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Integration and Trade Sector

Mobilizing Aid for Trade: Focus on Latin America and the Caribbean

Proceedings of the Regional Review Meeting

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Introduction

At the Sixth Ministerial Conference of the World Trade Organization (WTO), held in Hong Kong in December 2005, Ministers launched the Aid for Trade Initiative (AFT). AFT refers to the flow of development finance from developed to developing countries for the purpose of enhancing their participation in the world trading system. AFT covers trade-related capacity building to help countries formulate, negotiate and implement trade policies and related agreements and trade development, including export promotion and trade finance. It also covers support to strengthening trade-related infrastructure and other supply-side capacities and trade-related adjustment programs.

In Latin America and the Caribbean trade accounts for more than 50 percent of GDP in all but five countries, and for more than 100 percent of GDP in smaller Central American and Caribbean countries. Past experience has shown that complementary policies are needed to maximize the benefits of trade reform. In addition, as the scope of global trade integration broadens, a comprehensive strategy that seeks to make trade work for the majority of the population, particularly the poor, is ever more urgent. The momentum created so far in the AFT is truly a unique opportunity to work together. Construct consensus, and administer wisely the current prosperity—which is to a large extent a product of the recent growth of global trade—is not only a moral necessity, but also the best long term business for our region.

On November 13 and 14th, 2007, the IDB and the WTO organized with the collaboration of the World Bank the meeting “Mobilizing Aid for Trade: Focus Latin America and the Caribbean”. This conference hosted by the Government of Peru brought together for the first time, finance and trade ministers, senior donor representatives, regional institutions and key private-sector actors.

Objectives of the meeting included underlining the central importance of trade for national development strategies, promoting exchange of information about best practices and identifying the main capacity constraints to export growth. It was also designed to encourage governments, donors and the private sector to address specific challenges, prioritize needs, and move towards shared solutions with emphasis on regional programs. It was an opportunity to highlight the need for increased and effective financing and coordination among countries and donors.

Alongside with the main ministerial event, three parallel meetings were organized to highlighted specific dimensions of AFT: a Workshop on Private Sector and the Aid for Trade Initiative (organized by the International Trade Centre (ITC) and the IDB); a Workshop on the Standards and Trade Development Facility (STDF) (organized by the WTO and the IDB);

and a Workshop on Monitoring and Evaluation of Aid for Trade (organized by the OECD and the IDB).

This Report presents the proceedings of the Regional Meeting on Aid for Trade in Latin America and the Caribbean.

Mobilizing Aid for Trade in Latin America and the Caribbean

**Special report prepared by the
Inter-American Development Bank
as a contribution to the Regional Review Meeting**

September 2007

Special Report on Aid for Trade

This report was prepared by the Integration and Trade Sector (INT) of the Inter-American Development Bank (IDB) as a contribution to the regional meeting on *Mobilizing Aid for Trade: Latin America and the Caribbean*, organized jointly by the IDB and the World Trade Organization (WTO) in collaboration with the World Bank, and hosted by the Government of Peru in Lima on September 13–14, 2007. The meeting is the first of three regional meetings organized by the WTO to prepare for its November 2007 General Council meeting on aid for trade. The other two meetings will be held in Africa and Asia, under the auspices of the African Development Bank (AfDB) and the Asian Development Bank (ADB), respectively.

A final version of the report, incorporating the results of the Lima meeting and including regional and national case studies on how to mobilize aid for trade, will be presented at the WTO General Council meeting on aid for trade in November 2007.

The report was prepared under the supervision of Antoni Estevadeordal (Manager, INT), by a team comprising Paolo Giordano, Anneke Jessen and Jessica Luna (INT), and Barbara Kotschwar, Eric Miller and Sheila Page (Consultants). For questions regarding the report please contact Antoni Estevadeordal (antonie@iadb.org).

The opinions expressed in this report are those of the authors and do not necessarily reflect the official opinions of the IDB or the WTO, or their member countries.

This is the Bank's 2nd Special Report on aid for trade. The first report, *Aid for Trade: The Inter-American Development Bank's Experience in Latin America and the Caribbean*, was issued in May 2006 in response to requests by the Director General of the WTO and the WTO Task Force on Aid for Trade to support their work on aid for trade—specifically, to examine ways in which aid for trade could be made operational and might contribute to the development dimension of the Doha Development Agenda. For a copy of the report, go to <http://www.iadb.org/aidfortradelac/>.

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Abbreviations

ACP	African, Caribbean and Pacific (group of countries)
ADB	Asian Development Bank
AfDB	African Development Bank
CABEI	Central American Bank for Economic Integration
CAF	Andean Development Corporation
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CRS	Creditor Reporting System (OECD-DAC)
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development (UK)
DR-CAFTA	US-Central America-Dominican Republic Free Trade Agreement
DTIS	Diagnostic trade and integration study
ECLAC	UN Economic Commission for Latin America and the Caribbean
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
EU	European Union
FONPLATA	Financial Fund for the Development of the River Plate Basin
FTAA	Free Trade Area of the Americas
GDP	Gross domestic product
HCP	Hemispheric Cooperation Program (under the FTAA)
IDB	Inter-American Development Bank
IF	Integrated Framework
IFI	International financial institution
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
IMF	International Monetary Fund
INT	Integration and Trade Sector (IDB)
ITC	International Trade Center
JITAP	Joint Integrated Technical Assistance Program
LAC	Latin America and the Caribbean
LDC	Least developed country
NAFTA	North American Free Trade Agreement
OAS	Organization of American States
ODA	Official Development Assistance

OECD	Organization for Economic Cooperation and Development
PPP	Puebla Panama Plan
UNCTAD	UN Conference on Trade and Development
WB	World Bank
WTO	World Trade Organization

Introduction

“Aid for trade” refers to flows of development finance aimed at enhancing developing countries’ participation in the global trading system. Bilateral donors and international financial institutions (IFIs) have long provided aid for trade, but the term has gained new prominence in the context of the Doha Development Round. Several developed countries have pledged to increase their trade-related assistance in order to help developing countries—including those in Latin America and the Caribbean (LAC)—build the supply-side capacity and infrastructure they need to implement and benefit from WTO agreements and to expand their trade.

WTO members increasingly recognize the importance of aid for trade, but there is no universally agreed definition of the term. Narrowly defined, it means trade-related capacity building (to help countries devise and apply trade policy, and to negotiate and implement related agreements) and trade development (including export promotion and trade finance). More broadly defined, the term also covers support for trade-related infrastructure (transport, communications, energy) and other supply-side interventions (in the productive sector, for example) to help a country benefit from freer trade. It also comprises trade-related adjustment programs such as social safety nets and worker retraining.

In terms of financing, aid for trade mainly refers to the type of support classified by the OECD as official development assistance (ODA), including grants and concessional lending. Several factors, however, have underscored the need for aid-for-trade discussions to look beyond ODA, and to consider the scope and effectiveness of broader financing to meet developing countries’ trade-related assistance needs. Those factors include the recognition that existing infrastructure and supply-side capacities determine a country’s trade performance; that this is the case not just for the least developed countries (LDCs) but also for most middle-income developing countries; that the latter rely mostly on non-concessional lending to finance these areas of their development agenda; and that their private sectors can play a more active role in setting and implementing that agenda.

Discussions of the scope and financing of aid for trade are particularly relevant for LAC. The region is diverse but comprises mostly middle-income countries, many of which no longer have access to concessional financing from IFIs. Most LAC countries, moreover, are excluded from recent trade-related cooperation initiatives that mainly target LDCs. But trade is crucial to their development and, despite significant reform efforts in recent years, LAC countries continue to face serious challenges in this area. Infrastructure and supply-side constraints, in particular, are preventing the region from fully exploiting the opportunities of more open markets.

The aid-for-trade initiative is important for LAC in at least four respects. First, it has helped highlight trade as a key component of national development strategies, and the need to mobilize and manage trade-related assistance more effectively. Second, aid-for-trade grants can provide crucial seed money for (and thus help activate) larger infrastructure programs and other supply-side interventions that often require non-concessional financing. Third, some LAC countries are still eligible for concessional funds, even for larger infrastructure projects. Thus they have a significant stake in (and much to gain from) additional funding and more effective implementation of aid for trade. Finally, the initiative has underscored the regional dimension of trade, and the huge gaps in coordinating and financing regional infrastructure and other regional public goods initiatives that support trade.

This report aims to contribute to the current aid-for-trade debate from a LAC perspective. Its objectives are three-fold: (i) to raise awareness among LAC policymakers and the private sector of the importance of aid for trade for their countries' trade and national development agendas; (ii) to raise awareness among donor agencies of LAC's specific challenges in the areas of trade and aid-for-trade; and (iii) to offer practical insights into aspects of aid-for-trade management, as well as recommendations on how better to mobilize and implement aid-for-trade programs in the region.

Section II describes the WTO aid-for-trade initiative: its origins, rationale and task force mandates; the definition, scope and measurement of aid for trade; and the initiative's current status. Section III reviews past experiences in trade-related assistance to LAC. Section IV looks to the future: building on lessons learned, it highlights the main issues for LAC in the current aid-for-trade debate and considers how donors and recipients can make aid for trade a useful instrument of development. The report has a list of references and three annexes, including (i) the recommendations of the WTO Task Force on Aid for Trade; (ii) a calendar of events; and (iii) a bibliography of selected aid-for-trade literature.

1

The WTO Aid-for-Trade Initiative

This section explains what is new about aid for trade: why trade-related assistance has gained new prominence, what the WTO aid-for-trade initiative covers, and how the WTO framework set up to support the initiative will be implemented.

The Doha Round has seen a shift away from the view that trade liberalization on its own would provide significant benefits for all developing countries (the premise behind the decision to call it a “development round”). There is now greater acknowledgement that many countries need additional, complementary reforms and investments, which aid can finance, if they are to exploit trade opportunities, and that some types of liberalization may have significant short-term costs for some countries. The extreme version of the previous view was expressed in the slogan “trade not aid”, suggesting that market access was what developing countries most needed to grow. A more moderate interpretation might have been “trade and aid,” suggesting that aid alone is not enough to foster development. “Aid for trade” implies that specific kinds of aid are needed if countries are to reap the development benefits of trade.

1.1. Why WTO Members Launched the Aid for Trade Initiative

There are three main reasons why aid directly related to trade has been newly embraced, particularly by trade negotiators and policymakers. Two stem from problems that emerged in the implementation of the Uruguay Round agreements, and the other from a reaction to changes in aid flows.

Preference erosion. Most analyses of the Uruguay Round results ignored the existence of preferences, and therefore found gains for all countries. But because preferences were eroded by multilateral liberalization, countries with high degrees of preferential access to key markets lost export income. And because implementation was in stages, those losses occurred mostly during the Doha Round. As trade policy models improved to include preferences and regional trade liberalization, it became clear that there might be further losses because of the Doha Round. Since most people in developing countries would gain from liberalization, including those in the largest Latin American countries, a way had to be found to liberalize while avoiding losses. Economic theory and precedents from some regional arrangements suggested that the solution might lie in payments to transfer some of the gains to the losers. Proposals to include financial transfers in the Doha negotiations first emerged in 2002 (WTO, 2002). In 2003, the United States and the European Union (EU) accepted that action might be needed to address adjustment needs (WTO, 2003).

Implementation costs. The other problem recognized after the Uruguay Round was that the extension of international rules to new areas (such as intellectual property) and the application of existing rules to all countries, with fewer exemptions, caused poor and small developing countries to incur costs that were disproportionate to the benefits they received from the agreements. As with trade liberalization, there were gains to other countries and the world as a whole, and thus ceasing to adopt or apply the rules was not a satisfactory solution. Helping countries to undertake administrative reforms is a traditional area for development assistance. In 2004, WTO members accepted for the first time that some obligations assumed as part of a trade facilitation agreement would be conditional on countries' receiving adequate aid (WTO, 2004).

Trade as an engine of development. Finally, in the decade from about 1995, aid programs placed much emphasis on poverty as the main target of aid. The Millennium Development Goals, the official United Nations agenda for aid, focused on improving health and education and reducing the number of poor people. Despite efforts by trade policymakers and researchers to show that trade promotes economic growth and reduces poverty, and despite the emphasis placed by the MDGs themselves on policy coherence (giving trade policy a role in developing a global partnership for development), trade support was not generally perceived to make as direct a contribution to poverty reduction as higher spending on healthcare or education. The focus on short-term results in poverty reduction is now being modified, and greater attention is being paid to the matter of how to meet the goals in a sustainable way: through increased production rather than prolonged development assistance. Trade, as an important contributor to both demand and technological development, now fits better into mainstream aid concerns.

The statement issued at the Hong Kong ministerial meeting in December 2005 included an unprecedented set of WTO recommendations on trade-related aid (WTO, 2005). The statement supported revisions to the Integrated Framework (IF) for LDCs¹, and provided for a task force to design an Enhanced Integrated Framework (EIF), with additional funds.² It also called for a WTO task force on “how to operationalize aid for trade” for all developing countries, including non-LDCs. The Director General should recommend “appropriate mechanisms to secure additional financial resources for aid for trade.” The WTO thus assumed a role in mobilizing funds for trade capacity building and helping to reform the existing aid architecture to that end.

¹ The IF was created in 1996 by the IMF, ITC, UNCTAD, UNDP, World Bank, and the WTO. Its aim was to integrate LDCs into the multilateral trading system. It had a small budget (under \$40 million for 2001–06) to analyze the constraints on trade and the needs for capacity building in each country, and to assist in designing projects to meet the needs. It was not intended to fund these projects, but rather to present them as a menu to donors. There was a \$1 million limit per country to fund projects resulting from the needs assessments.

² The Enhanced IF, whose structure was agreed in May 2007, has the same objectives and structure as the IF, with the addition of a new Secretariat and Trust fund manager. Its funding is \$77 million for five years, with a \$2 million ceiling per country, to create, or update, needs assessments and to provide national administration for the process. Tier 2, with \$320 million over five years, increases the resources for implementing projects identified in the needs assessments. There is still no guarantee that the full projects will be funded.

1.2. The Task Force Recommendations

The WTO Task Force comprised 13 ambassadors, plus a fourteenth as chair, representing major countries and groups in the WTO. From LAC, Barbados, Brazil and Colombia participated. The Task Force asked for submissions from regional and multilateral donors, as well as from WTO member countries (for the IDB's submission see IDB, 2006). It reported in July 2006 (WTO, 2006a). The WTO General Council accepted its recommendations in October and the Director General presented his plans to implement them in December 2006 (WTO 2006b, 2006c).

In its recommendations (Annex 1), the Task Force addressed what is to be included in aid for trade, and how needs would be identified and funds allocated at the national, regional and multilateral levels. It also suggested that the WTO continue to play a role in reviewing aid for trade. The monitoring mechanism would be based on an existing WTO/OECD database that would have to be modified to reflect the WTO definition of aid for trade. Allocation of funds would be monitored through evaluations of donors and recipients. The WTO would receive reports from other agencies, give political guidance through an annual meeting of the General Council, and include assessments of individual countries' performance in its Trade Policy Reviews.

The recommendations' main innovations were that there should be clear paths from identification of needs to available funds (in response to concerns that the IF identified needs but did not ensure they were met); that the private sector should be directly involved in identifying needs and in contributing to aid for trade; and that there should be more support for regional programs. The Task Force followed the Hong Kong declaration and departed from recent trends in aid by including non-LDCs as well as LDCs. By adopting the recommendations, the WTO accepted a continuing role in monitoring and evaluating aid programs and gave all WTO members, including developing countries, a role in determining the priorities for aid.

1.3. Defining the Scope of Aid for Trade

The Task Force's definition sought to meet two underlying aims: (i) to ensure that extra support went to those activities that, in the WTO's view, required more assistance and were suited to a WTO-monitored process; and (ii) to allow governments the flexibility to encourage trade through a variety of approaches. The boundaries of trade-related assistance are hard to define because trade is dependent on all the other aspects of a country's economy, geography and institutions, and many non-trade policies or interventions affect trade. The Task Force's solution was to specify six categories of aid for trade:

1. **trade policy and regulations**, including training of trade officials, analysis of negotiating proposals and positions and their impact, support for national stakeholders to articulate commercial interests and identify trade-offs, dispute settlement issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards;
2. **trade development**, covering investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.

3. **trade-related infrastructure**, including physical infrastructure (transport, communications, energy);
4. **building productive capacity**; covering support to address trade-related supply-side constraints other than infrastructure (such as financial services);
5. **trade-related adjustment**, to help countries put in place accompanying measures that assist them in benefiting from liberalized trade; and
6. **other trade-related needs**, to cover special cases of assistance that do not fit the other categories.

The Task Force could not retain the narrowest of existing definitions—those related to trade policy and trade development—because these would have attained only the first aim of aid for trade: to meet the cost of implementing WTO agreements. If countries are to adjust to changes wrought by trade liberalization, or increase capacity to use trade for development, they will probably have to invest in new infrastructure or new productive capacity. The broader categories are also more likely to be relevant for middle-income countries, whose main trade bottlenecks often lie in these areas. In the second half of 2006, when the Task Force recommendations were made and accepted, there was another reason for a broader approach: the impasse in the Doha Round negotiations, which shifted the focus from meeting obligations or achieving a successful outcome of the negotiations, to supporting trade performance more generally.

There remain many uncertainties about what is included in aid for trade. Most people understand what is meant by categories (i) and (ii), and both are covered by a joint OECD/WTO database launched in 2002 to track aid for trade-related capacity building in developing countries.³ But while other existing aid data, including the OECD's long-established Creditor Reporting System (CRS), can identify types of infrastructure (transport, communications or energy), it cannot identify their use; hence category (iii) is more difficult to define. It may be clear, for example, that some international ports are entirely devoted to trade, but other transport infrastructure may have mixed use: it is difficult to determine how much of the capacity of a road or a communications system is used for trade. Similar difficulties in defining what is "trade-related" apply to categories (iv) and (v). Some donors offer part of their aid as general budget support. This is a small proportion of the total but some donors support increasing it and hence the decision on how to include it in calculations of aid-for-trade flows will be important.

The OECD has suggested including all infrastructure and budget support, but this would give an overestimate. Some categories (transport and communications, for example) are more closely related to trade. Hence one possible approach is to include all of these and none of the others; or it may be possible to disaggregate further. The CRS and individual donor data allow much finer classification within categories (for example, the World Bank has classified roads in Africa as mainly for trade or not). The OECD estimate of aid for trade in 2001–2005, on this broad definition, is about \$26 billion a year, or almost half of all aid (OECD, 2006). A rough reclassification of the infrastructure categories into trade and non-trade lowers the estimate to about

³ The Doha Development Agenda Trade Capacity Building Database contains data for 2001–2005 and is available at <http://tcdb.wto.org>.

\$12 billion a year (Cali et al, 2006), while a more rigorous analysis according to the purpose of the spending could lower the estimates by even more. Clearly, the decision on what to report as aid for trade will determine the overall amounts.

1.4. Measuring Aid for Trade and Mobilizing New Funds

The Task Force did not examine the quantity or nature of the financing in much detail (this was not its mandate), but it did state that its recommendations depended on the provision of substantial additional resources.⁴ In the second half of 2005—including at the WTO’s Hong Kong meeting—and in 2006, several donors announced “increases” in trade-related aid.⁵ At its most recent meeting in Germany in June 2007, the G-8 issued a Trade Declaration underlining “the role of aid for trade” and “the fundamental importance of increased and more effective funding”; it urged “all donors to improve quantity and quality of the means available by 2010.”

Because of difficulties in quantifying past flows, it is hard to gauge the extent to which the donor pledges represent a significant rise in spending on aid for trade. The G-8 commitment, confirmed at the 2006 meeting, is \$4 billion a year in total aid for trade by 2010; this includes funds for the EIF and any other new spending. Taking the data for the most limited OECD definition, \$2.5 billion for trade-related technical assistance, this would be an increase of 60 percent over past flows. But compared to estimates based on the broad OECD definition, which include infrastructure, the \$4 billion annual figure implies an increase of less than 10 percent. Some recipient countries are concerned that if there is little or no additional funding, increases in spending on trade could involve transferring assistance from other aid programs.

While the Hong Kong declaration referred to “financial resources”, some of which, “where appropriate”, would be grants, most of the discussion and measurement of aid for trade has assumed grant assistance. In practice, much funding is likely to be non-concessional. Middle-income countries depend more on loans at commercial rates and equity investments.⁶ A few donor programs provide grants for adjustment assistance, but these make up a small share of the total. Technical assistance normally comprises grants, so any shift away from that and towards greater trade-related assistance for infrastructure or supply capacity would increase the share of non-grant finance unless new and significant grant resources are made available for such interventions.

Non-concessional finance is included in data on other official flows (OOF), but is reported as net spending and can sometimes be negative if there is a positive return on equity investments resulting from specific repayment schedules. Alternative ways of measuring whether there has

⁴ Under the Hong Kong mandate, the WTO Director General was given responsibility for mobilizing additional resources for the aid-for-trade initiative.

⁵ The EU announced at the G-8 Conference in 2005, repeated at Hong Kong and in 2006 and 2007, a total of €2 billion, half from the Commission and half from national governments, by 2010. At Hong Kong, Japan offered a total of US \$10 billion, all to ‘trade, production, and distribution infrastructure’ apparently over three years. The US offered US \$2.7 billion, including aid for both trade policy and infrastructure.

⁶ Only five LAC countries—Bolivia, Guyana, Haiti, Honduras and Nicaragua—have access to concessional funding from the IDB. The same countries, plus four “small islands”—Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines—have access to concessional World Bank lending.

been an increase in non-concessional flows for trade will therefore be needed, as will means of assessing their effectiveness. Analysis of what is supported, and what the donor or beneficiary expects from the finance, will require more information than simple quantitative measures can yield.

1.5. Implementation Principles

In 2005, aid donors and some recipients, including 10 LAC countries, endorsed the Paris Declaration on Aid Effectiveness (OECD, 2005). Its principles were cited in the Task Force recommendations. They include *ownership*: respecting the right and responsibility of the partner country to establish its development agenda; and *alignment*: to align development assistance with the development priorities and strategies set out by the partner country; along with *harmonization of donor actions*; *managing for results*; and *mutual accountability* (donors and recipients).

These principles are essential to the effective provision of aid for trade but they may not be enough to maximize the initiative's benefits. Two other goals or principles are also important. First, aid for trade should reflect not only country priorities but also the multilateral aim of making the global trading system more conducive to global development.⁷ Second, the regional dimension of aid for trade should be considered. Pursuit of these goals may require needs assessments that do not rely solely on the country strategy approach embodied in the Paris principles, as well as the participation of specialized regional or multilateral agencies—along with donors and recipients—in designing the broader aid-for-trade agenda.

1.6. Next Steps in the Aid-for-Trade Initiative

Mobilizing stakeholders. Recent WTO efforts have focused on finding ways to implement the Hong Kong mandate and the Task Force's recommendations. Because the WTO lacks the resources, in-country presence or experience to collect data, identify projects, monitor spending or evaluate the performance of donors and recipients, it must rely on other organizations to implement the initiative. Nonetheless, many donors lack structures to identify and meet needs at the regional level, and most of them have limited experience of working with the private sector. In preparation for drafting its first annual report on aid for trade and the first General Council discussion of the initiative's implementation, in November 2007, the WTO is working with other organizations to fill these gaps.

In late 2006, the Director General created an advisory group on aid for trade comprising the World Bank, IMF, OECD, United Nations Development Program (UNDP), UN Conference on Trade and Development (UNCTAD), UN Industrial Development Organization (UNIDO), the International Trade Center (ITC), and three regional development banks (ADB, AfDB and IDB).

⁷ Although, in the WTO, countries have accepted the Task Force recommendations, donor agencies in the same countries cannot easily accept that aid flows would be subject to aims that are external to the donor and recipient. They argue that if recipients prefer to give priority to aims that are not fully consistent with multilateral objectives, then, in line with the Paris Principles, donors should align their programs with those aims.

The group met for the first time in March 2007 to discuss the role the institution should play in coordinating and monitoring trade-related assistance; it met again in June to plan the various meetings scheduled for the remainder of 2007 (Annex 2, Calendar of Events).

The WTO has moreover worked closely with the ADB, AfDB and IDB to organize regional meetings in September-October 2007. The meetings will convene trade and finance ministers, all the donors and agencies operating in each region, as well as representatives of the private sector. They will seek examples (from existing programs) of how to identify and meet the needs of countries and regions, and how to increase aid for trade. The LAC regional meeting in Lima on September 13–14 will provide LAC countries with an opportunity to develop and communicate their views on all pending issues.⁸ The WTO views the regional meetings, Secretariat report and General Council discussions as experimental; different structures may be adopted in the future, so it is important that the regional conferences consider whether these arrangements will serve the purpose well.

Monitoring aid-for-trade flows. Much work has gone into establishing effective monitoring mechanisms for trade-related assistance. The OECD is implementing a three-pronged approach: (i) relying on OECD data to measure aid-for-trade flows; (ii) donor questionnaires; and (iii) recipient questionnaires.

The WTO will rely on the OECD to measure aid for trade, and to monitor the quantities and distribution by categories, donors and beneficiaries. The Task Force suggested using the joint OECD/WTO database on support for trade capacity-building, but the aid-for-trade reports will be based on the CRS, under which members of the OECD's Development Assistance Committee (DAC) have reported their aid in line with common categories and definitions since 1967. The DAC has used these data and direct contacts with donors to prepare peer reviews of donor performance. Although the trade categories in the CRS are less specific than in the OECD/WTO database, the CRS data are considered more reliable and comparable.

As mentioned earlier, however, with no new reporting categories it may be difficult to match the WTO definition of aid for trade using the CRS categories. Matching the data to the definition will demand choices about approximations and assumptions, rather than mechanical assignment of categories. LAC countries may want to discuss which choices will best approximate the definitions and give the most useful information. They should ensure that the measures used give appropriate data on non-concessional funds, making it possible to track their quantity and effectiveness. The OECD will also have to find ways of including assistance by non-OECD/DAC members (including Brazil, China, India and South Africa).

The OECD has proposed assessing each donor against the aims and definitions of its own trade-related assistance program. This approach can rely on the OECD's long experience in peer

⁸ The purpose of the meeting is to highlight the Latin American and Caribbean dimension of aid for trade, and to encourage governments, donors and the private sector to address specific challenges, prioritize needs, and move towards shared solutions in trade-related assistance. Apart from the main meeting on September 13, *Mobilizing Aid for Trade: Latin American and the Caribbean*, there will be workshops on *Standards and Trade Development and The Private Sector and the Aid for Trade Initiative* (September 12), and an *OECD Practitioners' Forum: Making the Most of Aid for Trade* (September 14).

reviews of donors, but there are two potential difficulties. First, the scope of donors' trade-related assistance programs will depend on the level of priority donors give to trade in their overall assistance strategy. The proposal to evaluate each agency against its own objectives therefore risks accepting any limitations on their treatment of trade. Second, aggregating the results of the evaluations requires finding a way to assess performance against common criteria.

To assess needs and evaluate outcomes in recipient countries, the OECD is planning simple questionnaires for recipients. Recipients will not find it easy to reply because they may lack a central record of all aid by purpose. Identifying which aid is for trade will require that several departments in each country apply consistent definitions. The Task Force proposed using the WTO's Trade Policy Review mechanism, but for developing countries the review is too infrequent to provide regular monitoring. Recipients may need technical assistance to monitor aid-for-trade flows properly.

Mechanisms to secure additional resources. The CRS will record existing resources, but there is no institutional mechanism to mobilize new funding. Under the Hong Kong mandate, the Director General was asked to "consult with Members, as well as with the IMF and World Bank, relevant international organizations and the regional development banks, with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for aid for trade, where appropriate through grants and concessional loans." He declared in his report to the General Council (WTO, 2006c) that the "key donors" would meet their Hong Kong commitments, but new mechanisms are still pending.

Strengthening regional approaches. Despite the Task Force's emphasis on the need for a regional approach to aid for trade, there have been no proposals on how to quantify or evaluate the aid for regions. There is an urgent need to create mechanisms for applying the definitions of aid for trade in regional organizations, collecting data on regional aid-for-trade projects, monitoring and evaluating such flows, securing additional resources for regional initiatives, and raising awareness, more generally, of the importance of regional approaches to aid for trade. The regional review meetings provide a good forum for addressing these issues on the aid-for-trade agenda.

The 2007 Annual Report will present the first results of the three-step monitoring exercise (CRS, donor and recipient questionnaires), reports on the regional reviews, and a covering "synthesis" piece by the WTO. It will be important for LAC countries to ensure that: (i) the data give useful information on the types of support for trade-related infrastructure and supply capacity that are likely to be most relevant for them; (ii) there are good data and provisions for evaluating non-concessional support; (iii) the new mechanisms for monitoring recipients, whether by the OECD or the WTO, are robust; and (iv) analyzing aid for trade against the Hong Kong and Task Force objective "to help developing countries, particularly LDCs" does not neglect the special needs of middle-income countries facing adjustment without access to the types of aid available to LDCs.

2

Aid for Trade in LAC: Past Experience and Lessons Learned

Trade liberalization has been at the center of structural reforms in LAC over the last two decades. In parallel with the upsurge of multilateral, regional and bilateral trade initiatives, there have been incipient moves towards aligning technical and financial assistance with a demanding trade agenda. Trade reforms, however, have not yet fully delivered the expected results: stronger, sustained export growth and economic development. Meanwhile, the impact of trade-related assistance has been constrained by a number of factors, not least its focus on the short-term needs determined by trade negotiations, rather than on a long-term strategy to achieve international competitiveness. This section considers LAC's commercial challenges, how trade-related assistance has helped address them, the gaps in the delivery of such assistance, and how to use lessons learned from past experience in order to implement the aid-for-trade initiative in the region.

2.1. Making Trade Work for Development: An Unfinished Business

Economic development crucially depends on trade. Trade accounts for more than 50 percent of GDP in all but five LAC countries, and for more than 100 percent of GDP in smaller Central American and Caribbean countries. Even in larger economies such as Brazil and Mexico, domestic market size is constrained by the low income levels of large sections of the population. LAC countries therefore need export income to create and sustain jobs, finance imports, service foreign debt and maintain a healthy balance in their external accounts—all of which are necessary to achieve sustainable levels of economic growth. They also depend on the supply of competitively priced imports to support local production and satisfy consumer demand. Sustained growth in LAC thus demands that global economic integration be ranked very high on the development agenda.

LAC trade integration displays vulnerabilities. While LAC's openness coefficient has nearly doubled as a result of the reforms, it remains below the levels of other regions. Most importantly, there are deficiencies in the quality of trade integration: LAC exports have not diversified significantly, and most exports are commodities and resource-based manufactures that are low in technology content. Although LAC has enjoyed a few years of healthy export-led growth driven by high international commodity prices, the region's trade performance displays some weaknesses

that require urgent attention.⁹ It is vital to improve trade performance, particularly in a global context marked by the emergence of new trading powers such as China and India, and by the erosion of preferences that many countries are experiencing as a result of changes in multilateral and preferential trade policy. Some trade programs directly benefiting LDCs have placed an additional strain on LAC's export efforts, since they affect relative market access conditions for many of the region's exporters.

Complementary policies are at an early stage of development. In the last two decades, trade liberalization was not systematically accompanied by complementary policies to help countries maximize the benefits of trade reform. Under pressure to implement increasingly demanding trade agreements, some LAC countries—particularly those that engaged in North-South bilateral trade accords—have started to focus on the wide array of beyond-the-border domestic reforms needed to take full advantage of trade integration. As the region advances towards deeper integration into the world economy, the mobilization of political, technical and financial resources to design and implement complementary domestic reforms may become crucial.

Distributional concerns may spur reform fatigue. During the reform process, concerns about the distributional impact of trade liberalization were overshadowed by efficiency considerations. As a result, with a few exceptions, governments did not consistently promote broad trade adjustment programs to address liberalization-induced disruptions to local industries and labor markets. Such disruptions, along with perceptions of insufficient public consultation, have tested LAC countries' continued support for trade liberalization. In some countries, reform fatigue has heightened the risk of a backlash to more liberalization. At a time when further reform is needed to boost competitiveness, waning support for trade opening is a serious challenge. As the scope of global trade integration broadens, a comprehensive strategy that seeks to make trade work for the majority of the population, particularly the poor, is ever more urgent.

Even middle-income countries face resource constraints. Many LAC countries have limited technical and financial resources to manage their trade-related agenda, particularly as the agenda expands. Debt overhangs, sluggish economic growth in the past decade, loss of tariff revenue, difficulties in securing alternative revenue sources, and growing social demands have all put severe pressure on internal fiscal resources to fund trade-related policymaking and adjustment. LAC countries are also hampered in their access to external funding for trade-related assistance: some by the limitations of indebtedness, others because they fall into a higher-income category that, while not high enough to assure plentiful resources for trade adjustment, precludes them from accessing funds aimed at LDCs and other low-income countries.

⁹ For the period 2000–2005, LAC's average export growth of 6.3 percent a year was below the world annual average of 6.8 percent, and far below East Asia's record 17 percent. As regards GDP growth, from 2000 to 2005, LAC ranked last of all world regions, with an average annual growth of 2.6 percent, compared to the world average of 3.0 percent, 8.2 percent for East Asia, 6.1 percent for South Asia and 5.4 percent for Europe and Central Asia (World Bank, World Development Indicators Online Database).

2.2. Linking Trade and Aid: Past Experiences

Building consensus on a strategy of global integration. In the 1990s, some LAC countries began to reform their trade policymaking process and seek consensus on the need to place trade and global integration high on their development agendas. Some countries even put major trade decisions to public referendum. Despite progress in broadening the consultative process, there is evidence that further improvements could be made in this field. Because of the growing public debate about trade, increasingly governments must involve numerous actors in devising and implementing trade and broader economic policies, with a view to instituting public ownership of the reform process. The aid-for-trade initiative in LAC will certainly be more successful the more consensus there is around the potential benefits of reform for society as a whole.

Mainstreaming trade into the development agenda. LAC governments have begun to recognize the importance of connecting trade policy to the national development agenda, partly through policy coordination among government agencies such as ministries of finance, planning and/or economic development. They appreciate that trade can provide significant impetus for economic growth and greater prosperity, and that improved trade performance—and more equitable distribution of its gains—cannot be achieved solely through the actions of trade ministries. Supporting governments to further mainstream trade into the economic development agenda is one of the most pressing tasks of the aid-for-trade initiative and a critical factor of its success.

Aid for trade is not new for the region. As LAC countries began to implement the newest generation of trade agreements, particularly those negotiated in the WTO or bilaterally with developed countries, they often found that they lacked the capacity to implement all the accords' provisions. In several bilateral North-South negotiations, therefore, implementation assistance was included in formal trade talks.¹⁰ At the regional level, the parties to the Free Trade Area of the Americas (FTAA) negotiations agreed to set up a Hemispheric Cooperation Program (HCP), and several regional integration groups in LAC have established mechanisms to address distributional issues related to trade integration. Hence, in the area of linking trade and development assistance, LAC countries have accumulated experience and expectations, and sometimes skepticism. The aid-for-trade initiative should build on the former and overcome the latter.

The limited scope of past trade-related assistance programs. As negotiations have dominated LAC's recent trade agenda, much aid for trade has been used to meet short-term needs related to the negotiations themselves, focusing on the first two categories identified by the WTO Task Force: (i) trade policy and regulations, and (ii) trade development. Many agree that this assis-

¹⁰ Free trade agreements signed by Chile and Mexico with the EU, for example, include a range of cooperation activities geared to facilitating implementation. Similarly, the EU provides substantial assistance to the Caribbean countries through the EU-ACP Cotonou Agreement. Technical assistance forms part of recent trade agreements signed by the United States with Andean and Central American countries (DR-CAFTA, Colombia-US and Peru-US).

tance has been effective. But as LAC countries move towards the implementation and adjustment stages of more demanding agreements, the scope of past assistance may be too narrow to ensure an efficient and equitable transition to a more open trade regime.

The dispersion of past aid-for-trade interventions. At the same time, many projects to support what is increasingly seen as the broader aid-for-trade agenda (infrastructure development, strengthening national productive capacities and supporting adjustment) were also implemented, but somewhat isolated from, and uncoordinated with, projects aimed at trade policy reform. As countries have advanced in implementing trade reforms, the importance of tackling supply-side constraints and macroeconomic, microeconomic and social adjustment issues is becoming evident. Assistance in these areas has not been adequately programmed or evaluated in the context of trade, sustaining perceptions that aid for trade is mainly about traditional trade capacity building activities. For LAC countries, the aid-for-trade initiative provides an opportunity to develop a broader and better-coordinated approach to development assistance, one that seeks to improve their participation in the global economy.

LAC can capitalize on existing needs assessments. LAC countries have already made efforts to identify and prioritize their aid-for-trade needs, although often within the scope of specific negotiations. The HCP, for example, was organized as part of the FTAA negotiations to help countries determine their needs and help donors target their assistance.¹¹ Similarly, in the US-Central American and US-Andean negotiations, the parties developed National Action Plans. The documents generally targeted three areas: preparation for negotiations, implementation of resulting agreements, and adjusting to integration.¹² These efforts are particularly valuable given that LAC countries have often been excluded from similar multilateral initiatives (the IF, for example). The needs assessments may have to be updated and revised, but their scope is consistent with the wider definition of aid for trade and they may be useful in the next implementation phase.

Addressing identified needs. By highlighting adjustment as one of the three pillars of trade integration, the needs assessments allowed LAC countries to begin identifying aid-for-trade needs within their overall economic development strategy. This encouraged the authorities in charge of coordinating the effort to consult officials in finance and planning ministries and other relevant agencies. Despite the notable efforts made in almost all countries of the region, the resources mobilized by this effort were limited; in the case of the HCP, this owed much to the suspension

¹¹ HCP national strategy documents are available at http://www.ftaa-alca.org/TAssistance_e.asp. Participating countries prepared national strategies that identified and prioritized their trade-related technical assistance needs. Twenty-five LAC countries prepared national or regional strategies. These were presented at donor roundtables, where countries could consult donors and mobilize financial and technical resources

¹² *Preparation for negotiations* included training of negotiators in new disciplines; preparing impact studies; identifying best practices for public consultation; and defining trade and negotiation strategies. *Implementation of trade agreements* covered assistance for implementing commitments, including legal and regulatory reform. *Adjusting to integration* included addressing supply-side constraints, so as to export and compete more effectively in the global economy, attract foreign investment and facilitate adjustment to trade liberalization.

of formal FTAA negotiations. Countries have often found it difficult to match identified needs with sources of funding. The aid-for-trade initiative can build on past efforts but it will have to translate needs into assistance programs. LAC countries may be reluctant to engage in time-consuming needs assessments if funding commitments are uncertain.

Absorbing and implementing aid for trade. Many past assessments focused mainly on short-term needs. This was partly because of the demands of ongoing negotiations, and also because some countries faced constraints in developing long-term strategies and needs assessments. Many trade ministries are very small, with only a handful of qualified staff who are already overstretched by the task of participating in multiple trade negotiations. This limits their ability to develop comprehensive, long-term strategic plans and to absorb assistance once it is granted. Many countries, particularly the smaller ones, have therefore requested assistance to identify and prioritize trade-related needs, and to use trade-related assistance effectively. To support execution, donors have often established project-implementation units in executing agencies, staffed by consultants from outside the agency and/or international experts. These parallel structures have created some problems of morale in the agencies and are often not sustainable once project financing ceases. It has also sometimes been difficult to attract international expertise to the region, especially for longer-term assignments. There is hence an urgent need to improve local execution capacity, especially in light of possible future increases in aid for trade.

Building on lessons learned and overcoming past setbacks. In sum, while LAC countries have not participated in past multilateral initiatives such as the IF, they have accumulated substantial experience in linking aid with trade. This experience has left the region with assets such as: an incipient consensus on the need to consider trade integration as a major development objective; some embryonic institutional reforms geared to mainstreaming trade into development agendas; some expertise in the design and implementation of trade-related assistance; and an abundance of needs assessments that enable the region to move promptly from diagnosis to action. Nevertheless, the success of the aid-for-trade initiative in LAC will depend on the region's capacity to overcome obstacles such as: a tendency to focus trade-related assistance excessively on short-term negotiation needs; the gap between initiatives to boost competitiveness and the overall objective of promoting an efficient and equitable insertion into the global economy; skepticism fueled by the lack of funding for identified needs; and limitations in the absorptive capacity of recipient countries.

2.3. Assessing Past Flows of Aid for Trade: A Daunting Task

Understanding the numbers. As mentioned earlier, it is hard to measure aid-for-trade flows because of limitations in past data-gathering efforts and uncertainties about where to draw the line between what is “trade-related” and what is not. The WTO and the OECD recognize this problem and are re-structuring their databases and data-collection procedures to measure aid for trade better. In the meantime, some useful information can be extracted from current data sources by combining the data in the WTO/OECD database on trade capacity building—despite

its partial coverage in terms of categories of assistance¹³—with data in the CRS, although this does not cover all forms of financing.¹⁴

Trade-related assistance accounts for a small portion of total ODA to LAC. Between 2001 and 2005 (the period covered by the WTO/OECD database), trade-related assistance—including trade policy and regulations, trade development and infrastructure projects—accounted for just 11 percent of total ODA to LAC on average (13 percent in 2005, the most recent year available). Trade-related commitments fell from 2001 to 2002 but recovered the following year and increased substantially from 2004 to 2005.

The composition of trade-related assistance reflects a growing concentration on short-term needs. Since 2001, the amount devoted to trade policy and regulations and trade development projects has grown significantly, while the amount directed to infrastructure has declined. In 2001, 6 percent of trade-related ODA was allocated to trade policy and regulations; by 2005 this had doubled to 12 percent. Trade development received 21 percent of total trade-related ODA in 2001 and 39 percent in 2005. Infrastructure, which in 2001 received 73 percent of total trade-related funds, received only 49 percent by 2005. The shift in shares reflects the increasing importance of projects related to short-term needs arising from the negotiation and implementation of trade agreements.

