4 Aid for Trade

Launched during the 2005 WTO Ministerial Conference, which was held in Hong Kong, China, the WTO-led Aid for Trade initiative aims to help developing countries, particularly LDCs, build the supply-side capacity and trade-related infrastructure that they need to implement and benefit from WTO agreements and more broadly to expand their trade. The Aid for Trade Global Review, which usually takes place biennially, provides a platform to examine how developing countries, and in particular LDCs, can better utilize market access opportunities through targeted Aid for Trade; how this aid is assisting their integration into the global economy; how development partners are helping in this process; and, above all, the effectiveness of this support.

As part of its mandate within the initiative, the WTO, in partnership with the OECD, organizes a biennial monitoring and evaluation exercise which broadly seeks to survey the global flows of the Aid for Trade support provided and the trade and development priorities of countries, regional arrangements and donors, and to focus themes which call for Aid for Trade. The theme adopted by WTO members for the 2019 monitoring and evaluation exercise was "Supporting Economic Diversification and Empowerment".

Data harvested from respondents to the 2019 Aid for Trade monitoring exercise highlighted the centrality of economic diversification as a policy objective. Economic diversification is considered a key element of economic development, by which an economy moves to a less concentrated, more varied production and trade structure. A lack of economic diversification is associated with increased economic vulnerability because external shocks can undermine the development process. Export diversification can occur through an increase in the variety and volume of exports and/or of trading partners (this is called extensive margin diversification), or through increases in the proportion of products and services that are exported and/or through price increases for those exports (this is called intensive margin diversification).

Compared to other continents, in the 2019 Aid for Trade monitoring exercise Africa recorded the highest share of respondents (i.e. 34 out of the 35 African respondents – or 97 per cent – 26 of which were from LDCs) indicating that economic diversification was a development priority. This concurs with the emphasis placed on economic diversification in "Africa 2063: The Africa We Want", the African Union's shared strategic framework for inclusive growth and sustainable development.[1] It also aligns with the resolution adopted by the UN General Assembly on 25 July 2016 that 2016-25 would be the Third Industrial Development Decade for Africa (IDDA III).[2]

In terms of progress made in economic diversification, Africa also records the highest share of positive responses, with 71 per cent of respondents saying they had seen progress in economic diversification since the launch of the Aid for Trade initiative in 2006. This percentage is significantly higher than that of developing countries more generally, as only 47 of the 88 responding countries reported progress (53 per cent).

At the sectoral level, agriculture is the sector in which the most progress in economic diversification has been reported, followed by industry and services. Limited industrial or manufacturing capacity was reported by 67 out of the 88 respondents (76 per cent) as the top constraint to economic diversification. Access to trade finance emerged strongly as a constraint in the 2019 monitoring exercise.

These findings continue to concur with the story that emerges from trade statistics. Since 2000, Africa has recorded the highest growth rate (70 per cent) of all regions in the number of agricultural product categories exported, up from 54 to 92 Harmonized Commodity Description and Coding Systems (Harmonized System, or HS) categories exported in this sector between 2000 and 2017. In Africa, the number of industrial product categories exported increased by 70 per cent, from 133.5 in 2000 to 226.5 in 2017. Across regions, Africa recorded the strongest growth rate in industry export diversification between 2000 and 2017, followed by Asia (31 per cent) and America (17 per cent).

Since 2000, Africa has recorded the highest growth rate (70 per cent) of all regions in the number of agricultural product categories exported.

Furthermore, this diversification has been focused regionally, with North Africa leading the way, not only in terms of the level of product diversification, but also its growth rate, reaching up to more than 4,000 product export categories in 2017. Southern Africa records the second highest product export diversification in the region, with exports recorded in more than 3,000 HS codes. In contrast, Central, Eastern and Western Africa exported no more than 700 product categories in the same year.

Not all respondents reported progress in diversification. Five African respondents (Burundi, Central African Republic, Comoros, Ethiopia and South Sudan) reported that no progress had been made in economic diversification since 2006. Among the constraining factors discussed were a lack of financing (Burundi), the 2013 internal conflict (Central African Republic), and limited progress in the transformation of traditional products and dependence on a few export products (Comoros).

In spring 2020, a new Aid for Trade work programme for 2020-21 was adopted by WTO members on the theme "Empowering Connected, Sustainable Trade",[3] and in July 2020 members agreed to extend the current biennial Aid for Trade work programme into 2022, when the next Global Review will also be held.[4] Although the work programme was drafted before the global spread of COVID-19, its themes are relevant to several aspects of trade in and by African countries as the world is reeling from the effects of the pandemic.

