



The role of trade capacity development in trade facilitation – principles and evidence

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Background

Trade-related technical assistance and capacity development are nowadays regarded as a key instrument of the development dimension in international trade. In addition to promoting trade liberalisation, the member states of the World Trade Organisation (WTO) have been giving numerous commitments in the broader area of the Aid for Trade initiative. The importance of trade-related technical assistance and capacity development has also been emphasised in recent discussions and negotiation efforts at the multilateral, regional and bilateral floor. Despite up-coming budget limits, the efforts to support trade-related technical assistance and capacity development have been growing (OECD/WTO, 2011) with the aim to help developing and transition countries participate more effectively in international trade and integrate into the world trading system. Note that capacity development can be considered to go beyond trade-related technical assistance and trade facilitation, which first and foremost aims at reducing costs and barriers in trade.

Objective

The goal of this project is to provide insights on trade capacity development (TCD) and its role and effectiveness as means for reducing trade barriers in international relation. Recent studies as well as documentation by international organisations are reviewed in order to investigate how TCD is accounted for in programmes of development co-operation. The focus is on international initiatives, and Aid for Trade (AFT) is looked at for some empirical evidence.

Concept of trade capacity development according to OECD

- **Establish and maintain a trade-supportive policy environment:** Liberal import regime, a sound and predictable legal and regulatory framework, rationalised and simplified customs and other administrative procedures and efficient and low-cost economic infrastructure.
- **Analyse and monitor trade issues at multilateral and regional levels:** Monitor and analyse foreign market opportunities, trade policies and trade institutions at the national, regional and multilateral level.
- **Articulate needs and concerns in trade policy processes (national and international):** Formulate, implement and execute coherent trade policies, coordination of responsibilities are often dispersed across different ministries.
- **Participation and implementation:** Actively and effectively participate in multilateral and regional negotiations and implement multilateral, regional and bilateral agreements.
- **Provide information:** Information to meet the quality, design, timeliness, health, safety and environmental requirements of foreign markets and international trade agreements, providing trade-related expertise and information.
- **Identification and usage of assistance:** Facilitate the usage of the broad variety of export- and investment-related technical assistance and advisory services, including export credit, export marketing assistance, management advice and help in complying with international product standards.

Source: OECD (2001)

Aspects of trade capacity development

Figure 1 illustrates three main aspects relevant for TCD.: What? Who? And how? With regard to the latter, some of the support measures refer to investments in order to improve services, infrastructure as well as productive capacity at the firm-level. The impact of such measures is usually captured by indicators of standard impact assessment methods. Other support measures result in less tangible effects that are rather difficult to ascertain in a purely quantitative analysis.

Strengthening of human and institutional capacities refer to supporting individuals on the one hand and supporting collective capabilities on the other hand. Collective capabilities seems to be particularly important in the TCD context due to the close link to good policy-making and practise. Collective capabilities are a result of interactions amongst stakeholders/actors and bring about some kind of process of policy-making, reform and consequently change. Moreover, collective capabilities cannot be achieved by simply adding up individual capacities since they are about achieving a common goal in dialogue with respective actors (Ibrahim, 2006).

The process of achieving collective capabilities is crucial for creating and sustaining a trade-friendly policy environment. As such, TCD promotes mechanisms for consultation and dialogue among governments, the private sector and civil society, facilitating the regular interaction, networks and information flows across parties at the local and regional level.

What? - Context	Who? – Stakeholders, actors
<ul style="list-style-type: none"> • Trade policy environment • Policy-making and policy implementation capacities relevant to national, regional, multilateral trade • Export-related capacities and infrastructure • Trade facilitation and support services • Market access 	<ul style="list-style-type: none"> • Government policy-makers and ministries. • Business people. • Private sector associations • Trade support institutions • Labour unions, NGOs and civil society groups • Independent or university-based research entities • Secretariats of regional trade organisations
<h3 data-bbox="1339 2169 1736 2205">How? - Support measures</h3> <ul style="list-style-type: none"> • Funding participation and attendance of recipient country • Training, education, knowledge • Provision of information (e.g. market access issues), expertise, advise and research • Matchmaking, facilitating networks and networking activities • Developing institutions/organisations in developing countries (government, producers, NGOs) • Improving the provision of services (custom procedures) and infrastructure (roads, trade corridors) • Improving productive capacities (investment at firm level) 	



Principles of trade capacity development

OECD (2001) formulates some main TCD elements, which ensure that TCD embraces trade policy in the recipient country's overall development and poverty reduction goals as follows:

- **Consultation of key stakeholders:** government (directly trade-related ministries but also others that are not in charge of trade and related topics), firms in the private sector, civil society with the goal to reach agreement on national priorities, (dialogue on trade policy).
- **Co-ordination and strategy:** co-ordination and strategy for intra-governmental policy matters in the recipient country (OECD, 2001: "comprehensive in scope and integrated in execution").
- **Providing information:** Enhanced collection, dissemination, and analysis of trade-related information, analysis for trade policy reform, including cost-benefit analysis.
- **Networks:** 1) trade policy networks, supported by indigenous, local research institutions and 2) networks of trade support institutions.
- **Private sector linkages:** engagement and commitment of the private sector.

Best practise proves that efficient and successful trade policy-making and implementation should best address a country's own objectives and interests. According to Solinac Lecomte (2002), this calls for specific attention towards government leadership, ownership and context-specific situation of the recipient country. The important first step of TCD thus comprises the analysis and identification of a country's trade interests in the context of its development strategy. TCD is supposed to develop a policy-making process that is locally-owned and driven by the demand of the recipient country.

