Koopmann, Georg; Hoekstra, Ruth

Working Paper

Aid for trade and the political economy of trade liberalization

HWWI Research paper, No. 2-22

Provided in cooperation with:
Hamburgisches WeltWirtschaftsInstitut (HWWI)

Hamburg Institute of International Economics

Aid for Trade and the Political Economy of Trade Liberalization

Ruth Hoekstra, Georg Koopmann

HWWI Research

Paper 2-22
by the
HWWI Research Programme
World Economy

Hamburg Institute of International Economics (HWWI) | 2010
ISSN 1861-504X

Corresponding author:
Georg Koopmann
University of Hamburg and
Hamburg Institute of International Economics (HWWI)
Heimhuder Str. 71 | 20148 Hamburg | Germany
Tel +49 (0)40 34 05 76 - 445 | Fax +49 (0)40 34 05 76 - 776
koopmann@hwwi.org

HWWI Research Paper
Hamburg Institute of International Economics (HWWI)
Heimhuder Str. 71 | 20148 Hamburg | Germany
Tel +49 (0)40 34 05 76 - 0 | Fax +49 (0)40 34 05 76 - 776
info@hwwi.org | www.hwwi.org
ISSN 1861-504X

Aid for Trade and the Political Economy of Trade Liberalization

Ruth Hoekstra and Georg Koopmann*
Ruhr-University of Bochum and
University of Hamburg / Hamburg Institute of International Economics (HWWI)
October 2010

Abstract

The Aid for Trade (AfT) initiative has gained much popularity since its launch at the World Trade Organization's Ministerial Conference in 2005, and there are ongoing discussions on its effectiveness and potential to improve the integration of developing countries into the world economy. This paper contributes to the debate by analyzing AfT in a political economy context. We find that the delivery of AfT is a precondition for trade reform in developing countries, as well as for trade liberalization and trade-enhancing rule-making in regional and international forums. Accordingly, AfT may be a catalyst of trade reforms domestically and internationally.

Keywords: Aid for Trade, Trade Liberalization, Trade Policy, Trade Reform
JEL Codes: F13, F35, F50, O19

---

*Corresponding author: Georg Koopmann, University of Hamburg, Institute for Foreign Trade and Economic Integration, Von-Melle-Park 5, 20146 Hamburg, Germany; phone: +49-(0)40 34 05 76 445, fax +49-(0)40-34 05 76 776, email: georg.koopmann@hwwi.org.

1 Introduction

Notwithstanding the progress in trade liberalization – multilaterally, bilaterally and unilaterally – and economic reform in many developing countries, today it is widely acknowledged that trade issues have to be seen in the broader context of sustained development. Against this background, Aid for Trade (AfT) has emerged as a major WTO initiative at the sixth WTO Ministerial Conference in Hong Kong in December 2005 alongside the Doha Development Agenda.[1] AfT entails external assistance to developing countries for them to benefit from international trade and make trade liberalization possible, based on the assumption that "open trade is an important engine for development" (WTO 2010a). An argument in favor of AfT can indeed be made at each stage of trade liberalization. This is mainly because existing economic incentives appear to be insufficient to sustain the liberalization process, particularly now in the wake of the global economic and financial crisis. During the crisis many countries have resorted to some form of trade restricting and distorting measures which they have been reluctant to remove afterwards. Examples include border barriers to trade, such as import tariffs, export taxes and anti-dumping duties, as well as behind-the-border policies granting subsidies to domestic firms and according them a preferential status in government procurement.[2]

Aid for Trade can contribute to the effective roll back of trade interventionism. It can also help to push forward the process of trade liberalization and rule-making in trade policy. This holds for domestic trade reforms as well as for trade policy concerning the multilateral level. Last but not least, AfT can be a major vehicle for developing countries to capitalize on trade liberalization and trade reforms, and to confront the internal and external adjustment pressures arising in the process.

Current research on Aid for Trade (AfT) concentrates on identifying the most binding economic constraints on trade expansion and diversification in developing countries and on assessing the effectiveness of AfT projects to overcome such constraints and thus enhance economic progress, development and welfare.[3] The present study builds on these writings. It lays the emphasis on the political economy of AfT starting from the observation that "vested" interests frequently oppose the liberalization of trade with developing countries which holds both for imports into these countries and for their exports. The study therefore looks at the

1 As noted by *Hoekman* and *Wilson* (2010), the impulse to the AfT project has come from the 2005 G8 meeting in Gleneagles, Scotland, while the WTO Hong Kong conference created the WTO Aid for Trade Task Force to provide recommendations to the WTO Director-General on how to best "operationalize" AfT.

2 For an overview of developments in trade policy during the crisis and in the immediate post-crisis (covering developments from 1 November 2009 to mid-May 2010,) see *WTO* (2009a) and *WTO* (2010b), respectively.

3 On the first aspect (binding constraints), see for instance *Hallaert* and *Munro* (2009). The second aspect (effectiveness) is dealt with in *Helble et al.* (2009) amongst others. For an overview of evidence on AfT effectiveness, see *Hoekman* and *Wilson* (2010). *Busse* et al. (2010) study the effectiveness of Aid for Trade in reducing trade costs.

possibilities of AfT to support internal ("own") and external ("foreign") trade liberalization and to improve international trading rules to the benefit of developing countries. Accordingly, it is also an exercise in linking the AfT initiative to the wider trade and development agenda and in particular to the development-openness debate.

The analysis proceeds in three stages:

1. It starts with a stock-taking of the AfT initiative and its theoretical background.
2. This is followed by a discussion of the interests and strategies of the main stakeholders in AfT.
3. Finally, the potential of AfT to promote trade liberalization and facilitate trade on the domestic and international levels, and to master the consequences of trade liberalization are assessed.

2 Aid for Trade - Rationale, theory, design

2.1 The domestic versus international approach to economic development

The AfT initiative seeks to build a bridge between development and trade policy. In essence, AfT is foreign (financial and technical) assistance to developing countries in the negotiation, design, implementation and assessment of trade and complementary policies. Beyond conventional trade policy tools, these policies typically comprise measures, regulations and institution-building with a variety of purposes:

- Infrastructure and customs modernization to reduce transaction costs (and corruption) and further trade facilitation.
- Overhaul of the legal framework to secure property rights, prompt enforcement of contracts and well-functioning bureaucracies.
- Industrial policies and technological support programs to create internationally competitive production structures in areas with high value-added and a high degree of integration through cross-border supply chains.
- Tax reforms to make up for the loss of tariff revenues from trade liberalization.
- Strengthening of social safety nets to compensate those who lose their jobs due to import growth.
- Labor market reforms to promote inter- and intra-sector labor mobility.
- Education and training programs to provide qualified personnel for export-oriented companies and investors.

- Financial market reforms to provide firms, in particular small- and medium-sized enterprises, with adequate funds for investment.
- Appropriate macroeconomic and exchange rate policies to improve international competitiveness.

The ultimate objective of AfT therefore is to mobilize resources for the build-up of trade-related policy capacities to increase exports and imports in the interest of economic development and poverty reduction. It is sought to create a "package of assets" or a "bundle of institutional arrangements" (Suwa-Eisenmann and Verdier 2007) for developing countries to better integrate themselves into international trade and the international trading system. In fact, the bundling together of existing structures of trade-related aid activities is what makes AfT a novel approach to economic and social development.

The role of trade and trade policy in economic development is contentious in theory as well as on empirical grounds.[4] The controversy about trade and growth essentially reflects the "international" versus the "domestic" approach to economic development.[5] According to the international approach, opening the domestic economy to foreign trade, investment and competition is a prerequisite for sustained income growth in developing countries and indeed its prime determinant. However, it is also acknowledged that complementary policies to trade liberalization, such as indicated above, are necessary for trade to grow dynamically and actually enhance economic and social development. Indeed, empirical analysis has identified a number of non-trade preconditions for a successful trade-growth nexus. Among these factors are good governance and high-quality institutions (Borrmann et al. 2006, Freund and Bolaky 2008) as well as a high human capital depth, well-developed financial markets, a good public infrastructure and a sufficient measure of labor market flexibility (Chang et al. 2009, Kneller et al. 2008, Winters 2004).

Besides the non-trade factors, the structure of trade itself is important for economic and social development via trade. This holds for the import and export sides of trade. With regard to the import structure, those countries concentrating on the import of goods with a relatively high research and development (R&D) content appear to achieve higher income growth rates than other countries. Taking the example of Indonesia, *Amiti* and *Koning* (2007) find in this context that a reduction by 10 percentage points of tariffs on imported (presumably R&D intensive) inputs raises the productivity of local firms using the inputs by 11 percent. A similar link exists between a country's import liberalization and its export performance. Through the reduction of prices for imported inputs, liberalization tends to shift the incentive

4 For empirical studies that find that trade effectively drives growth and development, see *Sachs* and *Warner* (1995), *Edwards* (1998), *Greenaway* et al. (2002) and *Wacziarg* and *Welch* (2008). Other studies find the contrary (Rodriguez and Rodrik 2000, Vamvakidis 2002).

5 For the "international approach" see, for instance, *Krueger* (2008) and *Sachs* (2008), while *Rodrik* (2008) and *Rodrik* and *Subramanian* (2008), amongst others, advocate the "domestic approach".

structure towards greater production for exports. Non-liberalization, on the other hand, would encourage resource flows into protected and inefficient import-competing sectors with little incentive to innovate. Empirical evidence on sub-Saharan Africa, for instance, nevertheless reveals a rather limited export response to the wide-ranging import liberalization that has taken place in this region since the mid-1990s. This is mostly the result of a weak supply capacity and poor trading infrastructure in sub-Saharan Africa and thus poses a challenge to AfT.[6] Finally, concerning the export structure, *UNCTAD* (2002) points to a vicious nexus particularly in least-developed countries (LDCs) between reliance on (non-fuel) commodity exports and extreme poverty: the share of people living on less than one dollar per day is found to increase significantly with a declining degree of export variety. On the contrary, broadening the export base and enriching it with higher-value products through the development of dynamic comparative advantages could help to reduce poverty and further economic development.

In contrast to the international approach, the domestically-centered view of development leaves little room for direct measures in support of trade, as trade promotion is not among its priorities. Rather, the emphasis is on domestic governance and institution-building. Urgent development priorities include education, public health, industrial capacity and social cohesion while domestic development is opposed to global integration. Global integration is a possible outcome of domestic development strategies but not perceived to be a driving force of economic and social progress. As *Rodrik* (2008) puts it, “growth begins at home”. A key notion in this context is “policy space” (Rodrik 2007) which also involves the freedom to adopt restrictive trade strategies and a preference for domestic over foreign investors.

