



MAXIMIZING THE ECONOMIC DIVERSIFICATION OF AID FOR TRADE

SUMMARY OF THE WORKSHOP

10 OCTOBER 2022

1.1. On 10 October 2022, the WTO Secretariat organised a workshop on "Maximizing the Economic Diversification of Aid for Trade". Organized in a hybrid format, it was attended by approximately 80 people, drawn from Geneva-based delegations.

1.2. The workshop examined the importance of economic diversification for sustainable development, and the significance of Aid for Trade in this process. Trends in private financing and the importance of aligning to women's economic empowerment and climate transition goals were also discussed.

1.3. Opening remarks delivered by the **WTO Secretariat** set the scene for discussions. Michael Roberts, Head of the WTO's Aid-for-Trade unit, underlined that economic diversification remained a fundamental objective of the Aid-for-Trade Initiative. More than half of all partner respondents to the 2022 Monitoring and Evaluation exercise highlighted economic diversification as a central policy priority. Though developing countries and LDCs have achieved commendable advancements over recent years, there remains much more scope for progress. The COVID-19 pandemic has also been a significant setback, and the current global economic environment was not favourable to economic diversification. Around half of the LDCs continue to export in fewer than 100 product lines. This is still below the median value of 359 merchandise product categories under the Harmonized Commodity Description and Coding System.

1.4. This year's M&E exercise also revealed a growing focus on private sector engagement. Moving forward, Aid for Trade can therefore be leveraged as a catalyst for the mobilization of private finance to achieve export diversification goals. Furthermore, the intersectionality between aid for trade and climate financing can be explored as to identify and advance the economic diversification opportunities of a green transition.

1.5. In the session on policy perspectives, Olivier Cattaneo, Head of the Policy Analysis and Strategy Unit at the **Organization for Economic Co-operation and Development (OECD)** discussed the importance of economic diversification for development. Aid for Trade can help to facilitate export diversification by creating a trade and investment enabling environment; by bolstering domestic productive capacities; and by connecting local value chains to international markets. The representative highlighted that the scope of development aid has evolved since the launch of the Aid-for-Trade Initiative in 2006. OECD research reveals that grants and concessional loans are prioritized at an early stage of development. This is gradually followed by a transition towards private finance instruments as countries develop. During the period 2012-2020, nearly 87% of private sector resources mobilized were targeted towards trade-related sectors

1.6. The contours of Aid-for-trade priorities have also changed since the launch of the Initiative. Trade priorities now go beyond trade capacity goals. Other elements, such as climate and empowerment objectives, have become critical factors in gauging impacts. Thus, there is a need for a revision of Aid-for-Trade definitions and measurement strategies as to help generate deeper impacts. This work was advancing in collaboration between the UN and OECD notably on the concept of Total Official Support for Sustainable Development.

1.7. Maria Dimitriadou, Special Representative to the WTO and the United Nations for the **World Bank Group** highlighted opportunities for advancing economic diversification and pointed to

some of the Bank's strategies moving forward with respect to climate change. Economic diversification has evolved over recent years. Rapid technological changes and declining transport costs have led to the emergence of sophisticated and complex value chains. Declining trade costs have also enabled a greater participation in trade activities. In this context, aid for trade can help facilitate economic diversification by creating an appropriate incentive framework for investments, and by supporting targeted policies that help developing countries address trade and adjustment costs.

1.8. Over recent years, climate change has caused distributional impacts by recasting comparative advantages, consumer preferences and reshaping trade profiles. Furthermore, the burden of climate change has been disproportionate, impacting developing countries reliant upon carbon-intensive sectors. The World Bank is looking to address this discrepancy by improving capital markets and institutionalizing an enabling environment for crowding in climate financing flows. The Bank's climate financing and technical support reached a record high of USD 31.7 billion in 2021. Nearly half of this support was focussed on climate adaptation measures.

1.9. Jessica Espinoza, CEO of **2x Collaborative**, highlighted the approach of gender lens investing to promote sustainable and equitable trade. The 2X Collaborative was launched as "2x Challenge" at the G7 summit in 2017, to commit at least USD 3 billion worth of co-investments into the private sector in emerging markets. Its "2X Criteria" is a metric that granularly defines the contours of gender lens investing. The criteria has received wide recognition globally, such that by 2020, 2X Collaborative has received commitments worth USD 11.4 billion, well in excess of its initial targets. Participants include more than 70 organizations, including development Finance Institutions and private capital providers such as pension funds, asset managers, venture capital funds and foundations.

1.10. In the second segment of the workshop, which examined practice perspectives, Gregory Leon, Director of the Office of Economic Growth in Vietnam for the **United States Agency for International Development** provided an overview of the agency's efforts to promote trade and investment in Vietnam. Vietnam's rapid development over the past 3 decades was underpinned by a vibrant private sector benefitting from an investment-facilitating environment. From 2001 to 2013, USAID implemented a series of projects under the "Support for Trade Acceleration" initiative to expand trade capacity. Through the initiative, Vietnam received USD 31 million to build bilateral trade volume, assist in WTO accession procedures and ensure continued alignment to WTO standards.

1.11. In 2013, USAID commenced the Governance for Inclusive Growth project to focus on regulatory reforms in line with the WTO Trade Facilitation Agreement. The Trade Facilitation Program that was commenced in 2019 focusses on specialized inspection reform in support of Vietnam's WTO TFA commitments. Moving forward, USAID cooperation has expanded beyond trade to now support Vietnam's goal of transitioning from low skilled labour-intensive model to a knowledge-based economy.

1.12. Ratnakar Adhikari, Executive Director of the **Enhanced Integrated Framework** highlighted the role aid for trade in addressing the export diversification constraints faced by LDCs. Despite making considerable progress over recent years, 38 of the 46 LDCs remain commodity dependent. The EIF has helped to reduce this dependency through projects in Burkina Faso, Bangladesh, Zambia, Ethiopia, and Bhutan. Moving forward, aid for trade can help facilitate export diversification by financing "Needs Assessment Exercises" that highlight priority action areas. Aid for trade can also help build a stable and predictable investment climate by promoting regulatory transparency. "Project Preparation Support" can also be expanded using aid for trade assistance as to help countries mobilize funding predominately by external processes. Aid for Trade can help to funnel Foreign Direct Investments by financing derisking commitments and mobilizing seed funding. Finally, aid for trade can be used to fund Proof of Concept studies as to signal the practicality of theoretical projects.

1.13. Finally, Ganesh Dutt Lohani, Minister Customs of the Permanent Mission of **India** to the WTO provided India's perspectives on aid for trade, and highlighted assistance provided by India under the lens of South-South Cooperation. "Ownership" and "alignment" are fundamental principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. We therefore must ensure that these principles are followed and that donors align behind the objectives of recipient countries. There is also a need to embed greater transparency within the Aid-for-Trade Initiative, by for

instance ensuring that data reporting methods account for the trade and development strategies of partner countries.

1.14. India's South-South cooperation is an important element of its foreign policy over recent years. Though neighbouring countries are prioritized, India's outreach extends to countries in Southeast Asia, Latin America, Oceania and Central Asia. India has provided more than 300 Lines of Credit, worth USD 30 billion, to over 66 countries globally. India also provides duty free access for 96% of its product lines for LDCs. India also provides development assistance through the India-Brazil-South Africa Forum and the India-UN Development Partnership Fund. India is a key member of the International Solar Alliance and looks to contribute towards a green transition through the large-scale deployment of solar energy.
