FROM "TRADE VERSUS AID" TO "AID FOR TRADE"?[1]

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Over the last twelve months there have been important developments in thinking about the relationship between aid and trade reforms. Trade and aid have often been viewed as substitutes for one another, and there has been a long debate about their respective merits. For example, after last Christmas' tsunami Sri Lanka pointedly called for greater trade preferences from western countries and not for more aid. However, another view--which emphasises the complementarities between aid and trade--has gained prominence. The latter view, which proponents have branded "aid for trade," could have significant implications for the Doha round of multilateral trade negotiations. This short article sketches out what those implications might be.

Proponents of "aid for trade" argue that the capacity of developing countries to take advantage of any market access gains in the Doha round is currently hampered by a plethora of supply side bottlenecks and costs, administrative constraints, and poor institutions. All of these hamper export competitiveness. Moreover, adjusting to tariffs cuts could result in developing countries losing tariff revenues and in labour dislocation, so increasing the demands for state help while reducing the means to fund them. Proponents worry that, unless these constraints are recognised and properly addressed, developing countries are likely to oppose the conclusion of an ambitious Doha round.

Less dramatically, there is a risk that the level of ambition in the round may be scaled back as developing countries feel that their ability to realise new export opportunities is limited and so offer commensurately small improvements in access to their own markets. A downward spiral could ensue. Avoiding this dreadful outcome is possible, it is argued, so long as additional aid is devoted to tackling the trade-related constraints and adjustment costs in developing countries. The proponents claim that the total amount of extra aid needed pales in comparison to the gains for industrialised countries of an ambitious Doha round.

It is envisaged that this aid would be in addition to that currently dispersed by bilateral donors, the multilateral development banks, and the regional development banks. Moreover, the associated technical assistance would come on top of that provided by the WTO and other organisations. The proponents recognise that there is a risk of duplication of activities by development agencies and have argued that some consultative mechanism which brings together the donors and aid recipients is needed.

The proponents are savvy enough to recognise the following important features of the aid and trade landscape. First, the severity of trade-related constraints varies markedly across developing countries, so tools will be needed to assess needs accurately and to promote effective implementation. Having said that, the proponents have yet to fully cost out their proposals.

Second, no bilateral aid donor or multilateral lending institution (such as the World Bank) seems willing to bind aid commitments in an enforceable WTO agreement. For this reason the proponents have called for a new mechanism, outside of the WTO rulemaking and enforcement machinery but related to the nature and extent of newly agreed commitments, to be created.

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See http://www.siaw.unisg.ch/org/siaw/web.nsf/wwwPubInhalteEng/WTO-News?opendocument
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Third, the proponents are well aware that proposals for enhanced aid are seen cynically by some as a means to "buy off" certain developing country opposition to the conclusion of the Doha round. Even though the proposals are motivated by tangible and noble concerns, there is still the risk that the momentum behind this proposal is hijacked for other purposes. The proponents rightly emphasise not just the case for more aid but the pro-development uses to which to it could be put.

The "aid for trade" proposals raise a number of deeper questions. As we move towards the Hong Kong meeting of WTO ministers in December, and the scramble for something positive to say and do at that event intensifies, whether "aid for trade" proposals are developed further is likely to depend on the following matters. First, to what extent are the constraints to export competitiveness and the adjustment costs to trade reforms solely remediable by finance? It may be the case that financial resources can be mustered faster than other assistance, but the question still remains. The long term case for "aid for trade" will be harmed if overly optimistic expectations are made concerning its developmental impact.

Second, who will conduct the needs assessments necessary to implement effectively an "aid for trade" initiative? Experience has shown that the assistance and capacity building trade negotiators demand for their countries can be at odds with what sectoral experts in that same countries think is necessary. A way will have to be found to ensure that an essentially technocratic exercise in needs assessment is not swamped by the peculiarities of the negotiating dynamics in Geneva.

Third, since new aid commitments are not to be bound in WTO agreements how can developing countries be assured that donors do not reallocate "aid to trade" funds to some other priorities that emerge at a later date? Conversely, what mechanisms are in place to ensure that Western taxpayers' money is used as effectively as possible and not misappropriated? In short, new institutional modalities will be needed to facilitate participation, honour promises, foster accountability, and ensure effectiveness and value-for-money.

Given the opposition to expanding the WTO into "new" subject areas, and the growing demands for trade-related technical assistance and capacity building, these matters are becoming of greater concern as the Doha round unfolds. Opponents to expanding the remit of the WTO never told us how to manage the interface between trade-related functions within and outside the WTO. The success of the proposals for "aid for trade" will depend on finding such an interface mechanism.

Perhaps a prototype scheme linked to the new commitments on trade facilitation would be a good place to start implementing "aid for trade." It is said that such negotiations on the speedy movement and clearance of goods through customs are further ahead of other elements in the Doha round and, in principle, nothing prevents an agreement on the former being concluded before the end of this round. An "aid for trade" channel could be set up to help developing countries meet their new commitments. Doing so would enable WTO members burnish their pro-development credentials and build faith in the multilateral negotiating process, while providing opportunities to iron out difficulties associated with implementing "aid for trade" and to assess whether it makes sense to "scale up" this initiative for commitments agreed later in the Doha Round. Could this help salvage the Hong Kong ministerial?

Please see the following papers for proposals on "aid for trade": Susan Prowse ' "Aid for Trade" Increasing Support for Trade Adjustment and Integration--A Proposal,' June 2005, and the latter sections of Bernard Hoekman and Susan Prowse "Policy Responses to Preference Erosion: From Trade as Aid to Aid for Trade" 20 June 2005.