AfT is certainly more in line with the international view than with the domestic development perspective. The international approach to trade and development pertains to the whole AfT agenda. It has a direct bearing on specific AfT activities while stressing the public-good nature of AfT. Accordingly, AfT can prevent “under-investment” in trade reforms which might occur if the reforming country would have to share the benefits of trade reforms with its trading partners. The international approach also advocates “strategic liberalization,” emphasizing the time pattern of trade policy and its coordination with complementary policies (“sequencing”). This especially applies to institutional development, i.e. the establishment of market-creating, market-regulating, market-stabilizing and market-legitimizing institutions, which takes time. Trade liberalization in developing countries would therefore have to proceed in lockstep with advances in institution-building.

6 For greater detail, see *UNCTAD* (2008).

2.2 Core areas and quantitative significance of Aid for Trade

The core areas of AfT are trade policy, trade development and adjustment to trade. This "triad" is a condensation of the AfT categories proposed by the WTO Task Force on Aid for Trade (WTO 2006), as shown in the box below (Figure 1). In particular, we subsume the Task Force's categories 3 ("trade-related infrastructure") and 4 ("building productive capacity") under "trade development".

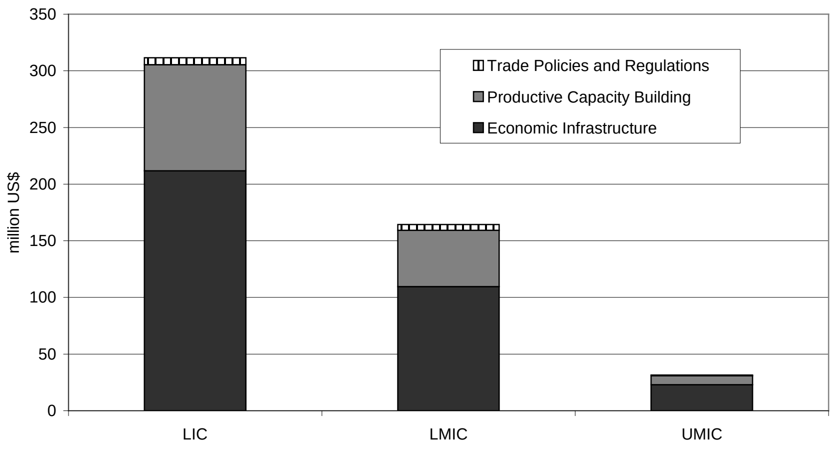
Figure 1. Categories of Aid for Trade Proposed by WTO Task Force

1. *Trade Policy and Regulations*. This includes training of trade officials, analysis of proposals and positions and their impact on national stakeholders, technical and institutional support to facilitate the implementation of trade agreements and the compliance with rules and standards.
2. *Trade Development*, e.g. investment and trade promotion, support in different trade sectors and trade finance, market analysis and development.
3. *Trade-related Infrastructure*, including physical infrastructure to connect domestic and foreign markets.
4. *Building Productive Capacity*, meaning investments in industries and specific sectors so that countries are able to diversify production and exports.
5. *Trade-related Adjustment*. This category comprises complementary measures absorbing some of the costs linked to tariff reductions or declining terms of trade to make developing countries benefit from trade liberalization.
6. *Other Trade-related Needs*.

Source: WTO (2006).

Between 2002 and 2008, total AfT flows amounted on annual average to 19.3 billion US$ (disbursements in constant 2008 prices), a share of around one third of Total Sector Allocable ODA. Within AfT, the bulk of disbursements relates to Economic Infrastructure such as transport and storage, communications and energy. In second place are Productive Capacity Building and Trade Development. The category of Trade Policies and Regulations, by contrast, represents a minor proportion of AfT (Figure 2). It amounts to 673 million US$ on average, which is 3.5 percent of AfT. In terms of the recipient country's stage of development according to income classes (gross national income (GNI) per capita), low income countries receive the bulk of AfT, as shown in Figure 3 for the average country by income groups. Within the group of low income countries, LDCs receive less AfT than other low income countries which might be explained by potential absorption capacity constraints and the fact that our calculations do not take account of the population size. Another possible reason could be that the LDCs' most urgent needs are not so much trade-related, but rather relate to nutrition and social programmes (Agboghoroma et al. 2009).

Figure 2. Aid for Trade per country by income groups and major Aid for Trade categories



Note: LIC = Low income country (995 US$ or less 2009 GNI per capita), LMIC = Lower middle income country (996-3945 US$), UMIC = Upper middle income country (3946-12195 US$), according to the World Bank definition. Annual averages (2002-2008) of disbursed AfT receipts (US$ million in constant 2008 prices). Source: Own calculations based on *OECD* (2010).

Aid for *trade policy* (represented by the AfT category Trade Policies and Regulations) is foreign assistance to developing countries over the whole range of laws, institutions and measures associated with tariff, non-tariff and regulatory barriers to trade. Within this framework, it comprises the planning of trade policy in developing countries, the training of trade officials, the negotiation of regional, bilateral and multilateral trade agreements, the analysis of proposals in such negotiations and their impact on national stakeholders, the implementation of trade agreements and compliance with the rules and standards stipulated therein, and the facilitation of trade across customs borders. The emphasis is on the reduction of non-tariff border barriers to trade, such as customs-related transaction costs or trade costs, and the alleviation of behind-the-border trade barriers which are typically of a regulatory nature. Both sorts of barriers can in principle be tackled through complementary policies of the kind previously specified.

A major function of AfT in this context is to bridge the compliance and commitment gaps facing developing countries at the multilateral and bilateral trade policy levels. Such inconsistencies arose on a sizeable scale in the wake of the multilateral Uruguay Round conducted in the late 1980s and early 1990s under the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor. In the Uruguay Round, developing countries assumed wide-ranging policy obligations in goods, services and intellectual property which they were largely unable to fulfill on their own (compliance gap). At the same time, the commitments by developed countries to assist developing countries in the implementation of these policies were often couched in terms of "best endeavor" in the respective agreements, i.e. non-binding declarations of intent, leading to a commitment gap. It was this contradiction which ultimately gave rise to new aid schemes in the form of Trade-Related Technical Assistance (TRTA) and Trade-Related Capacity-Building (TRCB) on which the AfT initiative builds.

Similar problems occur in the area of bilateral trade policies where Free Trade Agreements (FTAs) between developing and developed countries now predominate. Such "North-South" trade agreements increasingly contain elements of "deep integration". Deep integration essentially involves action by governments to reduce the market segmenting effect of differences in national regulatory regimes through coordination, harmonization or mutual recognition of national policies (Koopmann and Vogel 2008). Accordingly, the FTA partner countries agree on complementary "behind-the-border" policies in areas like health, safety and technical standards, services, intellectual property, government procurement, foreign direct investment, competition, taxation, environment and labor, in order to avoid distortions to international competition. However, the implementation of such policies is often costly and complicated. They typically involve major institutional changes in the developing partner countries, are technically and administratively difficult and therefore demand considerable resources. Consequently, a substantial measure of AfT is called for in the context of North-South FTAs as well.

The same holds for the unilateral or autonomous level of trade policy. In this case, AfT can provide guidance, for instance, on how to "mainstream" trade policy into overall development planning. More practically, it may also be needed to secure a better coordination among the various government agencies engaged in trade-related policy making.

Our second core area, aid for *trade development*, is external support to the build-up of human, institutional and physical capacity in developing countries for two major purposes:

1. To expand the quantity, increase the diversity and raise the quality of goods and services for export markets.
2. To secure the delivery of and absorptive capacity for imports of high-quality goods and services enhancing the performance of domestic industries.

AfT in this area therefore seeks to remove both supply- and demand-side constraints to trade development. This involves the development of better knowledge about foreign markets; the provision of export finance on reasonable terms; the improvement of trade-related infrastructure (roads, ports, communications systems, etc.) linking domestic and foreign products to their respective markets; and the creation of superior productive capacity - from improved testing laboratories to better supply chains - in specific sectors.[7] Widening such

7 An example is the Standards and Trade Development Facility created at the multilateral level – with the WTO as lead agency – to assist developing countries with the implementation of international sanitary and phytosanitary standards. Such regulations are a major market access barrier for agricultural products of developing countries.

bottlenecks often requires physical investments as well as regulatory reform, which is most obvious in the area of infrastructure. For trade-related infrastructure, it is also important to address questions of policy consistency across countries, and to prioritize cross-border linkages (Estevadeordal et al. 2008).

Like aid for trade development, aid for *adjustment to trade* has an internal, import-related and an external dimension with a focus on export markets. Internal adjustment costs mainly result from closures of production facilities, employment losses and losses of fiscal/tariff revenue in the wake of import liberalization. Accordingly, adjustment requirements concern the restructuring of production, retraining of labor and fiscal reform while limited adjustment capacities may warrant adjustment support from the domestic state or from abroad, in order to protect the most vulnerable and facilitate the transition of enterprise and labor to expanding sectors of the economy. In actual fact, adjustment programs addressing trade-related disruptions to local industries and labor markets in developing countries appear to be rather sparse. In a number of countries, for instance in Latin America, such disruptions also have questioned voter support for trade liberalization and thus given rise to a certain "reform fatigue" and a heightened risk of backlash to further reform (Estevadeordal et al. 2008).

External adjustment costs primarily arise from "preference erosion" facing developing countries on foreign markets as a result of multilateral, bilateral and unilateral trade liberalization. Ongoing multilateral liberalization on a most-favored nation (MFN) basis effectively undermines the unilateral trade privileges granted to developing countries by developed countries under trade regimes such as the various Generalized Systems of Preferences. At the same time, bilateral trade liberalization in the frame of North-South FTAs, while on the one hand creating new preferences of their own for the partner countries (and "vested interests" against their erosion through MFN liberalization), on the other hand often diminish the value of unilateral preferences for non-partner countries. This is in particular true for LDCs which rarely participate in such agreements. Finally, unilateral trade liberalization in foreign countries, e.g. through the removal of fixed- or guaranteed-price regimes in agriculture, can also erode preferential treatment of trading partners from developing countries.

In all three scenarios, compensatory AfT is requested. An example is the island state of Mauritius which has been highly dependent on unilateral trade preferences in the textile, clothing and sugar industries. As these prerogatives have come under fire from various sides (e.g. through the European Union's (EU) new sugar trading regime), the government of Mauritius has asked for "significant international assistance" in its country's transition to an "open and competitive economy" which no longer relies on "special and differential treatment" from its trading partners. AfT is considered to form a "key mechanism" in financing the compensatory measures proposed in the frame of a ten-year economic reform program to put the economy back onto a long-term growth path (WTO 2008).

The case for AfT in the adjustment context primarily rests on distributional or equity as against efficiency considerations. With regard to internal adjustment, equity within the developing countries is at issue, such as the design and financing of mechanisms for compensating inevitable losers in the transition process and boosting the opportunities of potential winners. External adjustment, on the other hand, also involves distributional issues between countries. Here, the rationale of AfT is to defend the income position of developing countries in global competition and to prevent their terms-of-trade from deteriorating. This leads us to take a closer look at the interests at stake in AfT and the strategies followed by its main stakeholders.

