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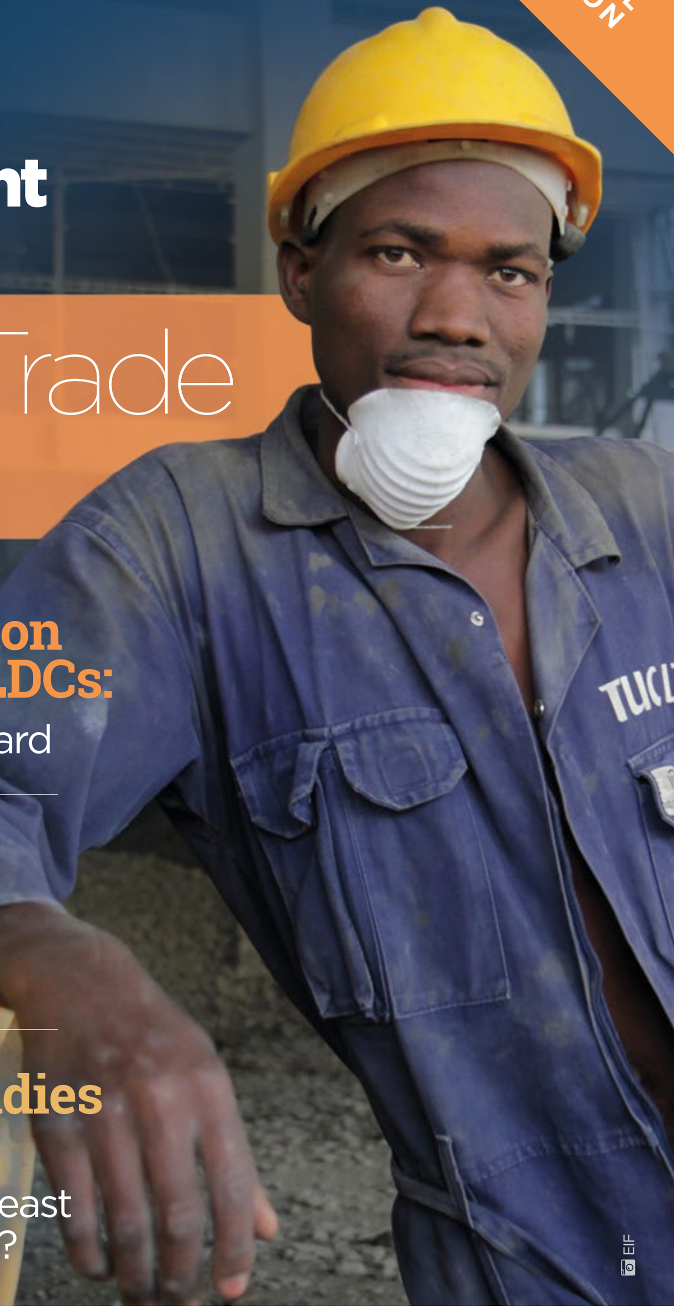

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Trade Facilitation Agreement in LDCs:
Tentative steps forward

Economic diversification:
Why trade matters

Fisheries subsidies negotiations:
What is at stake for least developed countries?

EIF Enhanced Integrated Framework
Trade for LDC development

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Also designed with a strong focus on partner content in mind, Trade for Development News is intended to be a knowledge hub on all things trade for development and aid for trade. We invite you to share your stories with us, so we can disseminate them further to our readers.

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Fabrice Lehmann, *Guest Editor*

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Tentative steps to implementation of the Trade Facilitation Agreement in least developed countries

Authors: Annette Mutaawe Ssemuwemba, Fabrice Lehmann

- The WTO Trade Facilitation Agreement provides for novel provisions on special and differential treatment that are yet to be fully utilised by least developed countries.
- The ability to conduct effective consultations engaging the private sector and civil society is central to the process of border reform.
- Least developed countries would benefit from more analytical work on the type of assistance required to align with the articles of the Trade Facilitation Agreement.

The Trade Facilitation Agreement (TFA) has generated much expectation in terms of development returns for least developed countries (LDCs). Ratified in February 2017, the first multilateral treaty to be adopted by the World Trade Organization (WTO) since its creation is designed to reduce transaction costs and stimulate trade as an engine of growth and poverty reduction.