One such aspect is digital connectivity, or the lack thereof, the importance of which for business has been underscored by the economic effects of COVID-19. During the 2020 lockdown period that affected billions of people across the world, some economic actors were able to continue working online while others were brought to a standstill. The 2020 crisis has highlighted the cracks in connectivity within African countries and has stressed the importance of digital adaptation and transformation. It is anticipated that work taking place as part of the new Aid for Trade work programme will examine how increased digital connectivity and e-skills contribute to the objectives of export diversification and empowerment.

Aid for Trade funding flows: before and after the COVID-19 pandemic

Total Aid for Trade funding disbursed since 2006 currently amounts to US$ 451 billion. Having received US$ 163 billion, Africa is one of the two largest recipient continents. The other is Asia, which received US$ 170 billion in the same period. In comparison, Oceania has received US$ 371 million, Latin America and the Caribbean US$ 35 billion, and Europe US$ 42 billion.

In 2018, Africa received US$ 16.9 billion in Aid for Trade.[5] This marked a 180 per cent increase from the US$ 6 billion of 2006. A little less than half of the US$ 16.9 billion received in 2018 went to African LDCs (approximately US$ 8 billion or 47 per cent).

In terms of categories, Aid for Trade disbursements to Africa were dedicated to economic infrastructure (53 per cent), building productive capacity (44 per cent), and trade policy and regulations (3 per cent). In terms of sectors, 25 per cent went to energy generation and supply, 24 per cent to transport and storage, and 21 per cent to agriculture. Other sectors account for the remaining 30 per cent. Aid for Trade commitments for 2018 reached US$ 20.9 billion, an increase of 137.5 per cent since 2006 and of one-third since the 2008-09 global recession.

The numbers above are supplemented with US$ 9 billion from South-South providers, who are growing in importance as a source of financing for developing countries. However, little can be said about how much of this total is trade-related as South-South donors are not under any obligation to report their contributions to any international organisation.

To address the exceptional financing needs triggered by the COVID-19 pandemic, international financial institutions announced at an Aid for Trade Committee on Trade and Development webinar held at the end of May 2020 that they were stepping up their response to support economic recovery and resilience. Such support included emergency packages, debt relief, trade development and trade-related adjustment support. For 100 countries, the IMF fast-tracked applications for support and provided debt relief under the Catastrophe Containment and Relief Trust, which has the capacity to provide US$ 500 million in grant-based relief. Following a call from the IMF and the World Bank, the G20 established the Debt Service Suspension Initiative, which offers temporary suspension of debt servicing for 73 of the world's poorest countries, 38 of which are in sub-Saharan Africa. World Bank estimates suggest that the scheme will provide up to US$ 11.5 billion in payment relief, of which US$ 6.6 billion would apply to countries in sub-Saharan Africa.[6]

As of April 2020, the World Bank has mobilized a US$ 160 billion fund to address the effects of COVID-19 over a period of 15 months. The World Bank has also highlighted good practices by policy-makers in supporting pandemic mitigation, consisting of:

(i) facilitating access to essential medical goods and supplies;

(ii) supporting the consumption of essential items and limiting impacts on the poor;

(iii) supporting exporters to maintain jobs and foreign exchange earnings;

(iv) shielding the economy from the COVID-19 downturn; and

(v) streamlining regulatory and border procedures to facilitate access to COVID-19-related medical goods and essential food products.

Another important provider of finance for Africa is the AfDB. To combat the crisis, the AfDB deployed a UA 7.4 billion[7] envelope (equivalent to US$ 10 billion) during the third quarter of 2020 for the COVID-19 Rapid Response Facility, which has provided flexible support for sovereign and non-sovereign operations. The envelope included US$ 5.5 billion for sovereign operations in AfDB countries, US$ 3.1 billion for sovereign and regional operations in ADF countries, and US$ 1.5 billion for non-sovereign operations (i.e. in the private sector) in all African countries.

For sovereign operations, the COVID-19 Rapid Response Facility can, as a matter of priority, provide fast-track budget support to ensure that regional member countries are able to fund emergency response measures. This has been an efficient approach, with the flexibility to allow regional member countries to apply for the support that best meets their needs and give due consideration to the growing risk of debt distress in many African countries. The operations have been aimed at sustaining growth, strengthening economic and financial governance, supporting policy and institutional reforms, mitigating the adverse impact of shocks, and contributing to recovery, state-building and arrears clearance in fragile states.