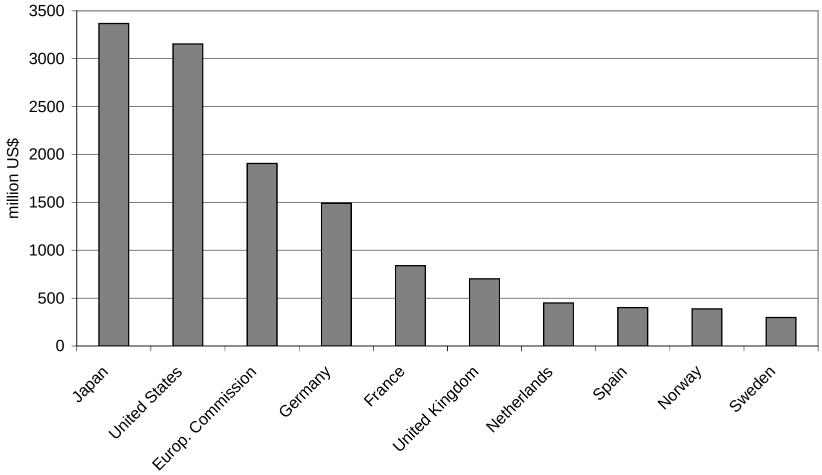
3 Stakeholders in Aid for Trade, their interests and strategies

3.1 Governments and the World Trade Organization

Among the many providers of AfT, individual countries and their respective governments retain a crucial role in the AfT initiative. Bilateral donors accounted for almost 65 percent of total AfT in 2008 (OECD 2010). Increasingly, AfT is also being provided by developing countries themselves – Argentina, Brazil, Chile and China, for instance, all contribute to South-South regional integration initiatives, passing on their own experiences with trade liberalization (OECD and WTO 2009). To a growing extent, individual countries like Chile and Malaysia are both donors and recipients in AfT.[8] Another case is Croatia which has been providing development assistance to Bosnia and Herzegovina and plans further engagement in south eastern Europe (WTO 2010c). However, the bulk of AfT funding is still shouldered by the traditional donors like Japan, the United States, the European Commission and EU Member States (see Figure 3).

8 On the case of Malaysia, see WTO (2009c).

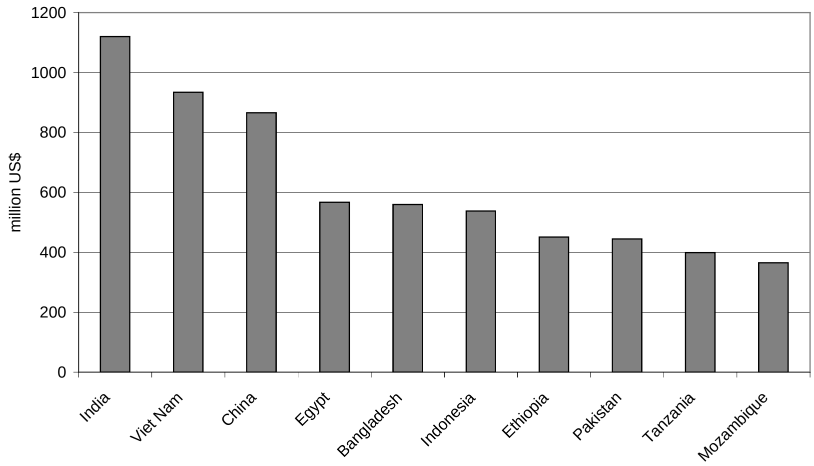
Figure 3. Top 10 Aid for Trade donors



Note: Flows from bilateral donors which are members of the OECD Development Assistance Committee are reported. Annual averages (2002-2008) of disbursed AfT flows (US$ million in constant 2008 prices). Source: Own calculations based on *OECD* (2010).

For the top AfT recipients (see Figure 4), of which many are to be found in Asia, AfT appears to be a priority in overall aid to development. In Vietnam and Tanzania, more than 60 percent of total (sector-allocable) ODA is allotted to AfT, while Pakistan and Indonesia assign around half of the sector aid they receive to AfT (OECD 2010). The fact that these countries perceive AfT as most important presumably also contributes to the level of AfT they receive.

Figure 4. Top 10 Aid for Trade recipients



Note: Excluding Iraq and Afghanistan which received huge amounts of post-war aid and are thus statistical outliers. Annual averages (2002-2008) of disbursed AfT receipts (US$ million in constant 2008 prices). Source: Own calculations based on *OECD* (2010).

Making Aid for Trade a top priority necessitates the involvement of the donor and partner countries' governments, which is one of the main reasons why domestic interests play an important role in AfT. Trade ought to be mainstreamed into donors' aid programming as well as into recipients' national development strategies. Mainstreaming is a tool which helps alleviate potential adjustment costs and helps developing countries to appropriately sequence trade policies and domestic policies according to their specific needs for seizing opportunities offered by trade (WTO 2009b).

Particularly against the backdrop of growing reluctance to trade liberalization, the engagement of political leadership in partner countries is critical for the success of AfT. Improving developing countries' ability to take advantage of liberalized trade requires a partnership in which recipient countries take the lead in prioritizing trade-related projects and exercise country ownership, one of the main principles of the Paris Declaration on Aid Effectiveness.[9] Donors in turn support the process through improving coordination at the country and regional levels and by enhancing the predictability of aid flows.

Country-defined AfT is by no means a warrant that trade-related programs will automatically be mainstreamed (Cameron and Njinkeu 2008). Recipient countries' efforts to mainstream trade into development are constrained by aid resources which must compete with priority sectors such as health or education. Additionally, inter-ministerial co-operation is often lacking. This situation is frequently mirrored in donor countries, where finance ministers may undervalue trade while development ministries may have insufficient resources at their disposal or have a low standing in the Cabinet. At the same time, supporters of the AfT initiative, mainly found in trade and commerce ministries, rarely formulate strategies to improve competitiveness.

If political leadership in developing countries is weak and trade policies are incoherent, AfT effectiveness cannot necessarily rely on country-owned development, but is rather anticipated by donors. For instance, the framework of Poverty Reduction Strategy Papers (PRSPs) is provided by the international financial institutions which decide on content and perceived quality of submitted PRSPs and thus actually have ownership of the paper (Kamruzzaman 2009).[10] A recent survey, commissioned by the United Nations Development Program (UNDP) (Kosack 2008), on the role of trade policy in PRSPs, covering 72 PRSPs completed by 54 countries between 2000 and early 2008, points to the increasing role that trade is playing in poverty reduction strategies. The majority of PRSPs contains a section on trade policies and on how to tailor these policies to domestic characteristics. However, the trade-poverty nexus does not seem to be fully understood. In reality, many PRSPs deal very

9 "Country ownership" refers to the right and the responsibility of partner countries (here, countries receiving AfT) to exercise "effective leadership" over development policies and action in their countries (Paris Declaration on Aid Effectiveness 2005).

10 PRSPs are the centerpiece of a new approach to international development co-operation, with a focus on poverty reduction, developed by the IMF, the OECD's Development Assistance Committee and the World Bank (WTO 2006).

narrowly with trade and do not directly correlate trade and poverty. This might reflect a lack of understanding or skepticism of broader-based trade strategies (Kosack 2008).

Self-assessments by partner countries nevertheless suggest that they do have a national development strategy and in most cases actually mainstream trade – i.e., make it a key priority. Their AfT priorities coincide with those of donors: Network infrastructure, competitiveness, export diversification and trade policy analysis, negotiation and implementation (OECD and WTO 2009). Partner countries seem to be increasingly aware that trade can play a positive role in promoting economic development (OECD and WTO 2009). However, the existence of a national development strategy on paper does not necessarily reflect a country's real engagement in Aid for Trade in terms of effectively implementing and operationalizing trade strategies and national and regional dialogues. The success of AfT ultimately depends on recipient countries' ability to put in place the preconditions for economic development, i.e. the right legislation, policies, institutions and infrastructure.

Enhancing such capacities in recipient countries is of major interest to multilateral stakeholders in Aid for Trade, among which the WTO stands out. It is the "nerve centre" of AfT where all actions come together. It serves as a platform for the actions of a large number of actors (international organizations, regional development banks, donors, civil society) in AfT (WTO 2010a). This is in spite of the fact that the WTO is neither a development agency nor a financing agency. Rather, its responsibility is the functioning of the multilateral trading system. This involves the liberalization of international trade, rule-making to guide member countries' trade policy, dispute settlement among members and surveillance of their concrete trade policy conduct. However, the WTO also has a clear interest that growing trading opportunities in the course of liberalization are actually used and related adjustment requirements effectively met, in particular with regard to its weaker member countries. Moreover, the WTO is interested to ensure the needed political backing for global trade liberalization to which AfT can be instrumental.

In fact, the WTO's direct financial involvement in the AfT initiative is very limited. Its role in AfT is better described as that of an advocate, facilitator and supervisor. This involves activities within the WTO as well as joint action with other stakeholders.

Inside the WTO, three institutions or programs are most pertinent to AfT: Special and Differential Treatment, the Trade Policy Review Mechanism and Trade Facilitation. AfT effectively forms part of Special and Differential Treatment (SDT) which the WTO accords to developing countries. At the same time, it represents a new, proactive SDT approach. According to traditional SDT, developing countries and in particular LDCs enjoy privileges in the multilateral trading system regarding the protection of their domestic markets ("infant industry" protection), their access to foreign markets (trade preferences granted by developed countries) and the negotiating process itself (non-reciprocity). However, the downside of this preferential status has been a relatively passive role and isolated position of these countries in multilateral negotiations.

AfT offers a way to change this. It can help developing countries to assume multilateral obligations and enhance their bargaining strength and also assist them in building international competitiveness and master structural adjustment. In this context, it has been proposed to grant poor countries a statutory entitlement to technical support for the commitments they enter into (WTO 2004). In a similar way, adjustment assistance to trade could be institutionalized in the WTO, e.g. in the form of a multilateral adjustment mechanism for poor countries harmed by the freeing of trade.[11] Such measures might help to avoid permanent “opt-outs” from multilateral commitments. In sum, AfT has the potential to fundamentally transform SDT and ultimately render “positive discrimination” of developing countries in the multilateral trading system superfluous.

Within the Trade Policy Review Mechanism (TPRM), through which the WTO conducts regular surveillance of its members’ trade and trade-related policies, AfT is now a standard feature of the WTO Secretariat’s TPR reports for individual member countries. It is no longer the sporadic element of the TPRM, confined to trade-related technical assistance and a handful of LDCs, which it was in the past.[12] In principle, the whole AfT agenda and all recipient countries come under scrutiny in current TPRs. Moreover, the AfT performance of individual donor countries (including developing countries) is assessed as well.

The full integration of AfT into the TPRM can help to increase the effectiveness of this long-standing WTO institution aimed at “achieving greater transparency in, and understanding of, the trade policies and practices of Members” (WTO 1994). In particular, TPRs could pass informed judgment on how the different strands of AfT together influence economic and social development. In this way, the TPRM could also foster the dialogue between trade, finance and development officials and show how to improve existing AfT strategies.