Trade facilitation has emerged as an important priority of both developing countries and development partners. Since 2005, annual donor commitments have increased fivefold and US$3.9 billion has been disbursed in aid for trade facilitation.

Yet are LDCs engaging as anticipated in the TFA?

Tailor-made implementation and state of play

The TFA is primarily concerned with changing the way border agencies operate in order to reduce trade costs. Recent estimates suggest that the potential cost reduction from full implementation of the TFA is 16.5% of total costs for low income countries. Measures with the highest potential impact include harmonising and simplifying trade documents (4.2%) and automating trade and customs processes (3.6%).

Even if lower, these changes in relative costs can be significant in the fierce competition that characterises international trade today, much of which takes the form of global value chains in which LDCs generally have a low level of participation.

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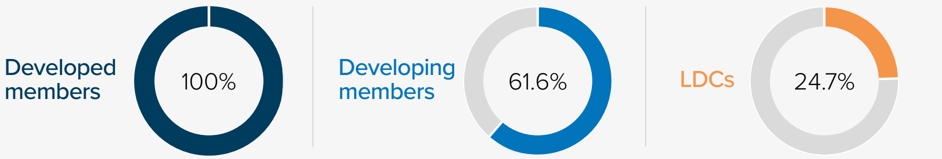
Rate of TFA implementation commitments

Source: TFA Database (accessed 20 May 2019)



The TFA includes innovative provisions on special and differential treatment that enable developing countries and LDCs to design tailor-made implementation plans within an agreed notification timeline. These members can self-designate the 36 substantive provisions into three categories – A, B and C – that provide for different levels of flexibility. The TFA further creates a legal obligation to provide technical assistance and capacity building to LDCs based on their Category C implementation needs. To benefit, LDCs must comply with the notification requirements set out in the agreement.

As of May 2019, the level of engagement could be described as mixed. The rate of implementation commitments for LDCs stood at 24.7%. Of the 36 LDC members of the WTO, 12 were yet to ratify the TFA, 22 had notified the three categories, 11 had notified their indicative dates for Category B designations and seven for Category C. However, only three LDCs had submitted the type of support required to implement Category C designations by the February 2019 deadline, despite the fact that assistance is available to help with this process. This low compliance could indicate that LDCs are encountering challenges in identifying their assistance needs.

The importance of consultations

While there has been much progress in building capacities over the past decade, the ability of LDC governments to conceptualise and submit technical proposals related to the implementation of trade facilitation measures often remains constrained.

A common limitation is the dearth of reliable data that often characterises LDC economies. This information deficit can make it challenging to frame comprehensive responses due to incomplete evidence for the types of reforms or support that might be necessary.

In addition, the scarcity of financial resources should not be underestimated. The OECD estimates that total expenditure to introduce TFA measures ranges between US$5-25 million. Initial funding is necessary to organise consultations, conduct needs assessments and implement measures that do not require technical assistance.

The ability to conduct effective consultations is central to the process of trade facilitation reform. The Enhanced Integrated Framework (EIF) has supported the establishment within trade ministries of steering committees that encourage multiple stakeholders to jointly consider trade policies and practices. Where suitable, EIF has proposed that national trade facilitation committees integrate these structures for greater efficacy.

Zambia, for instance, was one of the first LDCs to conduct a needs assessment of its alignment with the articles of the TFA. EIF has facilitated the formation of a donor platform in the country that works closely with the National Trade Facilitation Committee. This has proved to be an effective channel for the coordination, delivery and review of interventions.

Initial steps as a foundation

WTO members that commit to border reform do so because they see the benefits that trade facilitation can bring to their economy. Two constants behind LDCs that are precursors in TFA implementation are government commitment – which provides direction and a signal to donors – and the depth of private sector engagement in consultation processes.

An important tool used by LDCs to mobilise resources towards addressing trade capacity constraints is the elaboration of Diagnostic Trade Integration Studies. These studies include recommendations on trade facilitation and related hard and soft infrastructure deficits that can be used as policy planning instruments.

