the experiences of other countries. South American representatives supported the Aid-for-Trade initiative, but stressed the importance of overcoming residual protectionism through the successful conclusion of the Doha Round. In line with the principle of policy coherence, aid for trade should therefore be seen as a complement and not a substitute for multilateral trade opening.

Given the maturity of their institutions and capacity to manage development projects for results, most countries in this sub-region expect to have substantial control over the implementation of the initiative. The hope is also that the combination of some additional funds and the new emphasis on aid for trade will serve as a catalyst for much larger changes. The risk is that the initiative will be seen as too small to affect behaviour.

At the operational level, discussion focused on successful North-South, South-South and triangular North-South-South cooperation arrangements that could be replicated in other regions, such as the Structural Convergence Fund (FOCEM) of MERCOSUR, the Program of Competitive Import Substitution (PSCI) and the “Exporta Fácil” export system for small and medium enterprises. Likewise, emphasis was placed on regional programmes such as the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), which supports the development and integration of an energy, transport, and telecommunications infrastructure that covers 12 countries spanning two different regional trading blocs.

SESSION ON REGIONAL STRATEGIES: FOCUS ON THE CARIBBEAN

The session’s aim was to discuss the rationale for countries to move toward shared operational solutions at the regional level. As a case in point, the session looked at both the Caribbean as a whole and a sub-region within it, the Organisation of Eastern Caribbean States (OECS), illustrating that regional initiatives are a complement to national strategies and should be designed on a case-by-case basis according to the specific needs of cross-border cooperation. The Caribbean has long and successful experience developing regional strategies and receiving regional trade-related assistance. Important aid programmes have been developed to enhance trade negotiating capacity, develop regulatory frameworks, strengthen institutions, and adjust to changes in the international markets of key export products.

While recognizing the benefits of those programmes, participants highlighted the importance of improving donor coordination, focusing on special needs and priorities as identified by recipient countries, including infrastructure, as well as enhancing aid management and capacity to evaluate its effectiveness. Participants highlighted the need for scaling up financial assistance in order to balance demand and supply, and suggested to focus on key priorities for the coming years in order to build support for regional initiatives through pilot projects.

SESSION ON PRIVATE SECTOR STRATEGIES: FOCUS ON CENTRAL AMERICA AND MEXICO

The session’s aim was to discuss the private sector’s role as a central actor of trade integration, and as both a supplier and recipient of aid for trade. Case studies of Central America and Mexico, where private firms are pressed to adjust in order to compete with the United States in the DR-CAFTA or NAFTA free trade areas, demonstrated successful experiences of private sector support to the development of national policies and institutions. Participants stressed the urgent need to continue supporting private sector development and entrepreneurship in the region, and therefore welcomed the Aid-for-Trade initiative. They pointed to significant obstacles affecting the profitability and sustainability of private sector capacity, and argued that aid for trade could be an important instrument to overcome these obstacles. To this effect, the initiative should produce specific and pragmatic actions that address priority areas for private sector development.

Among those priorities, participants highlighted the development of adequate infrastructure, including regional initiatives such as the Plan Puebla Panama (PPP), and education systems, the need to upgrade and diversify exports and to make them sustainable, to develop new and innovative business models, and to enhance the private-sector’s capability to seize existing resources and comply with international standards. It was stressed that the time frame of business operations is very often much shorter than that of public policies or of international cooperation programmes. Thus, for the private sector to stay engaged in the Aid-for-Trade initiative, it is crucial that the initiative deliver tangible results in the short term.

Cross-cutting Issues

In addition to the specific issues, reported above, conference participants addressed a number of cross-cutting issues.

1. Country ownership

Promote national leadership. LAC governments increasingly recognize the importance of trade and competitiveness to their development objectives, and of making trade growth a key pillar of their national strategies. Part of the challenge is to improve policy coordination and priority setting among the many government ministries and agencies that are now linked to trade, including finance, agriculture, labour, and economic planning. Improving trade's contribution to growth, and ensuring that its benefits are equitably shared, needs to be the goal of government as a whole, not just the trade ministry.

Effective stakeholder coordination. Another challenge is to ensure that trade priorities and strategies are “owned” by society more broadly, by working to expand the public consensus on the need for trade reform and investment, and by involving a wide circle of stakeholders in devising and implementing trade and broader economic policies. Succeeding in today's integrated global economy requires systemic competitiveness, coherent policies, and broad public support. All this, in turn, requires high-level multi-stakeholder dialogue and alliances.