Different financing for different types of assistance. Over 90 percent of ODA for trade policy and regulations and trade development was provided through grants. Infrastructure projects were predominantly financed by concessional loans, and only about 40 percent of project costs were financed by grants. Half of all grant funding was for trade policy and regulations and trade development projects, and nearly all the concessional lending (over 90 percent) was for infrastructure.

¹³ The OECD/DAC *Data Cubes* information system combines data from both databases and is available online at: http://www.oecd.org/document/59/0,3343,en_2649_34665_2488123_1_1_1_1,00.html. Consistent with the definition of aid for trade discussed in Section II, the Data Cubes system includes projects classified in categories i (trade policy and regulations), ii (trade development) and iii (trade-related infrastructure). Data Cubes is constructed with information collected in the WTO/OECD trade capacity building database, which does not include infrastructure projects (category iii), and information from the CRS, which collects information on infrastructure (without distinguishing between trade and non-trade related), along with information on category (i) and (ii) projects. OECD/DAC figures on ODA are available online at http://www.oecd.org/document/33/0,2340,en_2649_34447_36661793_1_1_1_1,00.html.

¹⁴ The WTO/OECD database includes both Official Development Assistance (ODA) commitments and Other Official Flows (OOF), but the CRS is mainly concerned with grants and the concessional element of loans. The OECD's DAC glossary defines ODA as grants or loans to developing countries that are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; and (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent). In addition to financial flows, technical cooperation is included in aid. Grants, loans and credits for military purposes are excluded. OOF is defined as "transactions by the official sector whose grant element is below 25 percent or whose main objective is other than development-motivated".

LAC needs a specific set of financing instruments. The available information suggests that, because LAC countries are mostly middle-income economies with active and mature trade agendas, they need a specific set of aid-for-trade operational and monitoring instruments. Most LAC countries have limited access to ODA grant resources and concessional lending, and thus non-concessional lending and equity investment are likely to be very important for the implementation of the aid-for-trade initiative in the region. On the other hand, though the region still needs much support in the areas of trade policy and regulations, trade development and infrastructure, the greatest challenge is to act on the supply-side and adjustment segment of the trade-related development agenda, which is not adequately accounted for in existing data resources. Monitoring development interventions in these areas will be crucial. These considerations suggest that implementation and monitoring of aid for trade in LAC will have to be guided by criteria that are not necessarily the same as those used in other developing regions with many LDCs.

2.4. The Potential Role of the Private Sector

The private sector should be the ultimate beneficiary of aid for trade. The costs and benefits of trade policy ultimately accrue to society as a whole, but the private sector is most immediately and directly affected. After all, it is firms that trade, not governments. As the trade agenda expands, more firms will be exposed to import competition and more will benefit from greater market-access opportunities. It is therefore imperative that the aid-for-trade initiative be designed to support the internationalization of LAC firms, particularly small and medium-sized enterprises (SMEs).

The private sector as a development partner in aid for trade. In recent years, with the expansion of trade negotiations, the private sector has begun to play a more active role in trade policymaking. The importance of such participation was underscored at the regional level by substantial attendance at the Americas Business Fora, which were held in parallel to the FTAA ministerial meetings. In general, however, private sector involvement has not gone much beyond supporting trade negotiations, where defensive short-term interests have often prevailed over long-term development goals. LAC's future depends on private sector participation in the forging of a long-term vision, one in which firms' ability to compete in the global economy is seen as a central element of the development agenda.

The private sector as a recipient of aid for trade. The private sector is increasingly viewed as an important recipient of trade-related assistance. Much of the assistance defined as "trade policy and regulations" and "trade development" seeks to strengthen institutions and regulations that determine the environment in which the private sector operates, reducing supply-side bottlenecks in trade and investment, and strengthening firms' ability to enhance their productive and export capacity. The private sector's potential role in aid for trade has been emphasized in many of the trade-related needs assessments developed throughout the region. For example, several national strategies have placed great emphasis on projects to help the micro and small enterprise sector become more competitive, to improve firms' positions in the international market and to generate employment.

The private sector as a provider of aid for trade. Businesses can also be partners in designing and delivering aid for trade. Some companies with established experience in global supply chain management have helped other firms and governments in standardizing and improving customs services, with a view to facilitating international shipping. There are several examples of companies sharing expertise with SMEs in LAC to help them understand the international trade framework and prepare them to export. Private sector participation has also been essential in trade capacity building projects on technical standards and trade facilitation. Finally, the growing importance of corporate social responsibility among private firms may attract additional resources that help support aid for trade projects, with benefits for SMEs.

2.5. The Strategic Role of Regional Approaches to Aid for Trade

Growing consensus on the need for regional programs. Echoing the recommendation of the WTO Task Force on Aid for Trade, which advocated regional approaches to the implementation of aid for trade, there is an emerging consensus among development practitioners that support for regional programs is limited but growing and that IFIs should play a bigger role in designing and financing such programs.¹⁵ LAC has a long tradition of regional and functional cooperation among countries, and is familiar with the potential challenges inherent in such initiatives: addressing sovereignty concerns and building support for the programs among recipient countries; developing financing mechanisms for these programs; and ensuring that they are executed effectively within often precarious institutional structures.

Regional integration arrangements may serve as platforms to deliver aid for trade. In LAC, regional arrangements have spurred trade and stimulated cooperation, circumstances that have affected how aid for trade has been channeled. Some regional arrangements have given rise to new mechanisms and institutions to exploit the economies of scale inherent in sharing resources. One prominent example is the creation of the Caribbean Regional Negotiating Machinery (CRNM), which pools talent from all CARICOM countries to support the various trade negotiations in which the region participates. The CRNM, and the institutional structure in which it operates, have successfully promoted trade-related cooperation among Caribbean countries, furthered the Caribbean Community's external trade links and attracted donor support. The presence of subregional organizations with the capacity to execute trade-related projects is a valuable asset for the implementation of the aid-for-trade initiative in LAC. Such agencies, however, often face the same constraints as their national counterparts in absorbing and executing trade-related assistance.

Regional approaches can address broader trade assistance needs. A number of regional initiatives are consistent with the wider definition of aid for trade. The Initiative for the Integration of Regional Infrastructure in South America (IIRSA), launched in 2000, supports the development and integration of energy, transport and telecommunications infrastructure across 12 South

¹⁵ See, for example, World Bank – Independent Evaluation Group (2007a) and (2007b).

American countries to facilitate trade integration intraregionally and with the rest of the world.¹⁶ The Puebla-Panama Plan (PPP), launched in 2001, seeks to improve the trade, growth and economic development potential of southern Mexico and Central America. The PPP addresses trade facilitation, infrastructure development (roads, telecommunications, energy), and tourism services.¹⁷ These are examples of how aid for trade could be used to provide seed money as an incentive for countries to cooperate on larger regional projects that also require lending for the implementation of national components.

Regional approaches need innovative financial arrangements. Given the prominence and dynamism of integration in the region, LAC development institutions have been exploring innovative ways to support regional initiatives. Past experience shows that, though regional projects can deliver substantial development benefits, financial support to collective action faces two obstacles associated with coordination costs and the insufficient market provision of regional public goods. Bringing together regional public or private agents involves coordination costs related to externalities and free-rider issues. It is hard to design guarantees for lending operations on a regional basis, which acts as a disincentive. LAC's nascent experience with regional public goods projects that finance the costs of coordination and create conditions for the collective production of such goods shows that innovative instruments to address regional issues may have a role in the aid-for-trade initiative.

¹⁶ The IDB, along with the Andean Development Corporation (Corporación Andina de Fomento, CAF) and the Financial Fund for the Development of the River Plate Basin (*Fondo Financiero para el Desarrollo de la Cuenca de Plata*, FONPLATA) forms part of IIRSA's technical coordination committee, which provides support to countries in all IIRSA-related topics.

¹⁷ The core PPP structure is comprised of the IDB, the Central American Bank for Economic Integration (CABEI), the UN Economic Commission for Latin America and the Caribbean (ECLAC), and the national governments. The IDB is the program's financial coordinator and is a member of its technical committee. Envisioned as a multi-billion, multi-year program with stated goals until 2020, the PPP is financed by contributions from participating countries, the private sector, and bilateral and multilateral donors.

3

Looking Ahead: Mobilizing Aid for Trade in LAC

Although LAC countries have more resources than other developing regions, significant gaps remain in their capacity to respond to trade-related challenges and to exploit the opportunities of more open markets. Aid for trade, properly tailored to their specific needs, could make a substantial contribution to closing those gaps. This section highlights the main issues for LAC in the current aid-for-trade debate and considers how donors, recipients and the WTO can make aid for trade more effective and relevant for the region.

3.1. Mainstreaming Trade into LAC Development Agendas

Focusing on trade in national development strategies. Trade is crucial to economic growth and should form a central part of national development strategies. The countries' trade experts and trade ministries thus have an important role in helping to develop those strategies. But to reap the benefits of more integrated regional and global markets, the countries need more than good trade policies. They also need fiscal, exchange-rate and other macroeconomic responses that avert excessive reform shocks; business-climate initiatives to boost competitiveness and export growth; policies to foster equitable distribution of the gains from trade; and adjustment programs to help exposed sectors cope with reform. While trade ministries should help devise the countries' development strategies, other government ministries and private sector actors have an equally important role in crafting the trade agendas that arise from those strategies.

Retaining consensus on long-term goals. Implementing a comprehensive trade policy requires setting priorities for short- and medium-term policies, while retaining national consensus on broader, long-term goals. Successful global insertion involves a phased process of reforms, dictated by political realities, adjustment considerations and resource constraints in both the public and private sectors. The short-term and sometimes painful adjustment attendant on the reform process, and the fact that the benefits of reform often materialize only in the longer term, underscore the need for regular consultation between the government, private sector, labor and other social actors to sustain the momentum for reform and avert reform fatigue. Inter-ministerial coordination in designing short- and medium-term policy actions is crucial, since a broad action plan will necessarily cover the mandates of several ministries and government agencies, including finance, planning, trade, labor, agriculture, tourism and industry.

Broadening the scope of needs assessments. To date, needs assessments in LAC have not always been fully aligned with the broader goals of development policy, and have been devised mainly by trade ministries. Nonetheless, it is necessary to boost trade-related infrastructure, strengthen the productive capacities of the region's business sector and devise adjustment programs to guide the reform process. These factors call for much broader assessments, and all ministries and agencies responsible for competitiveness and social policy should be involved in preparing them—a process that has already begun in some countries. Involvement by the private sector and other parts of the population—the ultimate beneficiaries of assistance—will help ensure that the assessments are relevant and aligned with real needs.

Adapting operational solutions to country-specific needs. Aid for trade can follow a more programmatic approach or respond to specific project-based needs. Particularly in countries where the domestic market is too small to provide significant development opportunities, trade-related assistance should not be perceived as a sectoral issue but rather a central and crosscutting element of the economic growth agenda. Some LAC countries may need general assistance in designing their overall development and trade strategies, setting up institutional mechanisms to manage their trade agendas, preparing needs assessments, and mobilizing and monitoring subsequent aid-for-trade flows. Other countries may already have structures in place for managing their trade strategies, and thus might need more limited sector- or area-specific support, such as modifying a particular law, improving efficiency in a particular port or targeting a new market. Useful assessments would involve careful consideration of which approach is best suited to a country's needs.

3.2. Aligning Donor Strategies with Country Needs and Multilateral Objectives

Making certain that donors give appropriate priority to trade. The Task Force on Aid for Trade called on donors to give more attention to trade issues in their aid programming, and noted that “each agency would need to determine how to deploy or reorient its financial and technical assistance”. Traditionally, and particularly after the proclamation of the Millennium Development Goals in the mid 1990s, the priorities of national and multinational donor agencies have been geared more to social objectives—such as poverty reduction, health improvement or educational objectives—than to growth and production targets. To mobilize aid for trade more effectively, within countries and internationally, trade policymakers will have to convince their aid agency counterparts that increasing the capacity to trade—through all the interventions included in aid for trade—can make an important contribution to development, and that sustainable development is a precondition of permanent poverty reduction and the attainment of health and other social objectives.

Ensuring that donors know what recipients want. In mobilizing aid for trade and seeking trade-related assistance, recipients must adequately communicate their needs. Recipients have often been subject to donor programs that were not consistent with their needs, and have complained that such programs were driven more by donors' institutional priorities than by recipients' re-

quirements. Recipients will be better placed to ensure that donor programs align more closely with their own agendas if they have a long-term development strategy, clear priorities for short and medium-term policy interventions, and defined needs.

Attaining coherence with multilateral trade objectives. As well as strengthening developing countries' capacity to trade, the aid-for-trade initiative seeks to improve the functioning and equity of the multilateral trading system. To some extent, therefore, it goes beyond ensuring that donor strategies are consistent with recipients' needs. There is also an element of collective responsibility, among all WTO members, to work towards multilateral goals. To promote these goals in donor and recipient strategies, donor agencies will have to accept their legitimacy and alter their agencies' terms of reference or practices to that end. How to bring about such change and monitor it—which might be as important as monitoring financial commitments, and perhaps more difficult—should be an important point for discussion in the aid-for-trade debate.

3.3. Moving from Diagnostics to Action

Capitalizing on existing needs assessments. The dynamism of LAC's trade agenda in the last fifteen years has resulted in many overlapping trade diagnostics and needs assessments. These were produced as part of a large number of bilateral and plurilateral trade negotiations, not all of which were convergent. The assessments vary in the extent to which they can readily give rise to concrete projects, but the region may be able to capitalize on this work in preparing projects for donor financing.

Linking isolated supply-side interventions to the trade assistance agenda. Along with the drive towards more open trading regimes, LAC countries have funded—and have received external funding for—many projects that *de facto* seek to foster a better insertion into the global economy, including large infrastructure and business development initiatives. These projects, however, were neither conceived nor implemented as part of a comprehensive trade strategy. While LAC recipients and donors thus have experience in working on the isolated “dots” of the aid-for-trade agenda, the WTO's new emphasis on supply-side constraints and adjustment offers an opportunity to “connect the dots” and capitalize on existing interventions that should form part of the agenda. This may require highlighting the trade-related dimension of such projects, giving trade experts a voice in overseeing their execution and planning new interventions in areas that can help to connect current efforts.

Placing greater focus on implementation. There has been some frustration among recipients that, thus far, attention to trade-related assistance has focused unduly on the elaborate preparation of needs assessments, with few subsequent aid allocations to meet the identified needs. To retain the momentum of the aid-for-trade initiative and make real improvements in developing countries' trade capacity, donors must send clear signals to recipients that implementation, rather than diagnosis, is a central principle of the initiative.

3.4. Improving the Delivery of Aid for Trade

Building on existing institutional mechanisms. The Task Force recommended building on existing organizations to deliver trade-related assistance, rather than creating a new fund. The move towards a different form of aid spending is likely to require reorganization within and among agencies. One way of increasing the effectiveness of the resources going to aid for trade would be to shift funding to those agencies that have a mandate in this area, as well as the expertise and administrative resources to deliver it. To this end, the Task Force recommended that donors “consider channeling aid for trade multilaterally, when appropriate.”

Strengthening trade-related capacity among donor staff. The Task Force recommended that donors should “further strengthen their trade expertise both in the field and in capitals.” The recommendation stems from concerns expressed by trade policymakers in donor countries, and by governments in recipient countries, at the low level of trade expertise within some donor agencies. The lack of expertise was even acknowledged in some of the agency submissions to the Task Force. In many agencies, the focus of most aid in recent years on social targets has attracted and encouraged staff who are mainly interested in health, education and other social sector projects. A substantial increase in funding for trade-related needs will itself attract more personnel who specialize in trade, and will encourage all staff to acquire more expertise. But donors might also have to consider reorganizing their administrations to create opportunities for staff to specialize and remain in trade-related work.

Improving absorptive capacity in recipient countries. In the past, LAC agencies receiving aid for trade have often lacked the technical and administrative capacity to implement donor-financed programs effectively. The problem is particularly acute when those agencies have to execute several projects simultaneously. Donor coordination, particularly as regards common reporting standards, can help ease the pressure on the agencies, but capacity problems will remain serious for the foreseeable future, particularly in the region’s smaller and/or poorer countries. Limited implementation capacity could become an even more serious problem with the planned increase in aid for trade. Hence the urgent need to build local expertise in all areas of trade and project management as a first step in expanding the aid. This is also essential to ensure the consolidation and sustainability of aid-for-trade development results over the long term.

Expanding the availability of grant funding. Many LAC countries have limited borrowing capacity to facilitate trade integration and adjustment. Hence the modest level of grant funding available for trade-related assistance to middle-income countries is a challenge. Grants are not only limited but are often programmed annually, and thus it is hard to gear the resources to support for programmatic, long-term approaches to trade-related assistance. And grant-delivery can be a prolonged process, preventing donors from responding to urgent demands from recipients—for example, during trade negotiations. The scarcity of grant funding also limits the scope of activities that can be undertaken (for instance, short training activities as opposed to broader and more sustainable initiatives) and the grants often come with conditions (nationality

requirements, country eligibility criteria). It is thus important not only to expand grant funding for trade assistance but also to improve the delivery and usefulness of that funding. In a context of limited resources for development finance, LAC's main challenge is to prevent aid for trade from crowding out other forms of development assistance.

Placing greater emphasis on non-concessional lending. Notwithstanding possible increases in grant funding, it will be important for LAC to analyze past experiences with particular lending instruments, and to bring non-concessional funding back into the discussions of aid for trade. Apart from a few countries that may indeed benefit from the revision of existing mechanisms aimed at LDCs and other low-income countries, LAC countries are mostly middle-income. It is therefore crucial that the debate on mobilizing aid for trade in LAC is matched by discussions of how to acquire non-concessional development and private-sector finance, and how to channel it into activities that favor the countries' insertion into the global economy. Financing mechanisms for regional programs should be particularly high on the agenda of aid-for-trade discussions in LAC.

3.5. Monitoring Aid for Trade

Creating an efficient monitoring structure. The difficulties involved in defining and measuring aid for trade include different definitions; different judgments about the boundaries of "trade-related" aid; the treatment of non-concessional funding; and the absence, to date, of a defined structure within which to collect data or identify areas to evaluate in recipient countries. The OECD process is well-suited to monitoring and evaluating what donors promise and what they do, and the OECD has experience in assessing how effective different donors are. But the organization's peer review process is led by aid agencies and is subject to their expertise and priority judgments. Appraisal of the review's findings by the WTO, in turn, will be based on specialized knowledge of trade, rather than broader development expertise. Building an effective partnership on this matter may take time and experience.

Monitoring must be perceived as useful in order to generate useful results. Whatever process is chosen to collect data on and monitor aid for trade, countries will have to see value in it if they are to have an incentive to provide information. Individual donors and recipients will be more inclined to provide information if they can rely on all others to do the same. The Task Force recommended a broad collection of information from recipient countries, regions, donors, multilateral agencies and the private sector. It proposed that the information be used in the WTO's annual review and in country assessments using the Trade Policy Review mechanism, for both donors and recipients. DAC members have pledged to provide information for the CRS database, but there is no process requiring donors or recipients to notify the WTO (the Task Force mentioned introducing this as a possibility). The WTO can request the information—including through the proposed questionnaires to recipients—and can seek to discover it through the Trade Policy Reviews, but there is no equivalent of the requirement to report tariffs or other trade measures. Mechanisms to strengthen accountability may be needed to improve the monitoring process.

Devising indicators and creating incentives to measure progress. As other international initiatives have shown, development indicators and periodic monitoring of them help focus political priorities, identify operational priorities and measure progress towards medium- and long-term development goals. This is the case for such diverse initiatives as the Millennium Development Goals, the World Bank Doing Business Report and the World Economic Forum Competitiveness Report. Donors and recipients could work together to devise trade indicators as a complement to the ongoing efforts to monitor aid-for-trade flows. Such indicators would allow countries to observe progress towards greater participation in the global trading system, independently of the ability to attribute such progress to particular aid flows. As regards aid-for-trade evaluation criteria, ideally these would include not only how effectively the aid contributed to each country's trade and development, but also its contribution to the multilateral trading system. The aims of the evaluations might include improving the performance of the agency and recipient country being studied; identifying which types of aid for trade were most useful; and determining to what degree agencies were effective in particular types of assistance. A medium-term goal would be to amass knowledge that could be shared among LAC countries, and between these and other developing countries, about what processes are effective.

3.6. Building and Retaining Momentum in the Aid-for-Trade Initiative

Ensuring a favorable institutional environment for aid for trade. In the process of mobilizing and implementing aid for trade, the participation of (and collaboration among) all the government institutions engaged in fostering a country's development and competitiveness are essential to ensuring that the country's trade agenda is aligned with its broader development objectives. Such participation and collaboration are also critical to ensuring that the broad-based policy responses needed to implement that agenda are timely and well-coordinated. Proper collaboration requires appropriate mechanisms for inter-agency coordination and information exchange, as well as a capacity within institutions to use the mechanisms and contribute to their success. Countries have taken different approaches to preparing their institutions for these tasks, and no single institutional arrangement fits all. The focus should be on results rather than on a particular institutional set-up, and the structure should be flexible enough to respond to changing needs.

Keeping all LAC countries engaged. Aid for trade is a complement to, not a substitute for, a fair rules-based trading order. But among LAC countries (and within them), there are varying perceptions of the relative importance of trade, aid, and aid for trade. Countries that are severely hampered by the remaining pockets of protectionism that afflict the multilateral trading system may see overwhelming benefits in trade liberalization, may not see great value in aid for trade, and may tend to emphasize the risks of substituting aid for trade. Other countries that have not fully perceived the benefits of past attempts to liberalize trade at the multilateral and regional levels may see trade opening as too costly and may tend to view trade-related assistance as an insufficient complement to the costs of trade liberalization. In order to keep such a heterogeneous group of countries engaged it is crucial to provide country-specific incentives to participate in the aid-for-trade initiative.

Keeping the key players focused. The very nature of trade-related interventions calls for agreement among a wide range of actors. Because of the multi-sectoral and multi-stakeholder nature of the initiative, coordination failures within governments, and between governments and donors, have to be addressed. Endorsement of the initiative at the highest political level, both nationally and multilaterally, is important to creating momentum. But for the initiative to produce results in the short to medium term, the process must produce pay-offs and incentives so that key players remain engaged.

Promoting early harvests. The lag between costs and benefits is a problem in trade-related adjustment and development interventions. Adjustment costs and needs arise in the short to medium term, while gains from trade and returns on trade-related investment materialize only gradually, often beyond the time horizon of national political cycles. To sustain the momentum of the aid-for-trade initiative, it is important to implement “quick-win” projects that yield short-term results and offer incentives for longer-term development interventions. This is particularly important in LAC, where trade-related assistance has been provided for some time but at insufficient levels, and where there is a risk of assistance fatigue.

3.7. Providing Incentives for Regional Projects

Building on LAC’s rich integration experience. LAC has a long tradition of functional cooperation associated with regional trading agreements. More recently, governments have begun to devise regional approaches to trade-related infrastructure and private-sector development, and towards addressing the asymmetric distribution of integration’s costs and benefits. Some IFIs have been pioneers in providing assistance through regional programs, and the aid-for-trade initiative may give new impetus to this trend. Donors and recipients could collaborate in devising a response to the lack of regional financial instruments, by creating common frameworks for the coordination of national sovereign guarantees. Similarly, in coordination with national governments and with the support of regional financial institutions, regional agencies could explore triangular support, whereby external resources are used to fund south-south cooperation. Finding joint solutions to regional issues necessarily involves the provision of grant funding to regional projects. Such funding could absorb the costs of coordination, and thereby address coordination failures that partly explain the limited provision of regional public goods in LAC.

Fostering regional approaches in donor agencies. Regional projects have received only scant attention from some donors. Some agencies will have to set up regional programs alongside country programs, and devise ways to coordinate them. This will be complicated because the appropriate “region” will vary for different types of project (membership in a free trade agreement or customs union may determine the beneficiaries of a joint trade facilitation project; geography may determine a transport region; common traditions or legal systems may determine the members of a joint standards or training region). Agencies might have to specialize in particular types of assistance in order to offer the most appropriate help at all levels. This approach could complement or modify the recent trend for national donor agencies to focus on a limited number of countries.

3.8. Mobilizing the Private Sector

Giving the right incentives. The private sector can play an important role in making aid for trade operational. It can be a partner of governments in building consensus on a long-term trade strategy; it can be a direct recipient of aid-for-trade and development finance; and it can provide funding for trade-related development projects, exploiting the new drive towards corporate social responsibility. Nonetheless, the private sector's incentive systems and ways of working are often only modestly consistent with those of governments and donors. There are some notable exceptions, including the *multilatinas*, transnational corporations originating in LAC, which have been contributing to trade integration strategies. But generally the private sector's involvement in trade policy, and in the aid-for-trade initiative, has been limited. To increase the incentive for the private sector to become more involved in the initiative, and in global markets generally, governments and donors should find ways for the initiative to simultaneously address the costs of business internationalization and provide timely assistance to mitigate those costs.

3.9. Improving Donor Coordination

Simplifying administrative requirements. The Task Force advocated donor coordination at the country, regional and global levels. For low-income countries highly dependent on aid, such coordination (ensuring that multi-donor funding of projects or multiple administrative requirements do not create inefficiencies) is as important as coordinated national budget funding. Administrative harmonization is also important for middle-income countries. All recommendations on aid for trade urge donors to coordinate their administrative procedures and reporting requirements, so that recipients do not have to establish separate systems for each donor; aid for trade is no exception.

Making more organized efforts to fill funding gaps. But middle-income countries may also need a different form of coordination, as the Task Force recognized. Some of them will want financing for a particular need, rather than general sector or budget support, and thus they have to be sure that there is at least one agency for which that need, for that country, is part of its assistance mandate. It is desirable to ensure that every reasonable need identified through some agreed process is met. The Task Force suggested that a "clearing-house function" be established at the country and regional levels, and that multilateral donor/recipient sessions could be organized to connect outstanding trade-related assistance needs to donors willing to contribute to their fulfillment.

Designing flexible donor coordination strategies. Countries with more specific trade-related needs, and those that depend less on aid, might also be best supported through less elaborate donor coordination strategies than those proposed for LDCs through the EIF, and by coordination efforts that focus on quick disbursements, rather than an institution-building process. One instrument mentioned in discussions of aid for trade, the Joint Integrated Technical Assistance Program (JITAP), provides targeted aid in a few areas to its African beneficiaries,

with much smaller national processes to identify needs and a clearer link between needs and assistance.¹⁸

Extending donor coordination to the regional level. The only regular forum to consider regional or other non-country level aid will be the Annual WTO General Council discussion of aid for trade. This, however, will bring together national trade representatives, not officers of aid agencies and finance ministries, and will be too broad for the detailed “matching” suggested by the Task Force. The regional meetings in 2007, including the LAC meeting in Lima, bring together the right agencies for such matching—including donors, recipients, regional and multilateral agencies, and the private sector. In 2007, it is too early for projects to have been identified and to have failed to find a donor, but such meetings might serve the purpose for regional projects in the future. If they prove effective, LAC countries could consider similar processes at the national level, rather than the more elaborate trade committee and donor group structures that operate in LDCs.

Encouraging recipients to lead donor coordination efforts. Donors have important responsibilities in harmonizing their activities, but such efforts can be strengthened if recipients lead them. Some regional agencies in LAC (including the Caribbean-based CRNM) have assumed a role in donor coordination, holding regular meetings with donors to report on the agency’s activities, discuss implementation issues and highlight needs. They have also made suggestions about what kind of reporting might satisfy donors while not imposing an undue burden on the agency. Donors have welcomed these efforts, and have found that they improve the overall management of assistance—particularly when donors are not physically present in the field and find it difficult to undertake long-distance coordination in the absence of a recipient agency that encourages such coordination.

3.10. A Joint Action Agenda on Aid for Trade

As shown above, the aid-for-trade agenda is comprehensive, and not all pending issues can be resolved in the short term. To advance the initiative, donors and recipients in LAC may have to focus on a few of the above questions before tackling the remaining agenda, and the wider WTO membership may have to recognize that aid-for-trade priorities may vary by recipient region.

¹⁸ In 1998, the WTO, UNCTAD, and ITC reorganized a set of individual projects for eight African countries into a joint program (JITAP) with a Common Trust Fund to mobilize donor support. JITAP has since then been extended to another 10 African countries. It has a much more specific objective than the IF, to build the countries’ capacity to participate in trade negotiations, WTO implementation, and trade policy formulation, and to build the supply capacity and market knowledge of exporting and export-ready enterprises in order to benefit from trade liberalization. None of the organizations involved has country offices so it is coordinated by national committees, with a national ‘technical counterpart’, usually the trade department in a ministry. Using a network of trainers, it provides projects, not just diagnosis, in its designated subjects. For the private sector, it provides information points and market information, and for both public and private sectors, it provides training in trade policy and in marketing and business skills. It thus has direct experience of trade capacity building projects and of working with the private sector, two elements of the aid-for-trade initiative.

For LAC, three issues merit detailed discussion over the coming year, since they are particularly relevant for the region: (i) financing instruments; (ii) regional projects; and (iii) private-sector participation in the initiative. Effective solutions in these areas will help LAC countries build on existing achievements in the area of aid for trade, and help move donors and recipients from diagnostics to action.

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Annex 1

Recommendations of the WTO Task Force on Aid for Trade

World Trade Organization Document WT/AFT/1, 27 July 2006

A. Mandate

The Hong Kong Ministerial Declaration invited the WTO Director-General to create a Task Force to provide recommendations “on how to operationalize Aid for Trade” and “on how Aid for Trade might contribute most effectively to the development dimension of the DDA”. It states that “Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access.”

B. Rationale

Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access. Effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries.

C. Financing

Additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate. The effectiveness of the following recommendations for operationalizing Aid for Trade requires substantial additional targeted resources for trade-related programmes and projects as pledged at the WTO’s Hong Kong Ministerial Conference, and against the background of the broader international commitment at the UN’s Monterrey Conference and the G8 Summits in Gleneagles and St. Petersburg to significantly scale up development assistance by 2010. The Task Force urges the Director-General to seek confirmation from donors and agencies that funds are readily available for the implementation of the Aid-for-Trade initiative as part of his mandate to consult on “appropriate mechanisms to secure additional financial resources for Aid for Trade”.¹

¹ In Hong Kong, Japan announced development assistance spending on trade, production and distribution

In order to measure additionality and the adequacy of funding available to meet the Aid-for-Trade needs of developing countries, including those associated with a successful completion of the DDA, an account of what is being done today needs to be established as part of that process. The Task Force urges donors and agencies to provide the necessary information in order to make it possible for the Director-General to fulfil his mandate.

D. Scope

The scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies. In this regard, it should be pointed out that while the PRSPs² reflect national development priorities for some countries, other development strategies are equally important and will need Aid-for-Trade financing. At the same time, clear and agreed benchmarks are necessary for reliable global monitoring of Aid-for-Trade efforts to assure accurate accounting and to assess additionality. The following categories, building upon the definitions used in the Joint WTO/OECD Database, have been identified:

- a. *Trade policy and regulations*, including: Training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.
- b. *Trade development*, including: Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.
- c. Trade-related infrastructure, including: Physical infrastructure.
- d. Building productive capacity.
- e. *Trade-related adjustment*, including: Supporting developing countries to put in place accompanying measures that assist them to benefit from liberalized trade.
- f. *Other trade-related needs*.

Reporting on categories (a) and (b) should follow the definitions in the Joint WTO/OECD Database. The activities that fall outside of the current Joint WTO/OECD Trade Capacity Building

infrastructure of \$10 billion over three years, the US announced Aid-for-Trade grants of \$2.7 billion a year by 2010, and the EU and its member States announced trade-related development assistance spending of €2 billion per year by 2010.

² Poverty Reduction Strategy Papers (PRSPs) describe the macroeconomic, structural and social policies and programmes that a low income country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing. They are country-led, country-written documents prepared by governments through a participatory process involving domestic stakeholders and external development partners, including the World Bank and the IMF.

Database definition, i.e. category (c), (d) (e) and (f) should be reported as Aid for Trade when these activities have been explicitly identified as trade-related priorities in the recipient country's national development strategies, such as the PRSP.

E. Challenges/Gaps

Since the start of the DDA in 2001, donors have stepped up their commitments on trade-related assistance. More developing countries are also integrating trade into their development strategies. But major challenges remain. These can include:

- Low attention to trade as a tool of development in recipient countries and in donor agencies.
- Insufficient trade mainstreaming in national development strategies and PRSPs.
- Lack of private-sector involvement in identifying trade needs.
- Limited absorptive capacity in recipient countries.
- Inadequate linking mechanisms and lack of predictability in donor response to trade priorities identified at the national and regional levels.
- Lack of coordination and coherence in donors' trade-related response.
- Slow, duplicative and bureaucratic processes in the assessment and delivery of trade assistance, including burdensome parallel structures within recipient countries.
- Lack of data on, and analysis of, trade policies and their impact on development, lack of easily-available information on existing Aid-for-Trade instruments.
- Ineffective monitoring of trade-related country policies and donor activities; absence of rigorous, independent project and programme evaluation and impact assessment.
- Limited support for regional, sub-regional and cross-border trade-related programmes and projects.
- Inadequate support to address the adjustment costs of trade liberalization.
- Insufficient resources for infrastructure and productive capacity building.
- Uneven country coverage.

F. Operationalizing Aid for Trade

F.1 Objectives

- To enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs).
- To help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more.
- To help facilitate, implement, and adjust to trade reform and liberalization.
- To assist regional integration.

- To assist smooth integration into the world trading system
- To assist in implementation of trade agreements.

F.2 Guiding principles

Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved (donors, agencies and beneficiaries), including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of programme-based aid modalities, managing for result, transparency, and predictable and multi-year commitments, which should be built into all programming. Aid for Trade should be rendered in a coherent manner taking full account, *inter alia*, of the gender perspective and of the overall goal of sustainable development. Administrative costs associated with the delivery of Aid for Trade should be minimized to ensure that the resources go to the actual implementation of identified priority projects and programmes. The competence and skills of the human resources available at national and regional levels should be used in an optimal way.

F.3 Strengthening the “demand side”

A commitment to country ownership and country-driven approaches—as well as a commitment of governments to fully mainstream trade into their development strategies—is key to the effectiveness of Aid for Trade. In some countries, the processes for mainstreaming trade into national development strategies, for formulating trade strategies, and for proposing priority trade projects for donor financing, need to be strengthened through technical assistance and capacity building to help developing countries put in place effective and sustainable trade policy frameworks and processes. Where consultative mechanisms already exist, they can be used—or improved upon. Value-chain analysis could be one valuable tool to identify trade needs.

The Enhanced Integrated Framework (IF) for LDCs. The purpose of the IF is to strengthen the LDCs’ trade capacity, including the ability to identify their trade needs and to propose priorities to be supported by development partners. The recommendations on an enhanced IF, as agreed by the Integrated Framework Steering Committee (IFSC), will be an essential foundation for strengthening the demand-side of Aid for Trade in LDCs.

Non-LDCs. Many other developing countries also need support to mainstream trade into national strategies, to establish broad-based consultation processes involving the private sector, civil society organizations and relevant government agencies to formulate trade strategies, to develop action matrices, and to formulate priority project proposals.

Regional needs. Some of the constraints facing developing countries are regional, sub-regional or cross-border in nature. These needs should be identified and properly addressed. Regional or-

ganizations, including regional banks, regional integration organizations and regional economic communities, may play a role in assisting countries to identify such needs.

Recommendations:

- Implement the recommendations for an enhanced Integrated Framework.
- Establish effective national coordination, involving all relevant stakeholders, including the private sector, with a view to identifying the strengths and weaknesses of economies as a whole, and the particular challenges facing the trade sector.
- Explore the necessity of establishing a similar, but separately funded, in-country-process for non-LDCs "International Development Assistance (IDA)-only" countries, if such mechanisms do not already exist or can be improved upon.
- Urge agencies, donors and governments in other developing countries to work together to establish similar processes if they do not already exist. These processes should be modelled to the specific circumstances and needs of the country concerned, building on what already exists where possible and appropriate.
- Urge donors and agencies, together with regional banks and organizations, to step up their efforts to identify regional, sub-regional and cross-border needs, including those related to regional integration.
- Establish a system of data collection and analysis at country level.

F.4 Strengthening donor "response"

Donor policies. Donors should give more attention to trade issues in their aid programming and strengthen their trade expertise both in the field and at headquarters. There is a need for improved coordination of staff working across sectors and for greater trade mainstreaming in aid agencies' programmes.

Donor coordination. Greater donor and agency coordination and harmonization of procedures—at both the local and global level—is critical. Trade-related programmes and projects should be more coherent, both in terms of operations and policy.

Donor response. In allocating resources for Aid for Trade, donors and agencies should be guided by priority projects and programmes identified by developing countries, as well as by their potential merit in relation to the objectives for Aid for Trade. These priorities should be mirrored by donor and agency support. Each agency would need to determine how to deploy or reorient its financial and technical assistance to support either capacity building or accompanying measures related to trade liberalization.

Recommendations:

Donors and agencies should:

- integrate trade and growth issues more effectively in their aid programming;

- further strengthen their trade expertise both in the field and in capitals;
- use needs assessment processes (where available), and their results, as a basis for their programming;
- move towards a programme/sector/budget approach, if country owned, if mainstreamed in national development strategies and if a robust system of financial accountability is in place;
- make targeted funds available for building infrastructure and removing supply-side constraints—over and above capacity building and technical assistance—perhaps as co-financing with multilateral development banks; and
- consider channelling Aid-for-Trade Funds multilaterally, when appropriate.

F.5 *Strengthening the bridge between “demand” and “response”*

F.5.1 *Country level*

Matching. Strengthened in-country structures, with improved links to donor financing, are needed to help move from trade-related diagnostics to implementation, and to maximize access to multilateral and bilateral resources. The task of matching demand for Aid-for-Trade projects with response could be addressed by strengthening national coordination through a “National Aid-for-Trade Committee”, which would include recipient countries, donors, and other relevant stakeholders, such as the private sector, under the leadership of relevant ministries. This committee should complement—not replace—existing PRSPs and other coordination mechanisms. If needed, this process could be supported by agencies that could serve as a clearing house.

Mainstreaming trade. Effectiveness in implementing Aid for Trade will depend on many actors working together in a coherent way. It will involve, for example, the World Bank, the IMF, regional development banks, UN agencies and donors at the national as well as the international level, and trade, agriculture, development and finance ministries at the national level. It is the responsibility of donors, agencies and recipients to do their part in reforming how those entities integrate trade into development and national strategies.

South-South cooperation. Technical cooperation among developing countries is a valuable tool to deliver effective results because of their common experience and understanding of the challenges they face. The valuable technical expertise of the South could be used to implement projects through triangular schemes of cooperation.

Private sector. As actors in the field, private enterprises are well placed to identify trade-related problems and bottlenecks. An increased dialogue between the public sector and private entrepreneurs would improve effectiveness in assessing Aid-for-Trade needs, in diagnostics, and in implementation, as well as in evaluating effectiveness in implementation.

Recommendations:

- Recipient countries should mainstream trade into national strategies, such as PRSPs, formulate trade strategies, and propose priority trade projects for donor financing.
- The division of responsibility for funding and implementing Aid-for-Trade projects and programmes should be addressed through country-based processes such as PRSPs or Consultative Groups, if necessary complemented with a partner conference focusing specifically on trade-related support, convened once countries have integrated trade into their national strategies.
- A National Aid-for-Trade Committee could be established, where necessary, to ensure trade mainstreaming in national development strategies, determine country needs, set priorities, assist in matching "demand" and "response", and help in evaluation. Tasks could include identifying co-financing or leveraging funds from other larger funds, as well as assessing adjustment needs and brokering financing for such programmes. Recipient countries could request agencies to perform a coordinating role.
- Partners should commit to contributing to the implementation of trade strategies and identified priority projects and programmes. The resulting plan should incorporate a results-based management framework resting on—and reinforcing—mutual accountability. Indicators of progress should be agreed.
- Promote the involvement of local, regional and private-sector actors, as well as South-South cooperation through triangular schemes.

F.5.2 Regional level

Many countries require cross-border infrastructure and regional policy cooperation to trade more effectively. The ability to identify cross-border and regional needs should be strengthened at the country, regional and multilateral level. Once needs have been identified, donors and agencies must improve their ability to respond. In particular, assistance in formulating and financing accompanying measures could help to make regional integration an effective building block for the multilateral trading system. At the forthcoming September Development Committee Meeting, strengthening support for regional, sub-regional and cross-border needs will be discussed.

Recommendations:

- Strengthen the following functions in relation to regional, sub-regional and cross-border issues:
 - diagnosis of needs;
 - costing of projects;
 - preparation of project proposals; and
 - the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes, (e.g., cross-border infrastructure and policy-integration projects).
- Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms, including those at the multilateral and regional

level, before considering a new mechanism. In exploring the most efficient solution, the conclusions from the discussions at the forthcoming Development Committee should be taken into account. Any solution should involve all relevant stakeholders and give priority to existing regional integration programmes that lack funding.

- Explore the merits of establishing a Regional Aid-for-Trade Committee, comprising sub-regional and regional organizations and financial institutions, to oversee the implementation of the sub-regional and regional dimensions of Aid for Trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation.

F.5.3 Global level

A number of tasks in relation to Aid for Trade are best performed at the global level. These include:

Data collection. Lack of empirical data has made it difficult to examine the relationship between policies related to trade and development performance. Better data and statistics are a precondition for better understanding the process of globalization and its impact, and for determining priorities for development cooperation.

Knowledge creation and sharing. Dissemination of Aid-for-Trade evaluation results, development of best practices and guidelines, and facilitation of information sharing, involving all relevant actors, needs to be improved at the global level, in order to assure efficient use of Aid-for-Trade funds.

Channelling donor funding. Some donors might wish to direct Aid-for-Trade funds through multi-lateral channels, which would allow them to support Aid for Trade without having to build their own institutional capacity in this area and without getting involved at country level. This could include providing support for processes similar to the IF for non-LDC IDA-only countries.