An illustrative example among many is landlocked Malawi, which is one of two LDCs to have submitted TFA notifications on the operation of their single window. As a preliminary phase, the realisation of the Malawi Trade Portal has made available regulatory information for import, export and transit, which promotes transparency in the delivery of public services. The case shows that the success of initial steps can provide the foundation on which the full package of TFA provisions can gradually be implemented.

Looking ahead

Trade facilitation is seen as a move towards results-based management of aid for trade. There are cross-country methodologies that can be used to compare and simulate the potential impact of policy reforms such as Trading Across Borders in the World Bank's Doing Business and the OECD Trade Facilitation Indicators. LDCs should be sensitised to the functionality of these tools – the latter being particularly applicable to the implementation of TFA articles. Based on best practices, targeted policy recommendations could be formulated and case studies showcased for LDCs to learn from each other's experience.

Benefits could also be derived from building on the successes of enhanced trade-related technical coordination at the country level as described earlier. Within these structures, LDCs could be supported through more analytical work on their needs and the type of assistance required to implement and benefit from the provisions of the TFA.

A final suggestion could be to plan for a comprehensive review of LDC engagement in the TFA. A possible date is February 2021, by which time all LDC signatories are mandated to provide indicative dates for Category C designations and inform on assistance arrangements. Such a review could go beyond trade costs and look into how trade facilitation measures have percolated through the broader economies and whether they have helped the trade system contribute to sustainable development in the world's poorest countries. ■

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Fabrice Lehmann is Guest Editor at Trade for Development News.

Ollivier Girard/EIF

Economic diversification: Why trade matters

Paul Brenton, Ian Gillson, Pierre Sauvé

- Economic diversification is a key element of development in which a country moves to a more diverse production structure, scaling-up resilience to external shocks and providing a path for equitable growth.
- Trade expansion is central to creating new, higher productivity jobs that will facilitate growth and poverty reduction in least developed countries through structural transformation.
- Investments in skills, infrastructure, institutions and governance quality increase the likelihood of successful diversification but are in turn affected by the extent of diversification.

A lack of economic diversification is often associated with increased vulnerability to external shocks that can undermine prospects for longer-term economic growth. The world's poorest countries, many of which are often small or geographically remote, landlocked and/or heavily dependent on primary agriculture or minerals, tend to have the most concentrated economic structures.

This creates challenges in terms of exposure to sector-specific shocks, such as weather-related events in agriculture or sudden price shocks for minerals. Growth tends to be unbalanced in the case of mineral-dependent countries or slow and difficult to sustain in agrarian ones. Poverty-reducing, trade-driven growth has been particularly difficult to achieve in countries whose economies are heavily dependent upon primary commodities.

Countries whose geography implies a punishing lack of connectivity to regional or world markets are also at a distinct disadvantage in attempting to diversify their product and export mix. Of all the world's regions, sub-Saharan Africa arguably suffers most from high levels of economic concentration.