Focus on a “broad” trade agenda. While trade opening is necessary for the region's economic growth and development, it is not sufficient. Countries also need: complementary policies and institutions to take advantage of market access conditions; sufficient infrastructure to connect effectively and efficiently to the global economy; efficient customs and trade logistics to maintain a competitive position in global value chains; strengthened regulatory frameworks to meet international public and private standards; and adequate adjustment policies to facilitate a smooth and equitable transition to a more open trading regime. It was felt that the broad scope of the Aid-for-Trade initiative adequately captured the wide range of trade-related challenges facing the region.

Balance trade and development through complementary policies. It is important to ensure not only that development policy reinforces trade, but that trade policy reinforces development, by strengthening the linkages between trade, economic growth, poverty reduction, social inclusion, and sustainable development. Governments must ensure that gains from trade are broadly shared and that complementary policies tackle the distributional aspects of trade reform so that benefits reach the majority, in particular the poor. One advantage of aid-for-trade investments in infrastructure, education and adjustment assistance is that they have developmental benefits that extend beyond trade competitiveness.

Adapt aid for trade to the needs of Latin America and the Caribbean. Latin America and the Caribbean represent unique regions, with specific Aid-for-Trade needs and priorities. Moreover, within these regions, countries' trade circumstances and requirements can also vary widely. These realities underscore the need for country ownership of Aid-for-Trade programmes and projects, a wide array of operational solutions adapted to the needs of each region and “demand-driven” responses from donors and international agencies.

Build on existing analyses and needs assessments. Many LAC countries have already made extensive efforts to identify and prioritize Aid-for-Trade needs within the scope of specific negotiations. In many cases, the challenge is to update, adapt and synthesize this existing and often high-standard work and identify suitable sources of financing to implement projects.

2. Regional approaches

Identify regional priorities and strategies. Another priority is improved policy coordination, alignment of incentives and pooling of resources at the regional level. Many trade capacity priorities, especially for small and/or landlocked countries, are more regional than national in scope. LAC countries already have experience with regional arrangements, which have helped to spur trade, investment and cross-border cooperation. Some have developed new mechanisms and institutions for exploiting economies of scale in designing and implementing regional programmes and projects. There

is nonetheless considerable scope to build upon and expand regional approaches, particularly as regards policy coordination, priority setting, and improved financing.

Apply the subsidiarity principle. Choosing the right level of subsidiarity – i.e., the optimal division of responsibility between regional, national, and local actors – requires close cooperation among national and regional actors, and appropriate coordination of policies. Regional institutions can play a role in identifying projects and in coordinating donors and countries across the region, but regional initiatives cannot be designed or implemented in isolation from national and even local policies. Indeed, regional programmes are a complement, not a substitute, for national programmes.

Variable geometry of regional programmes. For regions, as well as countries, a “one size fits all” approach is often inadequate. Regional initiatives should be designed on a case-by-case basis, according to the purpose of cross-border cooperation (whether trade integration, regulatory harmonization, physical integration of infrastructure, or environmental initiatives).

3. Key priorities

Trade-related infrastructure and regional public goods. Countries in Latin America and the Caribbean emphasized the need for regional public goods such as regulatory structures, environmental initiatives, and transport infrastructure (network building). In addition, they stressed the importance of expanding existing regional activities such as the pooling of negotiating expertise across countries, regional testing facilities and institutions, regional regulatory institutions; and regional transportation networks. In this regard, there was a consensus that regional bodies have played a role in aid and can help implement new Aid-for-Trade projects.

Trade finance and SME export development. Expanding the scope of initiatives on trade finance was identified as a priority for the region. Deepening the outreach of trade finance could play an important role in overcoming resource and risk-taking constraints. Increased access to international markets would enable micro, small- and medium-sized enterprises (MSMEs) in LAC to expand and to create employment and wealth by taking advantage of opportunities arising from trade. Better access to finance could be facilitated through, for example, an expansion of initiatives such as the IDB Trade Finance and Facilitation Program (TFFP) to MSMEs.

Trade facilitation and standards. Strengthening technical and institutional capacity to enhance trade facilitation procedures and standards is crucial for the region. A particular priority is to reduce the gap in capacities of the private sector, especially SMEs, to meet SPS and other standards. In addition, countries emphasized the need to promote harmonization of trade regulations at the border in order to reduce transaction costs and facilitate trade.