Matching. While a clearing-house function should in most cases be performed at the country and the regional level, sessions dedicated to specific themes and groups of countries could be periodically organized to provide a platform for donors and developing countries to discuss specific gaps which may occur in the implementation of Aid for Trade. One important function could be to connect outstanding Trade-Related Assistance (TRA) needs to donors willing to contribute to their fulfilment.

Recommendations:

- Strengthen the following functions in relation to global issues:
 - the collection and analysis of data on trade policies and their impact, the facilitation of knowledge sharing, and the development of guidelines. Funding for such activities needs to be secured;
 - provision of information on existing Aid-for-Trade instruments and expertise; and
 - matching and brokering unfunded TRA-needs and available donor funding for such projects and programmes.

- Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms before considering the establishment of a new clearing house at the global level.

F.6 Strengthening monitoring and evaluation

Monitoring and evaluating progress is essential in building confidence that increased Aid for Trade will be delivered and effectively used. It will also provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda. It is important to emphasize the need for concrete and visible results on the ground. All the providers of Aid for Trade and the recipient countries have the responsibility to report on progress and results.

Monitoring. In recipient countries, monitoring should cover trade mainstreaming in national strategies, such as PRSPs, the identification of priority needs, donor responses, progress in implementing trade-related projects and programmes as well as the impact of these efforts. Donors who have made commitments to Aid for Trade should report on the content of such commitments as well as on how they plan to meet the targets for Aid for Trade that they have announced.

Evaluation. Rigorous Aid-for-Trade programme evaluation is particularly important because projected significant increases in Aid for Trade may stretch the delivery capacity of donors and the absorptive capacity of recipients. In-depth country-impact evaluations of Aid-for-Trade programmes should be undertaken to build knowledge and facilitate a results-based approach to delivery. Evaluation of in-country processes should focus, *inter alia*, on progress in mainstreaming trade in national development plans. Evaluations should adopt a results-based approach in order to ensure effectiveness of Aid-for-Trade programmes in relation to the objectives.

Recommendations:

- A global periodic review of Aid for Trade should be convened by a monitoring body in the WTO, based on reports from several different sources, to be published if feasible on the WTO web page:
 - from the country level;
 - from donors;
 - from the regional level;
 - from relevant multilateral agencies; and
 - from the private sector.
- Mechanisms to facilitate reporting to the global monitoring body should be enhanced, including the possibility of a notification process for WTO Members.
- The global periodic reviews should be followed by an annual debate on Aid for Trade convened in the WTO General Council to give political guidance on Aid for Trade.
- Recipient countries should report on the trade mainstreaming in national development strategies, such as the PRSPs, the formulation of trade strategies, Aid-for-Trade needs,

donor responses, and implementation and impact. The primary responsibility for reporting to the global monitoring body would lie with the National Aid-for-Trade Committee.

- Donors should report on funds dedicated for Aid for Trade, how they intend to meet their announced Aid-for-Trade targets, the Aid-for-Trade categories covered, and their progress in mainstreaming trade into their aid programming.
- Multilateral and regional actors should be encouraged to report regularly on their Aid-for-Trade activities, progress and impact. When appropriate these actors—including the OECD/DAC—should be asked to assist in providing input and in the organization of the periodic Aid-for-Trade review in the WTO.
- The private-sector should be provided an opportunity to report on their Aid for Trade contributions.
- An assessment of Aid for Trade—either as a donor or as a recipient—should be included in the WTO Trade Policy Reviews.
- Evaluation of country-needs identification, trade mainstreaming in national strategies and PRSPs, donor response and impact on the ground in relation to stated objectives, should be promoted and funded.
- The scope of the Joint WTO/OECD Database should be reviewed in light of the Task Force's definition of Aid for Trade. It should also be updated based on more accurate identification of needs (and the responses) by both providers and recipients of Aid for Trade.

G. How Aid for Trade can Contribute to the Development Dimension of the DOHA-Round

Aid for Trade is important in its own right. It should assist developing countries to benefit from increased trade opportunities multilaterally (both from previous rounds and from the anticipated results of the DDA), regionally, bilaterally and unilaterally. The Task Force therefore recommends that Aid for Trade must be operationalized as soon as possible. At the same time, the Task Force affirms that Aid for Trade is a complement, not a substitute, for a successful Doha Round. Increasing trade opportunities for developing countries, in particular the least-developed among them, remains the most important contribution that the WTO can make to development. A successful conclusion of the Round will increase the need for assistance to implement new agreements (e.g., Trade Facilitation), to ease adjustment costs, and to make use of new market access. Aid for Trade is a complement to the Doha Round, but it is not conditional upon its success.

H. Next Steps

These recommendations are directed to many different actors. The Task Force suggests the following next steps:

- urges Members to expeditiously implement the recommendations of the Task Force.

- urges the Director-General to use these recommendations in pursuing his mandate to consult on "appropriate mechanisms to secure additional financial resources for Aid for Trade" so that the joint mandate in Paragraph 57 of the Hong Kong Declaration can be implemented in a holistic manner.
- invites the Director-General to communicate these recommendations to relevant agencies and organizations and to urge Ministers at the upcoming Development Committee Meeting in Singapore to give consideration to these recommendations and to encourage the Bank and the Fund to ensure adequate follow-up and to report on the results at the 2007 Annual meeting.
- invites the Director-General to continue, under his coherence mandate, a dialogue on how recommendations targeted at the agencies could be implemented, including where responsibility for implementation should lie.
- invites the Director-General to establish an ad hoc consultative group to take forward the practical follow-up of these recommendations.
- invites the Director-General to begin examining how to implement the recommendations regarding WTO monitoring of Aid for Trade.
- invites the Director-General to convene, at an appropriate time, an initial review of Aid for Trade, with the participation of all relevant stakeholders.
- suggests, after the completion of the DDA, that the Secretariat conduct an assessment of associated Aid-for-Trade needs in developing countries, particularly those most affected, including LDCs, and of how Aid for Trade can contribute to the development dimension of the DDA.

Annexes:

1. *Paris Declaration on Aid Effectiveness*
(see <http://www.oecd.org/dataoecd/11/41/34428351.pdf>)
2. *Joint WTO/OECD Trade Capacity Building Database*
(see below)
3. *Paragraph 57 of the Hong Kong Ministerial Declaration*
(see below)

Annex 2 of Task Force Recommendations Joint WTO/OECD Trade Capacity Building Database³

The Trade Capacity Building Database (TCBDB) has been established by the WTO jointly with the OECD to provide information on trade-related technical assistance and capacity building

³ <http://tcbdb.wto.org>

projects. It covers national as well as regional projects. It is an on-going activity and the 2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building was circulated in December 2005. At present, the period of coverage is 2001 to 2004 and partial 2005 and beyond. Data is reported from bilateral donors and multilateral/regional Agencies.

Trade-related Technical Assistance and Capacity Building Categories

1. Trade Policy and Regulations (Dispute Settlement; Customs Valuation; Technical Barriers to Trade; Sanitary and Phytosanitary Measures; Trade Mainstreaming in PRSPs/development plans; Trade-Related Intellectual Property Rights; Agriculture; Services; Tariff Negotiations—Non-Agricultural Market Access; Rules; Trade and Environment; Trade and Investment; Trade and Competition; Trade Facilitation; Transparency and Government Procurement; Accession; Tariff Reforms; Trade-Related Training Education; Negotiation Training; Regional Trade Agreements – RTAs)
2. Trade and Development (Trade Promotion Strategy Design and Implementation; Market Analysis and Development; Business Support Services and Institutions; Public-Private Sector Networking; E-commerce; Trade Finance)
3. Infrastructure (Infrastructure – data from the OECD Creditor Reporting System).

Annex 3 of Task Force Recommendations

Paragraph 57 of the Hong Kong Ministerial Declaration (WT/MIN(05)/DEC)

“We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA. We invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans.”

Annex 2

Aid For Trade Calendar: Main Events, 1996–2007

DATE	EVENT
1996	WTO Singapore Ministerial Meeting: member states agree to set up the Integrated Framework for Trade-Related Assistance (IF) for the LDCs.
1997	IF created at the WTO High Level Meeting on Integrated Initiatives by six multilateral institutions (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) to better integrate LDCs into the multilateral trading system. Its activities should consist of diagnostic studies of trade constraints and capacity building.
1998	WTO, UNCTAD, and ITC transform a set of individual projects for eight African countries into the Joint Integrated Technical Assistance Program (JITAP), with a Common Trust Fund to mobilize donor support.
2001	Launch of WTO round in Doha. Members agreed to 'well-targeted, sustainably financed technical assistance and capacity building.' WT/MIN/01/Dec/1
2002	OECD and WTO jointly set up the Trade-Related Assistance and Capacity Building database to provide information on trade-related technical assistance and capacity building projects. http://tcbdb.wto.org . JITAP is extended to eight new African countries.
03/2005	OECD–DAC High Level Forum, Paris: <i>Paris Declaration of Aid Effectiveness</i> Commitment to improve aid quality DCD/DAC/RD (2005)10RD2.
07/2005	Geneva Consultations process: ' <i>Aid for Trade</i> ' Initiative – <i>Options to Enhance Support, Non-Paper</i> , published with World Bank/IMF response in World Bank, IMF, <i>Doha Development Agenda and Aid for Trade</i> , September 2005.
12/2005	WTO ministerial in Hong-Kong, <i>final declaration</i> . Members adopted a Declaration that included Paragraph 57 on Aid for Trade. World Bank and IMF endorsed a proposal to enhance the IF and the Trade Ministers welcomed the establishment of a Task Force on Aid for Trade within the IF. WT/MIN(05)/Dec.
12/2005	Japan to increase its aid for trade by US\$10 billion by 2010, WT/MIN(05)/6. The US said it intended to reach US\$2.7 billion a year in Aid for Trade grants by 2010 (doubling from 2005).
12/2005	G7 Finance Ministers Meeting, London: <i>Statement by G7 Finance Ministers</i> : <ul style="list-style-type: none"> • Agreement to collaborate with the IFIs on additional measures 'for developing countries to ease adjustment costs and increase their capacity to trade'. • Expectation of aid for trade to increase to US\$4 billion a year, including through enhancing the Integrated Framework.
02/2006	The WTO Director General establishes the Task Force on Aid for Trade. It includes Barbados, Brazil, Canada, China, Colombia, the European Communities, Japan, India, Thailand, the United States and the coordinators of the African, Caribbean and Pacific Group of States, the African Group and the LDC Group. Chair: Mia Horn af Rantzien, Swedish Ambassador.
03–06/2006	Submissions by countries and multilateral and regional organizations to Aid for Trade Task Force WT/AFT/W/1–13; summarized in WT/AFT/W/17.
06/2006	Report of the Chairman of the Task Force on an Enhanced Integrated Framework, WT/IFSC/W15.

DATE	EVENT
07/2006	Recommendations of the Task Force on Aid for Trade, WT/AFT/.
10/2006	WTO General Council discusses and accepts Task Force report.
12/2006	WTO Director General reports to the WTO General Council that the WTO will ensure monitoring and evaluation of aid for trade. Monitoring activities should take place at three levels: first, monitoring to assess global aid for trade flows using the OECD-DAC CRS database; second, monitoring the evaluation reports by development agencies; and finally, monitoring and evaluation of aid for trade by recipients. JOB(06)/262.
03/2007	WTO-OECD meeting on monitoring aid-for-trade flows.
03/2007	WTO Director-General's Aid for Trade Advisory Group meets for the first time.
04/2007	WTO Committee on Trade and Development, Aid for Trade. OECD DAC presents baseline data on Aid for Trade.
05/2007	IF steering committee and IF working group approve recommendations of the Enhanced Integrated Framework Transition Team.
06/2007	G8 meeting, leaders highlight support for Aid for Trade.
06/2007	WTO Committee on Trade and Development, Aid for Trade, Panel on "Capacity-Building to Facilitate Trade" with the World Bank, the World Customs Organisation, the OECD and the WTO.
06/2007	WTO Director-General's Aid for Trade Advisory Group meets for the second time.
06/2007	WTO Committee on Trade and Development, Aid for Trade. IDB, ADB and AfDB presentations on the planned Regional Review meetings.
07/2007	WTO Committee on Trade and Development, Aid for Trade. World Bank, OECD, European Communities and Japan presentations on "Trends in Trade-related Infrastructure Investments."
FORTHCOMING EVENTS	
	Calendar: WT/COMTD/AFT/W/2
09/2007	LAC WTO regional Aid for Trade meeting, Lima, Peru
09/2007	Asia WTO regional Aid for Trade meeting, Manila, Philippines
10/2007	Africa WTO regional Aid for Trade meeting, Dar es Salaam, Tanzania
10–11/2007	Committee on Trade and Development Discussion of 2007 Aid for Trade Report
11/2007	WTO Global Aid for Trade Review under the coherence mandate

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<http://www.uneca.org/aidfortrade/>

National Strategies Case Study

Mobilizing Aid for Trade in Peru^{*}

^{*} This report was prepared by Jaime García (Consultant) for the Conference “Mobilizing Aid for trade: Latin America and the Caribbean.” This is not an official document of the IDB and the opinions expressed herein are those of the author and do not necessarily reflect the views of the IDB or its member countries.

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Introduction

This paper describes the evolution of the economic opening and trade liberalization process implemented in Peru and the active role played by Aid for Trade.

For that purpose, the paper first presents a brief historical analysis of Peru's economy from 1950 to 2006, which provides a look into the economic models applied and the effects of the economic cycles that characterized a large part of this period. As is also the case with other countries in Latin America and the Caribbean, Peru has not been able to sustain its pace of economic growth in real terms and has wasted more than thirty years as compared to other countries, such as Southeast Asian countries, which did in fact achieve highly positive results.

Next, this paper goes on to describe the model change into an open economy model, starting in the early 1990s, through structural reforms that have laid the foundations for the trade liberalization process. These policies are explored with a certain degree of detail; and in hindsight, we have a better understanding of how they were implemented in stages. Emphasis is laid on the fact that the economic results of this opening are encouraging, while recognizing, however, the need to extend the benefits it presents to large social sectors that are still marginalized.

A key aspect of the progress achieved in the trade liberalization process and the support it received from both the private sector and civil society has to do with the design and implementation of Peru's National Strategic Exports Plan (PENX) and its various management instruments, which carried this strategic plan to all of the country's regions (States), creating a highly-detailed roadmap that identifies the activities that need to be implemented by the State, the private sector and civil society to foster value-added exports, particularly from the agricultural and livestock sector and SMEs.

Then, the paper lays out an analysis of the role played by Aid for Trade throughout the entire process, acknowledging its valuable contribution in a set of actions carried out through its technical assistance, grants, lending and financing. The presence of the international community is also highlighted; as in the case of Peru, there have been contributions from multilateral, regional, and sub-regional financial institutions and from non-financial multilateral institutions as well, in addition to the cooperation of developed countries. There is no question that the economic results that Peru can now boast could not have been achieved without such support.

This paper also draws lessons and lays out the challenges that still lie ahead for Peru to consolidate economic opening and trade liberalization and, most importantly, to reach those social sectors that are not yet enjoying the benefits of economic growth. In this regard, the paper also sets out the new challenges taken up by Aid for Trade.

1

Evolution of Peru's Economy: 1950–2007

Just like the rest of the countries in Latin America and the Caribbean (LAC), Peru has presented two development patterns clearly defined by the set of economic policies implemented in their support. These economic policies include the open economy model, as implemented in Peru in the period under analysis—1950–1961—, the import substitution model in the period 1962–1990 and, again, back to an opening model from 1991 to date. To many countries in the region, this has been a winding road that, in many cases, has come hand in hand with cyclic economic crises. Today, most LAC countries recognize the need to become competitively integrated into the international markets; even though they all appear to be marching in the same direction, they have done so at different paces.

1.1. Open Economy Model: 1950–1961

Up to the early 1960s, the privileged model in the Peruvian case was an open economy model, as evidenced by Peru's active involvement in the General Agreement on Tariffs and Trade (GATT) since its becoming a contracting party in 1951.¹ However, it is necessary to point out that this model did not get to consolidate into a proper development model, as it lacked other elements or policies typical of a strong State, such as more active social policies or investments in physical infrastructure for Peru's integration.

Until the early 1960s, the Peruvian economy was distinguished by a small State, too small perhaps to step up to the challenges created by the social changes taking place back then, such as demographic growth, migration from the country to the city, the limited social and physical integration in Peru, and the emergence and growth of new sectors such as the manufacturing industry and the resulting expansion of a working class with social and political interests and aspirations.

The agricultural sector, with concentrated land ownership, also had its social demands aimed at achieving a better economic position for a dynamic and growing sector, as was the agricultural economy back then.

Until the early 1960s, the economic dynamics were characterized by purely private business activity, without a significant presence of state companies—with the exception of certain activities such as the State salt monopoly or the State coca monopoly. Peru's insertion into the international

¹ Torquay Round 1950–1951

context was based on a policy consisting of relatively low tariffs, limited use of foreign debt (about \$ 158 million in 1962), and the presence of foreign capitals in various economic activities such as the industrial, trade, mining, oil, public services, financial services and transportation sectors.

In the 1950s, there was constant economic growth, at an average rate of almost 3% p.a. of GDP per capita. Merely as a mathematical exercise, it can be demonstrated that, had this economic growth level been maintained since 1960 to 2006, Peru's GDP per capita would currently be almost 3 times higher. This shocking result is not unrealistic if we take into consideration the fact that other economies featuring the same development levels as reached by Peru in the 1960s have achieved not only these but even better economic results.

1.2. Import Substitution Model: 1962–1990

Since the early 1960s, Peru and other LAC countries have followed the same pattern and instituted a new economic development model based on import substitution. In addition to entailing a change as to the country's economic opening so far, this model also promoted greater State involvement in the economy by fostering public expenditure and investment as well as a stronger presence in business through state companies. Most countries also implemented nationalization processes in connection with various private-sector activities that were viewed as strategic.

In addition, restrictions were set on the presence of foreign investment in various countries. In the case of Andean countries (Bolivia, Chile², Colombia, Ecuador and Peru), Decision 24 was adopted in 1970, establishing a common regime for the treatment of foreign capital restricting the ownership stakes of foreign investors in companies set up in the Andean region, as well as their presence in certain economic sectors such as the financial and telecommunications sector.

The import substitution model sought to achieve Peru's industrialization through active State intervention, protecting the domestic market that should be the target of the new industries' output. This model implied the use of the economic policy instruments to guarantee the development of the industrial sector. For this purpose, a number of industrial policies were implemented in LAC countries with similar components.

In the case of Peru, the main economic policies were: domestic market protection through an increase in the tariff levels, which reached an average of 70% in 1988; unlimited protection through import prohibitions on certain lines of products such as footwear, textile, foodstuffs, and equipment; an undervalued exchange rate kept in place to favor purchases by the industrial sector; availability of preferential loans subsidized through the creation of development banks; supply of agricultural goods at controlled prices that were beneficial to consumers, to the detriment of agricultural producers; and growing domestic demand based on the boost in public expenditure and investment.

Without question, the effects produced over the earlier years were promising. From 1962 to 1975 there was sustained growth in the industrial sector and Peru's economy, with average growth standing at 2.3% of GDP per capita (lower than the 3% level for the previous decade).

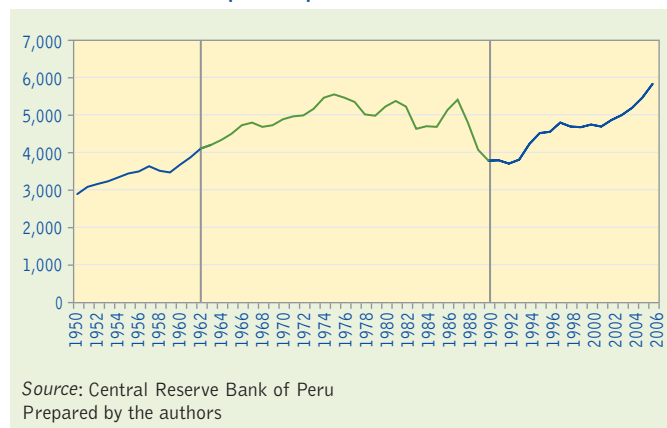
² The Andean Group would then be left by Chile, which did not agree on this Decision, to be later joined by Venezuela in 1976.

However, there were also macroeconomic imbalances resulting from the enforcement of the import substitution model, mainly State financing through local lending and the printing of unbacked currency through the Central Reserve Bank of Peru (BCRP) and through the foreign debt level, which soared from \$ 158 million in 1962 to \$ 3,066 in 1975 to cover the need for capital created by a model that ended up accelerating imports even further to the detriment of exports. This resulted in inflation processes, fiscal deficit and problems in the balance of payments.

The import substitution model continued to be applied over the 1970s and 1980s, with cyclical and recurring crises. The application of a set of heterodox policies toward the second half of the 1980s ended up collapsing an import substitution model that had been exhausted many years before and had not moved toward a more open model in a context in which the world was already undergoing an economic globalization process that should have also been embraced by Peru. In the late 1980s, Peru was hit by its worst economic crisis ever, with an unprecedented hyperinflation process (with inflation standing at 7,649% in 1990), fiscal deficit of -6.2% of GDP, negative international reserves of \$ 317 million (1988), a collapse in the production sector that translated into a fall in the physical volume of manufacturing output of more than 38% between 1987 and 1991, and the resulting social consequences, reflected in a fall in real salaries and wages, a reduction in social expenditure from 130.32 soles per capita in 1985 to 41.27 soles per capita in 1990 (measured in 1991 new soles),³ a rise in poverty from 43.1% to 53.6% between 1985 and 1991;⁴ and Peru being ostracized by the international financial community on account of it defaulting on its foreign debt obligations, which in 1990 stood at about US\$20 billion.

To sum up, based on the GDP per capita indicator, the almost 30 years of application of the import substitution model in Peru caused a fall from 4,095 soles (base 1994) in 1962 to 3,800 soles (base 1994) in 1990. This negative result materialized through the worst social, economic and financial crisis to hit Peru in the last 60 years.

CHART N° 1. GDP per Capita (1994 Soles)



1.3. Market Development and Trade Liberalization Model: 1990–2006

The economic and social crisis in the late 1980s led to a serious evaluation of the closed economy and import substitution model, which had not produced the expected results. Furthermore, the

³ *Informe de Coyuntura Primer Semestre 1992, Universidad del Pacífico, 1992* (Situation Report, First Semester 1992, Pacific University, 1992)

⁴ *Niveles de Vida Perú, Subidas y Caídas* (Standard of Living in Perú, Rises and Falls) ENNIV 1991, Instituto Cuanto, 1993

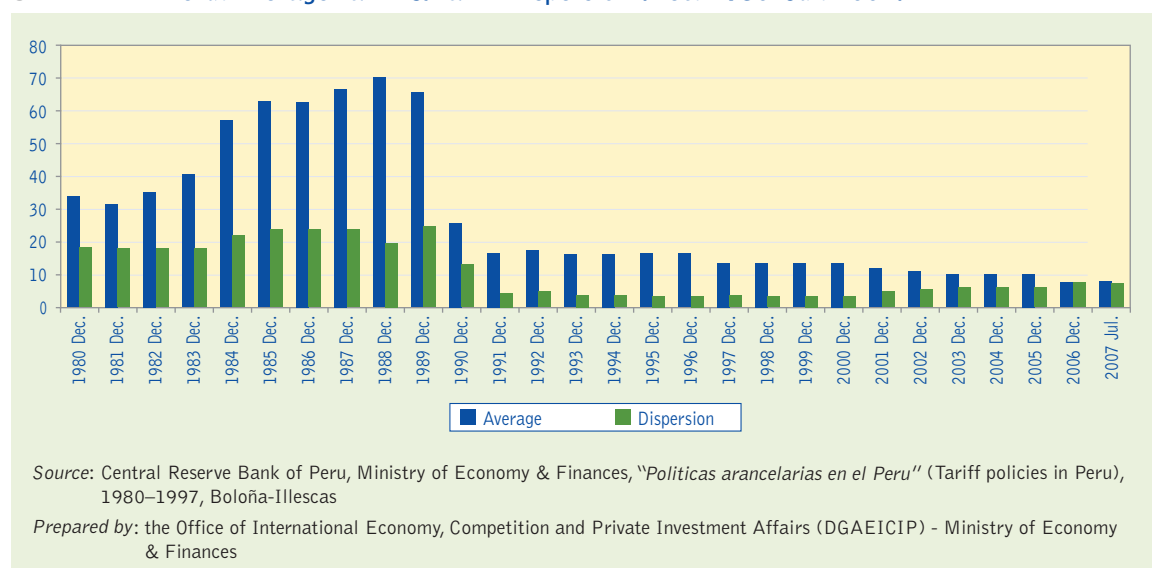
international context and the economic globalization evidenced the need to embrace these trends. The experience of other countries with a similar degree of development, the private sector itself that demanded a change of models, and the conditions imposed by the international institutions and the international community created the conditions for the devising of a new economic and development model for Peru.

Starting in August 1990, a market development and open economy model began to take shape. To get started, an emergency anti-inflation program was applied, which was followed by a gradual strategy. Fiscal deficit was eliminated and a tax reform was implemented. The various markets that had remained subject to controls for many years were liberalized, namely: the goods and services market, by removing controlled prices and state monopolies; the foreign exchange market, by setting a free-floating, market-defined exchange rate; and the financial market, by eliminating controlled interest rates. Also, barriers to foreign investment and the free movement of capital were eliminated, embarking on a privatization and concession-granting process.

Regarding Peru's participation in the international context, the priority lied with integrating the country into the international community and the economic globalization process. This was done by taking the required steps toward the financial and investment community, implementing a trade policy in line with an open economy.

The trade policy featured several components. The tariff policy was simplified by doing away with more than 56 tariff levels, cutting them down to only 2; the tariff weighted average was brought down from 70% to 16%. Para-tariff barriers were eliminated, as well as pre-import permits, the manufacturing register (which prohibited the import of items in 559 tariff headings), sectoral permits, and the proceedings required to obtain foreign currency, among others. A customs reform was also necessary to address the challenge presented by growth in foreign trade, in its two-fold role as a trade facilitator and custom revenue generator. These initial steps contributed

CHART N° 2. Perú: Average Tariff & Tariff Dispersion (Dec. 1980–Jul. 2007)



to a unilateral reduction of the industrial protection that had been built over the course of three decades (the 1960s, 1970s, and 1980s).

The measures outlined above were all part of the first-generation structural reforms, which economic agents and most of the population accepted as the only way out of the economic catastrophe to which Peru's situation had escalated. The search for competitiveness as the only alternative to survive and succeed in economic activities started to grow on Peruvians. Also, the population realized that it had access to a set of imported products—of higher quality and at lower prices—that had been off their reach for many years.

Naturally, there was also opposition to these economic measures, particularly on the part of the sectors that had enjoyed the greatest protection. Their argument was that the opening had been too dramatic and that a progressive approach should have been implemented instead. They predicted that the manufacturing and agricultural/livestock sectors would suffer the most and were doomed to disappear.

Even though, at first, the opening process worsened the economic crisis inherited from the import substitution model, production activities underwent a productive reconversion process in an attempt to increase productivity and competitiveness, particularly the productive level of labor, which had remained in stagnation for many years.

The manufacturing sector went through a successful industrial reconversion process after the opening implemented over the early 1990s. Strongly protected sectors that were only competitive at such protection levels quickly disappeared (mainly vehicle assembly, domestic appliances and machinery activities), other sectors increased their productivity and engaged in a modernization process that, in some cases, allowed them to enter international markets, as was the case with the textile and clothing sector and other activities such as the production of chemicals, the agro-industry, and fish processing for direct human consumption, among others.

The agricultural/farming sector has also enjoyed positive results after the economic opening, with a sustained increase in the production of the main agricultural crops such as rice, potato, and hard yellow corn, and the

CHART N° 3. Evolution of Manufacturing Production Index (Year 1994 = 100)

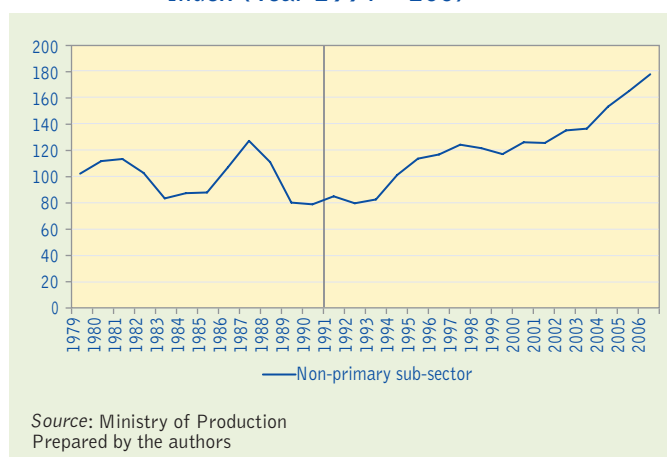
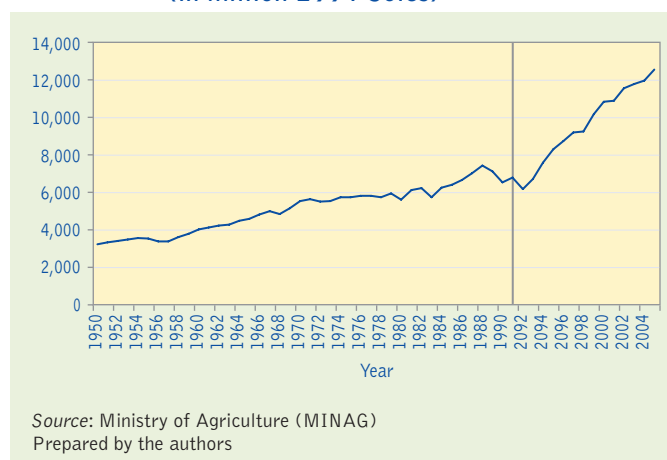


CHART N° 4. Agricultural/Livestock Production (in million 1994 Soles)



development of agricultural exports of asparagus, paprika, artichokes and fruit. Likewise, the production of poultry meat, pork meat and milk also grew after the economic opening of the early 1990s.

These evidences dispel the fears in relation to the trade opening process that started in the 1990s (see Annexes Nr. 1 and Nr. 2).

2

Trade as the Cornerstone of the Development Agenda

The concept of trade addressed in this paper extends beyond the mere trade in goods, *i.e.* the export and import of goods. It also covers the trade in services and service exports and imports, as well as in intellectual property and investment.

In the early 1990s, Peru found itself facing a dilemma between insisting on maintaining an import substitution model which, as already explained, had produced no improvement in GDP per capita in more than 30 years, or stepping up to the challenge of integrating into the dynamic world economy. This integration meant greater participation in international trade, in its broader meaning as goods, services and investment.

Without question, Peru was looking for an economic and social development model that would allow it to achieve sustained economic growth based on the growth of production sectors (including the services sector), which in turn called for greater markets. The domestic market was small, not only on account of the population (21.7 million in 1990) but also because of its purchasing capacity (about 54% were poor in 1990). On the other hand, the State had failed in its function as “entrepreneurial State” and state companies were rather a source of deficit and corruption.

The most progressive private sector played a critical role in this new endeavor. Even though it was already a known fact that there would be adverse effects for certain over-protected manufacturing sectors, the support given to the implementation of a new economic model was reflected not only in expressions of support but also in the active involvement of important businesspersons in the State, through the Ministries responsible for these changes.

The announcement of the anti-inflation plan at first and the set of first-generation structural reforms received unprecedented support from the public opinion, in spite of the social cost of the measures involved. Peru had “reached bottom” and this was the alternative that best fitted the prevailing economic situation.

The Government and main economic agents acknowledged that trade was thus a key factor in the implementation of the new development project, and that the quest for a more competitive economy was the only way to reach sustainable economic growth. Accordingly, even though the trade liberalization measures hit the least competitive sectors, they were a “sine qua non” condition for the challenge presented by the new development agenda.

The most progressive business sectors embraced and supported trade opening, willing to re-convert their production system and improve the productivity and competitiveness of the products and services they offered. They got ready to face the entry of competition by imported products, but also to take advantage of the opportunities that international markets would present.

The dynamics of the events that took place at the national level in the early 1990s, the economic crisis, and the national security problems caused by the attacks perpetrated by the *Sendero Luminoso* terrorist group all readied the public opinion to face the challenge of a new economic order.

The government understood that re-integrating into the financial community was critical for the new economic order. Financing sources were essential, not only because of the availability of the financial resources and currency required for development but also for the inflow of foreign capital to supplement domestic investment. For this purpose, Peru resorted to the International Monetary Fund (IMF), the World Bank (WB), and the Paris Club. These institutions issued recommendations along the same path toward strengthening a market economy and trade opening.

2.1. Trade Opening and International Trade Negotiations: 1991–1994

In this period, Peru laid the foundations for a market economy and trade opening. The aim was to create the conditions to provide an environment that would favor the production sectors' competitiveness. The transformation, which was relatively fast, included the following aspects:

- a. Dismantling of the price control system;
- b. Straightening of the prices charged by State-owned utility providers (Fuels, Electricity, Water, Telephone, among other services);
- c. Ending of State monopolies over certain economic activities—such as the supply of foodstuffs—allowing the participation of private-sector companies;
- d. Elimination of State subsidies and aid;
- e. Liberalization of the foreign exchange rate, which had been undervalued for decades;
- f. Closing of fiscal gaps through a tax reform (reduction and simplification of taxes and creation of a modern and efficient revenue collection agency: the National Tax Administration Superintendency (SUNAT));
- g. Implementation of a strategy to integrate Peru back into the international financial community;
- h. Liberalization of the financial interest rate, removing restrictions on the development of the financial system;
- i. Relaxation of labor market regulations.

As regards trade opening, this period was also marked by the adoption of measures aimed at integrating Peru into the global economy and international markets, through the following actions:

- a. A tariff reform consisting mainly in removing para-tariff barriers, reducing the average tariff from 70% to 16%; removing customs exemptions; and simplifying the tariff system by cutting down the tariff level dispersion from 56 to 2, with a view to achieving uniform effective protection levels;
- b. The free import of all types of goods;

- c. The removal of export subsidies;
- d. The adoption of new export promotion schemes, such as mechanisms for the inward processing procedure, temporary admission and transit, and the refund of indirect taxes paid during the production process through the “drawback” and “simplified drawback” mechanisms;
- e. A customs reform intended to facilitate foreign trade and achieve optimal and timely collection;
- f. Deferred tariff payment schemes for the import of machinery and equipment, in an effort to favor the modernization of the production sector;
- g. Rules to prevent unfair practices in international trade;
- h. Measures aimed at liberalizing capital movement and providing incentives for domestic and foreign private-sector investment. All restrictions on and discrimination against foreign investment were eliminated;
- i. Corrective measures for potential market distortions, such as price arrangements, abuse of market power and monopolies, protection of intellectual property and facilitation of access—entry and exit—to the market through the creation of the National Antitrust and Intellectual Property Protection Institute (INDECOPI).

The international trade negotiations policy revolved around Peru’s active involvement in the Uruguay Round and the execution of the Final Act signed in Marrakesh in 1994, which implemented the Agreement establishing the World Trade Organization (WTO), effective January 1, 1995;⁵ whereby Peru entered into trade agreements strengthening its trade policy.

Likewise, tariff trade agreements were reactivated in the framework of the Latin American Integration Association (ALADI), to favor access to exports and the import of supplies to achieve a more competitive domestic industry. In this regard, the bilateral negotiations led to trade opening obligations limited to “non-sensitive” products.

These policies produced favorable results, as they not only allowed Peru to curb the hyperinflation process, bringing the inflation level down from 7,649% in 1990 to 15.4% in 1994, but also led to a recovery in economic growth, the closing of the fiscal gap of -6.7 (of GDP) in 1989 to 0.90 (of GDP) in 1994 and increased foreign trade on both the imports and exports side.

2.2. Inclusion of Trade Negotiations Issues in the Private Agenda: 1995–2000

The pace of economic opening and reforms was not kept in this period. Progress was made in specific aspects, as described below:

- a. The privatizations schedule was kept;
- b. Progress was made in the Tariff sector, even though at first the tariff average went down to 13% in 1997 (from 16% in 1995), it kicked back up to 14% in 1999. The tariff rate

⁵ By virtue of Congress Resolution Nr. 26407, passed by Peru’s Congress and published on December 16, 1994.

dispersion also increased from 2 tariff levels in 1995 to 4 levels in 1997 and 5 levels in 1999.

Four events are worth mentioning in connection with international trade negotiations: the launch of negotiations for the Free Trade Area of the Americas (FTAA) in late 1994, with very active involvement by Peruvian negotiators and the private sector; Peru's return to the Andean Community (CAN) in 1997 and its commitment to participate in the free-trade zone that was being implemented by Community members; the signing of a Trade Agreement with Chile in 1998, which was opposed by manufacturing sectors that felt that this neighboring country enjoyed better competitiveness conditions; and Peru's joining APEC⁶ in 1998.

The export promotion agency (PROMPEX) was created in 1995 to support small and medium exporting enterprises, even though it was allocated limited budgetary resources to carry out its activities.

FTAA's Weight in Peru's Trade Agenda

The First Summit of the Americas was held in Miami in late 1994, where U.S. President Bill Clinton consolidated a proposal envisioned by his predecessor George Bush. The leaders of 34 American countries attended the summit, laying out highly ambitious goals for the sustainable development of the Americas. Social, cultural, political, environmental and economic proposals were discussed at this meeting. One of such proposals dealt with the creation of the FTAA.

The announcement created an atmosphere of great expectation in Peru, particularly in the private sector, which interpreted it as an opportunity to start a process of integration across the Americas that would consolidate economic opening, favor trade exchange and drive Peru's economic growth and economic and social development.

That this integration process would be highly difficult and complicated was expected already in 1994, not only because of the number of countries involved—34 countries—but also due to the different sizes of their respective economies and their highly different levels of development. However, there was confidence that the originally-identified problems would be worked out over a ten-year negotiation process.

This was an unprecedented hard process of exchange among all countries in the Americas. Nine negotiating groups were organized for the same number of trade areas: market access, agriculture, government procurement, investment, competition policy, intellectual property rights, services, dispute settlement and subsidies, antidumping and countervailing duties. Other exchange mechanisms were also set up, including special committees and forums for the participation of civil society and academia.

Hemispheric institutions such as the Inter-American Development Bank (IDB), the Organization of American States (OAS), and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), which participated through a Tripartite Committee, provided analytical, technical and financial support to the process and were responsible for maintaining

⁶ APEC: Asia-Pacific Economic Cooperation

the official FTAA website. Tripartite Committee individual institutions also provided technical assistance on FTAA-related issues, particularly to the smallest economies in the hemisphere.

The initial goal was to conclude FTAA negotiations in 2004, with this major agreement to be signed in 2005. Unfortunately, there was no consensus to move the negotiations forward in all of the topics of discussion, and as a result, the decision was made to freeze the negotiations, leaving no alternative but to accept the bad news that the FTAA negotiations had failed.

However, these meetings were not in vain; and the two most important contributions offered by this lengthy process are, perhaps, the following:

First, the Peruvian society (business unions, academia and Non-Governmental Organizations [NGOs]) became actively involved, recognizing the material role played by the FTAA/Peru Commission (see Chart Nr. 1). The manner in which this Commission was structured allowed a great

CHART Nr. 1: FTAA/Peru Committee and Andean Development Corporation (CAF)

The private sector found in the FTAA negotiations a great opportunity to take a positive attitude to join the Government in such an important process of hemispherical negotiation.

For the first time, representatives of several business-related trade associations—many times with confronted bargaining positions—gathered together in what is known as the FTAA/Peru Committee. The Andean Development Corporation (CAF by its Spanish Acronym) provided non-refundable resources for the financing of this Committee, covering administrative expenses and the expenses derived from the technical secretary office, the organization of promotion events, taking part in international meetings and the publishing and release of a number of surveys, researches and investigations regarding FTAA-related subjects.

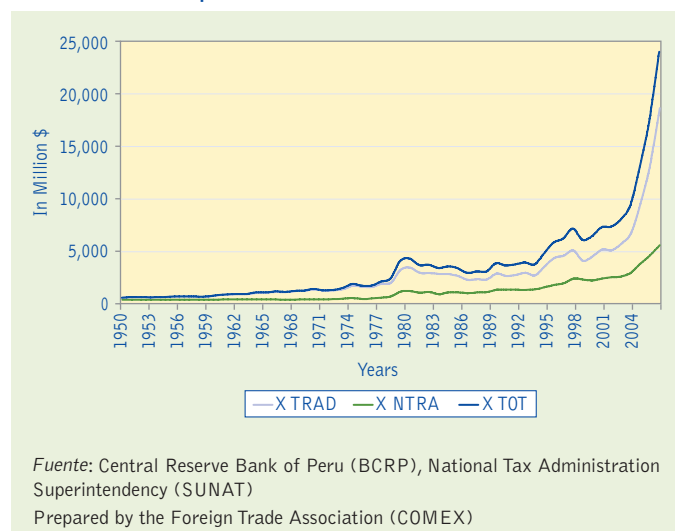
In this way, the FTAA/Peru Committee became, in 1998, an outstanding example of the cooperative relations between the actors and agents of the Peruvian civil society, with the purpose of ensuring that both the individual and collective interests of the different groups be included in the analysis, debate and formulation of proposals. In addition, the FTAA / Peru Committee has contributed to the inclusion of the academic sector into this process.

The main objective of the FTAA/PERU Committee is to analyze both the regulatory framework needed for this large-scale trade integration project and its impact on the country, with the purpose of obtaining proposals based on several issues included in the agenda of this negotiation, in order to exert some influence on both government negotiations and on the other countries in the hemisphere. But this Committee also played a major role in the national promotion—conferences, seminars, press releases, articles in major newspapers, interviews to representatives of both the business and academic sectors—to the public opinion of all subjects involved, thus contributing to a better understanding of the integration and trade-related issues.

The FTAA/PERU Committee replicated the nine Work Groups included in the government negotiation process. It counted on the active participation of more than 300 people from the civil society, entrepreneurs, academicians, consultants, representatives from several institutions, e.g. professional associations, NGOs, associations, business trade unions and universities. The dedication of all the participants was always clear and open, and it took many hours of voluntary work.