The third internal WTO mechanism with a strong bearing on AfT – Trade Facilitation (TF) – represents the only one of the four “Singapore issues” which has survived in the Doha Round.[13] Core objectives of TF are to improve the international trade infrastructure, to simplify and internationally harmonize customs procedures, and to enhance co-operation between customs authorities and other government offices such as certifying or licensing

11 See, for instance, *Riley* (2006) who suggests the creation of a new council in the WTO, called the Council for Global Trade Adjustment Assistance, through which “transfers … to the least-advantaged workers in less-developed nations” would be channeled.

12 Trade-related technical assistance for LDCs has been reviewed under the TPRM since the year 2000. In fact, the WTO Secretariat’s report on Tanzania (January 2000) was the first TPR report on an LDC containing a separate section dedicated to ‚trade-related assistance’.

13 Besides TF, the “Singapore issues” comprise competition policy, policies towards foreign direct investment and transparency in government procurement. At the insistence of developing countries, these policy areas were not placed on the Doha Development Agenda.

bodies. The overriding aim is to reduce transaction costs in international trade or trade costs associated with logistics, administration and regulation. Such costs often exceed trade costs associated with tariffs (Taylor and Wilson 2009).

TF is genuine AfT in that it not only defines new trading rules but also involves the provision of resources to assist developing countries in meeting the new obligations they are expected to incur in a WTO trade facilitation agreement. TF therefore is a response to the compliance and commitment gaps facing developing countries noted in the preceding section. At the same time, AfT is needed for developing countries to effectively participate in the multilateral negotiations on TF itself.

Finally, the co-operative or external role of the WTO in AfT is epitomized in the Enhanced Integrated Framework (EIF) which is a strategic partnership between the WTO and five other Inter-Governmental Organizations (International Monetary Fund (IMF), World Bank, UNCTAD, UNDP and ITC) in trade-related assistance to LDCs. The EIF, which became fully operational in July 2009, is a mechanism for the "mainstreaming" of trade into national development plans. Its prime instrument is Diagnostic Trade Integration Studies carried out in the context of a country's Poverty Reduction Strategy Paper.[14] At "trade integration strategy workshops" stakeholders in AfT are supposed to discuss the findings and recommendations of the studies, and donors to indicate their role in financing the needs identified. In this way, diagnostic work is expected to translate into funded projects, and "mainstreaming" to materialize.

3.2 The private sector

The private sector, in particular in the form of small and medium-sized enterprises (SMEs), is an engine of trade and growth in many developing countries as it largely contributes to economic development in terms of value-added and employment.[15] However, SMEs often lack technological capacity and are too small and inadequately endowed with capital to compete on dynamic international markets: SMEs' business entry, survival and expansion are challenged by the financial, bureaucratic and managerial obstacles imposed on them in many developing countries. As a result, the informal sector in Africa accounts for over 75 percent of the total non-agricultural employment on average, compared to 57 and 45 percent in Latin America and Asia, respectively (Brewster and Njinkeu 2008).

14 Diagnostic Trade Integration Studies essentially represent an "action matrix" to evaluate constraints on a country's integration into the world economy and identify areas where technical assistance and trade programs can help the country overcome these barriers (Finger 2008).

15 The WBCSD (2007) asserts that in developing countries, over 90 percent of all non-agrarian firms are SMEs and microenterprises.

Entrepreneurship itself relies on the actions taken by developing countries' governments to improve the policy framework and trading environment for individual firms and business associations. This includes a functional infrastructure, access to finance, security in terms of absence of corruption and crime, and the reduction of regulatory hurdles, including those on international markets.[16] *Mambula* (2002) surveys 32 small businesses in Nigeria and finds out that SMEs perceive lack of financing and poor infrastructure as the main growth and performance constraints.

A precondition for private sector development is recipient country ownership, as promoted by the Paris Declaration on Aid Effectiveness (2005) and asserted by the International Trade Center (ITC), a Geneva-based joint agency of the WTO and the United Nations Conference on Trade and Development (UNCTAD) which mainly provides trade-related assistance concerning the private sector. Under the aegis of country ownership, national institutions and governments' policies are sought after to create an enabling environment.

Although aid critics claim that too much aid supporting the public sector rather than the private sector might inflate the public sector, crowding out private investment, aid going to the public sector finances the provision of public goods such as physical and human capital infrastructure which would otherwise be nonexistent in the poorest countries. This may crowd in private investment (Morrissey 2006). AfT's country-centric approach helps to focus aid on private sector development, with responsible recipient countries being 'intermediaries' representing their private sector's interests toward developed country donors. AfT initiatives should target the SME business community indirectly by creating a trade enabling environment through setting the legal framework (securing property rights, enforcement of contracts and eliminating red tape), for instance. At the same time, bottom-up approaches to cluster-building and enhancing networking among SMEs can be a valuable component for microeconomic development. Small-scale enterprise clusters foster interest representation, cost-saving production and mutual know-how (UNIDO 2001).[17] Similarly, business membership associations strengthen collective action and can act as trade promotion motors.[18] AfT can also improve business collaborations by helping local suppliers approach big companies and by facilitating the set-up of business linkages, particularly when SMEs are neither aware of such possibilities nor capable to do so on their own (Aggarwal and Huelin 2009).[19]

---

16 See Dethier et al. (2008). These authors also review respective studies, finding that the named elements of the investment climate significantly impact firm performance.

17 See Hoekman and Wilson (2010) for examples on private sector initiatives.

18 See Agboghoroma et al. (2009) for further details on the role of business membership organizations.

19 Multinational and large local manufacturers are often hesitant to work with small local suppliers due to reliability concerns and quality requirements, although there are benefits in delivery time and transport costs, among others. The objective is to overcome these concerns and establish integrative local networks (UNIDO 2001).

In addition to these business-to-business linkages, a proactive approach to direct collaboration between business and governments is needed. Public-private partnerships (PPPs) and corporate social responsibility programs may contribute to economic growth. Aid for Trade can act as a facilitator for these processes, helping to match demand for AfT intervention with the corresponding aid flows (Aggarwal and Huelin 2009). PPPs are increasingly becoming important for the biggest AfT category, infrastructure. Private sector participation in planning, financing and implementing infrastructure projects in developing countries may deliver better results due to improvements in efficiency and the quality of service (Harris 2003).

However, both public and private actors in developing countries are often doubtful about the true intentions of the other. If expectations and policies do not match, disappointing results concerning prices, services and performance are to be expected (Harris 2003). Particularly the political economy of pricing seems to be a key challenge. Public pricing has often been below economic costs of infrastructure projects, as infrastructure services are considered to be an essential public good. Inevitably, prices rise with private sector involvement, yet governments cannot expect the private sector to bridge the gap between applied and real costs (Harris 2003).

Although public policy approaches to direct private sector development seem to be demanding, individual cases show that countries with a high level of communication, exchange and collaboration between the government, the private sector and civil society are more likely to implement reliable and feasible reforms and to successfully manage to participate in the international trading system (OECD and WTO 2009, Aggarwal and Huelin 2009). Such public-private stakeholder dialogues, however, appear to take place more frequently in higher-income partner countries, while in terms of geography, they are found to be most common in Latin America (OECD and WTO 2009). The situation in those countries where co-operation with the private sector is weak or non-existent is worrying as enhancing trade development is directly contingent on entrepreneurship, i.e. on expanding production and raising the quality of goods and services, in order to export more to world markets at competitive prices. Furthermore, involving the private sector in planning and implementing development schemes builds trust and commitment in the business community and avoids a situation of them and us (Oboko 2008). It also does justice to the fact that the private sector is not only a potential beneficiary of AfT, but also a financial supporter. Firms (in the formal sector) in principle contribute indirectly through taxes on business revenue.

To provide the private sector with financial resources, some development and financing institutions have put in place private sector programs themselves. These include the World Bank with its programs for the private sector, covering areas such as the investment climate, public-private partnerships and work on support for SMEs; the Inter-American Development Bank, providing long-term loans and guarantees for private enterprises; the African

Development Bank which has a private sector development strategy to integrate private sector concerns in the bank's operations as well as its own private sector department dealing with private sector lending; the Asian Development Bank, extending lines of credit to public and private financial intermediaries of its developing members, which mainly benefit productive private SMEs; and bilateral donors with their private sector programs, such as the UK's Department for International Development, the US Agency for International Development and the Swedish International Development Agency, amongst others (Brewster and Njinkeu 2008). European aid donors with interest in the private sector have established so-called Development Finance Institutions (DFIs) which operate almost exclusively in developing countries and countries with transition economies. DFIs are mandated by their respective governments to provide long-term financing to the private sector, with specific value-added development objectives, but on a sustainable commercial basis (Rodríguez and Santiso 2007). These and other private banks are actively involved in developing countries, with Asia and Latin America being the biggest recipients of bank flows to emerging economies, while Africa is last (Rodríguez and Santiso 2007).

Furthermore, governments in developing countries themselves have implemented measures to mitigate the impact of the financial crisis, such as supporting trade-related lending through government-owned export credit agencies or by implementing broader measures that promote the competitiveness of the domestic and export oriented sectors (Malouche 2009).[20]

Apart from donor and recipient countries' governments, particularly regional and sub-regional development banks (RDBs and SRDBs) play an important role in acting as "market makers" for financial innovation in developing countries (Griffith-Jones et al. 2008). *Griffith-Jones* et al. (2008) find that there is a need for the creation of new SRDBs to cover financing gaps particularly in Asia, where the Asian Development Bank seems to be the only major and effective regional bank, while in the case of Latin America, an existing network of SRDBs exists with banks effectively granting credits to countries in the region. The existence of these big lenders seems to be relevant for financing infrastructure gaps and providing counter-cyclical finance when private finance is not available.

Another form of credit – trade finance –directly concerns import and export activities. Trade finance provides fluidity and security to moving goods and services worldwide by insuring against risks such as illiquidity and delayed or failed delivery (Auboin 2007). Around 90 percent of world trade are said to rely on trade finance. It is widely regarded as "the lifeline of international trade" (Auboin 2007), while it may need boosting through trade finance facilitation programs, especially in times of crisis. Availability of trade finance has suffered from the credit crunch related to the global financial crisis while the price of trade finance, i.e.

20 For a list of government actions taken by 14 selected countries surveyed by the World Bank in 2009, see *Malouche* (2009, Annex 2).

fees for commercial letters of credit and other instruments, rose sharply in 2008 as the crisis took hold. Most notably, sub-Saharan Africa continues to face severe constraints. For commercial banks, collecting information on counterparty risk is costly; combined with the low productivity of small operations in the region, trade financing therefore continues to be unattractive. In response, multilateral development banks, including the World Bank, have launched lending programs, in order to catalyze a "revival" in trade credit. These trade finance facilitation programs are relevant for Aid for Trade in so far as secure finance available to the private sector is one of the requirements for business to engage in trade and actually benefit from customs reforms and better infrastructure (Auboin 2007).