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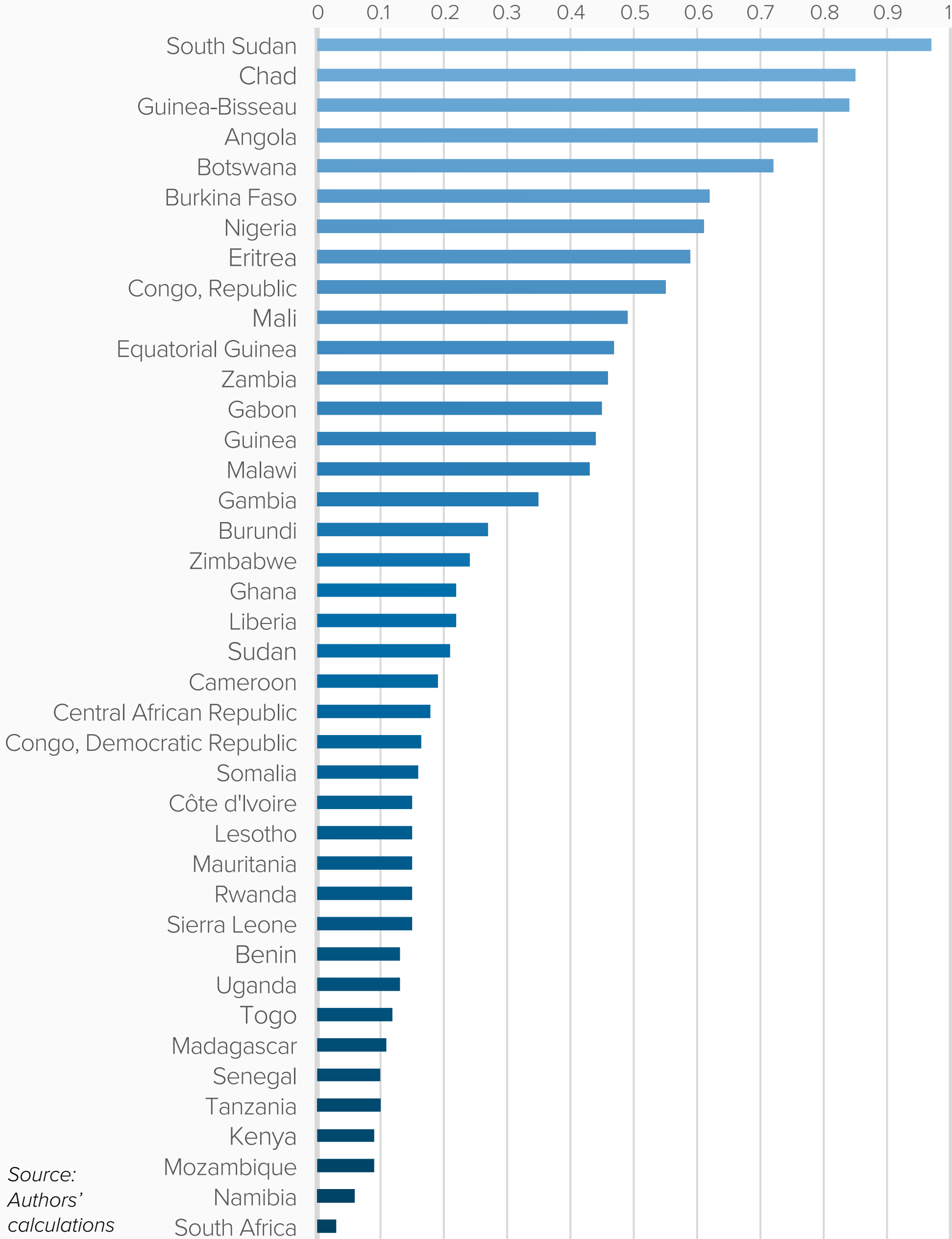
Export diversification in sub-Saharan Africa, 2017

Note: The diversification index takes values between 0 and 1 and reveals the degree of economic concentration in an economy. A value closer to 1 indicates a high degree of economic concentration (i.e. a low degree of diversification).



Source: Authors' calculations

Economic diversification matters for development...

Economic diversification is a key element of economic development in which a country moves to a more diverse production and trade structure. Diversification helps to manage volatility and provide a more stable path for equitable growth and development. Successful diversification is all the more important now in the wake of uncertain global growth and the imperative in many developing countries to increase the number and quality of jobs.

Moving labour from low productivity employment, mainly in agriculture, to higher productivity jobs in a range of mostly urban activities characterised by strong agglomeration economies is imperative for sustained growth. While rapid increases in working populations offer many developing countries an opportunity for a demographic dividend, reaping it may remain challenging in the absence of economic diversification and job-producing private sector growth.

The need for government action through well designed public investments and effective policy reforms that support a more diversified economy remains centrally important.

...and trade matters for economic diversification

Trade expansion is central to creating new, higher productivity jobs that will facilitate growth through structural transformation. Integration into the global economy lies behind the success of many countries in diversifying their economies, driving far-reaching poverty reduction in the process. Export diversification should be seen as an objective in itself to reduce vulnerability to adverse terms of trade shocks and stabilise export revenues.

The nature and structure of protection in overseas markets shape the opportunities for export diversification in developing countries. This is especially so if overseas protection is biased towards products in which developing countries enjoy a comparative advantage.

For example, tariff escalation in developed countries has long constrained opportunities for developing countries to add value to and develop additional activities around agricultural and mineral products. Similarly, for light manufacturing, import tariffs on products such as clothing and shoes are typically much higher than those on textile fabrics and leather.