The Committee is made up of the following institutions

Association of National Pharmaceutical Industries (ADIFAN)
 Peruvian Software Association (APESOF)
 Customs Agents Association
 Peruvian Association of Maritime Agents
 National Association of Pharmaceutical Laboratories (ALAFARPE)
 Association of Agricultural Entrepreneurs (AEA)
 Exporters' Association ADEX
 American Chamber of Commerce (AMCHAN)
 Lima Chamber of Commerce (CCL)
 International Chamber of Commerce (CCI)
 Peru's National Chambers of Commerce, Production & Services (Perucámaras)
 National Chamber of Tourism (CANATUR)
 Peruvian Chamber of Construction (CAPECO)
 Peruvian Council of Foreign Trade (COMEXPERU)
 National Confederation of Private Business Institutions (CONFIEP)
 The Pontifical Catholic University of Peru
 National Industry Society (SNI)
 National Society of Mining, Oil and Energy
 Lima University
 Pacific University
 Lima Attorneys Association
 Lima Professional Association of Architects
 Lima Professional Association of Engineers
 Medical Professional Association of Peru
 Commission for the Promotion of Micro and Small Enterprises (PROMPYME)
 Investment Promotion Agency (PROINVERSION)
 Ministry of Foreign Trade and Tourism

CHART N° 5. Exports 1950–2006

number of actors (more than 300) to have an active participation in the discussions on trade and the various and complex trade-related disciplines for the first time ever. The lessons experienced had to do with team-working and how to learn about and discuss a number of trade negotiation topics that, so far, had not been adequately addressed by the private sector, which has rendered its involvement in future negotiation processes much easier, with technically-supported proposals and positions.

Second, there is no question that, thanks to the FTAA meetings, which allowed the simultaneous participation of governments, through their negotiators, and the private sector, through its representatives, people from

all across the Americas became more familiar with each other, creating institutional and personal links at various levels, consolidating trade relationships, sharing regional and sub-regional interests, and realizing that they had much in common, which is why the obstacles found along the way toward a true FTAA may perhaps be overcome in the future. The creation of the Business Network for Hemispheric Integration (BNHI) was an expression of this businesspeople interaction that ratified this forum for dialogue. The main private-sector organizations in the Americas took part in it with a view to facilitating and coordinating private-sector participation in the negotiations.

2.3. Promotion of the Trade Development Agenda and Trade Negotiations: 2001–2007

The period 2001–2007 presents a set of conditions that allow greater trade growth and trade incorporation into the development agenda. The results of exports, which grew by more than 238% between 2001 and 2006, allowed a record high of over US\$23 billion in exports in 2006. The efforts undertaken to renew the ATPA-APTDEA⁷ and the national debate over the Free-Trade Agreement (FTA) with the U.S.⁸ put the spotlight on the importance of exports as the driver for Peru's economic growth and development and pushed the international trade negotiation agenda toward other economic blocks and countries.

Creation of the Ministry of Foreign Trade and Tourism

A relevant fact in understanding the great importance attached to trade by the Peruvian State, was the creation, in 2002, of the Ministry of Foreign Trade and Tourism (MINCETUR) to promote

⁷ ATPA: Andean Trade Preference Act, ATPDEA: Andean Trade Promotion and Drug Eradication Act.

⁸ The FTA was signed as a Trade Promotion Agreement between Peru and the United States.

the development and establish a foreign trade policy aimed at achieving increasing and sustained growth for Peru. In the area of Tourism, the goals were to promote and regulate tourism, including the promotion, guiding and regulation of handicraft activities.

International Trade Negotiations

As far as international trade negotiations are concerned, Peru's strategy was deployed on the multilateral, regional and bilateral fronts. Accordingly, Peru has been actively involved in the multilateral system of the World Trade Organization (WTO) in the context of the Doha Round, as well as in regional forums such as CAN, ALADI, and APEC. In this period, Peru was also actively involved in the FTAA negotiations, which are suspended at present.

The ATPA was renewed in 2002, this time under the name of ATPDEA. This unilateral mechanism allows tariff-free exports to the U.S. market (see Chart Nr. 2). The renewal of ATPA through APTDEA was a highly favorable occurrence, as it incorporated more than 700 new headings, increasing the number of tariff-free headings to over 6,300. The incorporation of new headings was highly favorable, as it allowed Peru to benefit from real exportable supply, including apparel, oil and oil derivatives, footwear and leather products, and vacuum-packed tuna in aluminum containers.

CHART NR. 2: ATPA (Andean Trade Preference Act)

Unilateral mechanism designed by the US to support cocaine and cocaine-related producer countries—Bolivia, Colombia and Peru—that provides duty free access to US markets for a number of Andean products.

ATPA was enacted to be in force for the term of ten years, expiring on December 2001. Peru used the ATPA from August 1993 and the program allowed the country to increase 1.5 times its exports to the American market until year 2001. The exports under ATPA increased from 12 million US dollars in 1993 to over 686 million US dollars in 2001.

CHART NUMBER 10: Peru: Exports to the US: 1993–2001 (In Million US Dollars)

Year	ATPA	Promotion Mechanism SGP	Subtotal	%	Others	Total
1993	11.6	223	234.6	33.6	463.5	731.7
1994	107.4	176	283.4	36.3	496.5	816.2
1995	207.6	114	321.5	33.3	643.9	998.7
1996	385.3	65	450.1	37.4	752.7	1,240.2
1997	461.0	141	601.9	35.3	1,104.0	1,741.2
1888	632.7	125	757.7	39.3	1,167.6	1,964.6
1999	631.2	52	682.9	36.5	1,187.9	1,907.3
2000	846.0	45	891.1	44.9	1,094.3	2,030.3
2001	686.3	73.4	759.8	42.1	1045.736	1,847.6

Source: U.S. International Trade Commission

The expiration of the term for the ATPA put a good part of Peruvian exports at serious risk, and this situation led both businessmen and government to develop a joint strategy to achieve an extension of the ATPA.

The trade policy and the dynamics of international trade negotiations were also aimed at consolidating economic integration across South America. Peru thus sought to integrate with MERCOSUR and, in August 2003, it signed a Complementary Economic Agreement creating a Peru-MERCOSUR free-trade zone.⁹

In November 2005, an 'early harvest' agreement was signed with Thailand, under which both countries implemented tariff relief programs for a limited number of sub-headings. The goal is to benefit from the trade liberalization of goods before the closing of the FTA negotiations, which are still pending.

In the context of the CAN, January 2006 marked the deadline for the elimination of tariffs for the universe of tariff headings between Andean countries, thus perfecting the Andean free-trade zone.

In addition to the aforementioned unilateral trade preferences granted by the United States (ATPDEA), the European Union (GSP) and Japan allowed Peru to export certain products tariff-free, including agro-industrial, textile and footwear, among other products.

The most important occurrence in international trade negotiations over this period was undoubtedly the negotiation of the FTA with the United States. After actively supporting and joining the government in its efforts to secure a renewal of ATPDEA, the private sector, aware of the transitory nature of this mechanism and faced with the failure of the FTAA negotiations, supported the government's proposed initiation of trade negotiations with the U.S. Business representatives were organized through the Business Council for International Negotiations (CENI) (see Chart Nr. 3).

The FTA negotiation process extended for over two years; the FTA with the United States was signed on April 12, 2006. The political changes in the U.S. and the new democratic majority in the U.S. Congress in 2007 led to a revision of certain aspects of the TLC, and the changes were ratified by the National Congress.

In the area of foreign trade, the strategy centered on the creation and implementation of the National Strategic Exports Plan (PENX) and its component elements and the boost by PROMPEX, the export promotion agency.

Promotion activities and programs were developed in this period in the Agriculture and Agro-Industry, Fisheries and Aquaculture, Textile, Clothing and Accessories, Manufactured Products and Handicrafts, and Services sectors. Also, efforts are being made toward the decentralization of activities and programs through the Regions and Development Department and its Business Promotion Offices.

Initiative for the Integration of Regional Infrastructure in South America (IIRSA)

In 2000, twelve South American presidents met in Brasilia to give fresh impetus to the regional integration process in South America, in recognition of the fact that such integration is a key factor for the development strategy. They committed to develop and execute a South American Physical Integration Action Plan, with a 10-year time window. They also requested the technical

⁹ This agreement is subject to the Framework Agreement between the Andean Community and Mercosur, of April 16, 1998, which ordered negotiations for a Free-Trade Zone between the parties.

CHART NR. 3: Peru's Business Council for International Negotiation (CENI) and FTA with the United States

In light of the challenge represented by the FTA negotiation with the United States and the assortment of commercial aspects that have to be dealt with, in 2004, the entrepreneurial sector immediately organized to have an active participation in all the negotiation process.

In this context, the Business Council for International Negotiation (CENI) was formed with the purpose of:

1. Bringing the private sector to a common proposal in connection with the FTA with the United States.
2. Participating with the Government negotiating team in the definition of technical standpoints and strategies for negotiation.
3. Evaluating the impact of FTA on the domestic economy.
4. Disclosing the FTA at the national level so as to create a flow of public opinion supporting its approval.
5. Promoting the support of both the business community and the United States Congress.
6. Giving a priority to the Domestic Agenda: Fostering the implementation of measures that enable to increase the country's competitiveness (maximizing benefits / minimizing FTA costs)

With the purpose of improving its operational efficiency, the CENI formed a Multi-Trade Council, in charge of providing the general guidelines and of approving the technical proposals and the comprehensive negotiation strategy, which were prepared by an Executive Technical Secretariat (or STE).

At the same time, the comprehensive technical proposals and the negotiation strategies were designed by CENI Work Groups, which had been developed for that purpose ad hoc and in parallel to the Government Negotiating Teams. Trade Groups in the CENI participated in any of CENI or Government Work Groups, and in the last case, they were able to present individual proposals when there were some differences with the majority position, or when it was not possible to reach consensus in the CENI.

List of CENI Member Trade Associations:

Association of Pension Fund Management Companies (AAFP)
Peruvian Banking Association (ASBANC)
International Air Transport Companies Association (AETAI)
Association of Private Utilities Companies (ADEPSEP)
Exporters Association (ADEX)
Association of Agricultural / Livestock Exporter Trade Groups (AGAP)
Association of Peruvian Automotive Representatives (ARAPER)
Peruvian Poultry Association (APA)
Peruvian Consulting Association (APC)
Peruvian Association of Insurance Companies (APESEG)
Peruvian Association of Health Care Providers (APEPS)
Peruvian Association of Sugar Producers (APPAR)
Lima Stock Exchange (BVL)
National Chamber of Tourism (CANATUR)
Lima Chamber of Commerce (CCL)
Peruvian Chamber of Construction (CAPECO)
National Convention for Peruvian Agriculture (CONVEAGRO)
Peruvian National Chamber of Commerce, Production & Services (PERUCAMARAS)
Council of Organizations of Peruvian Micro, Small and Medium Enterprises (COMPYMEP)
National Chambers' Network
Peruvian Foreign Trade Association (COMEX)
National Society for Mining, Oil and Energy (SNMPE)
National Industry Society (SNI)
National Fishing Society (SNP)
National Security Society (SNS)

and financial support of IDB, CAF, and the Financial Fund for the Development of the River Plate Basin (FONPLATA) for these actions.

Peru critically needs the South American infrastructure integration projected by IIRSA, through the development of roads, sea and inland ports and waterways, which will allow it to competitively reach the South American territory and will supplement its market opening policy through free-trade agreements and other actions taken in the context of the South American strategic alliance.

Peru has plans to invest about US\$4 billion for IIRSA-related purposes; a number of decisions and work committees have been created and implemented to follow up on and comply with existing commitments.

3

National Strategic Exports Plan (PENX) and National Trade Capacity Building Strategy (ENFCC) for the FTA with the United States

In the United States and among its public institutions, it is not difficult to find published strategies that apparently seem to be properly designed with really clear visions, missions and goals, but which, in practice are not true management instruments, and where, in fact, the State walks along a different road than that of the purported Strategy.

Without any doubt, the fact that Peru defined its PENX in 2003 and its ENFCC in 2005, almost fifteen years after the beginning of its opening process is neither a coincidence nor negligence on the part of its officers, but rather the outcome of a series of factors that led the country, the public and private sectors to a situation of relative maturity to conduct a long-term strategic planning.

3.1. ENFCC and PENX Formulation

The formulation of the PENX and ENFCC are the result of other initiatives that contributed to build a shared vision between the public sector and the private sector in connection with trade and its role in the national development agenda.

The starting point might have been the initiative of the then Minister of Industry, Tourism, Integration and International Trade Negotiations (predecessor of the current MINCETUR), who in the year 1994 made a diagnosis of the country's competitiveness. That research—conducted by Monitor Consultancy Agency upon the basis of Michael Porter's methodology—was critical for the Peruvian society to understand the competitive limitations the country faced for its successful insertion into the international markets and showed the country's huge potential for development. In the forthcoming years, National Forums promoted by the Government and the private sectors discussed the progress made by the country and the challenges faced.

In April 2002, the Peruvian Government created the National Competitiveness Council (CNC) (See Chart Nr. 4), as a space for public and private coordination seeking the joint development and implementation of a National Competitiveness Plan. The purpose of that plan was to achieve the successful integration of Peru into the global economy, upon the basis of a continuous improvement in competitiveness for the purpose of creating of more worthy employment and of improving the quality of life of the Peruvian population.

In July 2002, the Ministry of Foreign Trade and Tourism (MINCETUR) was created as an expression of the Peruvian Government's interest in giving a priority to the efforts intended to have trade play a critical role in the national economy.

CHART NR. 4: Perú Compite (Competitive Peru) – National Competitiveness Council

In April 2002, the Peruvian Government created the National Competitiveness Council (CNC), as a space for public and private coordination seeking the joint development and implementation of a National Competitiveness Plan. The purpose of that plan was to achieve the successful integration of Peru into the 21st Century global economy, upon the basis of a continuous improvement in competitiveness for the purpose of creating of more worthy employment and of improving the quality of life of the Peruvian population.

The CNC has a Board of Directors presided by the Chairman of the Council of Ministers and consists of eight Secretaries of State, the Chairman of the National Antitrust and Intellectual Property Protection Institute (INDECOPI) and representatives from both the entrepreneurial and labor force sectors. This initiative was supported by many international entities, such as the World Bank and the IFC, who have funded a number of sectoral projects.

In February 2003, the CNC and the IADB organized the First National Competitiveness Forum, with a high level of attendance. The main purpose of this Forum was to present the preliminary strategies prepared by the advisory groups, created to work on diagnosis and competitiveness strategies, and to receive the feedback from the public.

As a result of the studies carried out for this event and the feedback received, the general outlines for the National Competitiveness Strategy were approved in November 2003.

All the experience finally led to the National Competitiveness Plan, prepared in January 2005.

The ten general outlines of the National Competitiveness Strategy were brainstormed in seven work groups that followed the order below.

Work Group	General Outlines
1. Entrepreneurial Coordination	L1 – Entrepreneurial Coordination and Clusters
2. Technological Innovation	L2 – Technological Innovation and Transfer
3. Education	L3 – Education
4. Institutional Strengthening	L4 – Clear and steady rules L6 – Legal stability L7 – Public and Private Institutionalality
5. Economic policy, financial and capital markets	L5 – Transparent, predictable economic policy L8 – Financial and Capital markets
6. Infrastructure	L9 – Infrastructure
7. Environment	L10 – Environment

The Board of Directors of *Perú Compite* (National Competitiveness Council) is currently implementing its Work Plan for 2007. *Perú Compite* has defined business and regional development as the main axis around which the actions of the Council will revolve. *Perú Compite* has launched eight initiatives which will work as instances of guidance, coordination, agreement, facilitation and capacity building between the public and private sectors, for the several competitiveness promotion areas. These initiatives are: Competitive Regions, Competitive Chains, *Perú Innova* (Innovative Peru), *Perú Emrende* (Enterprising Peru), Education towards Competitiveness, *Perú Responsable* (Responsible Peru) and Competitiveness Monitor. In addition, *Perú Compite* will support the activities of Intermesa (National Board for the Simplification of Municipal. Procedures) as part of their efforts to simplify proceedings and to enhance the business environment.

Another fact that is worth mentioning in the same year is when in October 2002, the Peruvian society decided to have an active participation in one of the most important spaces for dialog and consensus, the country has ever had i.e. the National Agreement (See Chart Nr. 5), which includes a set of policies in connection with the country's competitiveness and puts forward concrete proposals for a foreign trade policy seeking to expand markets with reciprocity.

The PENX is a document that includes an analysis of the country's real situation in terms of foreign trade and sets out goals and actions aimed at enhancing the sector's competitiveness and

CHART NR. 5: National Agreement and Foreign Trade Policy

The National Agreement Forum was established in October 2002 as an instance to promote the fulfillment of and the follow up on the National Agreement, under the scope of the Presidency of the Cabinet of Ministers. That forum consists of representatives of the political parties, civil society organizations (religious, labor, business, regional, academic and professional organizations) and the government.

The National Agreement seeks to build consensus on future development through 31 State Policies. A set of those policies are grouped under the topic of "Country Competitiveness", and particularly State Policy 22 deals with "Foreign Trade Policy to Expand Markets with Reciprocity" and seeks to achieve the competitive integration of the country into international markets.

For this purpose, the State commits to: (a) ensure legal and macroeconomic stability; (b) preserve a flexible exchange rate policy; (c) establish a tariff policy that encourages a reduction of tariff levels and tariff dispersion, in conformity with our integration agreements and multilateral undertakings; (d) promote an equitable, neutral tax policy that ensures that taxes are recovered by the exporter; (e) strengthen the logistics chain for foreign trade and consolidate customs and trade facilitation systems; (f) improve—with the active participation of the private sector—the infrastructure related to foreign trade activities; (g) establish a dynamic and comprehensive trade promotion policy; (h) combat undervaluation, dumping, smuggling and other forms of unfair competition; (i) have a permanent incidence on the elimination of para-tariff barriers on our exports; (j) seek new and better trade agreements aimed at increasing and diversifying value-added national products and services; (k) promote the building of competitive export supply with the participation of small and medium enterprises; (l) harmonize the different public policies related to foreign trade; (m) articulate the foreign trade efforts of the public and private sectors and establish a coordinating body; (n) promote the organization of small producers in export consortiums; (o) design a comprehensive trade information system; and (p) support the management capacity of trade diplomatic missions. In addition, 46 indicators and 44 specific goals were established.

This National Agreement is funded with State resources and involves international cooperation, particularly, the United Nations Development Program (UNDP), and the collaboration of Canada, Spain and Switzerland.

This effort has required the active and permanent participation of all the actors involved. It has required over 70 Plenary Sessions and about 270 sub-policies, 817 indicators and 747 goals have been established. The Technical Secretariat of the National Agreement is in charge of the annual follow up on the progress of commitments and surrenders detailed reports on such progress to the members of the Forum.

expanding and diversifying exports. It was promoted by the MINCETUR in November 2002, through a Commission consisting of representatives of public and private institutions related to foreign trade. The institutions that form part of the said commission include the MINCETUR, the National Competitiveness Council, the Presidency of the Cabinet of Ministers, the Ministry of Foreign Affairs, the Ministry of Economy and Finances, the Ministry of Production, the Ministry of Transport and Communications, the Export Promotion Agency (PROMPEX), the Exporters Association (ADEX), the Foreign Trade Association (COMEX), the Lima Chamber of Commerce (CCL) and the National Industry Society (SNI).

The ENFCC is a tool with guidelines that will help create the conditions required to make the best possible use of trade-opening. It was created in 2005 and built on the above-described initiatives from previous years. However, it should be noted that it received a major boost in late 2002, when the Hemispheric Cooperation Program implemented in the context of the FTAA revealed the need for this support tool to strengthen the capacities of the countries involved. Later on, the subject was put back into the spotlight by Trade Capacity Building Committee for the FTA with the U.S.

3.2. PENX and ENFCC Goals

The PENX defined its goals in clear terms, as illustrated in the following chart. As already explained, its most important feature is that this was a dialogue process that incorporated the private sector

—the main actor in the field of trade—and, accordingly, it reflected its own perception of Peru’s future and identified the main challenges that lay ahead. The PENX included over 1,000 specific actions conceived to achieve its goals.

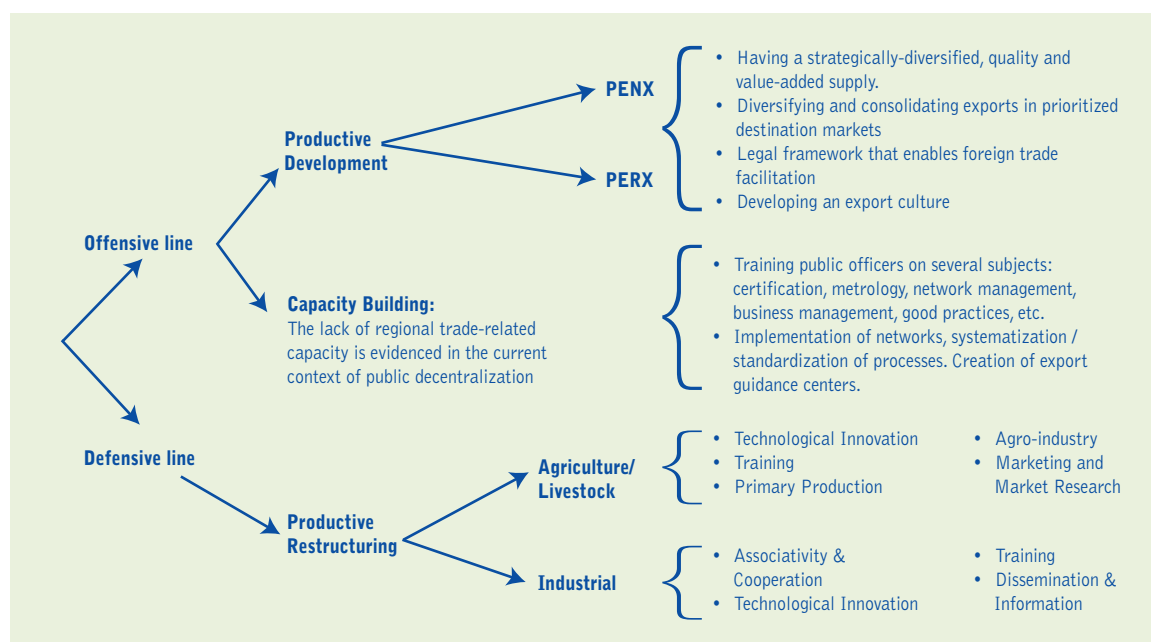
The ENFCC was conceived to become the Domestic Agenda for Trade Capacity Building, in a manner such that it would facilitate the implementation of the Agreement and Peru’s adaptation to the new integration framework. As regards adaptation to the new integration framework, two lines of action have been set: an offensive one and a defensive one, which are explained through the following chart

3.3. PENX Implementation

PENX 2003–2013



As illustrated by the following chart, implementing the PENX required designing other management instruments that have allowed wide participation by public and private actors at the national level. In addition to allowing a diagnosis of the main problems presented by trade development, these dynamics have also identified specific, responsible actions and implementation deadlines with a view to improving competitiveness conditions at the territory, sector, product and market levels.



Thus, the following have been devised:

(a) 10 Sector-Specific Operating Plans (POSS): for the agriculture, textile, clothing, wood forestry, handicraft, jewelry and precious metals, fisheries and aquaculture, human capital-intensive services, metal-mechanics and iron and steel, leather and footwear, and chemicals sectors, (b) a Foreign Trade Facilitation Master Plan, (c) 16 Regional Exports Strategic Plans (PERXs) for the areas of Ancash, Arequipa, Cajamarca, Ica, La Libertad, Lambayeque, Loreto, Piura, Tacna, Cusco, San Martín, Ucayali, Ayacucho, Huanuco, Junín and Pasco, (d) 10 Market-Specific Operating Plans (POMs) for the following countries: U.S., China, Germany, France, Spain, Mexico, Brazil, Thailand, Malaysia and Singapore, and (e) an Export Culture Master Plan.

These management instruments received international cooperation support, including support from the IDB, Switzerland's SECO through the Trade Cooperation Program, the United States' USAID through CRECER Project, and the World Bank.

The main benefit of PENX is participation coordinated with the private sector, which is the main foreign-trade actor. These important results have led to a €10 million donation from the European Union, as a contribution for PENX implementation purposes.

Implementation of PENX 2003–2013



3.4. PENX: Progress, Follow-up and Monitoring

The greatest effort made under the various management instruments has been directed at diagnosing the situation in order to identify the main restrictions for trade development. However, some of the proposed recommendations have also been implemented. A Permanent Multi-Sectoral Commission has been created that meets on a monthly basis to assess the status of the plans' proposals.

Regional Executive Committees (CERXs) have also been set up to monitor PERX progress, even though the existing goals have not been achieved in all regions.

As regards the fulfillment of commitments undertaken by State institutions, the most effective way to achieve such fulfillment is to have such institutions incorporate the actions contained in the plans into their own Institutional Operating Plans (POIs), which are a public management instrument reflecting how their budgetary allocation is used. All efforts should go in this direction.

The 24 PERXs have been monitored with the aid received from international cooperation and the support of the IDB and the World Bank.

3.5. Lessons and Challenges

- 3.5.1. The PENX was devised as a result of a series of efforts and initiatives developed over time; an understanding of the problem, shared views, and trust amongst private-sector interlocutors and between public and private sector participants are required.
- 3.5.2. The PENX and other management instruments allow a focused approach to the different restrictions affecting the expansion and diversification of productive sector exports.
- 3.5.3. The territorial approach to diagnosis and proposals is essential to work out the problems and bottlenecks facing the decentralized production sector. The creation and implementation of management instruments at the territorial level is more effective. Each region has its own peculiarities, development level, potential resources, supporting institutions, public sector effectiveness level, logistic restrictions, needs for physical infrastructure and human-resource training levels, among other things.
- 3.5.4. By having specific plans properly devised with participatory methodologies that represent consensus among the main trade-representing actors, the use of international cooperation resources can be adequately directed, thus avoiding a duplication of efforts or the inefficient channeling of such scarce resources and, therefore, achieving better results as well.
- 3.5.5. These strategic plans lead to a sense of great expectation in the agents invited to participate. A failure to immediately implement their proposals jeopardizes the participants' trust, prevents specific results and restricts future possibilities to use similar participatory methodologies.
- 3.5.6. These strategic planning initiatives are not absorbed by the public sector until they are incorporated into their Institutional Operating Plans and, accordingly, reflected in their public budgets.
- 3.5.7. The private sector, which is the main trade actor, needs to operate as the main supervisor of these plans, not only to guarantee that any commitments undertaken will be actually fulfilled but also to make sure that new public authorities (as these usually rotate) maintain the defined plans of action.
- 3.5.8. Transparency mechanisms and the publication of actions plans, their goals, responsible parties and implementation deadlines as well as a detailed progress report will allow for more clear accountability, with each actor taking responsibility and all interested parties supervising past performance.

4

The Role Played by Aid for Trade (AFT) in Trade Policy and ENFCC

The presence of international cooperation through the aid in connection with trade provided by countries and by multilateral and regional agents has gained rather importance in Peru since the late 1980's and more relevance since the early 1990's, when the country gave the first steps towards economic and trade opening.

The first programs referred to projects seeking to support the supply of export products, particularly with regard to the sector of small and medium enterprises. To the extent that the State and the economic agents have been acknowledging and fostering trade as the central pillar of economic growth, the international cooperation started to channel its resources towards the public sector, involving the participation of the private sector itself and thus accompanying these initiatives. The chart below illustrates the development of Aid for Trade in Peru.

4.1. Aid for Trade in the Context of a Closed Economy

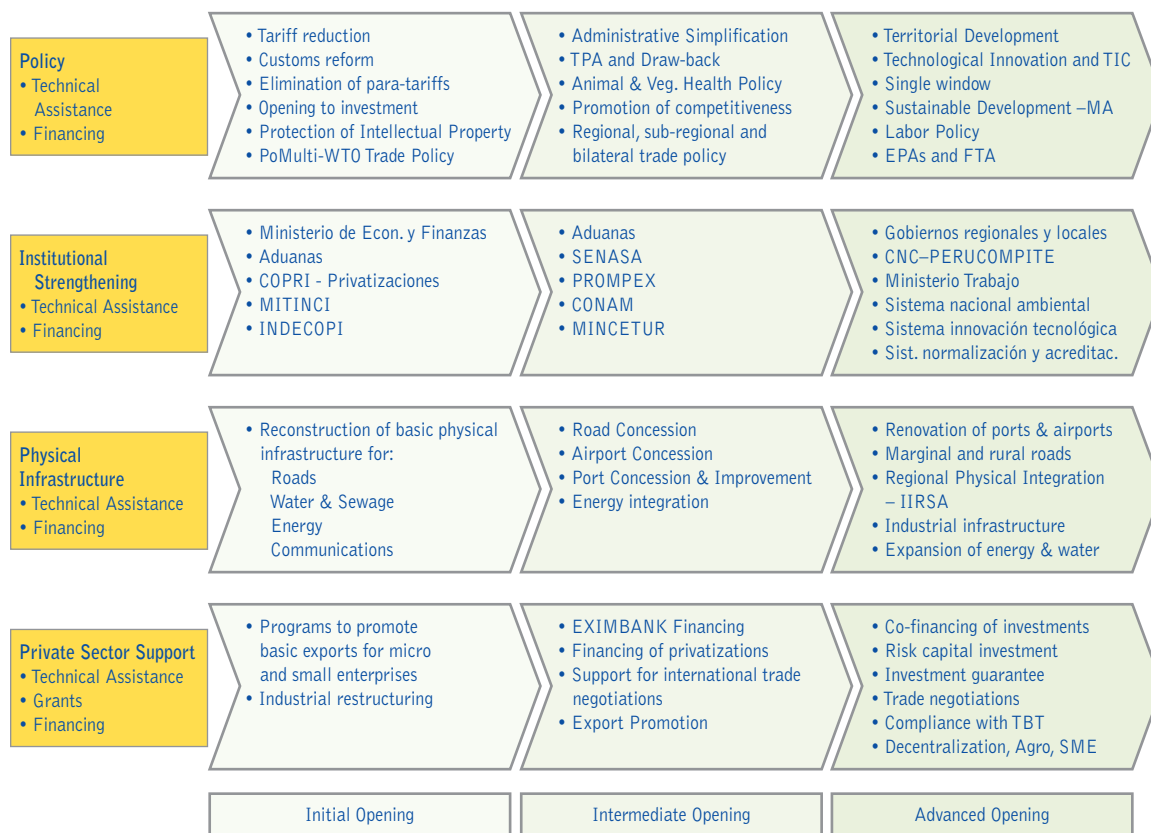
In Peru, the same as in other LAC countries, there have been several initiatives of international cooperation to promote trade. Most of those initiatives were intended to support the supply of different sectors with potential. In this sense, in the late 1980's, there were activities to promote the export of lines of products such as wood-lose, handicrafts, and tropical products among others, with the counterpart of the Foreign Trade Institute, which was in force until 1991.

However, those initiatives were isolated and with a relative impact in view of the fact that the Peruvian economy was not focusing on international markets.

4.2. AFT Support to Trade Policy

The AFT initiative has been of paramount importance in Peru. It has been provided by different sources such as multilateral financial institutions, multilateral, regional and sub-regional entities and by the cooperation of developed countries in the form of bilateral agreements and of economic blockages. In the same way, these resources have supported this country's effort to develop policies and programs of structural adjustment, market access, institutional strengthening of the State, training of officers, infrastructure modernization, development of productive capacity, and the participation of the civil society and entrepreneurs, among others. Finally, these resources have been obtained from experts' technical assistance, donations and grants, concessional loans, soft loans and financial guarantee mechanisms, among others.

Chart of The Development of Aid For Trade in Peru



4.2.1. Public Sector and AFT

Since the country decided to implement the model of economic opening and trade liberalization (since the early 1990's to date), the AFT has evolved consistently with the consolidation of structural reforms and the strengthening of the new economic development model (from 2002 to date).

AFT and Technical Assistance

The first efforts of the Peruvian State were accompanied by the AFT, and by the agencies that played a critical role in the provision of technical assistance to design the trade liberalization measures, particularly the IMF, IDB and WB. Peru also counted on the support of international experts that advised the national economic team on this issue.

The technical assistance has been permanent and it forms part of the very formulation of the different support programs, such as Design and Implementation of policies, institutional strengthening, investment in infrastructure, and support to supply, among others.

The experience of international experts is fundamental to complement the job of domestic officers in order to take into account similar challenges in economies with characteristics analogous to the Peruvian economy and to replicate successful experiences.

Since 1995, the Peruvian Government, the same as the other governments in the hemisphere, has received technical assistance from the Tripartite Commission: IDB-OAS-ECLAC to actively participate in FTAA negotiations. There was received a set of reports, studies, research and programs to develop trade capacities for the officers in charge of international trade negotiations.

AFT and Strengthening of Trade Policies

One of the most important projects in this country was the loan for US\$425 million approved by the IDB in September 1991 to finance the “Program: Trade Sector Reform”¹⁰, which included reforms in five areas: foreign trade policy, customs reforms, labor market reforms, development of the private sector in agricultural marketing and social compensation. This program enabled to count on the economic resources to start the process of the necessary reforms for trade liberalization.

Once progress in the country’s macroeconomic stabilization had been made, particularly in connection with trade opening, the trade policy needed to address new challenges. The main challenge was to transform the concept of competitiveness as the central pillar of the private sector’s efforts in its new entrepreneurial development. As the Peruvian government had implemented a closed economy development model for more than 30 years, it was necessary that all the entrepreneurs shared the need to reconstruct their productive mechanisms. In this sense, in 1994, with the support of the Andean Development Corporation (CAF), Peru received economic aid to hire the company Monitor to conduct the first competitiveness studies in Peru. The results of that study not only helped have a better understanding of the limitations faced by the national productive sector to compete in international markets, but also had a significant communicational effect, as it introduced the concept of competitiveness in the national public opinion.

The implementation of trade policies through the National Trade Capacity Building Strategy (ENFCC), the PENX and the National Competitiveness Plan, required multi-sector efforts since these actions are under the scope of responsibility of different instances of the public sector. Consequently, in January 2005, Project to Improve Productive Supply and Facilitate Foreign Trade (PAMC)¹¹—with a budget of US\$24 million funded by the WB—was launched to help Peru overcome the restrictions on competitiveness faced by the productive sector and to achieve a continuous sustained growth of Peruvian exports, particularly in terms of non-traditional exports. Nineteen government agencies from nine different sectors have participated in the design and execution of this Project (See Chart N° 6).

Until 2005, in light of the challenge of the FTA with the United States, through the efforts of the public and private sector, several management instruments have been designed and different work instances were created seeking to consolidate a favorable environment to foster the country’s competitiveness. All those measures were gathered in the ENFCC, funded by the CAF.

One of the key factors in the quest for competitiveness in the Peruvian economy is, without any doubt, technological innovation. Even though this factor is not directly linked to trade policy, it is indeed an important component of the new development model. With the support of the

¹⁰ IDB Operation N° 631/OC-PE.

¹¹ Loan Agreement IBRD N° 7177-PE.

CHART NR. 6: Support to Competitiveness Project

The Project to Improve Productive Supply and Facilitate Foreign Trade (PAMC) was launched in January 2005. This project—with a budget of US\$ 24 million funded by the World Bank—endeavors to help Peru overcome the restrictions on competitiveness currently faced by its productive sectors with the purpose of achieving a continuous sustained growth of Peruvian exports, particularly in terms of non-traditional exports. In this sense, this project seeks to improve the institutional framework with a view to promote exports, implement effective practices to promote the quality of export products, facilitate the access to export financing and reduce logistics costs.

Nineteen government agencies from nine different sectors have participated in the design and execution of this Project. Those sectors are: a) Foreign Trade, through the Peruvian Export Promotion Agency (PROMPEX), b) Economy and Finances, including the National Tax Administration Superintendency (SUNAT) and the Investment Promotion Agency (PROINVERSION), c) Transport and Communications, with the Special Committee of Lima Private Investment Promotion (CEPRI-Lima) and PROVIAS Nacional, d) Production, with the Technological Innovation Centers (CITES) and the Fishing Technological Institute (ITP), e) Agriculture, through the National Agrarian Health Service (SENASA), f) Health, through the General Bureau of Environmental Health (DIGESA), g) Foreign Affairs, h) Labor and Employment Promotion, through the Agency for Small and Micro Enterprise Promotion (PROMPYME) and, i) the Presidency of the Cabinet of Ministers, including the Supervising Agency of Investment in Transportation Infrastructure for Public Use (OSITRAN), the National Antitrust and Intellectual Property Protection Institute (INDECOPI), the National Environmental Council (CONAM) and the National Competitiveness Council (CNC).

The PAMC has enabled the participating government agencies to program actions through five main components broken down into 56 activities and 139 tasks.

IDB, a Science and Technology Program¹² for US\$36 million was implemented to strengthen the National Innovation System, foster scientific and technological development in the country and build institutionality and adequate financial mechanisms.

Since 2006, the Project entitled European Union- Peru cooperation on trade technical assistance” for a total amount of €14.6 million has been implemented. This cooperation supports the implementation of the PENX and seeks to increase and diversify the supply of value-added exports, with more volume and quality that enable more presence in the international market.

AFT and Market Access

In addition to the general trade preference systems implemented by developed countries, from which Peru has taken advantage in the last years, this country has also profited from mechanisms that have provided duty free access to the US markets for a number of Peruvian products—through ATPA and then through ATPDEA—and to the European Union—through the Andean GPS (General Preference System) and then through GPS Plus.

The private sector has taken advantage of those mechanisms that have contributed to expand and diversify exports to those markets. It is worth mentioning the case of the textile and clothing sectors as illustrated in Chart Nr. 7.

AFT and Institutional Strengthening

The resources provided by the international community were also aimed at strengthening public institutions responsible for the implementation of the trade policy. Since 1990, the different

¹² IDB Operation N° 1663/OC-PE.

LINE CHART NR. 7: Clothing and Textile Sectors, Trade Opening and Aid for Trade

The evolution and restructuring of the clothing and textile sectors are processes that are worth mentioning. Strong government protection was the main feature of this industry sub-sector since the early 1960's until the opening up of the markets in the 1990's. The products manufactured by this sector were mainly directed to the Peruvian domestic market and its evolution was dependent on the cyclic behavior of the Peruvian economy.

Trade opening had a significant impact on this sub-sector. It brought about the closure of most non-efficient industries and the restructuring of the rest of the companies of this sector, which had to increase their productivity levels, together with their competitiveness in order to adjust themselves to the new market rules (See Annex 2 – Development of the Clothing and Textile Sectors).

The major clothing and textile companies went for their insertion in the international markets and for placing their production in highly competitive markets, such as the United States. This process was successful and, hence, textile business leaders quickly focused their export efforts towards market segments that were eager to pay higher prices for the quality of the raw materials, Peruvian Pima cotton in this particular case.

In spite of their lacking a preferential access (customs duties) to the American market, and having to pay tariffs rating 15% and 23%, clothing and textile exports experienced a fast growth from US\$ 154 million in 1995 to US\$ 406 million in year 2000. There was no doubt that this newly conceived dynamics was already showing a profitable process of industrial restructuring, reinforced by the broadening of ATPDEA preferential tariffs in year 2002. Exports followed the growing trend until reaching US\$ 866 million in 2006.

The evolution of the clothing and textile sectors has given birth to a number of positive effects, which are listed below:

1. Cotton production areas in the country have been recovered for cultivation, after a drop in the number of hectares from 253 thousand in 1962 to 65 thousand in 2003. However, the recovery of cultivated hectares has grown up to almost 92 thousand in year 2006.
2. The export structure was modified. In 1993, US\$ 27 million in clothing items were exported together with US\$171 million in textiles (US\$ 198 million overall); while US\$1.21 billion of clothing items and US\$ 270 million in textiles were exported in 2006 (US\$ 1.48 billion in all).
3. Between 1994 and 2005, there was an evolution in the export volumes from 452 to 662 subheadings, and with respect to the exporting companies, these improved from 993 to 1,788, and ports of destination for the sector evolved from 91 to 114 market places. If figures are revised for the period when ATPDEA was in full force, subheadings show a progress of 9 per year, companies increase by 153 per year and destination markets add up to 5 more every year, that is to say, a greater diversification as a result of the benefit of preferential tariffs.
4. As regards the composition of companies exporting textiles and clothing items, one point to emphasize is that medium and small companies have gained a higher share. Between years 1995 and 2005, there was an increase in the number of large export companies from 12 to 26 (with more than US\$ 10 million each); medium companies from 56 to 125 (US\$ 750 thousand to US\$ 10 million); and small companies, from 823 to 1683 (from US\$ 40 thousand to US\$ 750 thousand).

public sector institutions have experienced a modernization process that is consolidating year after year.

In 1994, ADUANAS (Customs) received funding from the IDB for a Modernization Program¹³ for the purpose of obtaining a modern and flexible regulatory framework; adapting the organization of ADUANAS to new rules and procedures; further facilitating foreign trade operations; providing the Customs with an adequate communications system with national coverage, which will permit the exchange of information between all offices; and eliminating or reducing the contraband in goods or other forms of tax fraud.

One of the main restrictions faced by the country's agricultural / livestock activities to participate in international markets were the sanitary and phytosanitary restrictions. The Agricultural/Livestock Health National Service (SENASA) received from IDB economic support for

¹³ IDB Operation N° 802/OC-PE.

US\$45.6 million in 1997 to implement an Agricultural Health Development Program¹⁴. One of the main components of this program was the institutional strengthening of SENASA. The actions implemented under this program permitted to overcome part of the restrictions on agricultural production and on agro-exports.

With the creation of the new Ministry of Foreign Trade and Tourism (2002) and the new challenges taken up by international trade negotiations, the support of the IDB—with a loan for US\$5 million—was required to finance the Foreign Trade Policy Development Program¹⁵. The Program (See Chart Nr. 8) started to operate in 2003 and its purpose was to improve Peru's national trade policy management as a means of increasing and diversifying the country's exports and its markets. This aim will be attained by boosting Peru's institutional capacity to formulate an extensive, comprehensive and consistent external trade policy.