Non-sovereign operations involved the private sector, with US$ 1.35 billion administered to existing private-sector clients through:

(i) deferral of debt service payments of up to US$ 675 million to support anticipated requests from private-sector clients for limited deferral of their loan obligations to the AfDB;

(ii) emergency liquidity facility of up to US$ 405 million to assist clients facing short-term liquidity challenges caused by COVID-19; and

(iii) trade finance and guarantees facility of up to US$ 270 million, to assist clients in accessing trade finance and guarantees.

The AfDB has stated its awareness that COVID-19 was causing major disruptions in production and global supply chains, including in Africa. In 2018, 15 per cent of Africa's total exports were to other African countries. This figure, however, did not include informal trade, which was particularly vulnerable to the effects of the pandemic. Informal cross-border trade frequently includes agricultural products (e.g. maize and rice), making it important for food security. Restrictions on trade and the

In 2018, Africa received US$ 16.9 billion in Aid for Trade. This marked a 180 per cent increase from the US$ 6 billion of 2006.

Twenty-one out of 35 respondents from African countries to the OECD-WTO 2019 Aid for Trade questionnaire stated that Aid for Trade has helped them mobilize other forms of development finance.

movement of people have important socio-economic ramifications.

The AfCFTA was initially intended to be implemented on 1 July 2020 but its implementation was pushed back to 1 January 2021. Negotiations on services, tariff concessions and rules of origin have begun. However, all meetings and negotiations have been suspended at present as a result of COVID-19-related travel restrictions. The AfDB plans to continue its support of the AfCFTA and has restructured a recently approved US$ 5 million institutional support project for the establishment of the AfCFTA Secretariat and negotiations.

The COVID-19 crisis is likely to persist for some time, and there is a continual risk of a resurgence in the number of infections. The AfDB is seeking to help African countries find smart approaches to reopen their economies in a calibrated way that will bring key industries back into operation and enable people to be mobile while ensuring safe ways of working. Looking further ahead, the AfDB believes that the crisis potentially contains the seeds of a large-scale reimagining of Africa's economic structures, service-delivery systems and social contract. Trends such as digitization, market consolidation and regional cooperation are accelerating and creating new opportunities to boost local manufacturing, formalize small businesses and upgrade urban infrastructure.

South-South cooperation and other forms of development finance

Twenty-one out of 35 respondents from African countries to the OECD-WTO 2019 Aid for Trade partner country questionnaire and 24 out of 35 respondents to the donor questionnaire stated that Aid for Trade has helped them mobilize other forms of development finance. Several countries noted that the provision of donor finance through Aid for Trade had specifically led to the funding of complementary activities by other donors, or even, in some cases, to an increase in non-concessional foreign direct investment.

A number of significant providers of development cooperation do not report their development finance flows to the OECD. A conservative estimate by the OECD indicates that total gross concessional development finance by ten non-reporting countries amounted to US$ 9 billion in 2017, and it is unclear how much of this amount was provided for trade-related programmes or projects.

The Second High-level United Nations Conference on South-South Cooperation, held in 2019, noted the role of trade in the growth and economic development of developing countries, and recognised the significant contribution of South-South and triangular cooperation – where a traditional donor facilitates a South-South initiative – in the area of trade and its ability to promote sustainable development. Triangular cooperation, first introduced in the 1970s, has also been gaining popularity in recent years according to surveys and analyses. It combines different types of resources (e.g. financial, in-kind, knowledge, technology or other resources) to facilitate South-South initiatives and harnesses the comparative advantages of each partner, aiming at an impact that is greater than the sum of the individual interventions.

At the Second High-level United Nations Conference on South-South Cooperation, 29 of the 33 African partner countries identified China as the South-South partner that provides most financing for economic diversification, closely followed by India, as identified by 18 African partner countries.

Industrialization and poverty reduction: theory of change

Trade plays a key role in industrialization by disseminating new technologies. Trade technology and innovation have a synergistic relationship that can lead to a virtuous circle that favours industrialization when countries enjoy open markets. Trade leads to both static and dynamic economic gains for the countries that engage in it. The static gains derive from countries being able to specialize in the traded goods and services that they produce with the greatest efficiency. This maximizes sustainable production in-country and at a global level, while also benefitting consumers worldwide, as the latter can thereby obtain the best-value, lowest-cost products and services.