To some extent, this constraint has been alleviated by multilateral trade liberalisation through the World Trade Organization (WTO), which has reduced tariff peaks in rich countries and through the provision of non-reciprocal tariff preferences for developing countries. Still, the latter are frequently undermined by unduly restrictive rules of origin.

Regional integration and deepened South-South trade also represent effective mechanisms to increase new market opportunities for exporting firms.

Diversifying exports to higher income markets is often more difficult than diversifying exports to regional markets. Standards are often higher, requiring larger investments to raise quality and meet health and safety requirements.

For this reason, diversification through exports to nearby countries with similar tastes and regulatory requirements – and hence potentially lower compliance costs – may prove easier. So too will South-South trade. Expansion in such markets can then provide the springboard for enlarged access to the global market once experience with exporting has increased and awareness of product requirements in other markets has risen.

Tariffs on imports can act as a constraint to export diversification and to sustained insertion in regional or global production networks. The level of import protection determines the incentives to produce exportable goods by directly raising the domestic price of imports relative to exports. Also, tariffs on intermediate inputs used by exporters in the absence of well-functioning duty drawback schemes increase the cost of producing goods for export and therefore, will reduce output of tradable goods.

It is also important to address non-tariff measures as part of a diversification strategy. Rules and regulations in overseas markets governing border procedures, technical regulations and standards can raise trade costs and limit entry by new exporters, especially when they are designed in a way that discriminates against trade.

The WTO provides needed disciplines on discriminatory regulatory measures and a forum for challenging regulations that arbitrarily discriminate against suppliers under the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) agreements. The WTO's Trade Facilitation Agreement similarly favours the adoption of best practices in customs procedures. Preferential trade agreements that include provisions for the harmonisation or mutual recognition of product standards can also help reduce the costs associated with regulatory diversity.

Services trade policies can spur diversification through the expansion of services exports. They can also promote the diversification of goods exports through improved access to a wider range of more efficiently produced services inputs. High costs for energy, telecoms, logistics and finance erode the competitiveness of firms and deter them from diversifying production and exports.

As countries develop, service sector liberalisation can help firms to meet supply requirements, diversify and integrate into regional and global value chains in goods and services alike. Efficient services are also crucial for taking advantage of modern distribution channels. Producers are increasingly using e-commerce to sell directly to consumers through web-based outlets.

However, diversification toward services exports can be hampered by regulatory diversity. To address this challenge, service sector reforms need to go beyond trade openness and focus on the simplification, harmonisation and/or mutual recognition of domestic regulations.

Final thoughts

No single formula exists that can promote an orderly process of structural change able to enhance the resilience of economies to external shocks and provide citizens with the more productive employment opportunities they need to sustain improved livelihoods.

Policy must always and everywhere adapt to the specific circumstances, differing geographies and endowments, and contrasted institutional, governance and implementation capacities of countries at differing levels of development. The success of diversification efforts ultimately depends on the mix, sequencing and timing of investments, policy reforms and institution building, and on their consistency with the underlying assets and related comparative advantages of any given country.

Investments in skills, infrastructure, institutions and governance quality – i.e. enhancing the transparency, accountability and predictability of government decision-making – increase the likelihood of success of diversification but are in turn affected by the extent of diversification. ■

** The authors work in the Macroeconomics, Trade and Investment Global Practice of the World Bank Group. The views expressed in this article are those of the authors and should not be ascribed to the World Bank Group or its shareholder governments.*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Fisheries subsidies negotiations: What is at stake for least developed countries?

Alice Tipping, Tristan Irschlinger

- Fisheries are a crucial source of animal protein, livelihoods and export earnings for many developing countries, including several least developed countries.
- Effective new WTO disciplines on fisheries subsidies could make a significant contribution to more sustainable fisheries globally.
- Aid for trade can help support least developed countries to redesign their subsidy programmes and implement a new WTO agreement on fisheries subsidies.

When sustainably exploited, fisheries can provide coastal communities, including populations in least developed countries (LDCs), with a source of protein and micronutrients essential for food security and adequate nutrition, as well as much-needed employment and income.