AFT and Trade Facilitation

Since the implementation of the economic opening model in Peru, the country became conscious of the need to enhance the competitive environment. Both the private and public sectors have permanently reviewed the administrative processes related to the movement of goods (trade facilitation and transport) in connection with exports and imports.

The different collaborations received by the country have acknowledged the importance of this issue and have allocated resources to identify the main constraints and to implement proposals to overcome them. This is the case of the resources from USAID, through CRECER Project; the WB, through the PAMC; IDB, EU, CAF and the bilateral cooperation that have contributed with their economic resources, technical assistance and training.

There are other projects that contribute to trade facilitation such as the case of the Single Window, the reduction of the time needed to release goods from customs, goods prior dispatch, an the Single Customs Declaration, among others.

AFT and Physical Infrastructure

In the case of Peru, the country's situation in the late 1980's required the support of the international community to rebuild the road infrastructure, which had not been properly maintained for several years. Thus in the early 1990's international institutions such as the WB, IDB and CAF contributed to finance those requirements. As an example, it is worth mentioning the Road Rehabilitation Program (1994) which funded the improvement of the main road infrastructure and bridges along 1,500 kilometers, by means of a facility for US\$420 million granted by the IDB¹⁶.

After the road reconstruction process, the country undertook the stage of improvement of the physical infrastructure, including, roads, bridges, ports and airports, which required the investment of significant resources funded both by the Peruvian State and by international financing institutions, as well as through the privatization and concession processes.

¹⁴ IDB Operation N° 1025/OC-PE.

¹⁵ IDB Operation N° 1442/OC-PE

¹⁶ IDB Operation N° 651/OC-PE.

CHART NR. 7: Foreign Trade Policy Development Program

The Inter-American Development Bank (IADB) has funded part of the Foreign Trade Policy Development Program. The budget for this Program amounted to US\$ 7'150,000, for which purpose, the IADB granted a loan US\$ 5'000,000 to be repaid in 20 years and the Government of Peru contributed with 2'150,000. This operation was performed in January 2003.

The purpose of this program was to improve Peru's national trade policy management as a means of increasing and diversifying the country's exports and its markets. This aim will be attained by boosting Peru's institutional capacity to formulate an extensive, comprehensive and consistent external trade policy.

The Program has been divided into six components:

1. Support for Institutional Reform and Reorganization

Reform to the institutional framework and reformulation of strategies and proceedings for the external trade system:

- 1.1. Institutional Strengthening of the Vice Minister of Foreign Trade (VMCE).
- 1.2. Strengthening the inter-agency external trade system

2. Training and Specialization Plan

This component will expand and enhance the capacity and the degree of specialization of the technical teams of the Vice Ministry (and of other institutions related to foreign trade) involved with the tasks of policy formulation, trade negotiation, administration of trade, trade promotion and other issues related to foreign trade.

- 2.1. Courses and workshops offering general courses for public and private officers..
- 2.2. Specialized training and instruction

3. Technical Studies Program

Preparation and updating of a technical and analytical database for designing strategies and developing proposals in negotiation forums and to foster the development of exports:

- 3.1. Design of an export-oriented negotiation strategy.
- 3.2. Models of general and sectoral impact of economic liberalization.
- 3.3. Support to the Andean integration strategy
- 3.4. Technical tools for negotiations on agriculture for the VMCE.

4. Establishment of an Integrated Foreign Trade Information System

Implementation of an Integrated External Trade Information System for Peru (SIICEX) which, upon the basis of the joint effort of public and private organizations related to the sector development, can develop mechanisms for organization and dissemination of information and expertise relating to external trade.

5. Consultation with the Private Sector and Civil Society

Promotion of initiatives and actions to set up stable institutional channels and mechanisms for consultation and collaboration with legislative bodies, unions and other organizations in the private sector.

- 5.1. Support to the Vice Minister of Foreign Trade
- 5.2. Program of technical meetings for consultation with the private sector and the civil society.
- 5.3. Program of dissemination, information and instruction.
- 5.4. Support to a Social Forum.

6. Development of Trade Promotion

Consolidation and strengthening of the institutional network in charge of formulating and implementing trade promotion policy, by integrating it more effectively with national foreign trade policy.

- 6.1. Establishment of an efficient institutional framework for trade promotion.
- 6.2. Development of trade strategies and business intelligence.
- 6.3. Instruments and policies to promote exports.

As mentioned before, IIRSA has become a large mega investment in South America, which will involve about US\$35 billion of investment in a physical infrastructure network that will integrate all the countries in this part of the Continent. Peru needs investments for more than US\$4 billion. The IDB and the CAF have already committed to finance this investment and, probably, other international financial institutions will also contribute to this regional development initiative.

AFT and Supply

A great deal of AFT initiatives, particularly in connection with technical cooperation and technical assistance, has been implemented to support the Exports Promotion Agency (PROMPEX). The next section gives an itemized description of some experiences related to this issue.

In 1999, the Spanish cooperation through the Spanish Agency for International Cooperation approved the project: “Technological Innovation Centers Network in Sectors Prioritized for the Competitiveness Development in SMEs”¹⁷ with resources from the cooperation for US\$2.18 million to encourage innovation and technological transfer in a set of sectors and cities inside the country.

In this context, the following projects were developed: “Support to Peruvian Exporting SMEs”, funded in the year 2000 by GTZ from Germany with a total contribution in the order of US\$2.2 million, with the purpose of increasing the competitiveness of exporting SMEs, seeking the participation of PROMPEX and entrepreneurial unions.

4.2.2. Private Sector and AFT

As mentioned above, the private sector has had an active participation in the design and implementation of the trade agenda as part of Peru’s economic development model. These initiatives have always counted on the support of the international community, who was interested in strengthening the public-private relationship.

AFT to Support Policy Formulation

The private sector and the civil society did not want to be apart from the formulation of the trade policy in the country. From the beginning of the structural reforms in the early 1990’s, they have supported the changes proposed by the Peruvian Government. When the process of macroeconomic stabilization was concluded, the private sector played an active role in the initiatives aimed at inserting the country into the trade integration dynamics.

The private sector received international technical cooperation to finance spaces for meeting, dialog, reflection and proposals, such as the cooperation the FTAA/Peru Committee (See Chart Nr. 1) received from CAF. Likewise, the Business Council for International Negotiation (CENI) also received resources from the international cooperation, which allowed it to replicate the work of the FTAA/Peru Committee and to be a permanent ally of the Peruvian officers throughout the negotiation process of the FTA with the United States (See Chart Nr. 3).

¹⁷ Act of the VII Mixed Cooperation Commission Spain-Peru dd. 18.02.99.

CAF also provided the resources to develop international meetings of entrepreneurs, such as the III Andean Entrepreneurial Forum (2000), which supported the consolidation and strengthening of trade relationships among entrepreneurs of the member countries of the Andean Community and among them and the entrepreneurs from MERCOSUR and Chile.

AFT and Exportable Supply

The private sector, through its trade union organizations, producers associations, merchants and business associations, has received the support of AFT in a number of projects that have included several components such as technical assistance, training, financing, information, and market research, among others.

Already before the trade opening of the 1990's, the country already counted on projects sponsored by the international cooperation to support micro and small enterprise producers.

At present, several types of projects have been approved, including: Competitiveness Development, Textile Artisan Export Associations, Good Logistics Practices in Agro-industrial SMEs of Ica and Tacna, Encouraging Corporate Social Responsibility for Competitiveness in Value Chains, Competitiveness in palm crops and marketing, Good agricultural practices in Mango Crops, Conversion to Organic Cocoa Crops, Responsible Production and Marketing of Small Coffee Producers, Trade Articulation and Competitiveness of the Alpaca Textile Sector, Competitive Development of Peruvian Handicrafts, among others.

As regards business unions, it is worth mentioning the “Assistance to Small and Medium Enterprises on Technical Requirements for Gaining Market Access under the FTA with the US”, financed by the MIF-IDB for the purpose of establishing and validating a demonstration model that facilitates sustained market access for SMEs of enlarged agribusiness or agriculture sectors and the textile—clothing sector, taking advantage of the benefits offered by the FTA with an investment over US\$1.75 million.

Developed countries have also offered their bilateral cooperation, such as the case of Japan through JETRO. Under the STAR project, the following programs have been organized “Promotion of Peruvian Textiles and Clothing in the Japanese Market” (1995); “Study to monitor tropical foodstuff” (1999), which included the following studies: *Camu camu*, frozen custard apple (*cherimoya*), boiled artichoke, dry lucuma flour, cat's claw, lime oil, concentrated lime juice, maca, giant corn, purple corn, dry lima butter beans (*pallares*) and quinoa, instant cereal, Kiwigen, algarrobina (extract), chickpea, sweet potato flour, mixed flakes of oats and quinoa and barley; “Fostering the Organic Foodstuff Industry (2001–2005); and the Study to identify new Andean Foodstuffs. (2003–2005).

AFT and Private Financial Investment

There have also been opportunities in connection with the financial aspect for the participation of multilateral financial institutions. In Peru, national and foreign investors have resorted to financial agencies, such as the International Finance Corporation (WB) and the Inter-American Investment Corporation (IDB) to leverage financial resources for different types of investment in the country. In addition to the important financial contribution, the support of these prestigious organizations ensures an international standard in project management.

In this sense, support has been granted for important projects in the mining, energy, agriculture, tourism, financial, manufacturing, construction and transport sectors, among others. Different mechanisms were used for that purpose including, loans, guarantees and participation in the stock capital of the companies. Resources in the order of up to US\$300 million per project have been mobilized.

AFT and Import Financing

Other facility granted by some countries is the financing of their exports. In this sense, the EXIM-BANK of most countries from where we import most machinery grant credit-lines that facilitate access to import goods under favorable financial conditions; to the extent that those financings are not covert subsidies.

4.3. AFT Monitoring and Evaluation

Regarding the use of non-reimbursable funds (grants or donations) received from international cooperation; there are basically two levels of management, monitoring, supervision and control: On the one hand, the Peruvian Agency for International Cooperation (APCI) is responsible for the sustained, efficient and transparent management of increasingly scarce resources and has competence over the official aid for development. On the other hand, APCI coordinates the different sectors; in the case of trade-related issues, it coordinates with the Ministry of Foreign trade and Tourism, which undertakes technical responsibility for the cooperation.

Since the creation of APCI in 2001, the relationship with international cooperation institutions has improved and the sectoral coordination with MINCETUR ensures a more effective use of the funds sourced by the international cooperation, avoiding duplications and delays. In the same way, to the extent that MINCETUR has developed the different management instruments described in section 3, it has been possible to identify and enhance the organization of efforts made by the different government instances, the private sector and international cooperation.

The largest, comprehensive and most sophisticated projects have independent execution units that significantly facilitate resource management. Cooperation institutions have also implemented monitoring mechanisms, intermediate evaluation and impact evaluation to determine the results of their projects.

Without any doubt, an adequate design of the aid, its objectives, components and activities in suitable implementation terms is the fundamental basis so that the implementation, monitoring and evaluation render positive results.

4.4. Lessons and Challenges

Over the last seventeen years, Peru has been in the way of trade opening and liberalization and has been seeking to extend trade benefits to the majorities. As mentioned before, AFT has been present throughout this process by contributing with its financial and technical resources. The country has evolved in connection with trade since its opening in the early 1990's. Peruvian politi-

cians, public officers, ruling class and representatives of civil society acknowledge the importance of trade in the development agenda. However, there are large economic and geographical sectors that still have to be incorporated into the dynamics of globalization, what represents a great challenge for the country and for AFT providers.

- 4.4.1. The incorporation of trade in the development agenda, acknowledging its key role is a process of which not everyone was convinced from start. The interest of the economic groups that have grown under State protection would rather maintain this comfortable situation notwithstanding the prejudice this may inflict on other sectors of the society.

Trade opening is not sufficient in itself. It is the first step, but it has to be complemented with other trade policies that favor the conditions for the competitive insertion of productive sectors into the international markets.

All of this situation must be taken into account by AFT suppliers. Stages cannot be “skipped”, it is necessary to undergo them to consolidate State institutions and public opinion.

The contribution made by AFT through sharing the successful experiences in other economies with similar levels of development and other support instruments, as well as through the commitment to accompany the countries that decide to move toward their insertion into globalized markets is recognized as a support of the international community that enhances the country’s internal climate to undertake this challenge.

- 4.4.2. AFT has different types of participation and it must complement the country’s own efforts. The leadership has to be undertaken by the State and cannot be imposed by the international community. It is the State who must learn to lead and guide the AFT, indicating the spaces where the contribution of AFT is needed, whether in terms of technical or financial resources.

AFT can play a leading role in facilitating that the State and the society as a whole count on the elements of judgment to foster the necessary changes.

- 4.4.3. AFT has been fundamental for the design and implementation of the trade strategy in Peru; not only for its contribution of economic resources, without which it would have been very difficult to get the results the country can boast at present. The support offered by AFT has been broad and varied. It has been gradual and comprehensive and it has complemented the country’s material and human resources, allowing the country to move forward in the way of economic opening and insertion into the global economy.

- 4.4.4. AFT also needs coordination among its members. Even though APCI and MINCETUR try to establish broad and transparent communication, it is necessary that the exchange of information and experiences favor a joint work to derive the largest possible benefit from invested resources.

As discussed above in this paper, the country’s trade strategy entails a set of strategic guidelines, identifies a large number of actions, involves several public and private institutions and encompasses different economic sectors and geographical areas. This

complexity has been acknowledged by the international cooperation that seeks to complement the State's efforts through its public entities at the national level.

- 4.4.5. The implementation of execution units for significant projects with several components and the need to work with different sectors has been a satisfactory experience. These units are independent from the public administration—although under the scope of their supervision and oversight—are ad-hoc instances of the projects that ensure the exclusive attention on the implementation of the pertinent activities in the scheduled times.

Execution units need to count on the appropriate human, material and logistic resources to do their job. However, a permanent political support is required in order that the different instances of the public sector support the project so that it can operate administratively and coordinate with other State sectors involved in the project in a satisfactory manner.

From the point of view of the international cooperation, the mechanisms of the execution units also enable improved programming and better results, to the extent that the projects have been properly designed. Intermediate or periodic reviews may help redirect efforts when necessary.

- 4.4.6. If the definition of a National Strategy, its Strategic and Operating Plans and the roll-out of activities, responsible officers and indicators are duly designed and count on the support of the economic agents involved, these management instruments become true guides for AFT.

The recent non-reimbursable cooperation with resources from USAID (Competitive MSE) and from the European Union (in connection with technical assistance to trade) has been inserted in the PENX, where the actions that require cooperation resources to be executed have been identified. In this way, all State and private sector interlocutors feel that resources are applied in a transparent manner in accordance with the needs that the country itself has determined.

- 4.4.7. AFT agents must try to channel their initial communications through the technical entity responsible for trade-related issues in the country. In the case of Peru, this entity is MINCETUR. This initial contact does not mean that resources cannot eventually be channeled to other sectors. But this proceeding ensures more order and consistency between the offer for cooperation and the country's trade-related needs.

- 4.4.8. The follow up and monitoring on AFT projects must be broad and transparent. It is necessary that all the interested parties can have access to the information on the progress made by the project and the results obtained. The progress made by the project will entail real progress in the pending agenda shared by the public and private sector.

- 4.4.9. The participation of the private sector and the civil society in AFT is fundamental. Nowadays, it would be impossible to think that the modern State could project its development without taking the private sector into consideration. This situation is more relevant when we are talking about trade, where the leading character is indeed the private sector.

Even those activities that are implemented by the State with the support of AFT resources require the exchange with the private sector, which is increasingly aware of the main limitations of its country's environment.

- 4.4.10. As mentioned in section 4.2.2 “Private sector and AFT”, there are several schemes through which AFT resources support the initiatives of the productive sector. All those schemes will maintain their importance in the future. The private sector has implemented a dynamics that will allow it to continue increasing trade in the country and to reach sectors not covered at present.

The efforts of the State will not be enough to integrate most backward regional economies, but the private initiative will have to move forward to those sectors to integrate them to the modern economy. This effort must be privileged by AFT.

AFT experience in fostering the territorial development of marginal areas and backward economic activities will be valuable to support these efforts.

- 4.4.11. The large presence of AFT and the contribution of its resources to developing economies, make it difficult to think that a country could move forward to development without the support of the different components of AFT for the public and private sectors.

5

Trade Policy and AFT Challenges

Peru has managed to introduce trade into the economic, social and political agenda. The macroeconomic results are evident. However, there is still an internal pending agenda to transfer trade benefits to all the Peruvian society and to revert the situation of poverty and extreme poverty, to generate the suitable employment the country requires and to decentralize economy and production.

In this sense, Aid for Trade resources have played a key role in supporting the efforts made by the Peruvian State and population. The country's challenges are also the challenges of the international community that has supported this process. It is necessary to design and implement new components of cooperation.

5.1. Strengthening Public Institutions Related to Trade Policy and PENX

Since the creation of the Ministry of Foreign trade and Tourism in 2002, the progress made in international trade negotiations is evident. The design and implementation of PENX and its different components have permitted to submit trade-related issues to public debate and those efforts have been positively gathered by their direct beneficiaries, mainly related economic agents and foreign trade.

However, it must be recognized that although most Peruvian people, particularly those from remote locations, do not perceive trade benefits directly, many of them are indeed enthusiastic about this project and ready to undertake the globalization challenge.

For this purpose, it is necessary to identify the actions that must be carried out or implemented from the State to respond to the expectation generated in favor of trade.

5.1.1. *Incorporation of Trade Staff into the Public Career*

The Vice Minister of Foreign trade counts at present on a team of motivated and technically prepared professionals, with experience in negotiation, trade development, and export promotion. This human force has been consolidated since the creation of MINCETUR in 2003, and in the following years for the negotiation of the FTA with the United States.

However, even though most professionals cover the duties stipulated in the Organization and Duties Regulations of the Ministry, they do not have an employment relationship within the public career. In addition, this is not an isolated case, since the largest part of the public sector face similar problems and it is fundamental to solve this situation to ensure a team of

skilled professionals who can strengthen the institution and ensure the accomplishment of trade-related goals.

5.1.2. Effective Participation in Foreign Trade Regional Offices

The trade policy, the same as other economic policies, is under the responsibility of the central government; however, for its design, implementation and prioritization, the participation of several economic agents at national level is necessary. The largest part of the Peruvian foreign trade is produced outside Lima capital city. In the same sense, the trade agenda includes activities such as consultation, dissemination, facilitation and monitoring, which require the permanent contact with all the parties involved in foreign trade nation-wide.

One of the key responsibilities of Regional Offices of Foreign trade is to support Regional Export Committees in the implementation of Strategic Regional Export Plans, as well as its Selected Products Operating Plans. Measures to facilitate trade are also implemented at regional level. All of them are management instruments to improve regional productivity and competitiveness. It is necessary to strengthen the skills and capabilities of the regions and their Regional Offices to design their own development plans and export strategies. This will enable to articulate regional competences and capacities with national capacities, favoring a close collaboration between the National Government and the Regions to ensure synergy and avoid the duplication of efforts or projects, and to foster a better application of resources—always scarce—for the regions.

5.1.3. Implementation of Trade Agreements

Most trade agreements currently in force in Peru refer to tariff-related issues and market access. The signing of the FTA with the United States and the subsequent trade negotiations pave the way for a set of issues and commitments for implementation that represent a new challenge for the country.

More specifically, the issues of dispute-solving mechanisms, compliance with the commitments to protect intellectual property rights, labor and environmental aspects (control of illegal logging), management of mechanisms for import and export quotas, management of the rules of origin, register on technical barriers to trade, and fostering electronic commerce, among others, require new skills from the public administration and the private sector.

Regarding labor matters, MINCETUR¹⁸ has identified some lines of action to strengthen institutional capacities in the labor field and proposed measures aimed at broadly disseminating labor rules, strengthening the supervisory capacity of the competent authority, fostering the Public Employment Service (improving the labor statistics system), promoting compliance with occupational health and safety systems, standardizing of administrative proceedings, training human resources and promoting and disseminating alternative dispute-solving mechanisms.

¹⁸ Trade Capacity Building Committee: Labor Matters, MINCETUR

As regards environmental matters, MINCETUR¹⁹ is also aware that the country must pursue the full application of and compliance with environmental legislation and policies. In this sense, it is sought to improve the mechanisms of environmental supervision, oversight, monitoring and control; to complete and improve environmental legislation; to decentralize the State's environmental duties; to promote the use of cleaner production technologies; to encourage biotrade, ecotourism and biotechnology; to preserve biodiversity and to achieve a sustainable forestry development.

Further to the Customs matter, it is necessary to facilitate foreign trade operations, reducing the costs and delays in customs proceedings for the import and export of goods. MINCETUR²⁰ has reviewed this matter and there is a set of proposals in connection with this problem, including: the implementation of risk management processes in areas related to customs control and supervision with the aim of improving control and facilitation; in view of the complex application of the country of origin criteria to the new trade agreements, it is necessary to train officers in charge of such application, to implement computer systems and interconnect with productive sectors and inter-customs cooperation; and other issues such as the advanced determination of customs valuation and effective mechanisms of fast delivery.

5.1.4. Foreign Trade Information System

Implementation of an Integrated Foreign Trade Information System, with the purpose of satisfying the needs for trade information of public and private economic agents related to foreign trade, and particularly of exporters.

This challenge implies the following aspects: implementing an extensive information platform with updated computer resources and Web developments that allow broader access to relevant information to foster the expansion of exportable supply and business management; taking advantage of trade opportunities and market research; recording tariffs and statistical information; supporting international negotiations; managing international agreements; facilitating market access with directories of companies and purchasers; fostering trade promotion and competitive intelligence; training users and disseminating all contents; and particularly, monitoring all the actions planned and implemented by the different parties responsible for foreign trade.

5.1.5. Foreign Trade Operators and Export Promotion

The efforts the private sector has been putting forth are reflected in export growth and diversification. At present, Peruvian products are exported to over 172 countries.

The process to consolidate our exports in the global marketplace needs to be accompanied by the State. The presence of a team of trade operators in the major international markets must be an instrument that favors the efforts made by the exporters. Their main duty must be to identify

¹⁹ Trade Capacity Building Committee: Environmental Matters, MINCETUR

²⁰ Trade Capacity Building Committee: Labor: Customs, MINCETUR

trade opportunities, as well as to guide exporters about the trade and technical requirements of the pertinent markets.

5.1.6. Active Participation in International Trade Forums

The trade agenda at international, multilateral, regional and sub-regional levels, as well as other initiatives, such as trade and environment, bio-trade, fishing, and forestry, among others; require an active participation of Peruvian negotiators. National trade interests must be considered in international discussions. Peru must take over the leadership in issues such as bio-diversity, agricultural opening, bio-piracy, investments and others.

As a result of the broad international agenda, it may be difficult to have an active participation in all those forums, but a proper prioritization upon the basis of pre-determined objectives, as well as a better integration of efforts with our diplomatic representatives must contribute to maintain a better presence of our country in international trade discussions.

5.1.7. Strengthening the Capacity to Comply with International Technical Requirements.

The main restrictions on international trade are no longer related to tariff issues, but to the so-called trade barriers or technical barriers to trade (TBT). The challenge for the country is sizeable; the Peruvian State itself has a pending agenda that has not been addressed yet.

In accordance with a diagnosis made by MINCETUR²¹, the country has a scarce participation in international standard systems—what is evidenced in the difficulties the public sector experiences in complying with the provisions of the TBT Agreement. There is a limited exchange of information and technical aspects between regulatory authorities and standard institutes.

As regards the private sector, the productive/export sector has little knowledge of the scope and significance of the TBT Agreement and has difficulties to identify the technical regulations and standards in force in international markets. In addition, this sector lacks human resources properly trained in the application of the technical regulations and standards required in those markets. With the exception of some competitive sectors, in general, the level of technological development is low.

In view of this situation, MINCETUR has provided the following recommendations: To properly implement TBT commitments; to support the activities of the public institutions in connection with technical regulations; to strengthen the national standard systems and the systems for conformity assessment and metrology; to promote technology transfer in relation to standards, technical regulations and conformity assessment processes; and to disseminate information and enlighten the productive sector about the existence of TBT provisions and their real significance in international trade.

²¹ Trade Capacity Building Committee: Labor: Technical Barriers to Trade, MINCETUR

It is worth mentioning that particular attention must be paid to sanitary and phytosanitary measures, what implies strengthening the activities of the Agricultural /Livestock Health National Service (SENASA) to implement strategies that allow the country to keep an adequate phytosanitary and zoosanitary situation consistent with the increasing agricultural and livestock production in the country and to support the agro-exporter process.

Likewise, it would also be necessary to have better understanding of how technical regulations and standards affect Peruvian exports. This information could be obtained from the implementation of a TBT register. In addition, other lines of action must be addressed to: prepare exporters to comply with technical requirements; foster a private-public national accreditation board; promote the accreditation of more national bodies; encourage more efforts toward mutual recognition with our major trade partners and increase the number of conformity assessment bodies.

5.1.8. Trade and Transport Facilitation

Although the progress in trade facilitation is considerable, there are still some pending challenges to improve the efficiency of administrative proceedings, transport, electronic trade, mail and fast delivery, port operations, insurance, business and work visas, and the use of information and communication technology (ICT). More specifically, in the Trade Promotion Agreement signed with the United States, the country committed to reduce the time to release goods to only 48 hours, what implies that the customs authority has to enhance the systems to supervise and control goods and to apply new and more efficient proceedings for risk management, access to data base and physical supervision.

In keeping with the above, other public institutions must also improve their efficiency and reduce costs to contribute to foreign trade. Said institutions include the Agricultural /Livestock Health National Service (SENASA), the Bureau of Environmental Health (DIGESA), *Empresa Nacional of Puertos* (National Ports Corporation) (ENAPU), and the Ministry of Transport and Communications, among others.

5.2. Foster the Participation in Trade Benefits of Marginal Economic Sectors

There has been much expectation in the country's inland areas in connection with their participation in trade activities and the benefit such participation may bring about. However, at the present time, the presence of non-traditional export activities is limited in most of the national territory. For the most part, such limitations derive from the possibility to generate actually exportable supply in terms of the quality and volume demanded by international markets. Such limitations are also rooted in the producer's capacity to have adequate productivity and competitiveness and their limited access to a physical infrastructure network that allows them to competitively insert their production into world markets.

The principal marginal sectors are found both in agricultural / livestock activities—particularly in high Andean and jungle areas, and in non-agricultural activities—mainly in micro and small enterprises. A set of actions aimed at these sectors must be implemented.

5.2.1. *Fostering an export Culture in new Segments*

One of the objectives of the PENX is to develop an export culture with a global, strategic vision that fosters entrepreneurial capacities and good business practices with the aim of promoting beliefs, values and outlooks in connection with foreign trade by means of an alliance among the export sector, the media and the State. At this point in time, it can be said that the population has had a first approach to trade-related issues, but we are still far from affirming that the large majorities have understood the significance of trade or are pro-trade.

Many regions have a minimum participation in non-traditional exports. The rural sector in high Andean and jungle areas has not been inserted into international markets and the agricultural / livestock activities in non-coastal areas are not prepared to export thus far. In turn, micro and small business sectors have expectations in connection with this issue, but are still far from being important actors of international trade. The State and the Peruvian society have a pending agenda in this subject and the efforts in the forthcoming years need to consider this challenge.

5.2.2. *Integration of Value-added Exports*

Up until five years ago, non-traditional exports (a concept exclusive of raw materials) accounted for about 30% of total exports. Today, even though non-traditional exports have more than doubled, they represent some 22%. Without question, the impact of the high price of raw materials is to some extent responsible for these results. However, higher value-added products need to be exported to create more jobs and integrate more of Peru's geographical areas.

Peru's wide variety of natural resources in mining, energy, hydrocarbons, fisheries and forestry, as well as the agricultural and farming opportunities presented by the agronomic conditions and ecological levels, as well as the wide coastal areas, lakes and ponds and Amazonian rivers offer a great opportunity to produce goods for export by processing these resources into greater value-added products. This challenge will call for major efforts to better identify both opportunities and obstacles, while focusing State action more properly (at the central, regional and local level).

5.2.3. *Improved product Quality and Competitiveness*

The opening process underway in Peru since the early 1990s has laid the foundations for production activities to be able to compete with imported products. Some producers have managed not only to tackle this greater competition challenge but also to successfully walk down the path towards international markets and are currently exporting their products. However, the fact remains that, at present, most agricultural and non-agricultural production units are not up to either offering a product fit for export or joining more competitive production chains in order to be able to export.

Higher quality and competitiveness in various product lines is required, particularly for small and medium enterprises and the agricultural and livestock sector. PENX design and implementation (as well as the design and implementation of its component, including PERXs, POPs and POMs) provide an early diagnosis of the situation of the main economic activities that can be

powered up within each sub-sector and region. This change implementation stage is not an easy one and calls for coordinated efforts by all public and private actors and, in most cases, the availability of funding for the activities involved.

5.2.4. *Access to Competitive Physical Infrastructure*

The population centers that are less oriented towards the domestic and foreign markets are the ones that are the most geographically isolated and experience the greatest restrictions to access roads and bridges, energy, water and communications. Most of Peru's poverty is concentrated in these areas. Major State efforts are required to bring them into the modern age and facilitate competitive access to international markets for their products.

Integrating the poorest—particularly from the mountains and the jungle—into the market has been a very difficult task to achieve in a country with such rough geographic features as Peru; however, such integration is essential in order for trade to become a true driving force for development. The high demand for physical infrastructure requires identification, focusing, prioritization, implementation and monitoring efforts aimed at securing effective public investment.

From the South American perspective, as already discussed, this integration effort is being driven by the IIRSA mega-project.

5.2.5. *Support to the Agricultural and Livestock Sector*

As explained above, most of Peru's agricultural and livestock activity is still precarious and limited, and concentrates most of the population that is missing out on the benefits of globalization. There are structural problems that require a solution through a set of actions to be designed and implemented by the State.

Actions identified by the public authorities in charge²² include the following: investment in physical infrastructure—from rural roads, roads to penetrate into the mountains and jungle, and energy and communications interconnection to irrigation infrastructure—is essential; issue and delivery of property title deeds; effective plans for rational water use; budgetary allocations for the implementation of the agricultural policy; design and implementation of programs for transparent and effective agricultural compensation payments; management schemes for adequate import quotas; sanitary and phytosanitary control to eradicate agricultural plagues and animal diseases; technical assistance and training for agricultural and farming producers; credit facilities; promotion of associativity; and promotion of sustainable forestry activities, among others.

5.2.6. *Support to the Small- and Medium-sized Enterprise Sector*

Even if SME activities are concentrated in urban areas, most SMEs are still missing out on the opportunities presented by globalization. However, it should be noted that, according to the

²² Agricultural Sector: Performance y perspectivas, Ministry of Agriculture, September 2004

Global Entrepreneurship Monitor (GEM)²³ Report, by 2005 Peru's Total Entrepreneurial Activity (TEA) stood at 40.15%, ranking at the top among the 34 surveyed countries, with a total average of 9.3%.²⁴ This offers a great opportunity, provided that the required actions to support this sector so that it can competitively embrace globalization, can actually be designed and implemented.

Based on the diagnosis provided by the authorities in charge of SME support, MINCETUR²⁵ has put forward some proposals: administrative simplification to bring down the formal regularization costs for SMEs; ownership regularization; credit facilities through an adequate regime of reserves, guarantees and insurance, creditor rights and stronger work by intermediary financial institutions, particularly micro-financial institutions; development of workers' capabilities in the technical-production, business management and foreign trade areas; technical assistance to SMEs; associativity based on production chains; fostering of technological innovation; and supply of information, among others.

5.3. Strengthening the Participation of the Private Sector in the Process of International Trade Negotiations

As already discussed, since the FTAA negotiations, the private sector has actively participated in the process of international trade negotiations. This dynamic has always counted on the support of the international cooperation, what facilitated the development of activities in the business and academic sectors and in the civil society. The investment made by the international cooperation in these private initiatives is among the most profitable ones if we take into account the investment in work hours that the private actors offer unconditionally, enthusiastically and free of charge.

The dynamic of the international trade negotiations on the agenda is very active and requires that the private sector and the civil society continue participating in this process. In this sense, the support to these activities through business associations and trade unions must enjoy a privilege, articulating the efforts of the academic sector and the civil society. These actions will enable that these interest groups can assimilate the trade policy and the contents of international trade negotiations, thus consolidating their active participation.

5.4. AFT Support Areas to New Trade Policy Challenges

In general, the new challenges faced by AFT have to do with focusing on the bottlenecks currently represented by the main restrictions to expand trade in the Peruvian economy. This section 5 includes a list of the areas where progress needs to be made.

Yet, the concept of expanding trade has other dimensions and perhaps, the most important challenge is to reach those territories that are currently apart from the participation in trade benefits. It must be understood, however, that this benefit does not necessarily mean that all the Peruvian people must become exporters.

²³ Global Entrepreneurship Monitor Report, Jaime Serida *et al.*, ESAN, 2005.

²⁴ The average for Latin America is 16.6%, ranking above all other regions.

²⁵ Trade Capacity Building Committee: MSMEs, MINCETUR

The social demand from the country's inland areas is authentic and fair. The open economy model has been consolidating since 1990, and a modern vision of trade is increasingly understood and accepted. Peruvian people want to see themselves as citizens of the world and to have an active participation in the economic globalization. However, the economic results, although highly positive, have not been enough. The initiatives aiming at the social and economic inclusion of the poorest population must be strengthened.

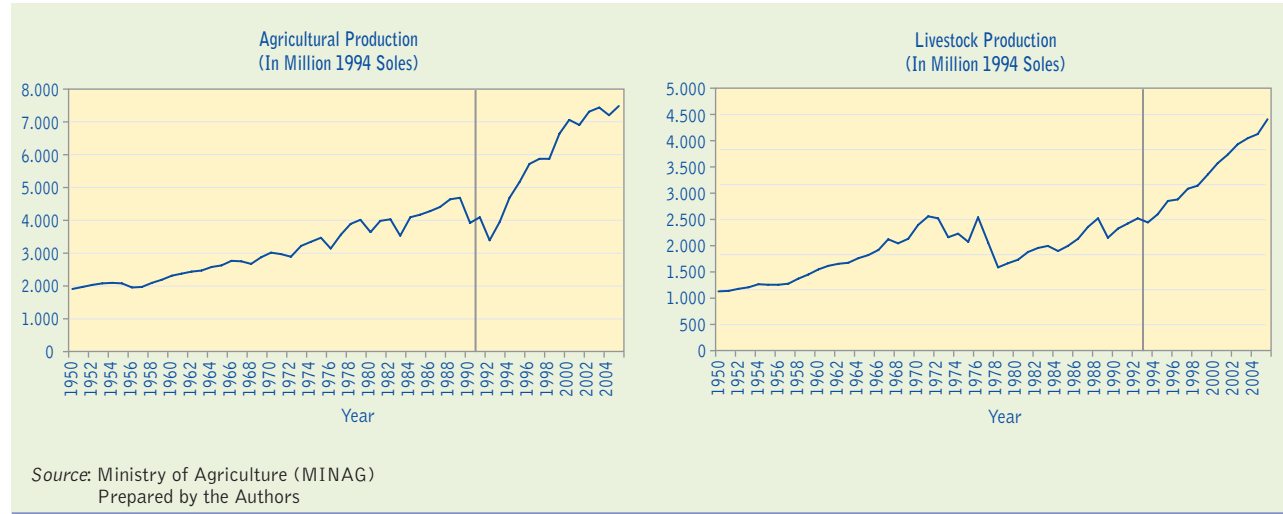
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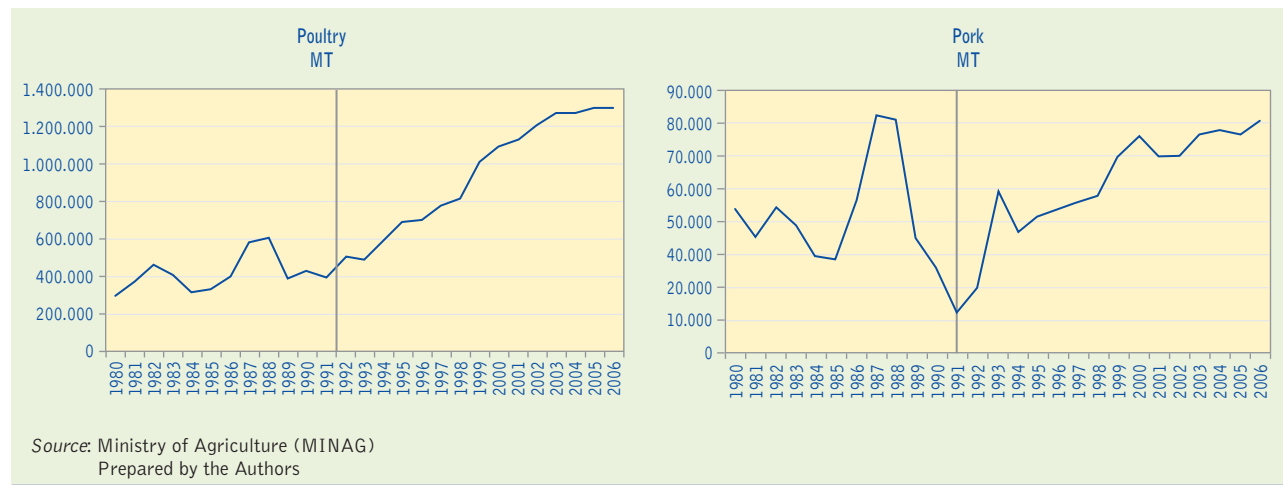
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Annex 1

Development of the Agricultural /Livestock Sectors in 1950–2006 in Million of 1994 Soles

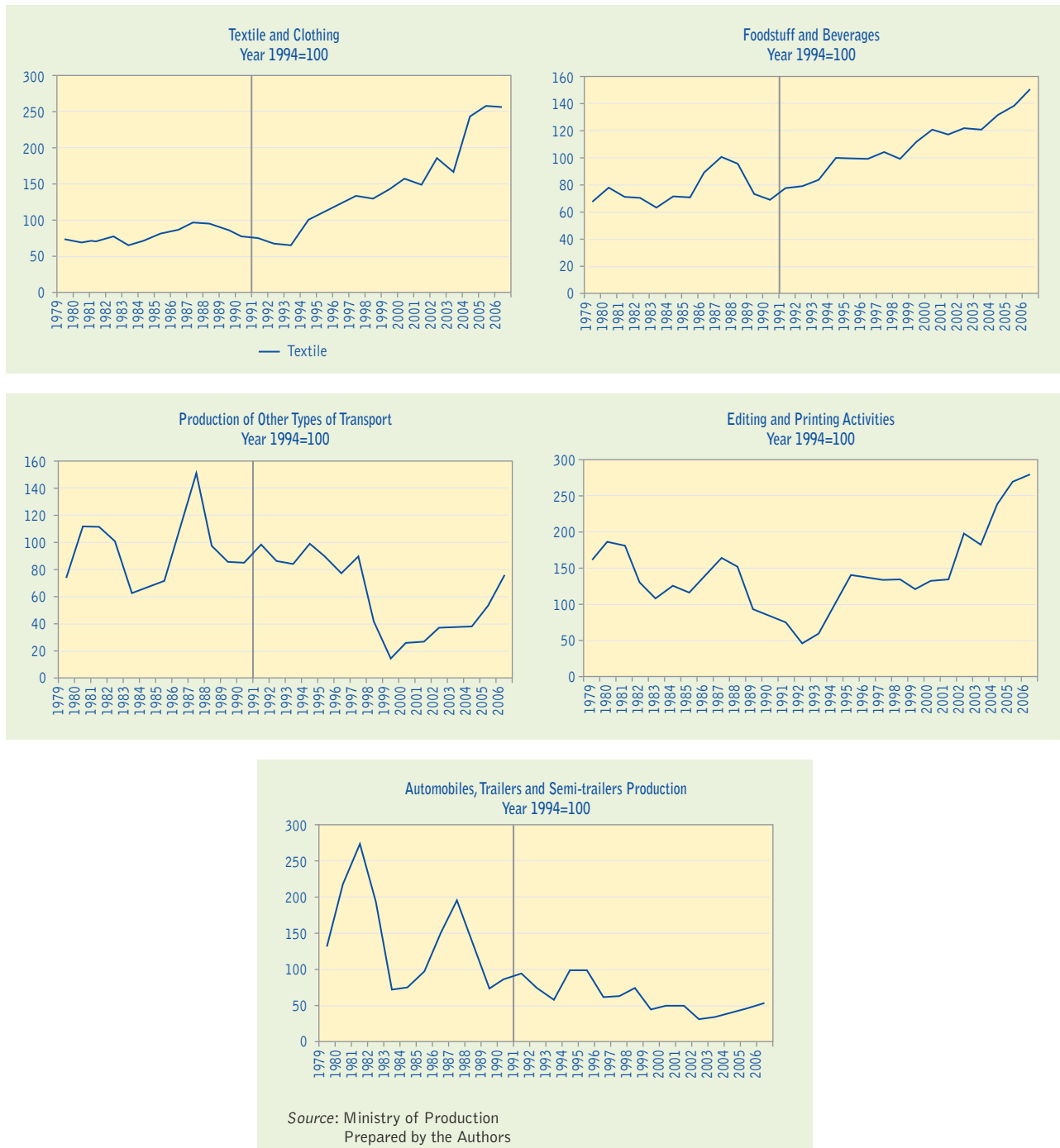


Development of the Agricultural /Livestock Production 1980–2006 in Metric Tons



Annex 2

Development of the Manufacturing Sector 1970–2006 Index of the Physical Volume of Production Base Year 1994 = 100



Regional Strategies Case Study

Mobilizing Aid for Trade in the Caribbean*

* This report was prepared by Elizabeth Parsan (Consultant) for the Conference “Mobilizing Aid for trade: Latin America and the Caribbean.” This is not an official document of the IDB and the opinions expressed herein are those of the author and do not necessarily reflect the views of the IDB or its member countries.

