I. Trade and Development
International trade policy tends to be driven by two opposing forces: businesses seeking better access to export markets and industries and sectors that lobby for trade restrictions in order to reduce competition from imports. Economists invariably note that trade restrictions are costly to the societies that impose them because they generally result in higher prices for consumers. They also understand that in practice, the voice of consumer interests is often weak—as consumers tend to be widely dispersed and often the weight of any given good in total consumption will be small. One of the unique features of Pradeep Mehta’s leadership of CUTS is that he has been a consistent (and loud) voice calling for explicit consideration of the interests of consumers in the formulation of trade policy and the importance of competition on markets as a key instrument to force down prices of goods and services for consumers. Pradeep has also been a consistent advocate and supporter of the need to help build supply capacity in developing nations so as to increase the benefits of more open trade and market access liberalisation.

The importance of greater competition as a result of more open trade regimes complemented by an active competition policy, and the need for assistance to help farmers and entrepreneurs in developing countries exploit trade opportunities are examples of policy areas that involve a number of government agencies and international organisations (IOs), and that is the focus of civil

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1. The views expressed are personal and should not be attributed to the World Bank.
society organisations who may not be active on trade policy. They are examples of the importance of policy coherence. An active competition policy—long advocated by Pradeep—may do little if the country has high trade barriers—as of course Pradeep recognises. But an open trade regime will not necessarily generate the competitive benefits predicted by textbooks if other policies or incumbent firms restrict entry.

One of the 5 major functions of the World Trade Organization (WTO) is to cooperate with the International Monetary Fund (IMF) and World Bank Group to achieve greater coherence in global economic policymaking. This note briefly reviews some developments in this area. It is one that attracts relatively little attention but is important, precisely for the reasons just mentioned.

Much of the recent literature on policy coherence has focused on the extent to which the activities of governments and IOs promote economic development. This contrasts with earlier discussions on coherence of policies that centred on the consistency of the macroeconomic policies pursued by countries with their trade policy commitments. Countries cannot fully benefit from trade opportunities if they do not have supply capacity (access to finance, technology, skills, etc.). Moreover, within countries, trade expansion may result in a skewed distribution of gains and adjustment costs. Many of the constraints that impede supply responses to trade reforms are national in nature; investments by firms will depend on the policies and incentive framework created by governments.

Thus, trade reforms often will need to be accompanied by complementary or ‘flanking’ policies. The extent to which such policies are pursued or whether governments have put in place mechanisms to assist workers and households to adjust to a more open trade regime is not a matter that is the subject of WTO trade rules or negotiations. The same is true as regards the ability of governments to finance the costs that are associated with moving to a more open trade regime—e.g., moving from a reliance on import duties for revenues to domestic indirect and or direct taxes. In all these areas, it is IOs that have the mandate and the capacity to provide both financial support and policy advice.
Official development assistance—direct financial transfers—delivered through development cooperation agencies working with recipient governments may have trade expansion as an objective. Historically, however, there has been very little interaction between development agencies and the General Agreement of Tariffs and Trade (GATT)/WTO. This was by design: the trade regime focuses on reducing international spillovers created by national trade policies by supporting the exchange of reciprocal commitments; development agencies focused on supporting unilateral efforts by national governments to raise per capita incomes and improve human development outcomes. Following the launch of the Doha Round in 2001, many members concluded that this historical parallelism was not desirable. The result was an agreement to allocate more development assistance for trade—‘Aid for Trade’.

In part, this change reflected a view in parts of the development community that more attention needed to be given to ensuring that trade agreements ‘make sense’ from a development perspective. The result was greater engagement by development agencies in national trade policymaking in several traditional donor countries (e.g., Sweden, the UK) and an increased emphasis on building capacity in developing countries to define and defend trade positions and priorities. Conversely, trade officials became more cognisant of the need to mobilise resources to support implementation of negotiated trade policy-related disciplines, deal with the adjustment costs associated with trade reforms and assist firms in developing countries to benefit from market access opportunities.

From a coherence perspective, two types of concerns were particularly important. The first revolved around a perception by many developing countries that the Uruguay Round entailed numerous implementation obligations, some of which required financial and human resources. However, the primary instrument used in the WTO to address implementation problems was to grant transition periods to developing countries. Assistance to meet the costs of implementation was a matter for governments to request from national and international development agencies.

The need for greater coordination between such agencies and the WTO was the genesis of the Integrated Framework (IF)
for Trade Related Technical Assistance. Essentially an unfunded mandate established by trade ministers, the IF achieved little in its early years. Over time the IF was enhanced with a dedicated trust fund to finance trade diagnostic activities and technical assistance projects. While the Enhanced Integrated Framework (EIF) helps to cover the costs of identifying trade-related priorities in the least developed countries (LDCs), financing of projects and activities to address these priorities is left to existing mechanisms for the allocation of development assistance.

The EIF was complemented by the launch of the Aid for Trade (AfT) initiative, which aimed at addressing a number of priority areas for action, including determining trade priorities at the national and regional level; responding to this through assistance and financing; and effective monitoring and evaluation of both process and outcomes. The AfT initiative is not associated with specific financial commitments or a central entity or coordination mechanism that takes the lead on—or is the focal point for—delivering AfT. Instead, AfT is supplied through existing country-based allocation mechanisms by bilateral donors and international development agencies. The country-centric approach helps ensure that aid targets priorities identified by governments. However, the recipient country-cum-donor community-centric focus of the initiative also limits the potential impact of the enterprise in that more can be done to involve other actors in the delivery and assessment of aid for trade.

While not formally tied to the negotiations and not legally enforceable, the AfT initiative and the EIF signify recognition on the part of the membership that market access and rules were not enough. What the AfT initiative did was to engage development agencies (bilateral and multilateral) more in the trade integration agenda and raise the profile of trade issues in the process of determining priorities for investment and policy reform at the national level—an example of the WTO fulfilling its coherence mandate. The WTO plays an important role in monitoring the delivery of AfT, together with the Organisation for Economic Cooperation & Development (OECD), and organises a bi-annual
review meeting that brings together developing countries, donors and development agencies and IOs that provide AfT.

Concluding Remarks

A precondition for greater coherence in international and national trade-related policymaking is that WTO rules support development, are seen to do so by stakeholders. The EIF and the AfT initiative more generally imply that WTO rules are now complemented by greater dedicated support for actions that can help to address trade capacity weaknesses. Clearly the substance of WTO disciplines—which is not the focus of this note—matters a lot from a development perspective. But the importance of complementary inputs (‘flanking measures’) illustrates why enhanced coherence of policies is a legitimate concern: the WTO has no financial resources to help poor members improve their trade capacity—this must come from private investment, governments and development organisations. Similarly, other policies can have impacts on trade outcomes—macroeconomic conditions being a prime example. The post-2000 trend of doing more to coordinate and orchestrate greater technical and financial support for trade projects and to raise the profile of trade priorities in national decision-making can be seen as enhancing coherence by focusing more attention in capitals and IOs on bolstering the capacity of countries to benefit from trade opportunities.