The ability of fisheries to continue to support food security and employment for growing populations is under pressure. According to the Food and Agriculture Organization's (FAO) latest State of the World Fisheries and Aquaculture report, 33 percent of assessed fish stocks are currently overexploited, with an additional 60 percent share of these stocks fished at their maximum sustainable level.

Can the negotiation of fisheries subsidies rules at the World Trade Organization (WTO) help steer global fishing activity in a more sustainable direction, and how can LDCs be supported in this process?

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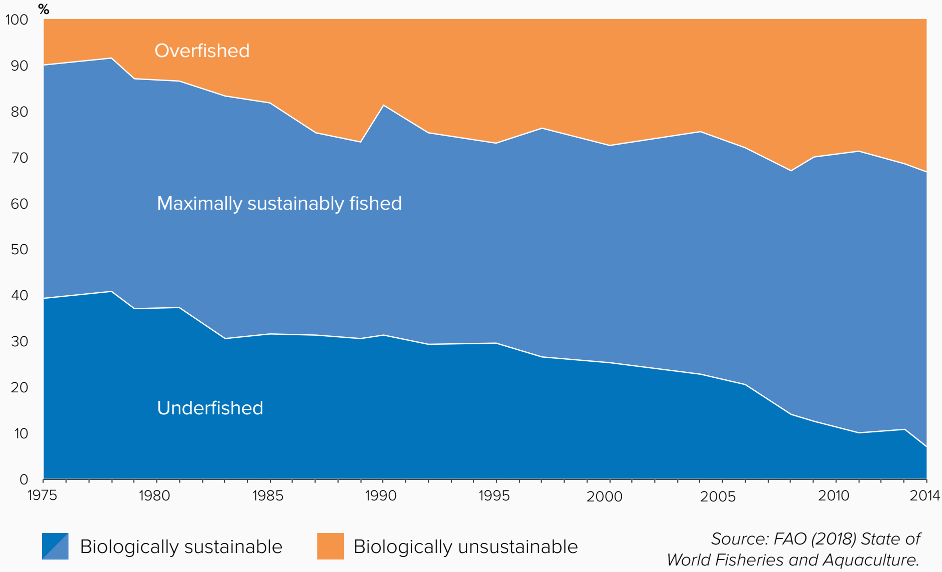
Global trends in the state of the world's marine fish stocks, 1974-2015



Source: FAO (2018) State of World Fisheries and Aquaculture.

Fisheries and subsidies matter

Fisheries are a crucial source of animal protein, livelihoods and export earnings for many developing countries, and for several LDCs. According to the FAO, in 2015, fish accounted for around 26 percent of animal protein intake in LDCs. A recent study by the United Nations Conference on Trade and Development (UNCTAD) also highlights that in 14 of the (at the time) 48 LDCs, fisheries products were among the top five merchandise exports. One LDC, Myanmar, is among the top 20 producers of marine capture fish in the world.

Many LDCs both exploit their own fisheries resources and provide access to those resources for fleets of other countries, including distant-water developed and developing country fleets. These access arrangements are often an important source of revenue for resource-constrained LDC governments, but can create tensions between the rights of access provided to foreign industrial fleets and those afforded to domestic fleets.

Beyond their importance to food security and exports, fisheries are also deeply embedded in the social, economic and cultural fabric of many coastal LDCs. For many coastal communities, fishing is both part of their identity and the economic activity they have relied on when other opportunities are not available.

And subsidies matter. It is widely recognised today that fisheries subsidies are one of the major factors driving overfishing globally. When poorly designed, these support instruments can increase fishers' incentives to fish at levels that are unsustainable.

What may look like effective measures to support the fishing sector in the short term often leads to the overcapitalisation of fleets and overfishing, which can jeopardise communities' ability to sustainably exploit marine resources in the longer-term, leaving everyone worse off.

Several studies have shown that not all government support is equally harmful, however. Modelling by the OECD has demonstrated that support to income, for example, delivers benefits to fishers without much additional fishing effort. On the other hand, support in the form of subsidies to input costs, such as fuel, is very likely to lead to increased effort and risks of overfishing, without delivering much benefit to fishers' incomes. Work by Rashid Sumaila has highlighted that some forms of support, to fisheries management efforts, encourage positive investment in fisheries resources.