The AfT initiative itself appears to have created leverage to increase the availability of trade finance for developing countries. In conjunction with the global economic crisis, which has depressed trade financing, and in the absence of strong interest opposing, the case for trade finance facilitation has gained a high political profile. In consequence, "the policy response could only be strong and swift" (Hallaert 2009). Trade finance facilitation programs have proven to be effective particularly for small and medium sized producers in developing countries. As they require relatively small funding and developing countries have demanded for more programs dealing with trade credits, the AfT initiative has provided the framework for more donor funding in this area (Auboin 2007).

4 Trade liberalization and adjustment to trade reform through Aid for Trade

4.1 Shaping trade liberalization on the domestic and international level

According to the *World Bank* (2010), there has been a clear liberalization trend in developing countries within the last decades. Average MFN applied tariffs decreased from 30 percent in 1985 to 10 percent in 2009, while non-tariff barriers also declined. Trade liberalization and regulatory reform nevertheless still are far from complete, even in those developing countries that have proceeded quickly in these areas in the recent past. Most important in this context appear to be domestic, behind-the-border reforms in areas like infrastructure, education, labor markets, customs administration and the public sector in general, all of which are genuinely AfT-related.

Particular attention should be paid to AfT concerning trade policy, including 'trade-related' policies, at both the negotiation and implementation stage, which are often resource-intensive and reach "deep into the domestic economy and its institutions" (Sally 2009). We analyze these aid flows detached from the disputed aid-trade and aid-growth nexus in the existing literature, referring to *Busse* et al. (2010) who argue that specific trade-related development assistance is not necessarily plagued by general aid effectiveness concerns due to its specificity. In this case, aid channels and motives are less heterogeneous, and generic statements on how aid impacts trade may therefore be avoided. However, critics claim that liberalizing reforms imposed by donors from above, involving aid dependence and donor conditionality particularly in Africa, have performed worse than sustained reforms driven by governments in developing countries themselves. AfT would thus merely play a marginal role in medium to long-term trade reforms and should not be relied on (Sally 2009).

Empirical analysis attaches a high degree of effectiveness, in terms of the trade flows created, to aid for trade policy (including regulatory reform) as compared to other AfT categories like trade development in specific sectors or infrastructure development (Helble et al. 2009). From this, it is concluded that relatively small additions to the aid flows directed toward the trade policy and regulatory reform agenda could significantly increase the trade of recipient countries and thereby also stimulate economic growth (Helble et al. 2009). The importance of the relatively minor category Trade Policies and Regulations is also highlighted in the *OECD's* and *WTO's* joint "Aid for Trade at a Glance 2009" report according to which AfT is most effective in the areas of "trade policy analysis" and "trade facilitation, negotiation and implementation", ahead of "competitiveness", "export diversification" and "regional integration" (OECD and WTO 2009).·Aid for Trade Policies and Regulations is furthermore an important factor in reducing trade costs. For instance, *Busse* et al. (2010) find that an increase by one standard deviation (26.3 million US$) of accumulated aid to Trade Policies and Regulations is associated with an import cost reduction by almost 85 US$ – per 20-foot-container imported. This corresponds to a reduction of import cost by 5 percent. As noted in *OECD* and *WTO* (2009), findings on the effectiveness of aid to Trade Policies and Regulations are confirmed by specific studies, e.g. concerning technical support for implementing SPS (sanitary and phytosanitary) measures. Naturally, programs to build SPS capacity are especially important for countries where agriculture remains an essential economic activity and a major source of foreign exchange earnings, i.e. the vast majority of developing countries. AfT may pave the way for successful trade liberalization through effective aid for trade-related policies, and ultimately through its politico-economic function, to which we turn now.

A major aspect of trade liberalization in developing countries is its impact on income distribution or equity, and the role of AfT in this context. Insofar as a conflict or trade-off exists between trade and distribution, a similar tension is inherent to AfT itself: Through the promotion of trade, AfT may give rise to adverse distributional effects, which at the same time are supposed to be remedied through assisting in complementary policies forming the critical element in translating trade-driven economic growth into the achievement of distributional goals and in particular of poverty reduction.

The political economy context determines to which extent different interest groups *within* a country benefit from trade liberalization. Formal and informal institutions, for example, shape trade (policies) and growth, which in turn determine the degree of actors' integration into and participation in them.[21] Furthermore, even if trade may create global gains, its redistributive effects and induced price variations within a country affecting employees and producers in import competing sectors, for example, need to be considered to make trade liberalization politically feasible.

An example of how this may be achieved is the European Union. Members are obliged to open up by accepting the principles of the common market, while at the same time cohesion policy helps poorer countries converge to the income levels of richer member states. Trade liberalization is accompanied by financial assistance, which is supposed to be the decisive factor for a positive perception of integration in domestic public opinion.

In a similar way, financial assistance to developing countries and assistance for adjustment and economic development may increase domestic support for trade liberalization and ensure the political viability of trade reforms (Higgins and Prowse 2010). As *Sally* (2009) affirms, today governments themselves are more skeptical and defensive about further liberalization due to the loss of privileges resulting from domestic protection, the costs of adjustment and restructuring as well as the threat of preference erosion on foreign markets. At the same time, interest group opposition is stronger than in previous waves of liberalization. On the 'domestic political market for protection', AfT can thus be seen as a side payment to overcome resistance to market opening.

A strategic approach to strengthen supply side capabilities calls for supporting enterprises and producers by investing in business development, enhanced skills to provide qualified personnel and technology absorption (UNCTAD 2008). The private sector's knowledge of day-to-day constraints to growth ought to be utilized fully to identify suitable Aft projects and to ensure appropriate prioritizing and sequencing of their implementation. Bottom-up approaches within a national or regional framework are needed to strengthen business-to-government and business-to-business linkages, as was highlighted in Section 3.2. In particular, the integration of developing countries into international supply chains appears to be threatened by growing transaction costs and difficulties of decentralizing increasingly complex industrial procedures, preventing these countries to follow an industrialization path similar to that taken by China or Mexico and thereby attract foreign direct investment and technologies and create manufacturing jobs. AfT could possibly help to prevent this kind of "deglobalization" and thus enable developing countries to benefit from global production networks (Escaith 2009).

21 See for instance Rodrik (2001).

In addition, trade reforms ought to be designed in an employment-friendly way, "making the reallocation of jobs more conducive to formal employment growth", as a joint study from the International Labor Organization (ILO) and the WTO claims (Bacchetta et al. 2009). On average, around 60 percent of job creation in developing countries has taken place in the informal economy, which is characterized by less security, lower incomes and no access to social benefits or training programs. The higher the informality, the more vulnerable are countries to shocks like the current global crisis. It has been shown that informal employment curbs trade benefits and limits the potential to benefit from trade opportunities (Bacchetta et al. 2009). According to *Bacchetta* et al. (2009), empirical studies show that more open economies have less informal employment, but that trade reforms may increase informality in the short run. Thus, integration into the world economy and lowering informal employment through adequate domestic labor market policies should be considered complementary.

Fundamentally, it is the distributive and redistributive dimensions of trade liberalization that must be taken into account to ensure its political viability. Although most empirical studies find that trade liberalization generates trade gains from domestically reallocating resources to more productive sectors, leading to lower prices of (imported) goods, better technologies and higher real incomes in the medium to long term, individuals may be faced with huge costs and short-term disadvantages (Aggio and Tussie 2006). The AfT initiative's dual approach provides for not only supporting (export oriented) producers, but for offering compensation schemes for employees and entrepreneurs who had benefited from the previous structure of relative prices. Social safety nets are needed to compensate those who lose from trade liberalization. The key is to put in place policies and institutions that facilitate structural adjustment tailored to each country's needs, such as labor market reforms to promote inter- and intra-sector labor mobility, easing balance-of-payment and exchange rate problems, financial market and tax reforms to make up for losses from declining government revenue due to cuts in trade taxes, and, as already dealt with, improving business relations and the environment for the industries (Fernandez de Cordoba et al. 2006).

Trade-related structural adjustment programs funded through AfT might have been quite small so far,[22] but it is expected that they increase over the medium term due to the economic crisis (OECD and WTO 2009). This will evoke further discussions on how far AfT should deal with adjustment costs at all.[23] We argue that AfT is both a direct input into trade-policy

22 The low amount of AfT spent on trade-related structural adjustment, as reported under the OECD's CRS, is mostly due to the fact that trade-related adjustment was not introduced until 2007 as a separate category.

23 As Stiglitz and Charlton (2006) postulate, AfT should not be compensatory in nature, but rather driven by the motivation to create effective market access by removing internal barriers to trade. For countries suffering from adjustment shocks, funding should be available, since these countries may need to be assured of transition support from the international community as a quid pro quo for their consenting to the removal of trade barriers. But AfT should be forward oriented by promoting future exports, not compensating the loss of past exports (Stiglitz and Charlton 2006).

making and an indirect “facilitator” of trade policy in that it helps to remove political resistance against trade reform domestically, not least by funding compensation schemes and structural adjustment programs, including appropriate macroeconomic and exchange rate policies to adjust to international competition.

In addition to its role as domestic trade facilitator, Aid for Trade needs to bear the challenges at the *international* and *regional* levels. The aid scene has experienced a multiplication of actors and an unprecedented expansion in the number of donors and their fragmentation in recent decades, and the AfT initiative is by no means excluded from this process. The trend is reinforced by the growing number of recipient countries that are no longer only aid recipients, but also aid donors (South-south co-operation). Apart from bilateral and multilateral development actors, the emergence of other governance forms contributes to the growing complexity of the development finance system. For instance, the number of regional trade agreements (RTAs) has increased manifold, putting the regional dimension into the focus of trade and development. Regional development banks, research networks, NGOs or common policies all can be considered institutionalized regional governance forms. The pan-African initiative NEPAD[24] is one example of this new multidimensional form of region-to-region integration (de Lombaerde and Mavrotas 2009). Although many developing countries perceive potential benefits of regional integration – trade within the same geographical area can indeed better promote diversification and structural change than overall trade (UNCTAD 2007) –, institutions and policies at regional level are still country-led and rather weak. Policy competences are diffused across levels and among actors. Regional institutions’ absorptive capacities of aid can be considered low in many cases due to a non-existent or thin budget, the lack of ownership and institutional weaknesses of regional bodies implying a low quality of regional policies (de Lombaerde and Mavrotas 2009). For instance, African regional integration is characterized by a multitude of arrangements and overlapping membership in the same region,[25] leading to confusing differences in degrees of integration, institutional goals and unnecessary competition between countries (UNCTAD 2009). Although intra-regional trade has increased in many regions, regional trade agreements in themselves do not automatically increase regional trade, as there are other factors such as the demand and supply structures in participating countries that impact trade performance (UNCTAD 2007). *Yang* and *Gupta* (2005) find that African countries cannot exploit the potential benefits of RTAs (such as synergies and economies of scale) due to small market size, poor transport facilities

24 The New Partnership for African Development (NEPAD) was established in 2001 and “focuses on the provision of essential regional public goods (such as transport, energy, water, information and communication technology, disease eradication, environmental preservation and provision of regional research capacity), as well as the promotion of intra-African trade and investments.” (UNCTAD 2009).

