

EXECUTIVE SUMMARY

The 2019 aid-for-trade monitoring and evaluation exercise shows that economic diversification and empowerment are core objectives of the trade and development strategies and policies of WTO Members and observers. Many of the 133 respondents to the exercise highlight how economic diversification is a gateway for economic empowerment. What also emerges from the replies is that the link between diversification and empowerment runs in the opposite direction too. Empowerment through skills and training is essential for economic diversification, particularly when it enables youth, women and micro, small and medium sized enterprises (MSMEs) to engage in international trade. Progress is cited in the responses, but it is not uniform, with least-developed, landlocked, and Small Island Developing States facing particular challenges. This is also the case in fragile and conflict afflicted states. For these countries and others, economic diversification is inextricably linked with the achievement of higher levels of productivity resulting from the reallocation of economic resources within and between economic sectors.

Past growth in manufacturing and related services sectors has absorbed large numbers of workers. This increases employment and contributes to prosperity. However, after several decades of so-called “hyper-globalisation”, the world may be entering a period characterized by slower growth of trade in physical goods and lower foreign direct investment flows. In addition, the greater automation and digitisation of production processes is changing the nature of manufacturing and the future of industrialisation. Where potential for trade expansion exists, it is likely to contain a significant services component. Action to prevent services restrictions from dampening these growth prospects is needed.

The United Nations Agenda 2030 for Sustainable Development calls for economic growth to be inclusive and sustainable. This requires paying greater attention to the social and environmental impact of economic diversification and growth. While this new environment creates challenges, targeted policies promoting economic diversification and structural transformation can create ample opportunities for inclusive and sustainable development. These policies include the supply of appropriate incentive frameworks; investments and policy reforms targeted at reducing trade costs; policies to support adjustment and the reallocation of resources; and government interventions correcting market, policy and institutional failures.

The entry into force of the WTO Trade Facilitation Agreement is a case in point. Progress is being made. Developing countries’ level of alignment to the Agreement is increasing, with notable improvements in publication of measures, automation and streamlining of procedures and engagement with the trade community. Positive impacts from these aid-supported reforms have also been registered. Country reports and periodic time release studies show reduction in customs physical inspections, elimination of unnecessary documents, automation of manual processing steps, and consequent reduction of clearance times.

Economic empowerment can be fostered through programmes that are specifically aimed at improving the extent to which marginalized groups, including women and youth, participate in and benefit from international trade. At the same time, small and medium sized enterprises (SMEs) are finding it difficult to attract the skilled employees they need to be competitive and trade. The twin problems of youth unemployment and SME competitiveness can and should be solved together; the objectives of youth economic empowerment and SME competitiveness are synergistic. That is, the relationship goes both ways: improved youth skills and innovation promote SME competitiveness and exports, while internationally competitive SMEs provide more and better jobs for young people.

There is widespread agreement that women's economic empowerment is one of the key drivers of sustainable development. Donors have been increasing their attention to gender dimensions in aid for trade. Activities include technical studies or project design that specifically focus on incorporating a gender dimensions in the particular area or activity. However, short-term donor programmes may prove insufficient to bring about meaningful policy changes or to sustain women's economic activities. One approach could include encouraging more awareness raising and training to design gender sensitive investments. This guidance would address two SDGs – Goal 5 which focuses on unpaid care and domestic work through the provision of public services and infrastructure and Goal 8 which promotes women to be engaged in productive employment.

Many least developed countries have made substantial development progress over the last thirty years. Five countries have transitioned out of LDCs status since 1971 when the category was established, while Vanuatu and Angola are scheduled to do so in 2020-2021. Ten additional countries are at different stages of meeting the graduation thresholds, which points to a heightened pace in recent years. However, 35 LDCs are yet to reach any of the graduation criteria. Progress towards graduation from LDC status requires triggering and sustaining a process of structural transformation to generate economic growth that is both pro-poor and environmentally sustainable.

Since the start of the Aid for Trade Initiative in 2006, donors have disbursed USD 409 billion in official development assistance to help developing countries build trade capacities. In addition, USD 346 billion in low concessional loans was disbursed. Almost another USD 100 billion in both type of flows is committed in 2017. South-South providers contributed USD 9 billion according to OECD estimates. Empirical studies and programme evaluations find that this support is helping developing countries improve their competitiveness, expand and diversify their trade, attract foreign direct investment, and create employment.

While economic diversification is essentially a nationally driven process, the international community can offer assistance in creating an enabling environment for the trade integration of developing countries and helping tackling supply-side constraints. To promote empowerment, aid programmes need to focus more explicitly on helping developing countries create more opportunities for women and youth. Youth employment or entrepreneurship can be harnessed by addressing firm level market failures and improving the business ecosystem. Women's empowerment should receive more attention, particularly in sectors such as transport, energy, banking and financial services, as well as mining and industry. In this context, the development of concrete guidance on how to plan, monitor and evaluate donor activities in contributing to women's economic empowerment through aid for trade will be useful. ■