Negotiating international rules on fisheries subsidies

World Trade Organization members are currently negotiating new rules to discipline the provision of subsidies to fishing industries. Unusually for the WTO, the negotiation is motivated primarily by the effects of these subsidies, through economic activity, on the marine environment – the original mandate calls for a prohibition on "certain subsidies that contribute to overcapacity and overfishing."

The negotiations are also targeting a link between subsidies and ocean governance: Sustainable Development Goal target 14.6 assimilated the WTO mandate and also called on members to eliminate subsidies to illegal, unreported and unregulated (IUU) fishing. Both the original mandate and SDG target 14.6 underline the importance of "appropriate and effective" special and differential treatment for developing and least developed countries in light of the importance fisheries have in their sustainable development.

There are three main substantive rules on the table in the negotiations: a prohibition of subsidies to IUU fishing, a prohibition of subsidies to fish stocks that are already overfished and a broader prohibition (per the original mandate) on subsidies that contribute to overcapacity and overfishing. Negotiators are also beginning to think about how the disciplines will be implemented, and what support might be available to do so.

Special and differential treatment is being treated as a cross-cutting issue; a question to be addressed with respect to the overall burden of the new rules. At this stage, options for special and differential treatment include longer timeframes for implementation, technical assistance and in some cases exemptions from some of the new rules, in particular new disciplines on capacity and effort-enhancing subsidies. LDCs have themselves proposed that the prohibitions on subsidies to IUU fishing and to the fishing of overfished stocks apply to them, recognising the gravity of the challenges such disciplines aim to address.

Policy impacts of new subsidy rules on least developed countries

Implementing new WTO rules on fisheries subsidies will have a range of policy impacts for LDCs. They will need to assess how they wish to implement the prohibition on subsidies to IUU fishing; perhaps by adding a subsidy prohibition to existing domestic sanctions for illegal fishing.

Improving the monitoring, control and surveillance of fishing activity – both by domestic and foreign fleets – within their exclusive economic zone could help LDCs to implement an IUU subsidy rule more comprehensively. LDCs may also find it useful to establish the state of their most economically valuable fish stocks – using either data-intensive or data-poor methods. Then, where those stocks are overfished, determine how subsidies for the fleets that fish them could be reformed.

Reforming subsidies can also contribute to climate change adaptation. There is already evidence that warming ocean temperatures are leading to fish stocks moving to higher latitudes and deeper waters. Healthy fish stocks are more resilient to the pressures of climate change than overfished stocks. To the extent that reforming subsidies contributes to healthier fish stocks, reform would help fish stocks and the broader ocean ecosystem to adapt gradually to changes driven by climate change, and therefore also provide communities that depend on fisheries for livelihoods with a longer timeframe to adapt to these changes.

Role of aid for trade

Aid for trade can contribute, in at least three ways, to supporting LDCs to redesign subsidy programmes and implement a new WTO agreement on fisheries subsidies.

First, aid for trade could help LDC governments to fully understand the exact implications of new WTO rules by looking at existing programmes and policies and mapping what needs to be changed, reformed or improved as a result of new disciplines – perhaps in the context of an examination of the fisheries sector and its role in economic diversification and trade-supported sustainable development.

Second, aid for trade could help governments and stakeholders to establish how to give effect to new disciplines, including identifying how to link subsidies policies with fisheries management decisions – for example phasing out subsidies for stocks that are overfished. Aid for trade, in this context, could complement other technical assistance that might be available to help strengthen fisheries management, for instance for stock assessment and better monitoring fishing in their waters.

Third, aid for trade could be used to support subsidy reform pathways that help LDCs to comply with their new obligations under an eventual WTO agreement, while actively managing the impacts of reform on their most vulnerable communities. In particular, aid for trade could be used to help fishing communities in LDCs to address supply-side and infrastructure constraints, like storage and processing capacities, to help them add value to their catch before it is onsold, which could potentially help to support incomes through a period of subsidy transition.