25 Many African countries hold multiple memberships. Of the 53 countries, 27 are members of two regional groupings, 18 belong to three, and one country is a member of four. Only seven countries have maintained membership in one bloc (UNCTAD 2009).

and high trading costs. While RTAs mostly aim at reducing trade barriers among members, relatively high barriers against trade with the rest of the world "have essentially turned RTAs into an import substitution policy at the regional and subregional level" (Yang and Gupta 2005). Also, it is held that bilateral and regional agreements have proved to be "trade light" in many cases, with little impact in the way of tackling domestic regulatory trade barriers, e.g. relating to investment, competition, government procurement, trade facilitation, services, cross-border labor movement, labor-market rigidities in general, and food-safety and technical standards (Sally and Alves 2009).

AfT needs to respond to these developments by strengthening the regional dimension, i.e. promoting links between countries (such as trade coalitions, co-operation on AfT issues, RTAs) and between regions within countries. The latter offers vast opportunities for better donor coordination and the exploitation of synergies.[26] Trade support activities are conceptualized rather vaguely and often not prioritized; available resources are spread over many different programs and countries (Brewster and Njinkeu 2008). Concerning links between countries, many AfT topics cannot be confined to national borders, but require a border-crossing institutional or organizational setting. The regulatory support function of AfT is particularly relevant in this context. Regional aid for trade concentrates on infrastructure and on trade negotiations capacity building (OECD and WTO 2009). Examples include border-crossing infrastructure and transport routes particularly for landlocked countries, trade facilitation measures to appropriately advance closer regional co-operation, regional trade development programs to enable more enterprises to compete on international markets and guidance on how to effectively negotiate bilateral and regional trade agreements. In sum, 80 percent of bilateral and multilateral donors evaluate the regional dimension – concerning regional integration and South-south trade – as an essential element of their AfT strategies (OECD and WTO 2009).

Concerning bilateral and regional trade liberalization, the EU offers some valuable insights, being one of the main AfT providers and having considerable experience with regional arrangements like the EU-ACP Economic Partnership Agreements (EPAs), trade agreements which help the ACP countries integrate into the world economy. The EU attempts to coordinate the work of national and regional institutions in the African, Caribbean and Pacific Group (ACP) of countries, and EU AfT does indeed often go beyond the national dimension, covering the regional level of intervention. However, private sector support is often provided horizontally across sectors of activity, without differentiating between import-competing or export industry (Bilal and Rampa 2009). Particularly in the EU-ACP case, the complex and multi-level institutional co-operation pattern that has been built up reduces policy coherence

26 Generally, regionalization requires more coordination among donors and among aid. Regional arrangements seem to be more flexible if positively evaluated, or unstable if negatively viewed, than national institutions (de Lombaerde and Mavrotas 2009).

and aid effectiveness (de Lombaerde and Mavrotas 2009). Besides, progress in the EPA negotiations is slow. The enormous trust gap in the negotiations is one possible explanation. ACP countries' governments fear that they might not be able to deal with the economic and societal consequences induced by the comprehensive EPAs and that the EU might not meet their pledges on financial and technical assistance in the future (Busse 2010). Furthermore, the degree of ownership in EU development projects is rather low, reflecting the situation in development co-operation in general (Bilal and Rampa 2009). Particularly in bilateral settings, country ownership has a decisive political economy facet in so far as donors' assistance to trade negotiating strategies and export promotion programs might contradict their own economic interests. Through its promotion of trade, AfT differs from other development policies and has a stake in strategic trade policy concerns.

4.2 Coping with the consequences of multilateral trade liberalization: the case of preference erosion

As noted in Section 2.2, developing countries face two major kinds of challenges with regard to the consequences of trade liberalization:

1. To manage the structural adjustment requirements arising from intensified import competition on domestic markets and the shortfall of tariff revenues in the wake of own or internal liberalization. These issues were discussed *inter alia* in the preceding section.
2. To cope with the erosion of trade preferences on export markets, which were unilaterally granted to developing countries, as a result of foreign or external liberalization. This is the subject of the present section.

Among the three channels of preference erosion described in Section 2.2, i.e. multilateral, bilateral and unilateral external liberalization, the multilateral is the most important one. *De jure* liberalization of developed-country markets through multilateral negotiations following the MFN principle may *de facto* entail de-liberalization for those developing countries which lose part or all of their preferential status on these markets in the process. From a political economic viewpoint, it is critical that in this case, in contrast to the bilateral and unilateral constellations, the affected developing countries are themselves parties to the negotiations. Accordingly, they have an incentive to oppose MFN tariff reductions in sectors of particular export interest to them, for fear of losing their preference margins, i.e. the difference between applied MFN and preferential duty rates. Against this backdrop, AfT could help to "buy out" (Bhagwati 2005) the developing countries' resistance to liberalization or form a means of "buying progress in the negotiations" (Charlton and Stiglitz 2006). It would thereby contribute to the provision of a global public good, as represented in a non-discriminatory world trade regime (Hoekman and Prowse 2009). Concern about the erosion of nonreciprocal trade preferences is indeed reflected in the negotiating positions of many developing countries in the Doha Round and in the corresponding negotiating texts, making preference erosion a key point of debate in the Doha Development Agenda.[27]

The most prominent beneficiaries of unilateral and nonreciprocal trade preferences are LDCs. In fact, export earnings and real income in many LDCs highly depend on the granting of such privileges.[28] In sector terms, the incidence of trade preferences is highest in agriculture and – within the manufacturing sector – in clothing and textiles.

Among the preference-giving trading partners, the EU stands out. The average margin of preference on merchandise imports from developing countries into the EU has been calculated at 3.8 percent compared to between 0.5 and 0.7 percent on imports into other developed countries.[29] Altogether, the EU accounts for nearly 50 percent of the preference value for LDCs and more than 40 percent of the value for other developing countries (Hoekman et al. 2009).[30]

It follows that LDCs are the most vulnerable countries to preference erosion through multilateral trade liberalization. The potential impact of preference erosion on these countries has even grown in recent times as preference schemes for LDCs now typically entail duty- and quota-free market access rather than merely granting a preference. It is therefore no longer possible to align the preferential tariff with the new MFN tariff and thus effectively preserve the existing preference margin.

At the same time, the risk of preference erosion and related export and income losses is concentrated to a high degree on a limited number of goods and countries. Especially, this is true for agriculture. Examples include bananas (Belize, Cameroon, Dominica, St. Lucia, St. Vincent and the Grenadines, and Swaziland), sugar (Barbados, Belize, Fiji, Guyana, Jamaica, Mauritius, St. Kitts and Nevis, Swaziland) and beverages and spirits (Barbados, Belize, Jamaica). In each case, most of the impact is likely to originate in the EU market (Low et al. 2009b).

However, the actual economic impact of preference erosion is to some extent limited by a reduced effectiveness of the preference schemes themselves which often shows up in a less than full utilization of the preferences granted owing to the costs and complexities of

27 For details, see *Low et al*. (2009a and 2009b) and *Hoekman et al*. (2009b).

28 See *Candau and Jean* (2009) and *Dean and Wainio* (2009) for detailed evidence on the significance of EU and US trade preference schemes, respectively, for beneficiary countries. *Van der Mensbrugghe* (2009) finds that on the whole trade preferences boost export revenue in the lowest-income countries by 2.3 percent while increasing their net income by 0.3 percent.

29 For the calculation, the GTAP (Global Trade Analysis Project) database, version 6, has been used which contains a default set of trade barriers incorporating preferences, as well as an alternative set with trade-barrier estimates in the absence of preferences (i.e. estimated MFN rates). For details, see *van der Mensbrugghe* (2009).

30 “Preference value” means the preference margin multiplied by the corresponding trade flows. It represents an upper bound of the actual preference value as it is assumed that the preferences granted are fully used and no cost of compliance with regulatory requirements such as rules of origin arise.

complying with entry requirements such as rules of origin. Furthermore, factors outside the preference systems frequently affect their effectiveness. This in particular holds for domestic supply constraints in developing countries. A case in point is the African Growth and Opportunity Act (AGOA) under which since 2000 duty-free access to the US market has been granted to about 40 African countries, including access in the highly contentious area of garments and textiles. However, petroleum products still account for the vast majority of these countries' exports to the United States while the diversification of exports that AGOA was supposed to spur has not materialized. The main reason for this seem to be infrastructure and other supply-side problems such as an expensive and intermittent power supply, weak transport systems and corruption (Beattie 2010).

The remedies proposed for preference erosion include trade and non-trade solutions.[31] Solutions tied to trade or trade policy urge improvements to existing preference schemes, e.g. a relaxation of origin rules in order to increase utilization ratios and lower compliance costs, as well as the creation of new preferences such as in the services sector and by advanced developing countries. However, proceeding in this direction would essentially perpetuate fundamentally flawed policies distorting economic incentives and violating the nondiscrimination principle on which the multilateral trading system builds. The same holds for those proposals which advocate avoiding MFN liberalization in the most preference-sensitive areas.

While trade solutions thus offer little in the way of tackling the preference-erosion problem, non-trade or aid-based devices could be more effective. In particular, this applies to AfT. AfT can assist the beneficiary countries of trade preferences in restructuring the production base towards areas of true comparative advantage where international competitiveness does not depend on preferential treatment. Through addressing the internal causes of a country's poor export performance, AfT can also help to cure the ineffectiveness of trade preference schemes and to achieve the original objective that motivated preferential access regimes.

5 Conclusion

AfT is both a prerequisite of and a complement to the liberalization of trade, i.e. a means to maximize the benefits and minimize the (adjustment) costs from trade liberalization in a globalized trading system. On the one hand, it is concerned with so-called behind-the-border regulatory reforms, in services, procurement, labor markets, investment rules, and so on, to remedy supply-side constraints to increase developing countries' exports; on the other hand, it must tackle adjustment problems caused by the deregulation of home markets, the pressure of

31 For an overview of policy responses to preference erosion, see *Hoekman and Prowse* (2009).

higher import volumes after opening up and losses from preference erosion and the like. AfT has the potential to promote trade liberalization and facilitate trade on the domestic and international level, and to master the consequences of trade liberalization.

This dual approach of AfT – proactive on the one hand, compensatory on the other – has gained exceptional relevance in the wake of the global crisis concerning trade openness. AfT is interpreted as a potential political economy driver of trade reform processes in developing countries. This holds directly, through the Trade Policies and Regulations component of AfT, and indirectly through AfT helping to improve the political conditions and thus to pave the way for trade liberalization.