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1

The Context

The WTO 'Aid for Trade' initiative has emerged at an opportune time for the fifteen, small Caribbean countries that form the Caribbean Community (CARICOM).¹ Individual countries are engaged in an intense process of domestic restructuring, particularly those that have been seriously damaged by the loss in trade preferences.² At the same time, the region as a whole is pursuing vigorously a strategy of deepening regional integration to enhance domestic efficiency and improve international competitiveness. Overall, the intention is for firms to take advantage of the new and existing opportunities associated with world trade liberalization. In the short-run, trade liberalization could hurt Caribbean countries but once supply-side conditions are conducive they stand to benefit substantially in the long run. 'Aid for trade' is timely for the support it could provide to build productive capacity in Caribbean countries, boost trade-related infrastructure and assist firms adjust to a changing world trading environment.³

The 15 countries in CARICOM share certain common features as a result of their small size. They all have narrow productive structures and are heavily dependent on trade. Many also have limited natural resource endowments and their development is constrained by the lack of a sufficiently large and trained workforce. However, Caribbean countries are also at different levels of development and have varying economic and trading conditions. For example, St. Lucia is tourist-oriented with a per capita GNI of US\$4,580; Trinidad and Tobago is energy-based, with a per capita GNI of US\$10,300; and Guyana, which has one of the lowest per capita incomes in the region (US\$1,020), depends largely on agriculture. [22] Approximately 80–85% of Caribbean trade is with the developed countries, to which products such as oil, bauxite, rum, sugar and bananas are exported. In addition, about 90% of tourists to the region come from the USA. Intra-regional trade accounts for about 15–20% of the region's total trade.

A central aim of Caribbean countries' development strategy is to ensure their eventual integration into the world economy. Besides their own regional integration efforts, countries are actively

¹ The countries include Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines, Suriname, Trinidad and Tobago.

² An IMF study [2] had estimated potential losses from preference erosion to be substantial for Guyana—a 17.7% reduction in government revenue, 7.9% reduction in goods exports earnings and 5.8% reduction in GDP.

³ For other Caribbean countries, however, losses were expected to be less severe. See Annex 3.

In this paper, the term 'aid for trade' refers to "the flow of development finance from developed to developing countries."

engaged in negotiating trading agreements at the multilateral, inter-regional and bilateral levels in order to secure access to international markets. Currently, the region is involved in the Doha Round and the CARIFORUM-EU EPA trade negotiations. It is also pursuing bilateral negotiations with Canada and Central America, with Mercosur on the horizon, having signed previous free trade agreements with the Dominican Republic, Cuba and Costa Rica and partial-scope agreements with Venezuela and Colombia. CARICOM has been arguing vociferously for special and differential treatment in the Doha Round. An 'aid for trade' initiative could help to finance the region's participation in the Doha Round and help countries to implement agreements that will result from this and other trade negotiations.

Efforts to boost regional trade are part of a broader initiative aimed at creating a Caribbean Single Market and Economy (CSME). This initiative, which was first announced in 1989, is aimed at creating a single economic space where people, goods, services and capital could move freely and where the rights of establishment of enterprises are assured. The first landmark achievement of the CSME was made through the creation of the Caribbean Single Market (CSM) in July 2006. In addition to the wider regional effort, the eight OECS countries⁴ are also deepening integration among them and intend to form an OECS Economic Union.

Both the CSME and the OECS Economic Union are considered to be important building blocks for the region's international competitiveness and eventual integration into the world economy. According to the Director-General of the CRNM, however, in order for the very small size firms in the Caribbean to compete internationally, substantial intra-regional investment will be needed as well as government support for SMEs. [3] SMEs need *inter alia* access to capital, skills, technology, and marketing systems.

In order for 'aid for trade' to build trade competitiveness in the Caribbean, the trade-related needs of the Caribbean would have to be targeted at various levels:

- national needs, as reflected in national development strategies;
- sub-regional needs, as appropriate and outlined in the OECS Development Strategy; and
- regional needs that are currently being fleshed out in a Strategic Development Plan.

The Strategic Development Plan, which is due for completion in June 2008, is based on a Single Development Vision that was recently adopted by Heads of Government. A key objective of the Vision is "self-sustaining economic growth based on strong international competitiveness, innovation, productivity, and flexibility of resource use."⁵[10]

The significance of supporting the regional dimension of 'aid for trade' was recently highlighted by the IMF and the World Bank [11] as well as the WTO Aid for Trade Task Force [24]. The arguments put forward are that regional co-operation in trade-related regulatory policies (e.g.

⁴ They include six independent states: Antigua and Barbuda, St Kitts-Nevis, Dominica, St Lucia, St Vincent and the Grenadines, Grenada; and two overseas territories Anguilla and Montserrat. The British Virgin Islands is an associate member.

⁵ Annex 4 summarises aspects of the economic dimension of the Single Development Vision.

health and safety standards for products) and on infrastructure projects (e.g. sea transport) could help reduce the cost of compliance for individual countries and/or realize substantial economies of scale. One pillar of regional integration in the Caribbean is *functional co-operation*—the sharing of services and undertaking of joint activities in order to reduce costs and achieve synergies. Over the past 30 years or so, the Caribbean has benefited greatly from common institutions and policies such as the CRNM (trade); the Caribbean Customs Law Enforcement Council (Customs); the University of the West Indies (education and training); the Caribbean Agricultural Research and Development Institute (R & D); the Caribbean Commission on Health and Development (health); the Caribbean Meteorological Institute (climate); and the Caribbean Disaster Emergency Response Agency (environment).

In general, 'aid for trade' is required to support the region's efforts to trade both within the region and to world markets.

'Aid for Trade' in the Caribbean should facilitate, enhance and promote both intra-regional and external trade.

Secretary General
CARICOM Secretariat

2

Regional Co-ordination and 'Aid For Trade'

At present, CARICOM is pursuing trade liberalization along two paths. On the one hand, there is a drive towards opening up the region to the rest of the world where the widest markets exist. On the other hand, the region is seeking to liberalize its internal markets for goods, services and factors of production through the creation of the CSME. In both cases, the region has taken a regional approach to co-ordination.

2.1. External Trade

Regional Co-ordinating Mechanisms

Article 17 of the Treaty of Chaguaramas that established the Caribbean Community had made provisions for the co-ordination of external trade policies as follows:

...member states (should) aim at their fullest possible coordination of their foreign policies within their respective competences and seek to adopt as far as possible common positions in major international issues....[21].

In order to carry out the above mandate, CARICOM countries have devised a series of mechanisms. These mechanisms and the challenges involved in coordinating the regions's external policies are discussed below.

Towards the mid-nineties, it was clear that appropriate mechanisms had to be set up to support the range of trade negotiations that were on the horizon. The FTAA negotiations were announced in 1998, the Doha Round started in 2000, and the CARIFORUM-EU EPA negotiations began in 2004. Negotiations with the EU included the Dominican Republic, which together with CARICOM, formed CARIFORUM. There were also a series of bilateral negotiations to consider.

The structure that was put in place included the Prime Ministerial Sub-Committee on External Negotiations, which is currently led by the Prime Minister of Jamaica. This Committee reports directly to the CARICOM Heads of Government Conference, which is the highest level of policy-making in respect of international trade and economic negotiations. The Sub-Committee is assisted by the Council for Trade and Economic Development (COTED), which comprises Ministers in the region responsible for trade and economic development. COTED's main role is to coordinate CARICOM's common economic policies and it carries out many functions, which

include “to promote and develop, in collaboration with the Council for Foreign and Community Relations, co-ordinated policies for the enhancement of external economic and trade relations of the Community.”⁶ COTED reviews all recommendations made by the CRNM and the CARICOM Secretariat’s Directorate for Foreign Policy and Community Relations (FPCR), the two bodies responsible for coordinating the region’s external trade negotiations. Besides COTED, the CRNM liaises with many other agencies such as the Council on Finance and Planning, Council on Human and Social Development and Ministers of Labour, given the multi-faceted nature of the trade negotiations.

Regional co-ordination involves other actors. Ministerial Spokespersons are appointed to take lead responsibility in the various negotiating “theaters.” Currently, the Senior Minister and Minister of Foreign Affairs and Foreign Trade of Barbados oversees all external negotiations and leads the CARIFORUM-EU EPA negotiations; the Minister of Foreign Trade and International Co-operation of Guyana leads the WTO negotiations; and the Minister of Trade and Industry in Trinidad and Tobago leads the bilateral negotiations. Finally, the College of Negotiators, which is led by the CRNM, oversees all external negotiations, including the strategic, technical and logistical aspects.

Challenges of Coordination

To date, there has been no comprehensive study on the effectiveness of the above mechanisms although analyses have been undertaken of the work of the CRNM [14]. The role of the CRNM is to develop, coordinate and execute an overall negotiating strategy for the external trade negotiations in which the region is involved. It is the ‘nerve center’ of trade negotiations. In the absence of any recent analysis of regional co-ordination as a whole, this section mentions a few of the more visible challenges.

(i) The need for capacity-building is large and the co-ordination function is demanding

In earlier years, trade negotiations revolved around tariffs and involved mainly Ministries of Foreign Affairs and Trade. Up to 1998, there were a limited number of government officials trained in trade policy and commercial diplomacy. The emergence of large and complex negotiations meant that:

⁶ Other functions are: to promote the development and oversee the operation of the CSME; evaluate, promote and establish measures to enhance production, quality control and marketing of industrial and agricultural commodities so as to ensure their international competitiveness; establish and promote measures to accelerate structural diversification of industrial and agricultural production on a sustainable and regionally-integrated basis; determine and promote measures for the accelerated development and marketing of services; promote and develop policies and programmes to facilitate the transportation of people and goods; promote measures for the development of energy and natural resources on a sustainable basis; establish and promote measures for the accelerated development of science and technology; and promote and develop policies for the protection of and preservation of the environment and for sustainable development. [21]

- thousands of persons had to be trained in trade policy;
- training had to be provided to the public sector, the private sector and civil society groups, given the move towards inclusiveness; and
- formulation of negotiating positions had to involve staff from several government agencies (e.g. health, finance, legal affairs), given the expanded areas for negotiations (e.g. services, trade facilitation, intellectual property rights).

In order to deal with the above challenge, the CRNM was given a mandate to establish an effective program for developing and sustaining technical capacity and negotiating skills within the region. Over the ten-year period 1997–2007, the CRNM *in association with the international community*, has hosted hundreds of training workshops, seminars and conferences aimed at building trade negotiating capacity in the region. It has also arranged for staff from Caribbean countries to work at its own offices in order for them to gain a wider perspective on the trade negotiating process. These efforts have resulted in a considerable building up of negotiating expertise in the region.

(ii) Governments are often ill-equipped to formulate national negotiating positions

The coordination process requires as a first step, that each country formulate a national negotiating position. But many countries do not have the required human and technical capacity to formulate such positions. The situation is relatively better in larger countries such as Trinidad and Tobago, Jamaica, and Barbados but even these countries face challenges such as the lack of trade statistics in services. The smaller countries face other disadvantages, e.g. the private sector is weak and its input is often lacking. A more general problem exists, though, with respect to the absence of effective national trade strategies to help countries harmonize their positions in varying negotiating fora.

The CRNM has assisted countries by commissioning technical studies, preparing negotiating briefs and leading technical working groups. Studies have been carried out on specific industries (e.g. entertainment, organic foods and poultry) and themes (e.g. intellectual property rights, trade facilitation and non-agricultural market access). On many occasions, however, the CRNM has had to provide direct technical assistance to governments, placing a strain on its limited staffing.

(iii) Assembling negotiating positions across many countries is difficult

The second step in the coordinating process involves the assembling of national negotiating positions and formulation of common regional negotiating positions. This process has proven to be very difficult at times. As mentioned in Section 1, countries in the region are at varying levels of development and have different interests. Negotiations have been particularly difficult in the area of Market Access where reciprocity is involved for all. Arriving at common positions has entailed long delays at times, requiring methods of diplomacy to reach consensus.

(iv) Resources are scarce

The four sets of trade negotiations have required extraordinarily large sums of money. Travel from the Caribbean to Geneva, Brussels and even within the Caribbean is expensive. Meetings are also sometimes held in Africa, the Pacific and South America. Aside from this, the region has to carry out numerous studies, convene working groups for the 15 (or 16) countries, and undertake large, capacity building exercises. Many countries have not been able to travel to the scores of meetings that they were required to attend. On many occasions they have approached the CRNM for assistance but the CRNM itself has suffered from the lack of sufficient and timely funding, both from governments and the donor community.

In 2003, the CRNM set up a Technical Co-operation Unit to help mobilize funds for its activities. Table 1 in section 3 illustrates the kind of support that has been given over the past few years. 'Aid for Trade' has assisted the region tremendously in building negotiating capacity and facilitating participation in multilateral, inter-regional and bilateral negotiations. The benefits of the training provided from the present series of trade negotiations are likely to be spread over long periods of time since negotiating skills are typically sharpened with experience.

2.2. Intra-Regional Trade: The CSME

Regional Coordinating Mechanisms

The structure and mechanisms for the CSME are designed to ensure wide national and regional participation. At the highest level is the Prime Ministerial Sub-Committee on the CSME, which is chaired by the Prime Minister of Barbados and reports to the CARICOM Heads of Government Conference. It includes other Heads of Government with responsibility for Governance, Legal Matters, Labour and Social Security. The Sub-Committee is assisted in its work by COTED, which has overall responsibility "to promote the development and oversee the operation of the CSME." Given the multi-faceted nature of the CSME, a need has arisen in recent times for COTED to meet with other bodies such as the Council for Human and Social Development (COHSOD) to consider the wider socio-economic impacts of the CSME. Besides COTED, an Advisory Council assists the Prime Ministerial Sub-Committee in its deliberations. This Council has representation from the private sector, NGOs, and regional institutions and bodies.

There are specific mechanisms within each country to promote the CSME. There is a Ministry with responsibility for CARICOM Affairs and a national consultative system, consisting of an Inter-Ministerial Consultative Committee and a Business and Labour Advisory Council. Each country also has a National Focal Point. National Focal Points meet regularly with the CSME Unit, which was set up in Barbados in 2002 to facilitate the implementation of the CSME.

Status of Implementation of the CSM

In order to implement the Agreements for the CSME, all countries have had to undertake numerous legislative and regulatory changes, set up institutional support mechanisms and adopt

measures aimed at liberalizing trade. This sub-section outlines briefly key elements of the CSME and provides an update on their status as at May 2007 [9]

Institutional Support Mechanisms

The Caribbean Court of Justice (CCJ): The CCJ was inaugurated in 2005 to handle trade disputes in CARICOM. All member states have signed and ratified the Agreement for the CCJ and all, with the exception of Trinidad and Tobago, have enacted domestic legislation with respect to the Original Jurisdiction of the Court. The Court heard its first case in August 2005, involving a radio station that broadcast calypso songs criticizing the quality of a poultry farmer's produce. The farmer, who claimed that the negative publicity forced him to close his business, eventually won the case.

CARICOM Regional Organisation for Standards and Quality (CROSQ): CROSQ is the successor to the Caribbean Common Market Standards Council. It was created in 2002 to promote the harmonization of standards to facilitate both regional and international competitiveness. CROSQ serves as the Regional Accreditation Body and as an enquiry, notification and information point for WTO related matters. All member states have signed and ratified the Agreement establishing CROSQ. National Standards Bureaux have also been established in all member states except Montserrat and Suriname.

National Competition Authorities: National Competition Bodies have been established in Barbados and Jamaica. St. Vincent and the Grenadines and Trinidad and Tobago have principal Acts but not yet proclaimed. A Regional Competition Commission is to be inaugurated in Suriname in November 2007.

Other institutions to be set up include a Regional Accreditation Body and a Caribbean Animal Health and Food Safety Agency.

Free Movement of Goods, Services and Persons

Tariffs and Non-Tariff Barriers: With a few exceptions, all import duties and discriminatory charges have been removed on goods of CARICOM origin. Remaining unauthorized duties include a revenue replacement duty in Belize on a specific list of goods of Community origin; and environmental levies in Barbados, Belize, Guyana and St. Lucia.

Removal of Restrictions to Provision of Services: Legislative and administrative action has been taken by all member states to remove restrictions to the provision of services. However, programmes regarding the provision of transportation services are to be developed. National Coalitions of Service Industries have been established in several countries.

Free Movement of Skills: Legislation has been implemented in all member states to facilitate the movement of university graduates, artistes, media workers, musicians and sports persons. However, Antigua and Barbuda is still to proclaim legislation to provide free movement for these categories of workers. Persons who can now move freely throughout the region include self-employed service providers, entrepreneurs, technical, managerial and supervisory staff, spouses and immediate dependent family members and persons consuming services abroad.

Facilitation of Travel: A CARICOM, machine-readable passport has been introduced in Antigua and Barbuda, Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines, St. Kitts

and Nevis, Suriname and Trinidad and Tobago. A common E/D form has also been finalized and lines identified in all countries for CARICOM and non-CARICOM nationals at ports of entry.

Mechanism for Equivalency and Accreditation: There are fully functioning National Accreditation Bodies in Barbados, Guyana, Jamaica and Trinidad and Tobago. Other member states are at different stages of establishment. The Agreement for the Caribbean Accreditation Authority for Education in Medical and Other Health Professions is in force.

Common External Tariff (CET): All member states except St. Kitts and Nevis have implemented the Fourth Phase of the CET. Countries are expected to implement the Revised Structure of the CET based on the 2007 Harmonised System.

Harmonization of Laws

The harmonization of laws varies across legislative areas and countries. Developments to date include the drafting and review of 20 modules of model customs legislation; approval of a draft model of the regime for establishment, services and capital; and approval of a draft model of competition law. Laws are currently being drafted for consumer protection, anti-dumping and countervailing measures, standards and technical regulations, banking and securities, investment agreement and investment code, and sanitary and phytosanitary measures. Areas which have not yet been addressed include companies/other legal entities, intellectual property rights, labeling of food and drugs, commercial arbitration and subsidies.

In addition to the above, there is ongoing work on the removal of restrictions to the movement of capital and on the rights of establishment, on capital market integration and on common support measures such as investment incentives and investment policy, environmental protection, the legal infrastructure, and the financial infrastructure.

Challenges of the CSME

There have been many hurdles along the way to establishing the CSME. Initially, many countries were concerned about the movement of labour across countries. Labour mobility has been and still remains a sensitive issue. Once the decision was made to move forward it was recognized that there was a huge information deficit on the CSME. In response to this need, the regional CSME unit and governments throughout the region mounted large public education campaigns on the operations and benefits of the CSME. They also sought to allay fears about a potential loss of jobs.

The process of establishing the CSME has been moving very slowly, primarily because countries do not have the capacity to implement it. Capacity gaps exist in terms of human, institutional and financial resources. For example, at the initial stage of implementation, countries did not have the skills and finances to assess their own requirements for the CSME nor could they carry out the changes that were needed. Fortunately, the donor community contributed generously to filling these gaps. The UNDP funded studies in all 12 countries (US\$1.5M) to identify restrictions to the establishment of the CSME; and CIDA helped to institute the wide-ranging legislative and other amendments that were needed (CDN\$800,000).

Skill gaps in the region are particularly acute in areas such as legislative drafting, competition policy, trade remedies and intellectual property rights. In fact, it is proving difficult to source staff and resources for many of the new institutions such as the Regional Competition Commission. Once more, donor funding has been critically important in filling gaps. For example, the IDB is currently providing support to CROSQ (US\$1.4M). In the absence of external funding, governments have had to utilize scarce funds to mount large-scale training programmes in key areas such as customs and immigration.

It is now recognized that the establishment of the CSME will require much more time and resources than originally envisaged. The CSME will therefore be developed in two phases:

- Phase I (Mid 2007 to 2008): Consolidation of the Caribbean Single Market and Initiation of the Single Economy; and
- Phase II (2009–2015): Completion of the Single Economy

Perhaps the most difficult challenge that the CSME now faces, however, relates to the distribution of benefits among member states. A major contention is that Trinidad and Tobago, which accounts for about 90% of intra-CARICOM goods exports, stands to gain the most from deepening integration. In response to growing resentment against it, the government of Trinidad and Tobago recently launched a Caribbean Trade Support Programme (CTSP) “to assist its sister CARICOM States to enhance their economic performance by fostering diversification and improvement in trade capacity.” [8] The main component of the programme is a TT\$100 million (US\$16M) Technical Assistance Fund for the period 2004–2007, which is to be disbursed in the form of loans on an interest free basis to CARICOM firms (excluding those from Trinidad and Tobago). Funds are to be used for procuring technical assistance for consultancy services and training programmes, among others, for business development projects. Besides the CTSP, the Government of Trinidad and Tobago recently established a Petroleum Stabilisation Fund of TT\$300M (US\$50M) as a grant facility to assist countries experiencing economic hardships from oil price increases. Unfortunately, neither of these initiatives has helped to reduce the level of resentment against Trinidad and Tobago.

A few of the OECS countries welcome the CSME for its ability to absorb excess, unskilled labour from their countries. But some fear that the CSME will cause skilled labour to migrate to the larger, more developed countries and create a ‘brain drain.’ They are also concerned about their growing negative balance of trade in goods with the region. In fact, there was an initial delay in bringing the Single Market into full force in January 2006 because the OECS had refused to sign onto the agreement unless a promised Regional Development Fund that would compensate losers had been finalized.

Chapter 7 of the Revised Treaty of Chaguaramas had made provisions for assistance to be given to disadvantaged countries, regions and sectors in the CSME. Accordingly, governments have agreed to set up a CARICOM Development Fund (CDF) and a Regional Development Agency (RDA) to help countries adjust to the CSME. The CDF will be capitalised at US\$250 million, with US\$120 million to be contributed by member states and the remainder by the region’s private sector and regional development partners. The Trinidad and Tobago government

has already made a US\$20 million one-time contribution to the Fund. There has been a delay in setting up the CDF, however, due to varying opinions about its location. The original idea was to house it in the Caribbean Development Bank in order to minimize overhead costs. The key question regarding the CDF, however, is whether its resource base will be large enough to fulfill its purpose.

To date, the process of establishing the CSME has been uneven. Some countries are quite advanced in selected areas but lag behind in others. This poses a problem in terms of the region capturing the full benefits of integration. A related issue is how to monitor the benefits of the CSME and in particular, how to determine the extent to which regional competitiveness contributes to international competitiveness.

2.3. Implications for 'Aid for Trade'

Given the efforts being undertaken by Caribbean countries to liberalize trade and the challenges that are being faced, substantial resources will be needed to help firms benefit from new trading opportunities once the Doha Round, the CARIFORUM-EU EPA and other trade negotiations are completed. Considerable funding would also be required to complete the CSME. The quantum of resources that would be needed for the region over the next 5–10 years is not known at this time. But during the course of this study, Caribbean officials highlighted the many ways in 'aid for trade' could assist the region. Several of these are mentioned below.

- a. Build productive capacity, particularly at the sectoral and enterprise levels;
- b. Improve and expand infrastructure (e.g. in telecommunications, air and sea transport and electricity);
- c. Train trade officials, preparation of position papers and technical briefs to help countries participate effectively in all trade negotiations (e.g. Doha, ACP-EU, Canada-CARICOM);
- d. Establish and consolidate regional integration (CSME and OECS Economic Union); and
- e. Adjust to changes resulting from multilateral and other trade negotiations (e.g. to meet product standards such as sanitary and phytosanitary measures).

3

Mobilizing and Implementing Aid for Trade⁷

3.1. How Much Aid and for What Purpose

Since the start of the Doha Round, the Caribbean has received varying amounts of financial and technical assistance for trade. A large part of this has been for capacity-building to support external trade negotiations, particularly for the FTAA, the Doha Round and the CARIFORUM-EU EPA. It is not possible, however, to state how much aid the region has received for trade overall, which is a logical starting point for a discussion on the Caribbean experience of ‘aid for trade’ programmes. Statistics and contextual details on assistance for trade are not available in any one place either at the national, sub-regional or regional levels. The reasons for this are discussed below.

At the *national* level, aid information is usually collected in Caribbean countries by the Ministry of Planning (e.g. as in Trinidad and Tobago, Guyana and Dominica) or by a specialized agency (e.g. the Planning Institute of Jamaica). However, these agencies do not record aid information either by purpose (e.g. for trade only) or by trading arrangement (e.g. for the Doha Round). Further, since the trade function is typically spread across several government agencies and in some countries the private sector is also involved, it is difficult to track all the funding that an individual country receives. In Jamaica, for example, *at least* seven agencies receive assistance from donor agencies for trade capacity-building: the Ministry of Foreign Trade and Foreign Affairs, the Ministry of Finance, the Ministry of Agriculture, JAMPRO, the Jamaica Manufacturers’ Association, the Private Sector Organisation of Jamaica and the Planning Institute of Jamaica.

A similar situation exists at the *regional* and sub-regional levels. The CRNM may receive the bulk of funding for trade negotiations but other regional institutions such as the CSME Unit, CROSQ, CARDI, IICA, and the CAIC may also obtain technical and financial assistance. At the *sub-regional* level, the OECS Secretariat in St. Lucia may obtain trade assistance but other agencies such as the OECS Export Development Unit in Dominica also source funds for trade.

Assistance for Trade Capacity-Building

In the absence of comprehensive data, examples of assistance for trade policy and regulations are shown below.

⁷ The wide-ranging issues involved in mobilizing and implementing aid could not be addressed in this paper due to its limited duration. In particular, it was not possible to (i) assemble a wider range of examples; (ii) explore issues from a donor agency’s perspective; and (iii) distinguish among the policies and practices of different donor agencies.

TABLE 1: Examples of Donor Support for Trade Policy and Regulations – A Regional Focus

Project	Donor Agency	Amount	Period
OECS Trade Policy Assistance Project	CIDA	CAN \$3.0 M	1999–2004
CRNM Support Project	CIDA	CAN\$2.5 M	2000–2007
CRNM-CARICOM Trade Programme II (Training, institutional strengthening)	DFID	£1.6 M	2002–2007
Support to the CRNM for the EPA Negotiations	EU	€1.089 M	2004–2007
Strengthening the Private Sector's Participation in CARICOM's External Trade Negotiations*	IDB/MIF	US\$1.045 M	2005–008
Establishment of a Services Trade Unit in the CRNM	CDB	US\$300,000	2003–2006
Establishment of an Agricultural Trade Negotiation Unit in the CRNM	CDB	US\$342,000	2001–2004
Support for Training, Technical expertise, Institutional Strengthening*	USAID	US\$897,480	2006–2009
Support to the CRNM in Preparing for CARICOM's External Trade Negotiations*	IDB	US\$400,000	2004–2008
Preparation of CARIFORUM Goods and Services Market Offers*	COMSEC	£290,400	2006
Support for WTO negotiations*	GTZ	US\$122,500	2005–2007

Source: Caribbean Regional Negotiating Machinery; OECS Secretariat

* Non-refundable technical assistance to the CRNM

The WTO Aid for Trade Task Force defined trade policy and regulations to include “the training of trade officials; analysis of proposals and positions and their impact; support for national stakeholders to articulate commercial interest and identify trade-offs; dispute issues; and institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.” [24, p.2]

The projects listed in Table 1 involved the following activities:

- Training for government trade officials and a lesser extent, the private sector;
- Attendance at technical meetings, conferences and trade negotiations within and outside the region;
- Conduct of technical studies;
- Organization of regional consultations;
- Assistance to national governments on request;
- Representing the region in negotiating fora;
- Hiring of staff;
- Hiring of advisors in specific areas to assist in formulating negotiating positions;
- Support for setting up specialized units within the CRNM;
- Formulation of trade policies; and
- Awareness-raising programmes, e.g. for the media, private sector and civil society.

The above projects are *regional* ones. In addition to these, donors have funded scores of trade capacity-building initiatives at the *national* level. As pointed out in Section 1, each country has

at least two sets of needs: national and regional. Others may also have sub-regional needs. One issue that would need to be addressed in the “Way Forward” is how best to co-ordinate these needs. The region should avoid situations where a country solicits funding for an activity that may be more appropriate and cost effective to undertake at a regional level; or where assistance is sought for projects that go against regional commitments e.g. fiscal reforms that affect application of the CET.

Other ‘Aid for Trade’

Since 2004 and particularly in light of the breakdown of the FTAA talks and slowdown in the Doha Round, there has been a shift towards trade and competitiveness programmes. A few of these are listed below.

- IDB: Strengthening market access for SMEs in the Caribbean Agri-food industry (\$2.6M); and establishment of a harmonized regional quality infrastructure to improve competitiveness (US\$1.4M);
- EU: Private Sector Development Programme “Competitive Jamaica” (US\$22.6M);
- DFID: “Business Linkages Challenges Fund” to support business linkages and improve competitiveness in Jamaica. (US\$21.3M)
- USAID: Improving Private Sector Competitiveness (US\$ 3.0M)
- CIDA: CARICOM Trade and Competitiveness Program (CAN\$14.5M) to support CSME implementation and the CRNM.

3.2. Mobilisation Issues

The Caribbean experience with mobilizing assistance for ‘aid for trade’ programmes is linked to the problem of mobilizing aid in general. CARICOM countries face great difficulties in mobilizing aid because many of them are middle-income and therefore perceived as being “well-off” and not in urgent need of assistance. However, as is well known, per capita income is not an adequate measure of a country’s standard of living or quality of life. Since it is not within the scope of this paper to address the range of issues involved in aid mobilization as a whole, the discussion below makes reference to specific trade projects.

Caribbean countries have had mixed experiences in mobilizing aid for specific trade projects and programmes. In some instances, it has been relatively easy to obtain aid and projects have had excellent results. In other cases, countries have had to practically beg for aid to carry out projects. Some projects have had unintended consequences, either because little time was spent on assessing needs or other donors had already carried out similar exercises. One example of a well-thought out and executed project is discussed below.

Example: CIDA’s Trade Policy Assistance to the OECS (1999–2004)

The OECS countries currently benefit from region-wide projects or those undertaken on a much wider scale e.g. the ‘Hub and Spokes’ project for ACP countries. But in

some instances OECS-specific initiatives are needed because they are able to target the particular needs of the sub-region. CIDA's Trade Policy Assistance Project is regarded as one of the most beneficial to the OECS since it was designed to suit its specific needs. The aims of the project were to facilitate the development of an OECS international trade strategy, to strengthen capacity to meet obligations under regional and international trade agreements, and to enable countries to participate effectively in trade negotiations.

The tremendous amount of time and effort spent at the detailed design phase contributed in large measure to the success of the project. The needs assessment exercise involved extensive consultations in all six countries; and a range of stakeholders were consulted, including trade ministries and private sector associations. Needs were also assessed within the context of the OECS' development strategy.

One point to emphasise is that during the design phase, major donor representatives in the region were consulted on their activities and plans for the OECS as well as on their interest to develop coordinated strategies. By undertaking this exercise, CIDA ensured that it did not duplicate work being done by other agencies.

In terms of execution of the project, positive aspects were identified as good interaction with CIDA officials, quick disbursement of funds, and ability to have problems ironed out speedily.

However, not all projects move as smoothly as the one mentioned above. Countries experience various kinds of problems in accessing assistance for trade.

Donor-Driven Assistance

In many instances, the aid that countries receive for trade typically form part of larger programmes that address a particular theme in which a donor agency is interested. These programmes may be carried out over a 3- or 5-year period. Donors would then identify project priorities within this broad framework, in consultation with governments, regional agencies and other stakeholders. The cumulative impact of this objective-setting by individual donors creates problems for Caribbean countries in at least two ways:

- i. Countries have to spend a lot of time studying the priorities of a range of donors in order to ascertain what can or cannot be funded under a specific programme; and
- ii. Since there is no donor harmonization in funding country trade programmes, certain elements of a country's trade programmes may remain unfunded.

Example: Jamaica's attempts to seek funding to fulfill the Uruguay Round Agreements.

Up to May 2006, more than ten years after the Uruguay Round was completed, Jamaica was unable to secure funding to implement agreements in areas such as sanitary and phytosanitary measures. In funding Jamaica's trade programmes, donors may have been 'cherry picking,' funding only the elements that are in their list of priorities.

Often, a donor agency will say “we can fund this, but not that.” The “that” may be a programme, which will complement another in order to achieve a given objective. The end result is that objectives of programmes may be partly met or not met at all. In some instances, the focus may be on meeting donor priorities rather than on fulfilling recipient countries’ objectives.

The Proliferation of Needs Assessment Exercises

In order to secure funding, a country must demonstrate that there is a need. A great deal of time must therefore be spent on assessing needs. Countries sometimes do not have the skills to carry out proper needs assessment exercises and donor agencies may carry out their own comprehensive needs assessments. Once again, the cumulative impact of individual donor actions has had undesirable consequences. A lack of donor harmonisation has led to a proliferation of needs assessment exercises over the past few years and a considerable waste of resources both on the part of donors and Caribbean countries.

Example: The FTAA, EPAs and Doha Round ‘needs assessment’ exercises

Since 1995, the Caribbean has received assistance to support various trade negotiations. While the region has welcomed such ‘aid for trade,’ this has involved the conduct of a multitude of ‘needs assessments’ exercises utilizing substantial human and financial resources. For example,

In 1995, when the FTAA trade negotiations began all 15 countries in the region were mobilized for a massive OAS trade capacity-building project. This project involved extensive work in trade ministries and other institutions to assess trade capacity needs. This voluminous work, however, was laid to rest when the FTAA talks stalled. Ultimately, it could not be used by the region.

In 2002, when the CARIFORUM-EU EPA negotiations started, another round of needs assessments began in the 16 CARIFORUM countries. These were also quite extensive but moved one step further. They involved both national and regional needs assessments.

In 2005, in the midst of the EPAs needs assessment exercise, the WTO announced the ‘Aid for Trade’ initiative. Countries were asked: what are your needs? A four-country study was undertaken in CARIFORUM to determine needs.

At present, there are now several lists of needs in the Caribbean. Most people remember the FTAA list because of the intensity of the exercise but there is now an “EPAs list,” a “CSME list” and other lists covering specific sectors (e.g. agriculture)⁸. Many of these are internal lists. For example, the EPAs list is not a public one since the EPAs are currently under negotiation. Others are simply in-house and not available for consultation.

The larger issue associated with the above exercises is that, except for the present CARIFORUM-EU EPA negotiations, no money has been forthcoming to assist countries to develop

⁸ See for example [20].

trade. The FTAA never got off the ground and the 'Aid for Trade' initiative is now embroiled in debate over what it is or should be.

In-Country Processes

Countries often complain about the delays in getting approval for funding from external agencies, but their own processes may sometimes be the cause of delays. For example, an 'aid for trade' agreement may be prepared in a timely manner and forwarded to a government agency, but certain "micro-level issues" could serve as hindrances. Typical situations are mentioned below.

- a senior person is not available to provide a signature and no provisions are made for an alternate;
- an agreement is held up in a legal department, sometimes for up to a year, because of a lack of personnel; and
- internal politics delay decisions about which government department should be the executing agency.

Donor agencies are not normally able to influence the above processes and they may become frustrated in their attempts to provide aid in a timely manner.

3.3. Implementation Issues

The implementation of projects carries all kinds of difficulties. Trade projects are no exception and challenges exist both on the donors and recipients side.

In the Caribbean, project implementation suffers from a lack of people, skills and modern information systems. Many countries, especially the smaller ones, do not have computerized systems to implement and monitor projects efficiently. Project management skills are also lacking in all countries—irrespective of size. Sometimes a donor may be ready to disburse funds but counterpart staff cannot be found. This could cause delays, which may be compounded by problems such as cumbersome procedures, local politics, and inefficient local staff.

Donor agencies usually have competent management teams to implement projects and modern equipment and systems. However, many Caribbean countries complain about two problems: delays in disbursement and complex and burdensome reporting procedures.

Each donor agency has its own procedures for drawing down funds from a loan or grant agreement and for reporting. Small Caribbean countries face tremendous hardships, however, when they have to deal with seven or eight different disbursement and reporting procedures. The amount of time, for example, that has to be spent on form-filling is 'mind-boggling'. When records are not computerized, the task is increased 100-fold.

The process for approving and disbursing aid can be quite lengthy. The most difficult one is that of the European Union.

Example: The European Union's complex aid approval and disbursement procedures

CARICOM countries receive some of the most useful trade assistance through EU-funded agencies such as ProInvest, CDE and CEDA. However, the potential value of this assistance is reduced substantially as a result of the EU's complex aid procedures. Two examples—one regional and the other national—serve to illustrate the problems that countries experience.

In February 2004, the CRNM received grant funding for improving regional capacity in trade and economic negotiations. The agreement was due to expire in January 2005. However, owing to a combination of factors, including delays in implementation of the 9th EDF Caribbean Integration Support Programme the programme had to be extended five times. The final disbursement of funds was made in April 2007. During the period when no funds were available, the CRNM had to seek alternative sources of funding and postpone or cancel meetings.

Another example is in regards to the EU's Support to Dominica for the Banana Industry, 2004–2007 (US\$6.6M). The banana farmers were initially pleased to hear the announcement about the aid they would receive for re-structuring. However, after waiting a very long time for the assistance, they eventually left the land since they had to find alternative ways of feeding their families.

In this latter case, ensuring that procedures were followed appeared to be more important than meeting the objective of helping the banana farmers.

The EU's cumbersome procedures are well known and documented. In an evaluation of European Community support to the private sector in five countries (Jamaica, Mexico, Morocco, Vietnam and Zambia) covering the period 1994–2003, the following comments were made [1, p. 35]:

Two factors inhibit the efficiency of many European Community programmes: the complexity of EC procedures and the delays incurred at different stages of the programme cycle....procedures are slow and heavy to the point that several sources declared their preference for working with other donor agencies.

3.4. Implications for Future 'Aid for Trade'

The above discussion highlights a few points that should be borne in mind in any future 'aid for trade' programme:

- a. There is an urgent need for donor harmonization in the region—to avoid duplication of efforts, to reduce conflicts during implementation, to simplify disbursement and reporting procedures, to coordinate needs assessment exercises, and to ensure that the needs of countries are met.
- b. Although it is recognized that each donor has its own interests, countries should not allow donors to impose their objectives in programme planning;

- c. Countries should seek assistance to improve project management skills and upgrade information systems; and
- d. Countries should seek efficiency improvements so that aid is received and utilized in a timely manner.

4

The Way Forward

In view of the domestic and regional re-structuring that are currently underway in the Caribbean and the urgent need for resources to fund on-going and planned activities, an ‘aid for trade’ initiative could be of tremendous help to the region. However, given the complexity of issues involved and conflicting opinions about it much more discussion is needed on the subject. In this section the main areas that require in-depth discussion and agreement are outlined and then some ideas are advanced in respect of the “Way Forward” for the Caribbean.

4.1. The WTO ‘Aid for Trade’ Initiative: Recent Developments

‘Aid for trade’ was first announced at the Doha Ministerial in Hong Kong in 2005 “to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.” Amidst much controversy about its purpose and mode of implementation a WTO Aid for Trade Task Force was appointed in July 2006 to advise on how to “operationalise” the initiative. The Task Force submitted its report in October 2006, which was subsequently adopted by the WTO membership [24]. Since that time, however, the initiative and the recommendations of the Task Force have continued to be the subject of much debate. Key developments that have taken place over the past year are mentioned below.

- a. The ‘aid for trade’ initiative has been de-linked from the WTO.

It had been argued that since the WTO was not a development agency, the initiative should not reside in that institution. As a result, the WTO now has only a monitoring role in ‘aid for trade.’ Countries which feared that ‘aid for trade’ would be linked to concessions in the Doha Round were pleased with this development.

The WTO intends to carry out its monitoring role by hosting annual reviews of ‘aid for trade’ in the General Council and also, by including assessments of ‘aid for trade’ in its Trade Policy Reviews. According to Sheila Page from the ODI [17], developing countries can use their voice in the WTO to raise issues about the level and nature of ‘aid for trade’ that is provided. However, the usefulness of the WTO’s monitoring exercise has been brought into question since:

there are no criteria for that monitoring either of quantity or of effectiveness, as the Report of the Director-General does not mention additionality, and does not define what 'trade needs' are to be covered. [17, p.33]

- b. 'Aid for trade' is now under the control of the international financial institutions.

The World Bank and the IMF are expected to address 'aid for trade' at their forthcoming September meeting and they will undoubtedly make suggestions on how the initiative is to move forward. Developing countries could use this forum to influence the direction of 'aid for trade'. It should be noted, however, that whereas the IMF has recognized that trade has a legitimate priority in aid through its Trade Integrated Mechanism (TIM),⁹ the World Bank still maintains that it has no responsibility for WTO-related needs.

- c. 'Aid for trade' will have to work through existing funds, multilateral and bilateral.

Early 'aid for trade' discussions had explored the possibility of setting up a global trade facility similar to the Global Environment Fund (GEF), which would house the 'aid for trade' initiative. However, both donors and recipients have agreed that 'aid for trade' does not require a separate institution. Rather, it should work through existing bilateral and multilateral funds. This means, for example, that individual donor agencies may have to set up new funds or new sections of funds within their institutions to facilitate 'aid for trade.'

d. When the 'aid for trade' initiative was first launched, everyone seemed to agree on the principle of 'additionality.' That is, additional funds should be earmarked for 'aid for trade.' However, over the past year the issue of 'additionality' has not featured in global discussions.

4.2. Core 'Aid for Trade' Issues for International Discussion and Agreement

The Scope for 'Aid for Trade'

Currently, donors, international organizations, individual countries and regional communities have varying opinions on what should be covered under 'aid for trade.' Unless there is agreement on this, it will be difficult to discuss the way forward.

The Aid for Trade Task Force had addressed the issue of scope by outlining potential areas for coverage that included both WTO-related needs and general needs. But there is not widespread support for this approach. The Task Force attempted to categorise needs based on the WTO/OECD classification as follows¹⁰:

- Trade policy and regulations;
- Trade development;

⁹ This facility was devised in 2004 to help countries cope with the effects of trade liberalization.