Organisations like the International Institute for Sustainable Development (IISD), with an extensive track record of supporting countries to design subsidy reform pathways, will also be well-placed to help in this effort. ■

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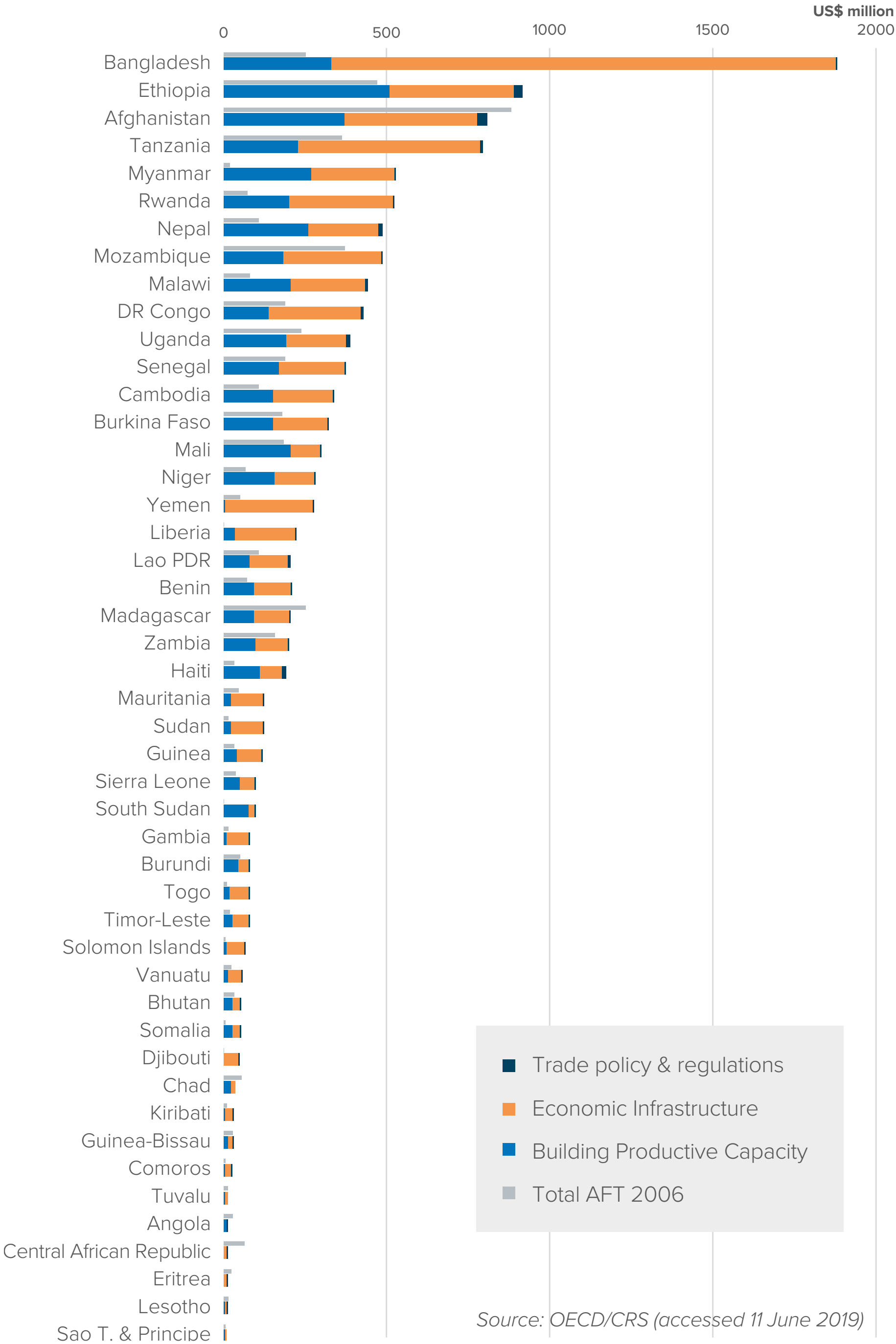
Aid for trade disbursements to LDCs, 2017



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Violeta González & Fabrice Lehmann

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Trade for LDC development

The Enhanced Integrated Framework brings together partners and resources to support the least developed countries in using trade for poverty reduction, inclusive growth and sustainable development.

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