REFERENCES

Agboghoroma, Alero, Matthias Busse, Skadi Falatik, Ruth Hoekstra, Jens Königer, Georg Koopmann, Claudia Kühne, Nikolaus Roloff (2009)
Aid for Trade: making trade effective for development. Case studies from Kenya, Tanzania and Uganda, PricewaterhouseCoopers & HWWI (eds.), Hamburg.

Aggarwal, Rajesh and Andrew Huelin (2009)
The private sector: Important partners in aid for trade. International Trade Forum Issue 4/2009, http://www.tradeforum.org/news/fullstory.php/aid/1495/The_private_sector:_Important_partners_in_aid_for_trade.html (accessed 24.01.2009).

Aggio, Carlos and Diana Tussie (2006)
Economic and social impacts of trade liberalization, in: Fernandez de Cordoba, Santiago and Sam Laird (eds.), Coping with Trade Reforms. A Developing-Country Perspective on the WTO Industrial Tariff Negotiations, New York: Palgrave Macmillan, 87-100.

Amiti, Mary and Jozef Konings (2007)
Trade Liberalization, Intermediate Inputs, and Productivity: Evidence from Indonesia, American Economic Review, Vol. 97, No. 5, 1611-1638.

Auboin, Marc (2007)
Boosting Trade Finance in Developing Countries: What Link with the WTO? Staff Working Paper ERSD-2007-04, Geneva: WTO.

Bacchetta, Marc, Ekkehard Ernst and Juana P. Bustamante (2009)
Globalization and Informal Jobs in Developing Countries. A joint study of the International Labour Office and the Secretariat of the World Trade Organization, Geneva: ILO and WTO.

Beattie, Alan (2010)
US Plan Fails to End Africa’s Trade Isolation, Financial Times, August 8.

Bhagwati, Jagdish (2005)
World Bank Funds Should be Used to Lubricate Trade Liberalization by Developing Countries. Letter to the Editor, Financial Times, 26 September.

Bilal, Sanoussi and Francesco Rampa (2009)
What does the European experience tell us on Aid for Trade? In: Lombaerde, Philippe de and Lakshmi Puri (eds.). Aid for Trade: Global and Regional Perspectives. 2nd World Report on Regional Integration, United Nations University Series on Regionalism, UNU-CRIS and Springer, 63-85.

Borrmann, Axel, Matthias Busse and Silke Neuhaus (2006)
Institutional Quality and the Gains from Trade, Kyklos, Vol. 59, No. 3, 345-368.

Brewster, Havelock R. and Dominique Njinkeu (2008)
Aid for Trade and Private Sector Development, in: Dominique Njinkeu and Hugo Cameron (eds.), Aid for Trade and Development, New York: Cambridge University Press, 369–392.

Busse, Matthias (2010)
Revisiting the ACP-EU Economic Partnership Agreements – The Role of Complementary Trade and Investment Policies, Intereconomics, Vol. 45, No. 4, July/August, 249- 254.

Busse, Matthias, Ruth Hoekstra and Jens Koeniger (2010)
The Impact of Trade Facilitation on the Cost of Trading, working paper, University of Bochum.

Cameron, Hugo and Dominique Njinkeu (2008)
Introduction : Aid for Trade and development, in: Dominique Njinkeu and Hugo Cameron (eds.), Aid for Trade and development, New York: Cambridge University Press, 1-23.

Candau, Fabien and Sébastien Jean (2009)
What are European Trade Preferences Worth for Sub-Saharan African and other developing Countries? In: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 65-102.

Chang, Roberto, Linda Kaltani and Norman Loayza (2009)
Openness Can be Good for Growth: The Role of Policy Complementarities, Journal of Development Economics, Vol. 90, No. 1, 33-49.

Charlton, Andrew and Joseph Stiglitz (2006)
Aid for Trade, Aussenwirtschaft, Vol. 61, No. 2, 143-156.

Dean, Judith M. and John Wainio (2009)
Quantifying the Value of U.S. Tariff Preferences for Developing Countries. In: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 29-64.

Dethier, Jean-Jacques, Maximilian Hirn and Stéphane Straub (2008)

Explaining Enterprise Performance in Developing Countries with Business Climate Survey Data. Policy Research Working Paper 4792, Washington, DC: The World Bank, December.

Edwards, Sebastian (1998)
Openness, Productivity and Growth: What Do We Really Know? Economic Journal, Vol. 108, Issue 447, 383-398.

Escaith, Hubert (2009)
Global Supply Chains in Times of International Crisis, Intereconomics, 44 (5), 268-273.

Estevadeordal, Antoni, Paolo Giordano, Anneke Jessen, Jessica Luna and Kati Suominen (2008)
Lessons Learned. Delivering Aid for Trade in Latin America and the Caribbean: The Role of the Inter-American Development Bank, in: Dominique Njinkeu and Hugo Cameron (eds.), Aid for Trade and Development, New York: Cambridge University Press, 234-256.

Fernandez de Cordoba, Santiago, Sam Laird, Jean-Christophe Maur and Jose M. Serena (2006)
Adjustment Costs and Trade Liberalization, in: Fernandez de Cordoba, Santiago and Sam Laird (eds.), Coping with Trade Reforms. A Developing-Country Perspective on the WTO Industrial Tariff Negotiations, New York: Palgrave Macmillan, 57-76.

Finger, Michael J. (2008)
Aid for Trade: How We Got Here, Where We Might Go, in: Dominique Njinkeu and Hugo Cameron (eds.), Aid for Trade and Development, New York: Cambridge University Press, pp. 74-106.

Freund, Caroline and Bineswaree Bolaky (2008)
Trade, Regulations, and Income, Journal of Development Economics, Vol. 87, No. 2, 309-321.

Greenaway, David, Wyn Morgan and Peter Wright (2002)
Trade Liberalisation and Growth: New Methods, New Evidence, Journal of Development Economics, Vol. 67, Issue 1, 229-244.

Griffith-Jones, Stephany, David Griffith-Jones and Dagmar Hertova (2008)
Enhancing the Role of Regional Development Banks, UNCTAD G-24 Discussion Paper Series 50, New York and Geneva: UNCTAD.

Hallaert, Jean-Jacques (2009)
Boosting the Availability of Trade Finance: A Priority in the Current Crisis? Intereconomics, Vol. 44, No. 5, 273-278.

Hallaert, Jean-Jacques and Laura Munro (2009)
Binding Constraints to Trade Expansion: Aid for Trade Objectives and Diagnostics Tools. OECD Trade Policy Working Paper 94. Paris: OECD, December.

Harris, Clive (2003)

Private Participation in Infrastructure in Developing Countries. Trends, Impacts, and Policy Lessons, World Bank Working Paper No. 5, Washington, DC: The World Bank.

Helble, Matthias, Catherine Mann and John S. Wilson (2009)
Aid for Trade Facilitation, World Bank Policy Research Working Paper 5064, Washington, DC: The World Bank, September.

Higgins, Kate and Susan Prowse (2010)
Trade, growth and poverty: making Aid for Trade work for inclusive growth and poverty reduction. Overseas Development Institute Working Paper 313, London: Overseas Development Institute.

Hoekman, Bernard, Will Martin and Carlos A. Primo Braga (eds.) (2009a)
Trade Preference erosion. Measurement and Policy Response, Washington, DC, The World Bank.

Hoekman, Bernard, Will Martin and Carlos A. Primo Braga (2009b)
Quantifying the Value of Preferences and Potential Erosion Losses. In: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 1-27.

Hoekman, Bernhard and Alessandro Nicita (2010)
Assessing the Doha Round: Market access, transactions costs and aid for trade facilitation. The Journal of International Trade & Economic Development 19(1), March, 65–79.

Hoekman, Bernard and Susan Prowse (2009)
Economic Policy Responses to Preference Erosion: From Trade as Aid to Aid for Trade, in: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 425-448.

Hoekman, Bernard and John Wilson (2010)
Aid for Trade. Building on Progress Today for Tomorrow's Future. Policy Research Working Paper 5361. The World Bank, July.

International Labour Organization (ILO) and World Trade Organization (WTO) (2009)
Globalization and Informal Jobs in Developing Countries, Geneva: International Labour Organization and World Trade Organization.

International Trade Centre (ITC) (n.d.)
Fostering Trade through Private-Public Dialogue. Aid for Trade: What's in for Business. http://www.intracen.org/btp/ (accessed 01.12.2009).

Kamruzzaman, Palash (2009)
Poverty Reduction Strategy Papers and the Rhetoric of Participation. Development in Practice 19(1), February 2009.

Kneller, Richard, C.W. Morgan and Sunti Kanchanahatakij (2008)
Trade Liberalisation and Economic Growth, World Economy, Vol. 31, No. 6, 701-719.

Koopmann, Georg und Lars Vogel (2009)

Regionalisation of Trade and Regionalism in Trade Policy – Patterns, Strategies and Impact, Intereconomics, Vol. 43, No. 5, September/October, 298-312.

Kosack, Stephen (2008)
Trade for Poverty Reduction: The Role of Trade Policy in Poverty Reduction Strategy Papers, New York: United Nations Development Programme.

Krueger, Anne O. (2008)
Why Trade Liberalisation is Good for Growth. In: Giorgio Secondi (ed.), The Development Economics Reader, New York: Routledge, 433-442.

Lombaerde, Philippe de and George Mavrotas (2009)
Aid for Trade, Aid Effectiveness and Regional Absorption Capacity. In: Lombaerde, Philippe de and Lakshmi Puri (eds.), Aid for Trade: Global and Regional Perspectives. World Report on Regional Integration, Vol. 2, Dordrecht: Springer, 39-61.

Low, Patrick, Roberta Piermartini and Jürgen Richtering (2009a)
Multilateral Solutionsto the Erosion of Nonreciprocal Preferences in Nonagricultural Market Access. In: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 219-276.

Low, Patrick, Roberta Piermartini and Jürgen Richtering (2009b)
Nonreciprocal Preference Erosion Arising from Most-Favored-Nation Liberalization in Agriculture: What Are the Risks? In: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 277-355.

Malouche, Mariem (2009)
Trade and Trade Finance Developments in 14 Developing Countries Post September 2008. A World Bank Survey. Policy Research Working Paper 5138, Washington, DC: The World Bank.

Mambula, Charles (2002)
Perceptions of SME Growth Constraints in Nigeria. Journal of Small Business Management, Vol. 40, No. 1, 58-65.

Morrissey, Oliver (2006)
Aid or Trade, or Aid and Trade? The Australian Economic Review, Vol. 39, No. 1, 78-88.

Obokoh, Lawrence O. (2008)
Small and Medium Sized Enterprises Development under Trade Liberalization: A Survey of Nigerian Experience. International Journal of Business and Management, Vol. 3, No. 12, 92-101.

Organisation for Economic Co-operation and Development (OECD) (2010)
Creditor Reporting System, http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW (15.08.2010).

Organisation for Economic Co-operation and Development (OECD) and World Trade Organization (WTO) (2009)
Aid for Trade at a Glance 2009: Maintaining Momentum, Organisation for Economic Co-operation and Development and World Trade Organization.