Trade also produces dynamic gains, which derive from the increased competition and the transfer of technology, knowledge and innovation that trade stimulates. There is a synergistic link between trade, technology and innovation. First, open markets favour competition and allow inflows of capital and imports of technologically intensive capital goods. Exposing domestic firms to international competition stimulates them to innovate and increase productivity. This adds to their existing comparative advantages, making them ready to export and driving even more trade. Indeed, open markets have been identified as a key determinant of trade and investment between developing and developed countries, allowing for the transfer of technologies which results in industrialization and development.

The freer flow of goods and ideas, aided by advances in transport and telecommunications technologies, has resulted in the creation of regional and global value chains, changing the face of production and trade. This has important implications for African countries, which can now integrate into global markets by exporting just one part or component of a product, and do not need to develop the industrial base required to manufacture the finished product. This also has implications for individuals and for poverty reduction, as trade offers opportunities for better paid jobs. A significant share of jobs is related to trade – both to exports and to imports – and both exporters and importers pay higher wages, because trading is a skills-intensive activity.

The stable multilateral trading system overseen by the General Agreement on Tariffs and Trade (GATT) and the WTO has undoubtedly contributed to industrialization and to the unprecedented decrease in poverty of the last two decades. Trade, correctly leveraged, has the ability to drive economic growth, create jobs, reduce consumer prices, and spur technological development and increases in productivity. Care must be taken to ensure that these gains from trade are equitably distributed across populations, both globally and nationally.

If trade is not inclusive, it can generate unemployment, poverty and increased income inequality. State subsidies, an international trade regime that favours large transnational companies over MSMEs, underutilization of technology transfer agreements, market access issues, and other non-tariff barriers can prevent the poorest countries from entering the most important markets and can contribute to continued and worsening inequality.

The WTO has established a series of important agreements and decisions that contribute to economic diversification among developing country members, including developing African countries. These include the TFA, but also agreements such as the Agreement on Trade-Related Investment Measures (TRIMs) and the GATT. All WTO agreements contain special provisions, commonly referred to as special and differential (S&D) treatment, for developing countries, including longer periods to implement agreements and commitments, measures to increase their trading opportunities, and support to help them build the infrastructure for WTO work, handle disputes and implement technical standards. LDCs receive special treatment, including exemption from many provisions. Specifically, the GATT, one of the founding agreements of the WTO, is a flexible agreement that incorporates the needs of developing countries, including, in its Part IV, the detailing of non-reciprocal preferential treatment for developing countries as well as the Enabling Clause or "Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries".

Likewise, the TRIMs Agreement recognizes that certain investment measures can restrict and distort trade. It states that WTO members may not apply any measure that discriminates against foreign products or that leads to quantitative restrictions, both of which violate basic WTO principles. In some cases, the TRIMs Agreement has successfully encouraged foreign companies to source more locally and enhance exports from local economies. However, the end result of the TRIMs Agreement depends, like many other trade policies, on local conditions, and positive effects have been linked to a range of factors, including government capabilities, the local absorptive capacity of the workforce and domestic enterprises, and the extent to which measures used have been compatible with other industrial and trade policies (UNCTAD, 2007). More recent agreements with positive outcomes for developing countries include the TFA, as well as other decisions detailed below.

A series of these decisions has been particularly impactful for African LDCs. These include the Hong Kong Ministerial Decision and the Bali Ministerial Decision on providing duty-free and quota-free market access to LDCs.[8] There are substantial differences across LDCs with regard to the type of duties applied to their exports when entering preference-granting markets, and duty-free quota-free utilization can be improved in many economies. WTO members have also turned their attention to the operationalization of the LDCs services waiver, which is meant to increase the participation of LDCs in services trade. Considerable progress has also been made towards establishing simple and transparent preferential rules of origin through two decisions on preferential rules of origin for LDCs at the Ministerial Conferences in Bali in 2013 and in Nairobi in 2015.[9]

The process of industrialization in general and that of the manufacturing sector in particular are

With the creation of global value chains, African countries can now integrate into global markets by setting out to export just one part or component of a product.

A series of ministerial decisions have been particularly impactful for African LDCs.

major drivers of poverty reduction across the globe. The manufacturing sector boasts higher productivity and a higher productivity growth rate than the agricultural sector, consistently fostering employment and income generation. Both the supply and demand sides of this sector demonstrate the importance of technology and skill development for the expansion of production capacities. Moreover, the virtuous circle of manufacturing consumption, as part of the demand side, exposes the driving forces behind the diversification and massification of manufacturing demand.