Successful TCD requires a range of skills and knowledge. More specifically, TCD should facilitate skills and greater understanding of multilateral and regional trade issues, the latter gaining importance as multilateral trade negotiations have been stagnating. However, TCD does not simply transfer knowledge and information from donor to recipient countries, which lack the respective knowledge and information. Instead, TCD should foster institutions for trade policy-making in order to improve trade relations. Hence, expertise in building and maintaining (public, private and public-private) institutions, including related networks, is particularly needed for TCD.

Support within the Aid for Trade (Aft) programme

According to OECD/WTO (2011), Aft has on average made up for 33% of official sectoral development aid of OECD industrialised countries. In absolute terms, an increasing trend in Aft can be observed since its implementation in 2005. Aft significantly increased from 20.558 million US\$ in 2005 to 32.086 US\$ in 2010 (OECD/WTO, 2011). On average, this represents an annual increase of 12%.

Figure 2 presents the distribution of Aft funds according to category of Aft targets. As shown, productive capacity (45% in 2009) and economic infrastructure (53% in 2009) took most Aft support. Trade policy and regulations, which include important components of TCD, received relatively little support under Aft (3% in 2009). However, support for trade policy and regulations has been increasing in recent years.

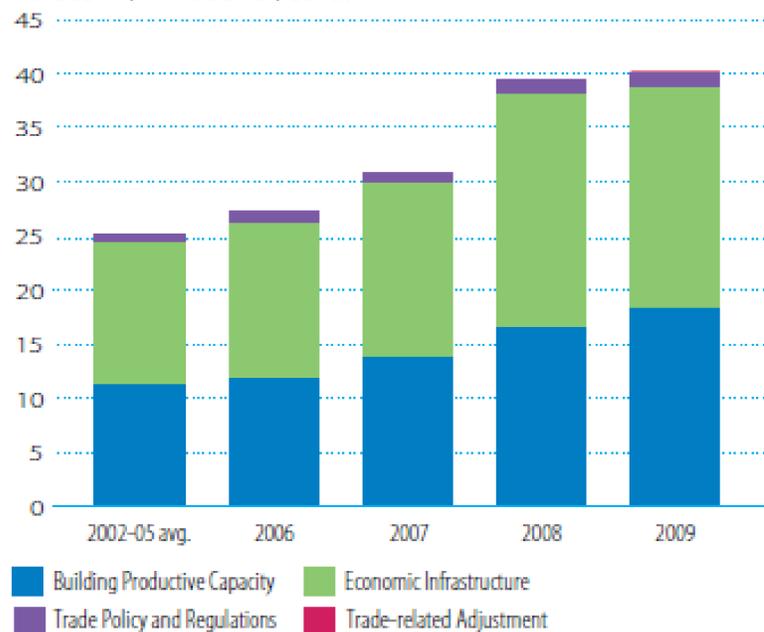


Figure 2: Funds spent on different Aid for Trade categories [billion US\$]

Source: OECD/WTO (2011)

Evidence found in the literature

- Empirical research applying state-of-the-art estimation techniques shows a general positive correlation between Aft and improved trade performance. This includes aid to trade policy and regulation as one Aft category.
- Due to measurement and data issues, only few studies investigate differentiated effects of different types of Aft. For trade policy and regulation, Busse et al. (2011) and Vijil and Wagner (2010) find rather small trade effects. Cali and te Velde (2011) does not generate statistically significant results about the effect of aid to trade policy and regulation; according to their estimation the trade effect is first and foremost driven by infrastructure investment.
- While supporting trade policy and regulation may promote the trade performance, welfare gains in terms of income generation can be considered to be generated by supporting productive capacity.
- OECD(2011) states that targeted aid flows to trade facilitation seem to increase trade and improve on the investment climate in developing countries.
- However, Aft in general seems to show diminishing returns to aid, which means that Aft reduce trade costs to a certain degree, thereby increasing exports of the recipient countries, but after a certain threshold trade cost increase and thus exports decrease (see for example Cali and te Velde, 2008). Furthermore, the effect of Aft can be considered to depend on the income-level of countries.
- Generally, studies show that Aft utilization rates empirically proved to be higher in ministries with strong government leadership and an emphasis on human and institutional framework development. Here the importance of institution building becomes apparent.

Summary and concluding remarks

Trade capacity development (TCD) is important for supporting trade and trade relations between countries. TCD comprises the increase know-how, networks and fostering trade policies, including policy making. In addition to supporting individuals, collective capabilities play an equally important role in trade relations. Collective capabilities are a result of interactions amongst stakeholders/actors and bring about some kind of process of policy-making, reform and consequently change. The impact of TCD on trade has been analysed in several studies, whereby the focus is on Aid for Trade programmes. Overall, studies ascertain a positive impact on trade, but the analytical approaches applied differ and measurement seems to be critical due to data issues. Data remains the main challenge. One main lesson learnt is that human capacity and consequently institutional development proved to be a key element for Aft initiatives, including demand-formulation, planning, and subsequently the effective management and implementation of support funds. With regard to Aft, TCD is not to be regarded as a separate effort for development but should rather be incorporated with other development efforts in other sectors, outside of the realm of trade-related capacity building (OECD, 2011). Most importantly, Aft should be targeted in order to ensure a high outcome and impact.

References

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