Export promotion and export diversification. Strengthening export promotion agencies through technical assistance and institutional capacity building is crucial for attaining the objective of diversifying exports in the region, moving from resource-based exports to value-added and high-technological-content exports. There is wide experience of export promotion activities in the regions and this is an area where information sharing and dissemination of best practices among Latin American and Caribbean agencies could bring important benefits for the regions as a whole.

4. Public-private partnerships

Private sector participation. The role of the private sector, as the central driver of trade and economic integration, and as a recipient as well as a supplier of aid for trade, was one of the main points of discussion. Latin American and Caribbean governments increasingly recognize the value of the private sector’s technical expertise and knowledge base, and understand the importance of finding effective ways to involve private-sector actors in designing and implementing trade strategies. Aid for trade

should be used to build private-sector institutions that can partner governments on policy development. Larger firms may also be potential suppliers of aid for trade, either through technical assistance or direct delivery of projects (e.g., in the area of trade facilitation).

Mobilizing the private sector. Business representatives identified infrastructure and education as the main bottlenecks to trade growth. Aid for trade could be used to finance infrastructure and strengthen the capacity of the private sector in a number of ways, including: technical training (e.g., to meet SPS standards or rules of origin requirements), capacity building, export promotion, trade financing, and investments in physical infrastructure. Governments and the private sector could also cooperate more closely in promoting technological innovation, strengthening capacity to comply with international standards, and in better positioning SMEs in dynamic global value chains. By cooperating more effectively, government and the private sector could also harness synergies and scale economies in the provision of training, export promotion initiatives, and the rationalization of regional regulations and trade rules. However, because the private sector's time horizons are often short – and its focus more results-oriented – Aid-for-Trade programmes and projects need to be designed and delivered in a way that is businesslike, as well as business friendly.

Information sharing. In an increasingly knowledge-driven economy, both government and the private sector have a key role to play in facilitating the exchange of information – and in exploiting comparative advantages in this area. Governments can provide information on trade rules or market opportunities – or can facilitate access to academic and financial institutions which gather information at both national and international levels.

5. Additional and effective financing

Scaling up financial assistance. Participants displayed moderate expectations on the availability of additional funds to implement the Aid-for-Trade initiative. Certainty on the scale of the initiative will be crucial to secure sustained commitment in the region. How best to leverage an adequate level of resources was a central point of the discussions. Participants emphasized that as implementation of the initiative begins, concrete actions are needed in order to meet the most pressing challenges and to ensure that the existing momentum does not dissipate.

Leveraging financial resources. Most LAC countries have limited access to ODA grant resources and concessional lending. Non-concessional lending and equity investment will therefore be key in addressing the region's trade-related capacity and infrastructure needs. Aid-for-trade grants can provide crucial seed money for – and thus help activate – larger infrastructure programs and other supply-side interventions that require non-concessional financing. A key issue was how multilateral lending could be made more accessible, for example by facilitating “blending” with donor assistance. Another key issue was how to increase the incentives for private investment in trade capacity building, and to expand the scope for public-private partnerships.

Developing regional financing instruments. There is potential for large returns from regional investments, as coordination failures may create a gap in the optimal provision of regional public goods. The availability of grant financing for regional public goods may help to bridge this gap. Likewise, the complexity of aligning national sovereign guarantees to access to lending facilities for regional projects calls for the development of new regional financial instruments. The identification of a small number of pilot projects to test new instruments may help to build support for further regional initiatives.

RECOMMENDATIONS

To address these objectives, the IDB and the WTO are putting forward the following recommendations – a Joint Action Plan on Aid for Trade – for consideration by the Global Review on Aid for Trade on 20-21 November in Geneva:

- encourage countries and sub-regions to map out their main structural constraints and policy bottlenecks to trade, building on existing studies and needs assessments;
- update national and regional action – or implementation – plans to address key priorities, including the identification of timetables, institutional mandates, and financial resources for implementation;
- endorse the constitution of an “Aid for Trade LAC Support Network” – led by the IDB and the WTO, including countries, regional secretariats, lead donors, multilateral and regional agencies and private sector representatives – to assist countries and sub-regions in mapping out priorities and developing action plans;
- explore funding for priority pilot projects with existing available resources and/or request the creation of specific regional financial facilities to fund projects included in the action plans;
- prepare a road map and timetable for monitoring progress, including a regional “stock-taking” conference to be held in the region to be followed by an operationalization conference.



**INTER-AMERICAN
DEVELOPMENT BANK**

**WORLD TRADE
ORGANIZATION**