¹⁰ Annex 5 provides details of each category.

- Trade-related infrastructure;
- Building productive capacity;
- Trade-related adjustment; and
- Other trade-related needs

There are obvious problems with trying to draw up categories of ‘aid for trade’ since in practice it is difficult to draw a line between ‘aid for trade’ and ‘aid for development.’ ‘Aid for trade’ would be most useful if it is integrated into development programmes—both at the national and regional levels. Within this context, what may now be needed is a mechanism for integrating trade-related capacity building with the broader development issues of production, infrastructure and financial adjustment. Accordingly, discussion and agreement will be needed on the identification of ‘aid for trade’ components in country and regional programming exercises.

The Task Force mentioned the importance of identifying regional needs, but its recommendations appeared to largely support a country-based approach:

Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country’s national development strategies.

Some have argued that quite apart from national needs, ‘aid for trade’ is also required to fund international public goods such as multilateral trade liberalization. This supports the argument that ‘aid for trade’ should be used to help countries that have suffered from preference-erosion, an issue that has generated much controversy. International discussion and agreement is needed on the approach to ‘aid for trade.’

A Mechanism for Donor Coordination

The Task Force underlined the importance of donor coordination in facilitating ‘aid for trade’ as follows:

Greater donor and agency coordination and harmonization of procedures—at both the local and global level—is critical. Trade-related programmes and projects should be more coherent, both in terms of operations and policy

Donor harmonization is an issue that has been around for decades. In 2005, however, aid donors signed up to principles of ownership, alignment and harmonization through the Paris Declaration on Aid Effectiveness. The principle of harmonization requires donors to streamline and harmonise their policies. Such harmonization, however, has not taken place. Given the existing situation, it is perhaps incumbent on countries and regions themselves to set up mechanisms for coordinating donor efforts.

The Task Force had suggested the establishment of National Aid-for-Trade Committees, to assist *inter alia* in matching “demand” and “response” for ‘aid for trade.’ Such a committee should include:

- recipient countries;
- donors; and
- other relevant stakeholders, such as the private sector

The usefulness of establishing Aid-for-Trade Committees merits discussion—both on the national and regional fronts. Such Committees could agree project priorities, sources of funding for projects, and commitments to predictable funding.

Systems for Monitoring and Evaluation

The WTO is currently discussing the approach to monitoring and evaluation of ‘aid for trade.’ Preliminary discussions indicate that monitoring is to be undertaken at three levels (a) global monitoring; (b) monitoring by donors in the form of self-evaluations; and (c) in-country monitoring.

Keeping track of key data such as the volume and purpose of ‘aid for trade’ is obviously very important. So, too, is assessing the usefulness of ‘aid for trade.’ However, since the cost of compiling statistics is high, discussions are needed at the outset on the whole issue of data collection and dissemination. Key issues for discussion should include the type of data to be collected, the methods of collection and the responsibility for collection and dissemination. Elaborate questionnaires are time-consuming and most developing countries do not have the institutional capacity to support complex, data-gathering exercises. On the issue of evaluations, it is a well-known fact that these are very expensive. One suggestion is for countries to devise simple, self-evaluation formats for small projects which they can carry out; and allow donors to conduct the larger project evaluations.

4.3. Suggestions on a Way Forward for the Caribbean

The debate on ‘aid for trade’ may continue well into the future. Since it has been agreed, however, that future aid for trade should come through existing funds the region will need to consider how best to organize itself to receive such funds and how best to harmonize donors’ efforts to ensure funding.

In recent years, the Caribbean has undertaken a considerable amount of work in the field of trade and development. In order to benefit from an ‘aid for trade’ initiative, however, further work will be needed along two lines. First of all, existing lists of trade-related needs will have to be consolidated and attempts made to ensure that these lists are in line with development priorities of individual countries, the sub-region and the wider region. Secondly, a mechanism will have to be created to harmonize donors’ efforts so as to ensure that the region receives the required level and nature of funding. Each of these points is elaborated upon below.

a. Coordinate Trade-related Needs and Ensure that They are in Line with Development Priorities

As mentioned in Section 3, there are currently many different lists of trade-related needs in the Caribbean. As a starting-point, it will be necessary to bring those lists together and ensure that they are in line with national, sub-regional and regional priorities. Agreement will be needed on an appropriate format for consolidated lists and work will be required to produce the following:

- national lists;
- a sub-regional list; and
- a regional list.

The region will face two challenges in consolidating the above lists. First of all, it will have to ensure that trade-related needs are in line with development priorities; and secondly, that the national, sub-regional and regional lists are properly synthesized. Clearly, the latter presents the greater challenge.

In regards to the first challenge, the region could draw upon existing development strategy and/or medium/long-term planning documents at the country, sub-regional and regional levels. Examples of these are mentioned below:

Development Strategy Documents

National Level

“Vision 2020” (a long-term development plan for Trinidad and Tobago from which an implementation plan has recently been produced);

A “Growth and Protection Strategy” (produced by Dominica with assistance from the World Bank and IMF); and

A Medium Term Social and Economic Framework

Sub-Regional Level

Towards an OECS Development Strategy (to be updated soon)

Regional Level

CRNM Strategic Plan 2003/04 – 2007/08 (to be updated soon)

A Strategic Development Plan (due for completion in June 2008).

As mentioned in Section 1, the Strategic Development Plan is based on the Single Development Vision. This Vision envisages linkages between national strategies and the regional strategy (See Annex 6). While these connections may be made in the long run, such linkages do not exist at present. In the short run, therefore, the region will have to discuss how best to synthesize lists of national and regional trade-related needs.

Some Results from Sector Need Assessments (Undertaken on a Regional Basis)

The majority of needs assessment exercises in the Caribbean are undertaken within a broad country programming framework and are available by sector. Some examples from recent sector analyses undertaken at a regional level are mentioned below.

Agriculture (Agriculture Donors' Conference List)

- Hot pepper production marketing and trade
- Small ruminant production, marketing and trade
- Improved crop production technologies to enhance competitiveness
- Rural finance for competitive agribusiness
- An effective and efficient marketing system for the OECS
- Agricultural health and food safety systems in the OECS
- Agribusiness clusters in the Caribbean agribusiness industry
- A competitive anthurium industry

Agro-Tourism (IICA List)

- Formulation of National AgriTourism Strategic Plans
- Farm to Table Projects (production capability)
- Establishment of AgriTourism website with links to trade
- Study to Assess Status of Greenhouse Production Systems
- Establishment of AgriTourism Centres
- Training on Clustering and Business Management
- Development of Plantation Heritage Sites
- Development of Culinary Tourism
- Development of Herbal Businesses

Services (CRNM List)

- Technology needs assessments for the enhancement of key service sectors
- Development of networks between universities, research centres and the public and private sectors
- Studies on the creation and development of brands
- Training for the strengthening of investment and promotion organizations to develop a capability in the export of services
- Training in customer service and services excellence
- Assistance to national and regional organizations to help them meet international standards in key service sector
- Development and enhancement of facilitation offices for services trade

It should be pointed out that services, an area which is of great significance for the region has not attracted much funding in the past. The CRNM recently drew attention to the results of a recent survey of ongoing and completed technical assistance initiatives in CARIFORUM, which

revealed that only three of the 200 trade-related projects had specifically targeted services, most of which were for the public sector. These were:

- Establishment of a Services Trade Unit at the CRNM (US\$600,000 – DFID and CDB);
- Creation of a Services Trade Unit in the Trinidad and Tobago Chamber of Commerce (C\$100,000 – CIDA); and
- Awareness-raising programme to allow the Caribbean Association of Industry and Commerce to inform Caribbean services firms of the implications of the GATS, FTAA and the CARICOM Single Market (C\$100,000 – CIDA).

The survey included the CDB, CIDA, DFID, the EC, IDB, OAS, UNDP, USAID and some small European bilateral donors.

b. Appoint and ‘Operationalise’ Aid-for-Trade Committees: Recipients + Donors

A mechanism will be needed to harmonize donors’ efforts in the region. One option is to set up Aid-for-Trade Committees at three levels: national, sub-regional and regional. This should not be a difficult exercise since the region could draw upon existing structures for this. Examples of these are cited below:

Structures for Aid-For-Trade Committees

National Level

- the Jamaica Trade and Adjustment Team (a public-private sector organization that oversees all trade negotiations); and
- the Trade Policy Coordinating Committee (TPCC) in Dominica.

Sub-Regional Level

- the Trade Negotiating Group (TNG) that includes representation from the six independent OECS member states.

Regional Level

The CARIFORUM model, which was used to discuss trade priorities in the CARIFORUM-EU EPA negotiations, could be utilized for wider ‘aid for trade’ discussions at the regional level.

Discussions for EC funding under the European Development Fund have involved widespread participation from various groups to agree funding priorities. For example, representatives from the following countries/institutions participated in the 10th EDF programming exercise in June 2006:

- CARIFORUM member states;
- CARICOM Secretariat and OECS Secretariat;

- Regional bodies such as UWI, Caribbean Tourism Organisation; and
- Non-State Actors, including CAIC, Caribbean Congress of Labour, Caribbean Employers' Confederation and Caribbean Policy Development Centre.

The efficacy of assembling sub-committees to conduct work in specific areas could also be explored, e.g. on specific themes such as simplification of donor reporting procedures (ad hoc) or specific sectors such as services (permanent).

The Substantive Work of Aid-for-Trade Committees

The substantive work of Aid-for-Trade Committees could include the following:

- a. Measurement and monitoring of 'aid for trade' in the Caribbean;
- b. Simplification of disbursement and reporting procedures;
- c. Establishment of project priorities;
- d. Matching of donor funds to country/sub-regional/regional projects; and
- e. The carrying out of programme/project evaluations.

How Much Aid is Being Provided?

As noted in Section 3, there are no centralized records of 'aid for trade' in the region. The Committees will have to discuss how best countries could capture and record such information. As a start, however, donor agencies could assist the region by compiling a Caribbean 'Aid for Trade' report, drawing upon their records. This will help to provide a benchmark against which additivity could be measured.

Simplifying Disbursement and Reporting Procedures

Most donor agencies in the Caribbean have adopted the Paris Declaration of Aid Effectiveness, which seeks more coherence, accountability, improved performance and harmonisation in the delivery of donor assisted programmes. The CARICOM Secretariat is now collaborating with partners in the region and has agreed to play a lead role in the coordination of donor supported activity. The aim is to ensure the efficient implementation, reporting and monitoring of regional programmes, with an initial focus on harmonized reporting. 'Aid for trade' could benefit substantially from such an initiative.

Establishing Project Priorities and Matching Funds

The issue of project priorities is an important one to the extent that funds are not unlimited. Donor-recipient discussions could assist greatly in ensuring that needs are addressed at all levels. Enhanced co-ordination would eliminate duplication of efforts, ensure transparency in terms of who is funding what and hopefully, lead to more predictable funding. It could also assist with securing funding for areas that have been traditionally under-funded such as services and cross-border projects that may be too difficult for countries to fund on their own.

Programme Evaluation

Consideration could be given to Caribbean countries undertaking evaluations of small projects and donors carrying out the larger, complex evaluations.

c. Host a Regional ‘Aid for Trade’ Donors’ Conference on a Biennial Basis

Increasingly, many of the needs of countries in the Caribbean are being defined within a regional setting and donors themselves are moving towards a regional approach to aid. For example, the CARIFORUM-EU EPA discussions are pursuing aid initiatives along regional lines. It will therefore be useful if a separate meeting could be held, on a regional basis, to address the funding of ‘aid for trade.’ This is important for at least three reasons. Firstly, it will allow both donors and Caribbean countries to view the totality of projects that are to be funded at all levels; secondly, it will minimise duplication; and thirdly, it will provide an opportunity to explore a range of mechanisms for financing projects, particularly those that could benefit from joint financing.

The region has the experience and capacity to host meetings that bring together many donors. For example, the CARICOM Secretariat recently hosted an Agriculture Donors’ Conference on 2 June, which mobilized donors and other partners to discuss the region’s strategic approach and plan for development of the agriculture sector. The meeting was a successful one and illustrates the region’s capacity to host effective donor conferences to advance the developmental goals of the region.

Aid for Trade: The Way Forward for the Caribbean

Mechanisms

- Set up Aid-for-Trade Committees (Caribbean + Donors) at the national, sub-regional and regional levels
- Host Aid-for-Trade Regional Donor’s Conference (Biennially)

Areas of Focus

- Co-ordination of Trade-Related Needs - national, sub-regional and regional
- Establishment of Project Priorities and Matching of Donor Funds
- Simplification of Disbursement and Reporting Procedures
- Monitoring and Evaluation

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Annex 1

Terms of Reference

Aid for Trade: Focus Latin America and the Caribbean Regional Case Study: Caribbean

I. *Background*

The WTO's Hong Kong Ministerial Declaration created an ambitious new mandate on *Aid for Trade* aimed at helping developing countries, the least developed in particular, to build the supply-side capacity and infrastructure they need to take advantage of trade liberalization and compete in the global economy. AFT broadly refers to the flow of development finance from developed to developing countries for the purpose of enhancing their participation in the world trading system. It covers trade-related capacity building to help countries formulate, negotiate and implement trade policy and related agreements; and trade development, including export promotion and trade finance. It also covers support to activities aimed at strengthening trade-related infrastructure and other supply-side capacities (for example, in the productive sector) and trade -related adjustment programs (social safety nets).

A high-level dialogue entitled **Mobilizing Aid for Trade: Focus Latin America and the Caribbean** will take place in Lima, Peru, in September 2007. This meeting will bring together finance and trade ministers, senior donor representatives, regional institutions and key private-sector actors to focus on trade-related challenges in the region, and to set out priorities for future action. The purpose of this event is to highlight the Latin American and Caribbean (LAC) dimension of Aid for Trade, and to encourage governments, donors and the private sector to address specific challenges for the region, to prioritize AFT needs, and to move towards shared solutions to trade-related challenges. It will help to raise awareness about the importance of trade for growth in developing countries, encourage information exchange about best practices and facilitate collective action to maximize the benefits of AFT.

II. *Objectives*

The goal of this consultancy is to prepare a case study on a specific region, Caribbean, that will form the basis of discussions on **How to mobilize aid for trade from a regional perspective** and help set guidelines for future action.

The case study of the Caribbean will comprise a diagnosis of how the region has mainstreamed trade into its development agenda, identify lessons learned and challenges in its trade and integration strategy and provide recommendations on how to mobilize aid for trade from a regional perspective. The report will also serve as an instrument to encourage dialogue among

LAC countries on different experiences in the design and implementation of trade and integration strategies and mobilization of aid for trade.

III. *Elements of the Case Study Report*

Some of the elements/issues that should be addressed by the Report are the following:

1. *Regional Coordination and Aid for Trade*

- **Motivation:** Why do countries move toward coordination of policies and resource-pooling at the regional level? What are the region's specific incentives for doing this in the area of trade? Give examples of the Caribbean case [this applies throughout].
- What are the necessary conditions for regional coordination in the area of trade? Caribbean experiences.
- What type of trade policies are more feasible to manage at the regional level vis-à-vis national level? Caribbean experiences
- **Strategy:** How can/should countries work together to design a regional trade strategy? Does the Caribbean region have such a strategy and if yes, how was it designed. If not, what are the impediments to doing this?
- What institutional mechanisms underpin regional coordination in the area of trade? What have been the challenges? How do public sector agencies work together to coordinate their regional trade policies? Is there a formal/informal coordination mechanism with the private sector and civil society?
- What are the instruments to implement regional coordination (budgetary implications, e.g. financing of common institutions; regional development fund) Did the government have to strengthen institutions to be able to implement regional coordination?
- How is the Caribbean vis-à-vis- other regions in LAC?
- What are the main lessons learned and challenges from the Caribbean's experience with implementing the trade strategy?

2. *Mobilizing and Implementing Aid for Trade*

- How can AFT provide support to regional coordination efforts? How can national trade strategies and national AFT complement and strengthen regional coordination?
- What are the instruments to mobilize aid for trade?
- Did the Caribbean mobilize aid for trade to implement their trade strategy, and if yes, how did it do it? Provide examples where international cooperation supported the country in trade negotiations and implementation of trade agreements. Explain the process by which such assistance materialized.
- Provide examples where international cooperation supported the region, both at the country and regional level on trade negotiations and implementation of trade agreements.
- In which areas did international cooperation mainly provided assistance?
- What are the challenges that the region has to address to strengthen regional strategy?
- What are the constraints? Are regional projects feasible in all AFT areas of action?

- Does the Caribbean have a mechanism to monitor the impact of AFT?
 - Can relevant agencies access donor funding individually or is there some overarching government agency that requests and distributes AFT resources according to needs stipulated in the strategy?
 - Is the region engaged in any donor coordination efforts related to AFT? Does AFT go to those areas of trade that are priorities for the governments (or is the supply of AFT also influenced by donor priorities, preferences and capacities)?
 - What has been the region's experience in terms of receiving guidance and technical assistance from donors? Have donors been "good partners" in the implementation of the strategy?
 - What are the critical factors that explain success or failure of the strategy?
 - What are the main lessons learned and challenges from the Caribbean's experience with attracting aid for trade?
3. **Moving forward: Identification of Gaps and How to Mobilize and successfully implement Aid for Trade in the future**
- What are the gaps? Which are the areas in which aid for trade could provide further assistance?
 - What are the challenges that the governments have to address? (E.g. To scale up positive result; tackle distributional aspects of trade liberalization)
 - Which are the areas in which aid for trade could provide assistance?
 - Is the region ready to manage new and more Aid for Trade Funds?
 - How to move forward?

Annex 2

List of Persons Consulted

Caribbean Community (CARICOM) Secretariat

His Excellency Edwin W. Carrington, Secretary-General
Mr. Irwin La Roque, Assistant Secretary-General, Regional Trade and Economic Integration
Ms Faye Housty, Executive Director, Foreign Policy and Community Relations
Ms Franzia Edwards, Programme Manager, Resource Mobilisation and Technical Assistance
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Mr. Percival Marie, Director (Technical Operations), CARIFORUM

Caribbean Regional Negotiating Machinery (CRNM)

Mr. Trevor Boothe, Director of Technical Co-operation & Partnerships
Dr. Anthony Gonzales, WTO Representative
Mr. Samuel Mann, EPA Coordinator
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Mr. Emerson Bryan, Information and Document Management Officer

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Ms. Taiana Mora-Ramis, Executive Director

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CSME Unit

Mr Ivor Carryl, Programme Manager

University of the West Indies (UWI)

Prof. Norman Girvan, UWI Institute of International Relations

Annex 3

TABLE 1: Losses from Preference Erosion in a Macroeconomic Context

Country	As a % of goods exports	As a % of GDP	As a % of revenue government
St. Lucia	-9.8	-0.6	-1.9
Belize	-9.1	-2.1	-8.0
St. Kitts & Nevis	-8.9	-0.8	-1.9
Guyana	-7.9	-5.8	-17.7
Dominica	-5.5	-0.9	-2.3
Jamaica	-3.5	-0.6	-2.2
St. Vincent & the Grenadines	-3.4	-1.3	-4.3
Dominican Republic	-2.1	-0.5	-2.7

Source: [1]

Annex 4

Aspects of the Single Development Vision

The emergence of a Single Development Vision for CARICOM countries is one of the most significant achievements of the regional integration process. Whereas in the past, regional co-operation had been pursued in a wide range of areas, there was no overall strategy to guide policies and priorities. Countries had devised individual national development strategies but there was no overarching regional framework in which to locate these in furtherance of the goals of the region.¹¹ According to the report:

“a single development vision offers an opportunity to show the regional public that the CSME can be an instrument for achieving, in a regional framework, certain development goals that are difficult or impossible to achieve individually by member states. A single vision also provides a framework for shared objectives to guide policies, priorities and sequencing for further implementation of the CSME.” [8, p.7]

The Single Vision was developed out of extensive consultations with stakeholders. Brainstorming sessions were carried out with regional experts covering a wide range of sectors and involving both the public and private sectors. One important forum was a “High-Level Symposium on Production Integration, Capacity Building and Institutional Strengthening” that was held in 2006 under the auspices of Prime Minister Owen Arthur who had lead responsibility for the CSME. Over 300 stakeholders attended that meeting at which 30 technical presentations were made [5]. The Draft Single Development Vision was subsequently produced. It was discussed by Heads of Government extensively in 2006 and further refined before its eventual adoption in July 2007.

The Single Vision is for sustainable development, embracing economic, social, environmental, and governance dimensions that are grouped into six broad elements:

- i. **Self-sustaining economic growth based on strong international competitiveness**, innovation, productivity, and flexibility of resource use;
- ii. A full employment economy that provides a decent standard of living and quality of life for all citizens; elimination of poverty; and provision of adequate opportunities for young people, constituting an alternative to emigration;
- iii. Spatially equitable economic growth within the Community, having regard to the high growth potential of Member States with relatively low per capita incomes and large resources of under-utilised land and labour;
- iv. Social equity, social justice, social cohesion and personal security;

¹¹ Annex 1 provides a graphical illustration of the Development Vision and Regional Integration.

- v. Environmental protection and ecological sustainability; and
- vi. Democratic, transparent and participatory governance.

One of the most significant aspects of the Single Vision is the centrality of the achievement of international competitiveness as a means of sustaining growth. The transformation of the region hinges on five “economic drivers,” each of which was selected on its potential to contribute to export development. These drivers were derived from an iterative process of technical studies and stakeholder consultation. (See below)

The role of the private sector is critical to realizing the single development vision since it is private entrepreneurs, including SMEs, who are expected to engage in production and export development. There is a limited role for Governments to act as “an entrepreneurial state” in instances where there is market failure or where there may be high positive externalities. In order to ensure maximum participation of the private sector in realizing the goals of the CSME, a new

regional business grouping is being formed, the Caribbean Business Council (CBC). The CBC will involve the widest participation of Caribbean business associations from all sectors and countries including Chambers of Commerce, Manufacturers Associations, the Caribbean Congress of Labour and Caribbean Confederation of Employers. In addition to the CBC, a civil society forum is also to be constituted.

The enabling environment needed to facilitate the transformation process covers a wide range that include *inter alia* the harmonization of trade policies, investment policies and capital market integration as well as the provision of a regional quality infrastructure among others. Key trade-related infrastructure includes energy, transport and communications, areas where investments are very large and where regional co-operation is critically important.

A Single Development Vision: Economic Dimension

Economic Drivers

- Energy
- Manufacturing
- Agriculture, Forestry and Fishing
- Sustainable Tourism and Agro-Tourism
- Emerging Export and Other Services

Criteria for Selection of Economic Drivers

- Sustained growth of exports to international markets
- Significant growth in intra-regional exports
- Significant growth in supplies, at low real cost, of a key input that is important to the achievement of international competitiveness in other activities.

Key Trade-related Infrastructure

- Energy
- Transport
- Communications

Annex 5

Excerpt from the Aid for Trade Task Force Report

1. Scope

The scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies. In this regard, it should be pointed out that while the PRSPs¹² reflect national development priorities for some countries, other development strategies are equally important and will need Aid-for-Trade financing. At the same time, clear and agreed benchmarks are necessary for reliable global monitoring of Aid-for-Trade efforts to assure accurate accounting and to assess additionality. The following categories, building upon the definitions used in the Joint WTO/OECD Database, have been identified:

(a) *Trade Policy and Regulations, Including:*

Training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.

(b) *Trade Development, Including:*

Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.

¹² Poverty Reduction Strategy Papers (PRSPs) describe the macroeconomic, structural and social policies and programmes that a low income country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing. They are country-led, country-written documents prepared by governments through a participatory process involving domestic stakeholders and external development partners, including the World Bank and the IMF.

(c) *Trade-related infrastructure, Including:*

Physical infrastructure

(d) *Building Productive Capacity*

(e) *Trade-related Adjustment, Including:*

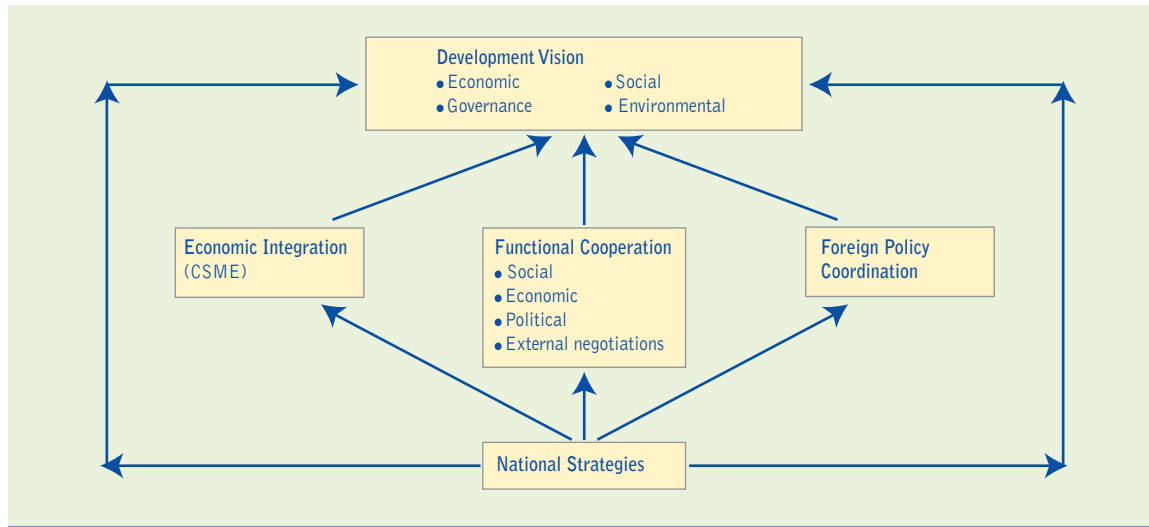
Supporting developing countries to put in place accompanying measures that assist them to benefit from liberalized trade.

(f) *Other Trade-related Needs*

Reporting on categories (a) and (b) should follow the definitions in the Joint WTO/OECD Database. The activities that fall outside of the current Joint WTO/OECD Trade Capacity Building Database definition, i.e. category (c), (d) (e) and (f) should be reported as Aid for Trade when these activities have been explicitly identified as trade-related priorities in the recipient country's national development strategies, such as the PRSP.

Annex 6

FIGURE A-1. The Development Vision and Regional Integration



Private Sector Case Study

Mobilizing Aid for Trade in Central America and Mexico^{*}

^{*} This report was prepared by Arturo Condo (CLACDS-INCAEs) for the Conference “Mobilizing Aid for trade: Latin America and the Caribbean.” This is not an official document of the IDB and the opinions expressed herein are those of the author and do not necessarily reflect the views of the IDB or its member countries.

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1

Considerations

For developing countries, international trade is the main driving force behind long-term economic growth, given the physical and purchasing-power constraints that affect the capacity of local markets to produce a significant impact on their population's poverty and inequality. Trade also impacts economic growth by attracting investment and technology, by fostering strict competition for local companies and by encouraging Governments to improve the business climate.

Consistently with the above premise, developing countries have engaged in trade opening processes in an attempt to institutionalize a number of rules for the trade in goods and services with their trade partners that will allow them to secure greater benefits on a permanent basis. The theory and main empirical results embodied in recent economic literature suggest significant economic benefits for small countries in both the medium and long term as a result trade liberalization.¹

There is, however, widespread concern over the adjustment costs associated with trade liberalization in developing countries, as well as their capacity to benefit from the advantages trade has to offer. Such concern is even shared by developed countries and by multilateral agencies, which are looking into how they can help developing countries profit from trade opening processes.

It is a known fact that many poor countries have proved unable to take advantage of trade as economic driver. This is the result of deficient infrastructure conditions, poor institutional development and lack of knowledge about market access opportunities. For many such countries, their main challenge lies not with accessing markets but, rather, with their ability to use their current preferential access for exporting to sophisticated markets.

Another set of restrictions finds its origin in the economic policy of trade opening. Liberalization is resisted by pressure groups that consider themselves adversely affected, while governments lack the instruments required to assume the mitigation costs of the affected sectors. In addition to this, certain developing countries from the group of African, Caribbean and Pacific states (ACP)² have recently expressed their opposition to multilateral liberalization at the World Trade Organization (WTO), fearing preference erosion while their trade partners reduce tariffs in a non-discriminatory manner. At the same time, concerned over a potential increase in prices, net-food-importing countries have taken a defensive stance towards the agricultural subsidies reform.

¹ See, for instance, Dollar and Kraay (2004), Sala-i-Martin (2006), Francois and Manchin (2006).

² Former European colonies of French, English, Dutch, Belgian and Portuguese origin.

The international community has widely acknowledged the need for increased aid for trade in developing countries. In February 2005, the G-7 Ministers urged the World Bank and the IMF to design proposals aimed at providing greater aid to such countries for the purpose of facilitating their adjustment to trade liberalization and increasing their ability to profit from more open markets. Later on, at the Gleneagles G8 Summit of July 2005, the Heads of State agreed to increase aid to developing countries to expand their physical, human and institutional trade capacity. In December 2005, in their Declaration at the Sixth WTO Ministerial Conference, the Ministers backed the expansion of existing aid-related programs and established a new WTO work program on aid for trade.

As conceived by international organizations and international cooperation, aid for trade covers at least 4 different fronts:

1. Capacity building for the formulation of trade policies, from the negotiation to the enforcement of trade agreements.
2. Funding for the creation of infrastructure to link domestic output to international markets.
3. Development of export supply, based on the concepts of specialization and comparative advantages.
4. Assistance for adjustment, with a view to both profiting from comparative advantages and mitigating adverse effects.

Aid for trade is nothing new. Programs to support trade facilitation, infrastructure, development of export supply and assistance for adjustment have been around for some time now. This notwithstanding, the current situation, marked by the stagnation of multilateral negotiations, a resurgence in the signing of regional trade agreements, the appreciation of the real exchange rate, and the initiatives to reduce poverty, has magnified the debate over the role of trade and businesses competitiveness as catalysts for development.

According to WTO and OECD data, cooperation for development has contributed about US\$ 25 billion in trade-related assistance in 2005, spread across the 4 fronts described above. Funding for infrastructure and development of export supply, including the improvement of the business climate, capture most of such resources.

For the most part, cooperation and the current approach to aid for trade programs have focused on the group of least developed countries (LDCs), particularly in Africa and Asia. As a matter of fact, the Integrated Framework –the WTO’s aid for trade initiative– is focused on LDCs specifically.^{3, 4} Neither Latin America in general, nor Central America specifically, necessarily share the trade problems faced by LDCs.

³ The Integrated Framework (IF) is a process conceived to assist LDC governments in building trade capacity and integrating trade-related issues into national global development strategies. The IF is an international initiative through which the World Bank, ITC, IMF, WTO, UNDP and UNCTAD have joined their efforts to those of the least developed countries and donors to respond to the needs of LDCs to foster trade. This integrated approach started in October 1997 at the High-Level Meeting on Least-Developed Countries’ Trade Development, organized by the WTO.

This paper analyzes aid for trade needs, from the private sector perspective, taking into account the conditions and characteristics of the insertion of the countries in this area into the international economy. The first section includes a summary of the current status of trade liberalization and trade opening processes in Central America. The second section describes the private sector participation in the formulation and application of national and regional trade policies. The third section delves into how Central America's private sector, ahead of its time, gave an effective response to the economic and political crisis of the 1980's by creating trade and investment promotion agencies with the support of international cooperation. The fourth section provides lessons on mobilizing aid for trade from the private sector perspective, focusing on two alternative dimensions of significant relevance for Central America: the diversification of the export supply and the role of the FDI as catalyst of dynamic feedback processes. As a final point, this paper includes some considerations on politics.

⁴ Paragraph 37

2

Central America: A Region Open To The World

Over the last fifteen years, Central America has taken a big leap towards recovering its macroeconomic stability and has continued to increase its integration at regional and international level. One of the most important goals of the policies implemented in this region has been to pursue an outward-oriented economy with increased trade opening.

A set of measures aiming at that purpose have been implemented, including unilateral liberalization, elimination of controls on foreign trade, opening to foreign direct investment and broader participation in multilateral, regional and bilateral trade agreements (Jaramillo and Lederman, 2006). These measures have been supported by amendments to currency and fiscal policies and by other accompanying measures such as infrastructure improvement and customs upgrading. At present, Central America has, or is negotiating, trade agreements with practically all of the northern countries in the western hemisphere, including Chile⁵. All the countries in this region are members of the WTO and they have had full participation in the Doha Development Round negotiations since 2001.

As a result of this outward-oriented development, Central America is at present one of world's most open regions and definitely the most open region in Latin America. In the year 2000, the weighted average import tariff was 7.1%, ranging from 3.3% for Costa Rica to 10.9% for Nicaragua. In 2005, the share of foreign trade in GNP reached 84% in Costa Rica, 81% in Honduras, 67% in Nicaragua, while in Guatemala and El Salvador such share was close to 40%⁶

Another indicator of Central America's effective insertion into the world economy is its degree of export diversification. Unmistakably, the composition of exports has sustained a structural change in all the countries in this area. The economic dependence on a few basic products has been reduced and the share of non-traditional products in total exports has soared. Even though there has been a new concentration on the export of products manufactured in maquila⁷, Central

⁵ At present, Central American countries have in force or have concluded negotiations for the following agreements: FTA between the Dominican Republic, Central America and the United States, FTA between Central America and the Dominican Republic, FTA between Costa Rica and Canada, FTA among El Salvador, Guatemala, Honduras and México, FTA between Costa Rica and Mexico, FTA between Nicaragua and Mexico, FTA between Central America and the Republic of Chile, FTA between Central America and Panama, FTA between Costa Rica and CARICOM, FTA between Guatemala and the Republic of China (Taiwan)

⁶ Central American Foreign Trade Statistics System SIECA. www.sieca.org.gt, consulted on August 17, 2007.

⁷ Textile and micro-processors sectors. A "maquiladora" or "maquila" is a factory that imports materials and equipment on a duty-free and tariff-free basis for assembly or manufacturing and then re-exports the assembled product, usually back to the originating country

America's exports - particularly of non-traditional agricultural products, processed food and other light manufacturing products - show a significant diversification⁸.

Such diversification is an important and defining characteristic of this region, since it has been proved that those countries that are strongly dependent on a few export products are more vulnerable to international markets ups and downs. However, the disproportionate growth of the textile and micro-processor sectors needs to have a closer relationship with the domestic industry and at the same time, with the proportional growth of other products in the export basket.

The Central American Common Market (CACM), launched in 1961, was the first free trade agreement in Latin America and one of the first agreements of this nature in the world. After the economic and political setbacks during the 1970's and the 1980's, the CACM was restructured under the principle of open regionalism, with a common platform on tariffs and regulations in the areas of agricultural and farming health, technical standards, intellectual property rights and mechanisms to solve trade disputes. Nowadays, the results produced by the CACM are noteworthy, particularly in terms of the complete liberalization of intra-regional trade as well as the harmonization of almost 95% of the common external tariff.

The integration process, however, has more ambitious goals, which go beyond the trade field and pursue economic integration. The commitment to create a customs union implies the elimination of border posts, the creation of common standards and rules in the different areas, customs interconnection and coordination, as well as the homologation of trade policies among the five economies. The countries of the CACM have been working uninterruptedly on these issues over the last decade, with more concerted efforts during the last four years.

There is a strong political will for moving forward toward Customs Union, as evidenced in the signing of the Legal Framework for the Customs Union in June 2007, which is also considered as the final element to pave the way for the negotiation of the Partnership Agreement with the European Union. That agreement includes provisions regarding free trade and free movement of goods, sanitary, phytosanitary and technical measures, rules in connection with origin, system for trade in services and investment, competition policies, intellectual property rights, and dispute solving, among others.

The most significant landmark in trade development has been the negotiation (2004) and subsequent ratification (2006 and 2007) - in all the countries with the exception of Costa Rica—of the Free Trade Agreement with the United States, major business partner and investor in the area. In addition, in 2007, the five countries of the CACM will conclude the final negotiation of a free trade agreement with Panama, which consolidates the vision of an integrated region from the trade perspective, with the Panama Canal as one of its most important assets.

As if this were not enough, Central America and the European Union announced they would start Partnership Agreement negotiations in September 2007. The framework of these negotiations could help speed up policy coordination and economic integration in Central

⁸ Arze, Benavides and Umaña (1998) demonstrate that Central America, whose economy used to be based on four export products (coffee, banana, sugar and meat), now boasts a broadly diversified export basket consisting of at least 1,500 different agricultural and farming products.

America. Upon the basis of the Vienna Declaration, the countries undertook to implement an Agreement on Investment and Service Trade and to develop the legal framework for the Customs Union.

Trade Facilitation Progress in Central America

In Central America, developing countries that have traditionally received aid for trade have a set of distinctive features. This region has a privileged position at the heart of the American Continent with coastlines on both the Atlantic and Pacific Oceans and with the Panama Canal, one of the major links for the international sea transport. The United States, the world's largest economy, is at only two hour flight distance. This region is an isthmus where most productive areas are at less than 160 km (100 miles) from the coastline. Empirical investigation shows that economic development tends to concentrate near the coastline and close to major maritime trade routes. In the United States, for example, 85% of the economic activity is situated at less than 100 miles from the coastline or a navigable river. (CLACDS/INCAE and HIID, 1999).

Consistently with the above premise, Central American countries have made different efforts to enhance intra-regional trade and the transport of goods. They have implemented projects on physical infrastructure, port facilities and Customs. Unquestionably, such initiatives have rendered positive results and at present, trade and transport are more efficient and offer more possibilities than in the past.

In late 1990's, with the support of the Latin American Center for Competitiveness and Sustainable Development (CLACDS by its Spanish Acronym) and the Central American Institute of Business Administration (INCAE), Central American countries defined an agenda on competitiveness and sustainable development⁹. That agenda includes trade facilitation programs, such as the *Central American Logistics Corridor*, consisting of the Central American Pacific Corridor, the Inter-American Highway and the roadways that connect the major economic areas and the capital cities with ports and airports. The agenda also envisages the modernization of a regional Customs system, and of the related services of logistics and telecommunications advanced infrastructure.

Such agenda, which is still in force, outlines a series of actions aimed at implementing an integrated and efficient system of transportation communications and energy infrastructure to build an effective link among Central American countries and to enhance resource productivity and capital. The purpose of this initiative is that, up from the border with Mexico to the Panama border, vehicle traffic can travel along a renewed and improved Pan-American Highway or along the Pacific-Central American Corridor in one day, and also that crossways or transverse roads connect coastlines and capitals with these major corridors. It is also sought that most companies can transport their goods to a well-organized, efficient Central American harbor in a matter of a few hours, and that each country counts on a world-class international airport.

⁹ INCAE/CLACDS and HIID (1999). "Centroamérica en el Siglo XXI. Una agenda para la competitividad y el Desarrollo Sostenible" [Central America in the 21st Century. An agenda for competitiveness and Sustainable Development]. Alajuela, Costa Rica.

The items on that agenda have been addressed by the Puebla Panama Plan (PPP), under which some projects, grouped in the following initiatives, are being carried out:

- The Mesoamerican Initiative for Energy Interconnection, under the responsibility of Guatemala, whose main purpose is to unify the Mesoamerican energy markets in order to reduce electricity costs for final users and to improve business competitiveness.
- The Mesoamerican Transport Integration Initiative, coordinated by Costa Rica, which intends to boost both the internal and external connectivity of the economies in this region through the improvement of corridors highways and the harmonization of legal rules and transport regulations.
- The Mesoamerican Telecommunication Service Integration Initiative - part of the program which is under the responsibility of El Salvador—which endeavors to increase access to information for citizens and regional businesses by enhancing telecommunication infrastructure, promoting universal access and developing a supporting policy and regulatory framework to foster both public and private investment.
- The Mesoamerican Initiative for Trade Facilitation and Competitiveness Enhancement, coordinated by Honduras, seeks to streamline trade in the region and increase competitiveness levels in the production sector through actions intended to reduce inter-regional trade costs.

All good intentions notwithstanding, it is perceived from Central-American public opinion that the PPP has not fulfilled their expectations.¹⁰ In the first place, the PPP is, in spite of everything, being mainly connected with infrastructure and energy-related issues. Except for those who are directly involved in the project, as the case of commissioners or some regional agencies, the region's leaders do not have much knowledge about the wide extent of projects involved in this initiative and their rate of progress.

According to the private sector, there are several reasons why the PPP has not been able to fulfill their expectations. On the one hand, the lack of an adequate work structure, capable of matching the works to be done with available resources. Although the fact that each country is responsible for an initiative is considered a positive aspect of the program, there has not been an adequate follow-up on projects and, in the most of cases, the assignment of projects has been carried out without taking into consideration the strengths and advantages of each country¹¹. All these issues have also prevented all the participants from keeping an all-comprising, global vision on this matter.

¹⁰ This section is based on CLACDS/INCAE. 2006 "Posición de Centroamérica frente a futuras iniciativas de integración regional" (The Position of Central America regarding Future Regional Integration Initiatives) Mimeo.

¹¹ For example, it is almost contradictory that Costa Rica, a nation with significant infrastructure deficiencies, be the country leading this initiative; or let us consider the case of Belize, a country which has been assigned tourism-related issues, and it is certainly not one with a major significance in that field.

On the other hand, there are people who claim that the Plan has been developed without paying much attention to the regional institutional framework, this being a factor that has impaired the operative aspect of the project, and, in some areas, has also contributed to duplicate functions being carried out by other regional agencies, such as the Central American Integration System (SICA) or the Secretariat for Central American Economic Integration (SIECA). What is more, if the project had counted on its own institutional framework, it would have not marched in lockstep with the ups and downs of the regional political affairs. When asked about this issue, other leaders affirmed, in a more emphatic way, that this initiative has become the “wish box” of the presidents and that projects are accepted even though the countries lack the respective funding. This situation does not only weaken the strategic purpose of the PPP, but also holds back the process to define priorities.

In general terms, the PPP is not a well known project in the region, where both the private sector and the general population have the feeling that they have had a marginal participation. However, they also recognize that under the light of the project there are many proposals of major significance for the region, such as the ones related to infrastructure and energy development.