The interplay between supply and demand shapes the process of structural transformation and thus has a significant impact on an economy's development. Starting with the impact of trade on the industrial diversification process, penetrating new markets has a significant effect on the entire economy through manufacturing consumption. Newly created demand, global technology spill-over effects, and access to an established global production network play a pivotal role for the manufacturing sector's expansion. In addition, when an economy opens for trade, this fosters foreign direct investment inflows, bringing much-needed capital and know-how to developing countries. It also drives down the relative price of manufactured products through increased competition and new product varieties, which re-triggers the virtuous circle of manufacturing consumption. These forces create employment opportunities, especially in developing economies.

A major current source of employment in developing economies is low-technology and labour-intensive industries. As formal employment opportunities are created and demand for manufactured products rises, this significantly contributes to income growth. Such opportunities should be used to foster human capital investments, such as education and skill development, to promote increases in productivity by promoting the ability to implement new technological innovations in the future. Marginalized groups such as young people and women can benefit considerably from successful industrialization, which makes the industrial sector a relevant factor for a sustainable and inclusive future.

Empowerment through skills and training is essential for economic diversification, particularly when it enables more disadvantaged sections of the economy, such as young people, women and MSMEs, to engage in international trade. However, progress is not uniform, as LDCs, landlocked economies and small-island developing states face particular challenges, as do fragile and conflict-afflicted states. For these economies 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-globalization", the world may be entering a period characterized by a slower growth of trade in physical goods and lower foreign direct investment flows. In addition, the greater automation and digitization of production processes is changing the nature of manufacturing and the future of industrialization. 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 expansion of the manufacturing sector is often associated with an increase in harmful greenhouse gas emissions and the extensive use of natural resources. However, by implementing technological advances in production processes and production structures, it is possible to build strategies to sidestep this pattern of environmental trade-offs. Ensuring the flow of green innovations and relevant knowledge from high- to low-income countries is indispensable. Developing countries specifically will thereby benefit from existing technologies and can pursue environmentally friendly production processes.

While industrialization is a heterogeneous phenomenon, the changing nature of industrialization is characterized by a process of automation. As such, there is a need for a disaggregated view in order to assess the actual effects of this process on employment patterns. Despite negative direct employment effects within certain industries, demand and inter-industry effects can exert a positive net effect and thus create job opportunities. Moreover, a strong focus on human capital development and the scaling-up of technology adoption can transform the uncertainty related to this new paradigm into an opportunity, especially for developing countries.

Finally, there are three core policy considerations for structural transformation to move towards inclusive and sustainable industrial development: first, policies to foster production capabilities within firms and to improve the reallocation of production factors across firms are essential for the expansion of capacities in relevant industries. Second, capturing domestic and foreign demand requires policy-makers to invest and to establish a business climate in which development opportunities can be efficiently realised. And third, as highlighted above, industrial policy can do a great deal to encourage inclusiveness and sustainability in the industrialization process.

1 See https://au.int/en/agenda2063/overview.

2 See https://www.unido.org/sites/default/files/2017-11/IDDA_III_Resolution.pdf.

3 WTO official document number WT/COMTD/AT/W/81.

4 See https://www.wto.org/english/news_e/news20_e/aid_07jul20_e.htm.

5 Figures are from the SDG Trade Monitor – see https://sdgtrade.org/en/indicators/8-a-1/BC/1/.

6 Figures are from the World Bank DSSI estimates – see https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.

7 "UA" is Units of Aid, the official currency for AfDB projects.

8 "Duty-Free and Quota-Free Market Access for Least developed countries", Ninth WTO Ministerial Conference, Bali, 3-6 December 2013 (WTO official document number WT/MIN(13)/44, WT/L/919); Annex F, Hong Kong Ministerial Declaration, 22 December 2005 (WTO official document number WT/MIN(05)/DEC).

9 "Preferential Rules of Origin for Least Developed Countries", Ninth WTO Ministerial Conference, Bali, 3-6 December 2013 (WTO official document number WT/L/917). Nairobi Decision: "Preferential Rules of Origin for Least Developed Countries", Tenth WTO Ministerial Conference, Nairobi, 15-18 December 2015 (WTO official document number WT/L/917/Add.1).