Paris Declaration on Aid Effectiveness (2005)
Ownership, Harmonisation, Alignment, Results and Mutual Accountability, http://www.oecd.org/dataoecd/11/41/34428351.pdf (14.01.2010).

Riley, Robert J. (2006)
The World Trade Organisation, in: Peter Coffey and Robert J. Riley, Reform of the International Institutions. The IMF, World Bank and the WTO, Cheltenham, UK, and Northampton, MA, USA: Edward Elgar.

Rodríguez, Francisco and Dani Rodrik (2000)
Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence, NBER Macroeconomics Annual, Vol. 15, 261-325.

Rodríguez, Javier and Javier Santiso (2007)
Banking on Development: Private Banks and Aid Donors in Developing Countries. OECD Development Centre Working Paper No. 263, DEV/DOC(2007)6, Paris: OECD.

Rodrik, Dani (2001)
The Global Governance of Trade As If Development Really Mattered. Background Paper for Trade and Sustainable Human Development Project, New York: UNDP.

Rodrik, Dani (2007)
The Cheerleaders' Threat to Global Trade, Financial Times, March 27.

Rodrik, Dani (2008)
Trading in Illusions. In: Giorgio Secondi (ed.), The Development Economics Reader, New York: Routledge, 460-468.

Rodrik, Dani and Arvind Subramanian (2008)
The Primacy of Institutions (And What This Does Not Mean). In: Giorgio Secondi (ed.), The Development Economics Reader, New York: Routledge, 79-85.

Sachs, Jeffrey D. (2008)
Institutions Matter, But Not for Everything: The Role of Geography and Resource Endowments in Development Shouldn't Be Underestimated. In: Giorgio Secondi (ed.), The Development Economics Reader, New York: Routledge, 86-91.

Sachs, Jeffrey and Andrew Warner (1995)
Economic Reform and the Process of Global Integration, Brookings Papers on Economic Activity, No. 1, 1-118.

Sally, Razeen (2009)
Introduction: Trade Liberalization in the Twenty-first Century. In: Peter Draper, Philip Alves and Razeen Sally (eds.), The Political Economy of Trade Reform in Emerging Markets, Cheltenham, UK, and Northampton, MA, USA: Edward Elgar, 1-30.

Sally, Razeen and Philipp Alves (2009)
Conclusion: What Lessons for the Twenty-first century? In: Peter Draper, Philip Alves and Razeen Sally (eds.), The Political Economy of Trade Reform in Emerging Markets, Cheltenham, UK, and Northampton, MA, USA: Edward Elgar, 239-267.

Suwa-Eisenmann, Akiko and Thierry Verdier (2007)
Aid and Trade, Centre for Economic Policy Research, Discussion Paper No. 6465, London, September.

Taylor, Benjamin J. and John Wilson (2009)
The Crisis and Beyond: Why Trade Facilitation Matters, Washington, DC: The World Bank, April.

United Nations Conference on Trade and Development (UNCTAD) (2002)
The Least Developed Countries Report 2002, New York and Geneva: United Nations.

United Nations Conference on Trade and Development (UNCTAD) (2007)
Trade and Development Report, Regional cooperation for development, 2007, New York and Geneva: United Nations.

United Nations Conference on Trade and Development (UNCTAD) (2008)
Globalization for Development: the international trade perspective, UNCTAD/DITC/2007/1, New York and Geneva: United Nations.

United Nations Conference on Trade and Development (UNCTAD) (2009)
Economic Development in Africa. Strengthening regional economic integration for Africa’s development, Report 2009, New York and Geneva: United Nations.

United Nations Industrial Organization (UNIDO) (2001)
Development of Clusters and Networks of SMEs. The UNIDO Programme, Vienna: United Nations Industrial Development Organization.

Vamvakidis, Athanasios (2002)
How Robust is the Growth-Openness Connection? Historical Evidence, Journal of Economic Growth, Vol. 7, No. 1, 57-80.

Van der Mensbrugghe, Dominique (2009)
The Doha Development Agenda and Preference Erosion: Modeling the Impacts. In: Bernard Hoekman, Will Martin and Carlos A. Primo Braga (eds.), Trade Preference Erosion. Measurement and Policy Response, Washington, DC: The World Bank, 357-399.

Wacziarg, Romain and Karen Horn Welch (2008)
Trade Liberalization and Growth: New Evidence, The World Bank Economic Review, Vol. 22, No. 2, 187-231.

Winters, Alan L. (2004)
Trade Liberalisation and Economic Performance: An Overview, Economic Journal, Vol. 114, Issue 493, F4-F21.

World Bank (2010)
Trends in Average MFN Applied Tariff Rates in Developing and Industrial Countries, 1981-2009, http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/tar2009.xls (accessed 24.08.2010).

World Business Council for Sustainable Development (WBCSD) (2007)
Promoting Small and Medium Sized Enterprises for Sustainable Development. Development Focus Area Issue Brief.

World Trade Organization (WTO) (1994)
Trade Policy Review Mechanism, Annex 3 to the Agreement Establishing the World Trade Organization, http://www.wto.org/english/docs_e/legal_e/29-tprm.pdf (accessed 24.08.2010).

World Trade Organization (WTO) (2004)
The Future of the WTO. Addressing Institutional Challenges in the New Millennium, Report of the Consultative Board, Geneva: World Trade Organization.

World Trade Organization (WTO) (2006)
Recommendations of the Task Force on Aid for Trade. Aid for Trade Task Force, WT/AFT/A. Geneva, 27 July 2006.

World Trade Organization (WTO) (2008)
Trade Policy Review, Report by the Secretariat, Mauritius, WT/TPR/S/198, Geneva, 19 March, Geneva: World Trade Organization.

World Trade Organization (WTO) (2009a)
Overview of Developments in the International Trading Environment, Annual Report by the Director-General, WTO Document WT/TPR/OV/12, 18 November, Geneva: World Trade Organization.

World Trade Organization (WTO) (2009b)
Aid-For-Trade Work Programme 2010-2011. Committee on Trade and Development, WT/COMTD/AFT/W/16. Geneva, 27 November 2009.

World Trade Organization (WTO) (2009c)
Trade Policy Review Malaysia. Report by the Secretariat, WTO Document WT/TPR/S/225, 14 December.

World Trade Organization (WTO) (2010a)
The WTO and the Millennium Development Goals, Geneva, http://www.wto.org/english/thewto_e/coher_e/mdg_e/mdg_e.pdf (accessed 05.09.2010).

World Trade Organization (WTO) (2010b)
Report to the TPRB from the Director-General on Trade-Related Developments, WTO Document WT/TPR/OV/W/3, 14 June, Geneva: World Trade Organization.

World Trade Organization (WTO) (2010c)
Trade Policy Review Croatia. Report by the Secretariat, WTO Document WT/TPR/S/227, 17 February.

Yang, Yongzheng and Sanjeev Gupta (2005)
Regional Trade Arrangements in Africa: Past Performance and the Way Forward, IMF Working Paper WP/05/36, February.

HWWI Research Papers
by the HWWI Research Programme „World Economy“

21. Effective monetary policy conservatism: A comparison of 11 OECD countries
   Michael Berlemann, Kai Hielscher, October 2010
20. Aid Effectiveness in Education Sector of Pakistan
   Mumtaz Anwar, Sughra Aman; Hamburg, October 2010
19. Monetary Policy and Real Estate Prices: A Disaggregated Analysis for Switzerland
   Michael Berlemann, Julia Freese; Hamburg, October 2010
18. Female wage profiles: An Additive Mixed Model approach to employment breaks due to childcare
   Torben Kuhlenkasper, Göran Kauermann; Hamburg, October 2010
17. Foreign Direct Investment and Exchange Rate Regimes
   Matthias Busse, Carsten Hefeker, Signe Nelgen; Hamburg, April 2010
16. They don´t get me I´m part of the union: Trade unions in the German parliament
   Michael Berlemann, Klaus W. Zimmermann; Hamburg, February 2010
15. The Characteristics and Determinants of FDI in Ghana
   Fabian Barthel, Matthias Busse, Robert Osei; Hamburg, December 2008
14. Liquidity Constraints and Linkages with Multinationals
   Mariana Spatareanu, Beata S. Javorcik; Hamburg, November 2008
13. Zur Internationalisierung des Dienstleistungssektors
   Georg Koopmann, Thomas Straubhaar; Hamburg, Mai 2008
12. Taxation, Corruption and the Exchange Rate Regime
   Carsten Hefeker; Hamburg, März 2008
11. Determinants of Corruption in Developing Countries
   Mumtaz Anwar, Ghulam Shabbir; Hamburg, November 2007
10. Teacher Shortages, Teacher Contracts and their Impact on Education in Africa
   Jean Bourdon, Markus Frölich, Katharina Michaelowa; Hamburg, May 2007
9. Technology trade in economic development
   Matthias Busse, José Luis Groizard; Hamburg, March 2007
8. Consequences of Economic Partnership Agreements between East and Southern African countries and the EU for inter- and intra-regional integration
   Axel Borrmann, Matthias Busse, Manuel de la Rocha; Hamburg, January 2007
7. Does Africa really benefit from trade?
   Matthias Busse, José Luis Groizard; Hamburg, January 2007
6. Learning by doing in market reform: lessons from a regional bond fund
   Guonan Ma, Eli M. Remolona; Hamburg, October 2006
5. Institutional and Structural Problems of China's Foreign Exchange Market and the RMB's Role in East Asia
   Zhang Jikang, Liang Yuanyuan; Hamburg, October 2006
4. The ASEAN Economic Community and the European Experience
   Michael G. Plummer, Reid W. Click; Hamburg, September 2006
3. The institutional challenge of the ACP/EU Economic Partnership Agreements
   Axel Borrmann, Matthias Busse; Hamburg, July 2006
2. Steuern und Steuerpolitik in Entwicklungsländern: Die Eigenverantwortlichkeit der Regierungen
   Karl-Wolfgang Menck, Leif Mutén; Hamburg, April 2006
1. Capital Markets and Exchange Rate Stabilization in East Asia – Diversifying Risk Based on Currency Baskets
   Gunther Schnabl; Hamburg, March 2006

The **Hamburg Institute of International Economics (HWWI)** is an independent economic research institute, based on a non-profit public-private partnership, which was founded in 2005. The University of Hamburg and the Hamburg Chamber of Commerce are shareholders in the Institute .

The HWWI's main goals are to:
• Promote economic sciences in research and teaching;
• Conduct high-quality economic research;
• Transfer and disseminate economic knowledge to policy makers, stakeholders and the general public.

The HWWI carries out interdisciplinary research activities in the context of the following research programmes: Economic Trends, Hamburg and Regional Development, World Economy and Migration Research Group.

Hamburg Institute of International Economics (HWWI)

Heimhuder Str. 71 | 20148 Hamburg | Germany
Tel +49 (0)40 34 05 76 - 0 | Fax +49 (0)40 34 05 76 - 776
info@hwwi.org | www.hwwi.org