3

Private Sector Participation in Trade Policy Formulation and Application

Central America has broad experience in the negotiation of trade agreements. In this region, the private sector has been associated with the processes of formulation and application of trade policy since the onset of the Central American Common market. National governments and regional integration agencies have envisaged different mechanisms through which the private sector participates in trade policy processes.

One of the most common mechanisms for the participation of the private initiative is their contribution in advisory councils on trade policy formulation and application. Those councils have different roles and duties, such as recommending policies, defining export strategies and suggesting specific negotiating positions.

As regards trade negotiations, the Governments have implemented a process of consultation with the private sector to define negotiating positions. This scheme, referred to as “*cuarto adjunto*” (next room), has been improved in the course of different negotiations. By this scheme, the private sector has had the possibility to accompany government representatives to negotiation meetings so that there is a permanent contact and information exchange among negotiators, entrepreneurs and trade unions.

In Costa Rica, trade unions are represented at the highest level of trade policy formulation and application. The Foreign Trade Advisory Council is the step of political dialog between the Ministry of Foreign Trade and the representatives of the different economic sectors of the Costa Rican society. Its main role is to advise the Executive Power on external trade and foreign investment policies and to oversee compliance with such policies. The Council is presided by the Ministry of Foreign Trade and consists of the Ministers of Economy, Industry and Trade, Foreign Affairs, Agriculture and Livestock and by representatives of export and investment promotion organizations. Furthermore, such Advisory Council is also composed of by the Presidents of the following trade Unions: Costa Rican Union of Chambers and Private Sector Associations, Costa Rican Chamber of Industries, Chamber of Commerce, Chamber of Exporters, National Chamber of Agriculture and Agro-industry, Chamber of Representatives of Foreign Firms, Costa Rican Distributors and Importers, Costa Rican Chamber of the Food Industry, two representatives of SMEs, consumer associations and the national farmers association (UPANACIONAL). In the course of the negotiations with the United States, the Council met at least once a month with the purpose of offering effective opportunities for dialog and the highest level consultation with the Costa Rican productive sector.

In 1986, Guatemala Government creates the National Council for Export Promotion (CONAPEX), whose main duties are to advise the Government on the formulation of export policies, to make recommendations on export promotion and diversification of exports and to oversee the execution of the adopted policies. This mixed Council, which is presided by the Minister of Economy, consists of the Ministers of Foreign affairs, Finances, Communications, Agriculture, Energy and mining, Labor, the President of the Central Bank, the Superintendent of Revenue Administration. In addition, such council also consists of the Presidents of the different Business Chambers, who participate in representation of the private sector. The private sector is in charge of CONAPEX Coordination and Secretariat. In turn, the National Export Coordination Committee (CONACOEX) includes representatives of each entity comprised in CONAPEX, and is responsible for the coordination and application of the decisions taken by CONAPEX. Through the Entrepreneurs Commission for Trade Negotiations (CENCIT), which represents businesses engaged in the provision of services and goods, the private sector coordinates its own position and analyzes the negotiations in which Guatemala participates.

One of CONAPEX's most important achievements is the implementation of Foreign Trade Integrated Policy upon the basis of competitiveness in the access to new markets through preferential trade negotiations and free trade agreements. This policy has given rise to a transformation in the export structure, overcoming the nation's dependence on a few export commodities.

El Salvador Government consults with the private sector through Productive Sector Support Office (ODASP), which includes representatives of all the business sectors. It liaises with the Trade Policy Division by means of a coordinator appointed for that purpose. The private entities involved include: the National Association of Private Enterprises (ANEP); Salvadoran Association of Industrials (ASI); the Chamber of Commerce and Industry of El Salvador; the Textile Commission; the Exporters' Association of El Salvador (COEXPORT). Furthermore, the Salvadoran Foundation for Economic and Social Development (FUSADES), private research institute, which sometimes advises the Government on economic policy matters (WTO, 2004).

Furthermore, in 2005, El Salvador created the National Commission for the Promotion of Exports and Investments (CONADEI) consisting of the Ministries of Economy, Foreign Affairs, Agriculture and Finance, for the public sector, and the National Association of Private Enterprises (ANEP), the Exporters Association, the Chamber of Commerce and Industry and the Salvadoran Association of Industrials, for the private sector. The CONADEI was launched as a result of the merger of Salvadoran agencies for the promotion of investment and exports. The new commission was formed as part of a strategy to create a common administrative base and trade strategy to facilitate and unify the efforts to attract foreign investment and to foster the export of Salvadoran products to different parts of the world.

For the negotiation of a Free Trade Agreement with the United States, El Salvador implemented a citizen participation program, with the aim of giving information to the citizens and of learning about their interests and positions as regards the definition of a negotiation strategy. The success of this program has set precedent for the other negotiations in the country.

In Honduras, the National Commission of Foreign Trade is created in 2003 to advise the President on trade negotiation matters. Such Commission is presided by the Ministry of the Presidency and included the Ministers of Industry and Commerce, Agriculture and Livestock,

Foreign affairs, Finances, and the President of the Central Bank. It also includes representatives of the organized labor sector, agricultural trade unions and members of private companies. For the formulation of foreign trade policies, the Government consults the private sector through the following organizations: the Honduran National Business Company (COHEP), the Chambers of Commerce and Industry, particularly the Chambers from Tegucigalpa and San Pedro Sula cities, the National Association of Industrials (ANDI), the Foundation for Investment and Export Development Exports (FIDE), the Honduran Chamber of Insurance Companies, the Honduran Association of Banking Institutions (AHIBA), professional associations and the Honduran Association of *Maquila* Companies. The foregoing organizations are coordinated by the COHEP in their consultation to the government (WTO, 2003).

In Nicaragua, the private sector, the civil society and NGOs contribute to the formulation of trade policies, expressing their opinions, whether directly to the Ministry of Promotion, Industry and Trade (MIFIC) or through chambers and associations of industry and trade. The National Council for Economic and Social Planning (CONPES), created in 1999, consists of members of civil society organizations, political parties and government representatives (the MIFIC, among others). The CONPES is responsible for advising the President on the formulation and evaluation of economic and social plans and programs, including the Doha Development Agenda (DDA), and also for advising the government on the negotiation of free trade agreements. The National Committee on Export Promotion (CNPE), presided by the Minister of Promotion, Industry and Trade consists of five representatives of the private business sector and five representatives of the public sector. The role of the CONPES is to propose political measures that foster the development of export companies. (WTO, 2006).

However at the regional level, there are no specific consultation mechanisms to enable the participation of the private sector in the definition of regional trade policies. This is rooted in the fact that at present, regional trade policies depend only on the countries' individual will, since there is no independent executive body. The instrument closest to a consultation mechanism is the Advisory Committee of the Central American Integration System (SICA). Such Advisory Committee is made up of the following sectors: business, labor, academic, women, Indians, Afro Caribbean and other living forces of the Central American isthmus. It represents the economic, social and cultural sectors and endeavors to promote and facilitate the participation of the civil society in Central America's integration process.

The role of the Advisory Committee of SICA is to encourage the active participation of the civil society to ensure that the integration process is consistent with the real situation, needs and interests of the general population in the region. It further contributes to the effective compliance and execution of the purposes, objectives and principles of Tegucigalpa Protocol, which will govern its negotiations, research and analysis.

On the other hand, private sector associations have established different types of regional unions. The most representative example is the Federation of Industrial Chambers and Associations of Central America (FECAICA). On April 23, 1959, the industries of five Central American countries met at Guatemala with the aim of creating FECAICA. This organization promotes dialog among Central American industrial sector, the Governments of the five countries, and regional and international integration organizations seeking to find "valid and long term solutions to the

problems in the Central American Common Market and in the foreign economic relationships and to safeguard the interests of the Central American productive sector". FECAICA promotes the improvement of Central American economic integration process, monitors compliance with international commitments and with the periods of time agreed upon and oversees the proper application of subscribed agreements and protocols. In addition, FECAICA advocates for the simplification of export rules, the training of human resources and the adoption of an integral, consistent foreign trade policy.

At the Central American level, SMEs have the support of the Center for the Promotion of the Micro and Small Company in Central America (CENPROMYPE). The purpose of this entity, which is part of the Central American Integration System (SICA), is to encourage and strengthen SMEs by means of processes and innovative instruments to develop business and enhance their competitiveness.

Summing up, Central American countries have been able to capitalize the experience of the last years and to create institutions that count not only on the suitable skills and training to face the challenges of trade negotiations but also on the representation of sectors directly and indirectly involved. Even though the process of trade opening and liberalization has encountered opposition, over the last years there has been a better promotion of its most relevant aspects, it being clear that there is a need for more active participation of the private sector and the civil society in the formulation, negotiation and application of the trade policy.

The Private Sector in Connection with Central America's Customs Union and CAFTA-DR

The Customs Union is one of the major issues in the regional trade agenda. It is in connection with the negotiation and implementation of this particular issue that the private sector has proved to have the most active participation and the governments to be more open. National consultation mechanisms and regional private fora have contributed to strengthen their participation. Forty-six years of regional integration are not in vain. (See article 1)

On the issue of the CAFTA-DR, the private sector underlines the fact that the agreement contributes to the process of regional integration; but at the same time, leading entrepreneurs in the region consider that there are a series of tasks to be addressed in the short term so that such agreement can really accomplish its objective. The list of the tasks referred to includes: proper implementation, an accompanying agenda for the more vulnerable sectors and the completion of the Customs Union.

The private sector underscores that the CAFTA-DR was useful to demonstrate that Central America could work as a region, and that it was also valuable as forum for the creation of regional alliances both at government and business level. The region had not experienced this type of alliances since the beginning of the CACM.

At the same time, the perception is that this trade agreement has also demonstrated the constraints and divergences among the five Central American economies. It is not surprising that those sectors or areas that have entered into bilateral negotiations with the United States coincide with the tasks that have not been concluded in connection with the Central American Customs

ARTICLE 1: Customs Union: Private Sector's Perspective

For Central America's private sector, the Customs Union is one of the priority issues to be addressed in the Central America's Integration Agenda. Progress in this field – as opposed to the development of the PPP – has been more evident and the completion of this process is vital for entrepreneurs. Even though this initiative has taken more than 40 years, the widespread perception is that an important part of the "road" has already been traveled.

Most entrepreneurs in this region agree on the fact that this is a complex process that cannot be finished overnight if we want to achieve satisfactory results. Therefore, they deem it convenient to put a stop to the tendency to "reinvent" new agendas or goals every six months, which eventually will not be met. In the same line of thought, they think that presidents should set realistic goals that do not impinge on the credibility of the process.

It is worth mentioning that the communication between the public and private sectors has been weak. Thus, as regards certain fundamental issues there is a high degree of lack of knowledge about the rate of progress or the existing proposals. This is the case of the initiatives related to customs integration and tax collection systems. Likewise, the marginal participation of entrepreneurs and of civil society from the starting phase of the process has made it more complex to reach consensus. However, most business chambers and manufacturers associations—aware of the importance of carrying out the Customs Union—have looked for ad-hoc spaces in order to have their recommendations implemented by the governments in the region.

To conclude, at present, the Customs Union is one of the regional initiatives over which there is total consensus. Despite its rate of progress, it is considered as an excellent attempt to bring together the efforts of the five countries in the region to face trade challenges, to position Central America in the international market and to maximize available resources.

Source: CLACDS/INCAE. 2006 "Posición de Centroamérica frente a futuras iniciativas de integración regional" (The Position of Central America regarding Future Regional Integration Initiatives) Mimeo.

Union (UAC). The progress in the modernization of the customs system, the strengthening of agro-sanitary structures and the compliance with quality standards are only some of the areas over which there are still significant divergences among Central American countries. Also, some region leaders admit that even though the CAFTA-DR has raised the profile and importance of regional projects, it has also diverted the attention away from other initiatives, such as the PPP itself.

CAFTA-DR has shown that fostering the participation of the private sector and the civil society in consultation fora and in accompanying negotiations is good business for everybody. The importance of this participation was evidenced in the negotiation of internal policies to ratify the agreement in the signatory countries. Without the support of the private sector and civil society, which were informed and part of the negotiation, the process of ratification would have been more difficult. The Costa Rican private sector participation in the "*Alianza Ciudadana por el Sí*" (Citizens' Alliance for Yes on CAFTA) shows how the private sector is involved in the ratification of the agreement by referendum in Costa Rica.

4

The Private Sector as Supporter of Aid for Trade

In the early 1980's, Central America faced one of the most severe economic and political crisis in its history. Foreign debt, the failure of the entrepreneurial state, the decline in terms of trade, widespread impoverishment and the exacerbation of political-military conflicts were the outstanding features of that period. However, in Costa Rica, El Salvador, Guatemala and Honduras, a group of entrepreneurs ahead of their time believed that it was timely for the private sector to undertake an offensive position in the provision of services for the promotion, development and facilitation of foreign trade and in investment attraction. In this way, the private sector created non-profit organizations with the purpose of fostering the development of the export sector, based upon the principles of free enterprise, trade specialization and diversification by means of exploiting the comparative advantages of the countries.

In this way, in 1982, a group of entrepreneurs created, the Coalition of Development Initiatives (CINDE) in Costa Rica for the purpose of creating an adequate incentive, reliance and security environment to attract companies that may want to establish in the country for the purpose of exporting (See section 2). In the same year, the Guatemalan Exporters Association (AGEXPRONT), a non-profit organization, was created to encourage and develop the exports of non-traditional products in Guatemala.

In 1983, Salvadoran entrepreneurs created the Salvadoran Foundation for Economic and Social Development (FUSADES), a center of studies and research and a supporter of trade and investment in the country. In 1984, Honduran private sector established FIDE, Investment and Exports, a non-profit organization that promotes investment in country, encourages development in the export sector and works closely with the government and other private entities to create and advocate new legislation aimed at improving the Honduran business climate.

In general, these four organizations have shared similar functions since their creation. First, they have promoted investment attraction in their countries. Second, they have developed programs aimed at enlarging and diversifying the export supply, including research and development projects, creating skills and improving quality. Third, they have undertaken the supply of public goods such as market research, information for trade and support to the improvement of trade infrastructure. Fourth, they have worked closely with the governments to formulate and apply a trade policy consistent with the main objective of a sustained economic growth associated with foreign trade. They have also sought, from the beginning, to incorporate SMEs to the export effort in different ways, ranging from their linkage to the industry up to their direct connection with the foreign market.

These institutions took advantage of the geopolitical environment of that period. Central America appeared on the world map for wrong reasons, as the cold war manifested itself in several countries of the region. Consequently, the government of the United States insisted on encouraging the principles of free enterprise and free trade by supporting the institutional nature of trade and by granting trade preferences under the so-called Caribbean Basin Initiative (CBI), which provided a special duty-free access to the US markets for exports coming from this region. The programs and projects proposed by these organizations were supported from the beginning by USAID, and their central goal was to attract investment from the United States and to profit from the trade preferences granted by the CBI.

The role played by these organizations in supporting trade and investment in Central America counts is supported by empirical evidence that invites decision-takers to think about the task carried out by those organizations and to reconsider and evaluate their activities to get more benefits for the society. For example, in an innovative research, Lederman, Olarreaga and Payton (2006) have evaluated export promotion agencies (EPA) in 122 developed and developing countries (out of which 92 answered). The authors have found out that, on average, EPAs are useful tools for the promotion of exports, taking into account that those countries with more capacity to finance those agencies will probably have a better export performance.

This survey is fairly encouraging particularly for Latin American countries because it indicates that an extra dollar invested in an EPA could generate about US\$500 additional exports in those countries. These results are surprising because the region next ensuing is Asia with an expected increase of about US\$230 additional exports for each dollar invested. The other countries have smaller results.

Likewise, Harding, Javorcik and Sawada (2006) have assessed Investment Promotion Agencies (IPA) based on an international research conducted on 99 developed and developing countries. The authors found out that, in the presence of these IPAs, a 10% increase in their budget led to a 5% increase in direct foreign investment, although there is some evidence of diminishing returns at very high budget levels.

ARTICLE 2: CINDE: Supporter of Development¹²

One of the most interesting and successful experiments performed by the private sector in the field of aid for trade is the case of the Costa Rican Investment Promotion Agency (CINDE).

Its origin traces back to 1982, when as a result of the political and military conflicts in Central America, the Central American Common Market (CACM)—main destination of Costa Rican exports—dropped dramatically. During the first two years of the 1980's, exports from Costa Rica to Central America fell from \$280 million to \$160 million. This crisis showed the vulnerability of Costa Rican poorly diversified export supply, to regional market's ups and downs, both in terms of products and of destination. The country had an idle productive capacity and needed to re-route its productive structure and its exports to third markets. This meant the country's serious, determined insertion into the world market.

The original idea was developed by the Director of USAID in Costa Rica, Daniel Chaij, who endeavored to create "a private organization to foster investment in export projects"¹³. Chaij found in Richard Beck, Costa Rican entrepreneur, the perfect counterpart. They put the idea into practice and traveled to Washington to seek funding to create the organization. That effort was supported by the Reagan Administration, who approved a contribution of US\$11 million for the project as part of the CBI Program.

Beck then led a group of Costa Rican entrepreneurs and prominent business personalities at the first meeting of the Board of Directors of CINDE. That meeting counted on the participation of representatives of the industrial and agricultural sectors together with renowned politicians and academicians, who were the "supporters" of the idea. When the organization was duly structured, personnel from Costa Rica were selected to be trained in Ireland, country that stood out for its efforts in the promotion of investment and foreign trade.

The initial goal of the organization was to enhance the image of the country to attract investment from the USA and to have new companies established in the country to export to third markets in view of the fact that the domestic market had shrunk and the Central American market had collapsed in terms of consumption. As regards domestic issues, CINDE focused on detecting the main obstacles that affected productive units both at microeconomic level (funding, organization, human resources, technology, capacity and marketing) and at macroeconomic level (legislative, financial, currency and administrative problems). The result was a sui generis organization, where the private sector encouraged export supply and promoted exports and investment, with a strong political support of the government.

Its programs were addressed directly to small companies, cooperatives, women groups, young people, productive organizations and the public sector. Speaking in terms of percentages, 62% of the funds were used for programs with a strong social content such as cooperatives and private non-profit organizations, and 38% were earmarked for programs oriented to developing production, investment and exports.

As a result of a successful strategy to promote exports and to attract investment implemented during the last governments, with a strong support from CINDE, exports in Costa Rica have shown a significant dynamism during the last decades, with an average growth of 15% during 1990-2000 as compared to only 4% in the previous decade. In nominal terms, exports rose from US\$1,000 million in 1980 to US\$1,450 million in 1990 and to over US\$ 8,200 million in 2006 (See Annex, Figure 9A)

In parallel to this growth, Costa Rican economy underwent a structural change rooted in the diversification of supply and in the promotion of the country as target of investment and tourism. At present, traditional export products, such as banana and coffee, have continued to grow in volume and value, however, they have passed from representing 60% of the exports to less than 20%; while high-tech exports represent one fourth of the total exports and tourism has become the main source of foreign currency. The services sector has increased its share in the GNP to a 50%.

The net accumulated result of this effort is that nowadays, Costa Rica is a small and open economy, with a recent history of success in social and economic aspects in the Latin American Region. This relative success has been supported by a sustained growth over 4% during the last ten years in the export sector as main driver of the economy.

CINDE's efforts have been acknowledged internationally. The Economic Commission for Latin America and the Caribbean (ECLAC or "CEPAL" by its Spanish acronym) (2003) has stated, "without any doubt, CINDE, with limited resources and tons of creativity has been able to assimilate successful experiences and has positively contributed to the modernization and development of Costa Rica". The World Bank (2000) has underlined, "CINDE's activity has generated a change in the country's foreign commerce structure in conjunction with the establishment of investment incentives". In addition, the United Nations Conference of Trade and Development (UNCTAD) recognized and granted CINDE the classification of "Advanced Investment Promotion Agency" in its 2002 World Investment Report.

¹² This section is based on an interview given by Richard Beck to the authors on August 13, 2007.

¹³ Richard Beck's words at the MBA (MAEX) Graduation Ceremony, at INCAE on May 2002.

5

Alternative Dimensions of Aid for Trade in Central America

As discussed in this paper, Central America is an open region that is adequately integrated into the international market. Thus, the capacity to profit from these characteristics to ensure sustainable growth and poverty reduction depends on more sophisticated elements than those covered by traditional aid for trade strategies. Examples of the so-called alternative dimensions of aid for trade have to do with the expansion and diversification of the export supply, and with the attraction of “anchor” investment that has a positive impact on business climate and generates feedback dynamics.

Discovering New Products and Markets: The Case of Golden Pineapple

The research made by Hausmann and Rodrik (2003), Klinger and Lederman (2004, 2006) and Rodrik (2005) suggests that one of the fundamental elements to support growth is the investment in new activities. An economy that is not dynamic in the discovery of new activities will hold back the process of accumulation and economic growth even in case the business climate is favorable for trade. Empirical evidence seems to support this statement.

In the same sense, these authors state that there are several reasons why market conditions may lead to under-investment in new activities or cause entrepreneurs not to take more advantage of the potential offered by those conditions. They refer to those phenomena as coordination externalities and the (in)capacity to “discover” the underlying production and marketing costs of a certain asset.¹⁴ The rationale for (the lack of) “discoveries” is governed by the following logics. Let us suppose that nobody knows whether a productive activity is profitable or not and this uncertainty can only be solved by making an investment that will not be recovered if the result is unfavorable. If there is no guarantee for recovery, or at least for partial recovery, entrepreneurs will be reluctant to make the necessary investment because if the activity is profitable, other entrepreneurs will be seduced by the same activity, and profitability will thus be reduced. The entrepreneur who has made the initial effort in terms of resources (financial, human, etc.) and risks to discover the new product (or new destination) will observe how other producers use the information he has generated to profit from the same activity. If this process tends to be repeated in this or in other sectors, entrepreneurs will have less incentive to discover new products than they would have if this situation had not existed.

¹⁴ Hausmann and Rodrik (2003)

In general, developing countries are more vulnerable to this type of market failure due to the low sophistication of products or to lax intellectual property laws, and entrepreneur investors who discover a new export product suffer the incorporation, diffusion and imitation by other manufacturers, not considering whether the first entrepreneurs have recovered their initial investment. It is likely then, that after getting these experiences, entrepreneurs may become more suspicious as regards their discoveries or may even go bankrupt. In any case, this basic asymmetry of the process of discovery may result in less investment in the development of new activities than would be desirable. In the case of these market failures, the participation of the government could potentially change the final result.

The development of pineapple exports in Costa Rica illustrates the process for the development of new products and/or markets, and for the diversification of exports. The entrepreneurial company invested time and resources in the investigation to determine the technological package for new varieties and the proper marketing channels to place a new product in the main international markets: the golden pineapple. The huge profits resulting from this activity were quickly discovered by potential rivals, and once those rivals got the main information on how to manufacture, package and place the product in the foreign market, they became the direct competition for the entrepreneurial company, at a fraction of the cost incurred by the entrepreneur in the discovery. However, if at the other end of the spectrum, the product had failed, the investment made would have yielded no profit, and the entrepreneurial company would have absorbed all the costs resulting from the experiment.

The case is that entrepreneurial companies took the proper steps to develop a new product, filling coordination gaps and undertaking the costs of exploration and discovery. The entrance of independent producers and rival companies into the business was an unexpected (unwanted) result for the entrepreneurial company, since it would not earn the expected profits derived from its “exclusivity”. However, the general result for Costa Rica’s economy was positive in terms of diversification of production and distribution of wealth.

The common reaction of a company as PINDECO or any other in its situation would be to be more cautious in its strategy to discover new varieties until it counted on the guarantee that its product would not be copied or that its initial effort would not be rewarded. For that reason, PINDECO, who has recently obtained a patent for a variety called *Honey, Honey Gold, or MA-2*, which has still not been launched to the market. This implies that regardless of the international success of this new variety, pineapple producers will not be able to engage in the production and exportation of this new variety without paying a cost for that. Thus, the private and social benefits derived from the *Honey* variety will be lower than those offered by the Golden variety. This represents a problem for the sector and for the country because the entrance of other countries to compete with the golden variety has saturated the market, what has been reflected in a sustained price drop since the year 2003. The lack of development of successful products in this sector may lead to the collapse of the activity and of thousands of producers. That potential result is prejudicial for everyone.

The question is then, how can private interests align with the global objectives of the State and the society to enable a higher discovery rate in the countries?

ARTICLE 3: Development of Golden Pineapple Exports in Costa Rica

Pineapple production is one of the most important economic activities in Costa Rica¹⁵ due to the number of producers involved and to its position within the country's agricultural exports, in the second place after banana exports. At present, over 1,500 small and medium producers grow this fruit, and this country is the world's largest exporter of fresh pineapple, climbing from zero exports in early 1980's to US\$26 million in 1996, and reaching US\$326 million in 2005, more than other traditional exporters such as Ivory Coast and Ghana.

The process that led Costa Rica to be the one of the world's largest exporters of pineapple started in the 1970's, with the trials on varieties that could adapt to the country's agro-ecological conditions performed by *Pineapple Development Corporation* (PINDECO), a division of *Fresh del Monte Corporation*. This company made a significant investment in the development of those varieties, taking into account that Costa Rica offered more favorable conditions and lower prices than those of Hawaii (land and particularly labor) for the development of this activity. The results were satisfactory and the company made large profits. This successful result, however, brought the attention of other manufacturers who immediately followed the steps of PINDECO. The cost of engaging in the production of pineapple by other producers was relatively lower as compared to the cost incurred by the pioneer company to place the first shipment in the foreign market.

The technology package used to produce and harvest pineapple was not known in Costa Rica when this activity started to be developed. PINDECO had to import technicians specialized in the production of pineapple. However, when PINDECO found out the quality of local labor, PINDECO sent its workers to be trained in Hawaii.¹⁶ Then, however, the company decided to change that practice and to train its workers at the "*Instituto Nacional de Aprendizaje*" (Learning National Institute), responsible for technical education in the country.

PINDECO took advantage of the infrastructure and experience used in connection with the marketing of bananas and transferred them to the pineapple field. With that, they could guarantee a regular distribution, what is required by any retailer of perishable goods to source his customers. Opening up the international distribution channels was not a difficult task then. Del Monte already had a set of distributors in the United States and Europe, who were used to purchasing banana on a weekly basis. The matter was to convince retailers to include pineapple together with their purchase of bananas.

While the pineapple industry showed poor expansion at the international level during the 1980's, once the variety developed by Del Monte was known and recognized by European and American supermarkets, world imports soared more than 9% per year. The companies that distribute fruits, with experience in the marketing of banana, incorporated pineapple in their portfolio since it implied the same know-how and marketing channels.

Small and medium producers could enter the business thanks to PINDECO's initial effort, which developed the product and marketing channels. When it was established that it was impossible to guarantee market exclusivity, PINDECO negotiated with independent producers the marketing of their product. It transferred production technologies and processes and facilitated product distribution in international markets.

One solution for information asymmetries and market failures as the ones referred to before, has to do with the mobilization of resources (aid for trade) to reduce the impact of these externalities. For example, the discovery rate may be positively affected by a reduction in the costs incurred by the entrepreneurial companies to obtain new export products or by a higher appropriation of the social benefit derived from a new discovery. Such objective may result from transfer of resources by means of specific allowances or subsidies or from tax exemptions for limited periods of time to encourage the private sector to invest more funds in new products (whether patentable or non-patentable), what would enable the private sector to share the risk of failure in exchange for a controlled entrance of competing companies into the newly developed industry.

On the other hand, the costs incurred by an economy and its entrepreneurial companies could be reduced by means of organizations that perform market research, analyze marketing channels

¹⁵ See Statistics Appendix

¹⁶ At present, the operations performed by Del Monte in Hawaii, the Philippines and Brazil are managed by Costa Rican technicians trained by PINDECO over the last 25 years.

and, in a broader sense, facilitate the attraction of investment and the trading of export products, such as the case of the Export and Investment Promotion Agencies that have been created in Central America since the 1980's.

The Role of FDI in Supporting More Investment: Intel in Costa Rica

Electronics giant Intel's 1996 decision to invest in Costa Rica over other competitors of greater "renown" is one of the most widely recounted cases in the field of investment promotion (World Bank Group, 2006). It is now known that, thanks to the meticulous research undertaken by CINDE, Costa Rica was able to identify its strengths to host Intel and prove that the Costa Rican business climate could be molded to meet the giant's requirements.¹⁷

One decade after the decision to invest was made, Intel's impacts on the Costa Rican economy are evident.¹⁸ Beyond its obvious results (growth, trade, employment), Intel's decision operated as a catalyst for a realignment of Costa Rica's competitive platform as an investment location. Costa Rica worked with a sense of urgency to enhance technical education, change legislation and improve infrastructure. To meet Intel's needs, the improvements in Costa Rica's business climate revolved around four areas, namely: quantity and quality of labor, taxes and incentives, paperwork and infrastructure. The main improvements associated with Intel's presence include:

1. The creation of training programs at Costa Rica's Technology Institute focused on semiconductor manufacturing and specialized operations.
2. A revision of the Free Trade Zones Act.
3. The enactment of the Public Works Concessions Act.
4. Enhanced airport infrastructure, logistic improvements in the handling of cargo and passengers and increased flight frequency.
5. Electric power quality improvement.

Over time, the changes in the business climate have become evident, creating a legacy available for companies setting up operations in the future and a strategic approach to investment promotion, focusing on the high-tech and services clusters.

Obviously enough, Intel's most important structural impact in Costa Rica has been that the company's presence has implicitly provided validation to the country as an attractive FDI location. The giant's support for the country's information and communication technology conveyed a direct and positive message to other companies pondering over the possibility of investing in

¹⁷ See Gonzáles, Anabel (1997).

¹⁸ Intel Costa Rica started operations in March 1998; it currently has two manufacturing plants (CR1 y CR3) and a distribution center (CR2). Costa Rica also hosts other major groups that provide services—ranging from component design and software development to accounting and financial services—to Intel Corporation. Throughout virtually a decade, Intel has invested over US\$800 million and provides direct employment to 3,500 workers.

Costa Rica (World Bank Group, 2006). All of a sudden, Costa Rica found itself on the international business map for all the right reasons.

CINDE took this opportunity and, with INTEL's support, it built a strategy to "spread the word," which worked out to attract similarly important corporations. Intel executives, along with CINDE and government authorities, actively participated in the promotional meetings for Costa Rica as an investment location.

Expert recommendations¹⁹ suggested that Costa Rica also needed to guarantee the generation of a local suppliers base so as to multiply the positive effect of investments in the economy while tightening trade relations with foreign companies to "anchor" their investment. The so-called "*Costa Rica Provee*" (Costa Rica Supplies) program was launched in 2000 under the purview of PROCOMER, the government's export promotion agency. By 2006, with the support of multinational corporations (including, among others, Baxter and Intel) and IADB, which provided funding for a part of that initiative, the program had achieved 258 "viable" linkages between Costa Rican companies and multinationals.²⁰

The Asian crisis in the late 1990s taught the Costa Rican authorities a lesson regarding the need to consider attracting new "anchor" investments that would counter the downturn in Intel exports. This time, efforts focused on the services sector and the medical devices industry. Intel actively cooperated with CINDE and the Costa Rican government in their efforts to attract such investments, by acting as a "signature project."

The efforts were worth it, and Costa Rica attracted companies such as Abbot Laboratories and Boston Scientific, in addition to the expansion of Baxter Healthcare into the field of medical devices, and of Procter & Gamble, Western Union and Sykes in the area of "back office" and technical support services, among others. These companies have also joined the governments' efforts to attract further investments.

¹⁹ INCAE Business School and Prof. Michael Porter, of Harvard Business School, contributed by designing Costa Rica's strategy to attract investments after INTEL had established in Costa Rica.

²⁰ In 2003, Intel announced its "strategic" investment in the Costa Rican software company Exactus, which contributed to the launch of optimized business software for the management of small and medium enterprises in Latin America.

Lessons

Central America faces the challenges of consolidating regional integration and trade opening to the world economy and of improving its economic growth performance in order to dramatically reduce poverty and lower vulnerabilities, including those related to greater integration into the world economy. Given the region's integration into the world economy and the experience gained in multiple trade negotiations, this region needs an "aid for trade" agenda that is not related to the traditional conception that focuses on countries with problems of isolation, little development of the export supply and little exposure to international markets.

As a result of the experience gathered thanks to the process of economic integration in the region since the 1960's, the private sector was prepared to lead Central America's insertion into the international economy at the right time. Central America's private sector was ahead of its time. Amidst the worst crisis in its history, it implemented the vision that "what is good for the country is good for the company" and created institutions to promote exports and investment, which, 25 years later, continue to foster development in the region.

One of the key factors for the success of exports in Central American is that even during the decade of the worst political and civil conflicts in the region, private sector unions took the lead and did not stop producing public goods such as information, research and promotion for the production of goods and services and the identification of the major obstacles.

In view of the role that trade and investment promotion organizations play as the communication channels between the needs of the productive private sector and governmental policies, such organizations have been allies in for the companies in the country that endeavored to produce and export so that they could surmount the major obstacles in the process. Their participation in collecting and spreading information has helped the market to underscore the sectors with real competitive advantages in the country.

Central America needs assistance for the diversification of the export supply provided that sustained growth is set to continue. One possibility to achieve that target is by fostering a reduction in the cost of discoveries. This evidence suggests that it is through the discovery/development of export products that an economy may diversify its productive structure, increase its export volume and have a positive impact on economic growth, and this is particularly true in the case of underdeveloped countries. Consequently, the corollary premise is that the capacity to impact on the long term economic growth could be related to the possibility to maintain an adequate discovery rate for as long as possible.

One issue that is worth to be taken into consideration in view of its complexity and dynamics is the private sector capacity to invest in the exploration and discovery of new export products and to continue to do so. However, market failures and the low sophistication in the products manufactured and exported by developing countries make them vulnerable to a situation where imitation is faster than in the case of other products, such as the case of products with more

technological content. For this reason, it is not uncommon to observe the collapse of this type of industries or well, important fluctuations in their sales.

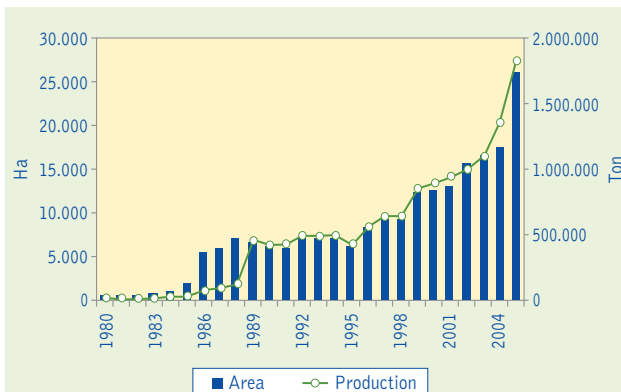
Regarding the reduction in the cost of discoveries, the interests of private companies and entrepreneurs are consistent with those of the society in general. This would foster the process of exploration and discovery of new export products and the well-known social benefit this implies.

It is obvious that trade opening induces Governments to enhance the business climate. The case of Intel is a clear illustration of this issue. In a very short time, Costa Rica faced the need to change legislation and invest in infrastructure to enable the establishment of more foreign investment in the country, with the direct consequence of a best business climate for everyone. Those improvements became a legacy for the business setting up operations in the future, which in turn, feedback the process resulting in a virtuous circle.

Consistent with the foregoing, the best FDI is the one that generates linkages, transfers technologies and creates dynamic positive feedback in developing countries. In this sense, Intel's presence in Costa Rica is an example of the role the private sector can play to attract new investment and to generate linkages and "spill overs" to the rest of the economy. The companies that engage in the supply of intermediate products base their investment decisions in the size of the domestic market. The presence of companies of the magnitude of Intel creates the scale of demand necessary to attract that sort of investment.

Appendix

FIGURE 1A. Costa Rica, Pineapple: Production and Cultivated Area



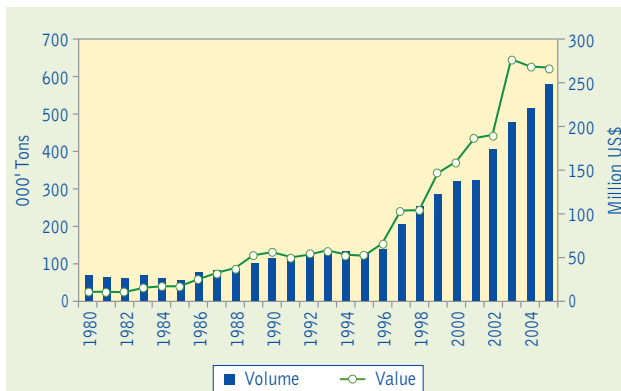
Source: Executive Secretariat of Agricultural Sector Planning (SEPSA) (2007)

FIGURE 2A. Costa Rica, Pineapple: Exporters and Exports



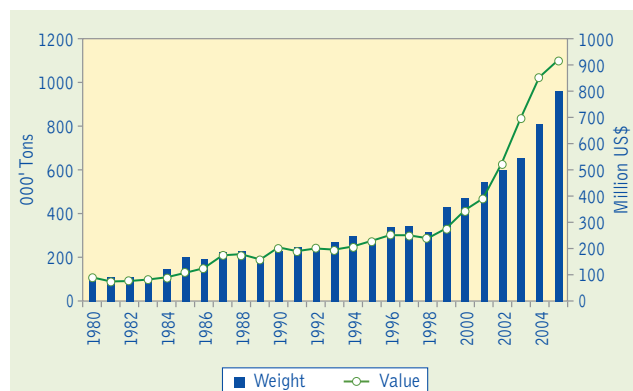
Source: PROCOMER

FIGURE 3A. USA: Pineapple Imports

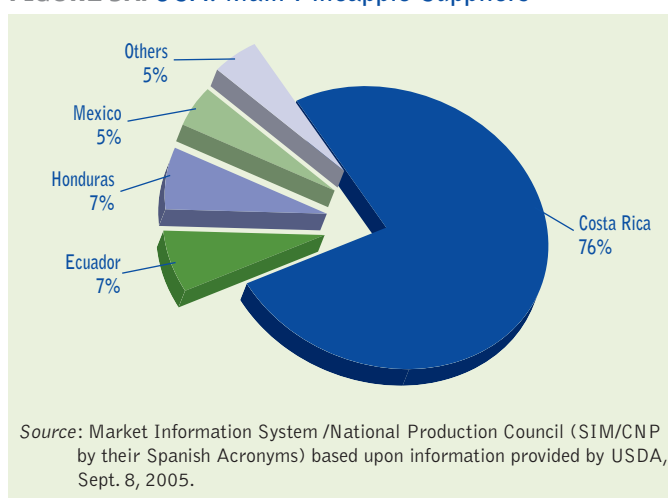


Source: FAOSTAT (2007)

FIGURE 4A. USA: Pineapple Imports



Source: FAOSTAT (2007)

FIGURE 5A. USA: Main Pineapple Suppliers**FIGURE 6A. Costa Rica: Total Exports, 1980–2006**

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Plenary and Workshops Agendas

Mobilizing Aid for Trade: Latin America and the Caribbean

September 13–14, 2007
Miraflores Park Hotel
Lima, Peru

Organized by the Inter American Development Bank (IDB) and
the World Trade Organization (WTO)
in collaboration with the World Bank
and hosted by the Government of Peru

AGENDA

Thursday, September 13, 2007

8:30 – 9:00 **Registration**

9:00 – 10:15 **Opening Plenary Session** (Copacabana Room)

Mercedes Araoz, Minister of Trade and Tourism, Peru
Luis Carranza, Minister of Economy and Finance, Peru
Luis Alberto Moreno, President, Inter-American Development Bank
Pascal Lamy, Director General, World Trade Organization
Pamela Cox Vice President for LAC, World Bank

10:15 – 10:45 **Session 1: Why is the Aid for Trade Initiative so Relevant for
Latin America and the Caribbean?** (Copacabana Room)

Presentation Aid for Trade and Latin America and the Caribbean
Antoni Esteveadeordal, Manager, Integration and Trade Sector, Inter-American
Development Bank

10:45 – 11:00 **Coffee Break**

11:00 – 13:00 **Open Dialogue**

The Dialogue will be moderated by *Michael Reid*, Americas Editor, *The Economist*,
with initial remarks from a **Minister of Finance** and a **Minister of Trade** followed
by additional triggering comments by:

Pier Carlo Padoan, Deputy Secretary-General, OECD

Pamela Cox, Vice President for LAC, World Bank

Larry Mc Donald, Deputy Assistant Secretary for Technical Assistance Policy,
US Department of Treasury

Peter Thompson, Director for Trade and Development, Directorate General of Trade,
European Commission

13:00 – 15:00	Lunch
15:00 – 18:30	Breakout Sessions (Simultaneous)
15:00 – 15:45	Session 2A: Mobilizing Aid for Trade: National Strategies – Focus South America (Copacabana Room)
	<p>Case Study Presentation: PERU <i>Mercedes Araoz, Minister of Trade and Tourism, Peru</i></p>
15:45 – 16:30	Networking Break
16:30 – 18:30	Open Dialogue – Mobilizing Aid for Trade: Focus South America
	<p>The Dialogue will be moderated by Felix Peña, Director, Instituto de Comercio Internacional, Fundación Standard Bank with initial remarks from a Minister of Finance and a Minister of Trade followed by additional triggering comments by: José Gregorio Pineda, International Trade Agenda Coordinator, Andean Development Corporation, (CAF) Oswaldo Rosales, Chief, International Trade and Integration Division, Economic Commission for Latin America and the Caribbean (ECLAC) Donor Representative (TBC) Guillermo Van Oordt, President, Agriexport Union Association, Peru</p>
15:00 – 15:45	Session 2B: Mobilizing Aid for Trade: Regional Strategies – Focus Caribbean (Splendido Room)
	<p>Case Study Presentation: CARIBBEAN <i>Billie Miller, Deputy Prime Minister and Minister of Affairs and Foreign Trade, Barbados</i></p>
15:45 – 16:30	Networking Break
16:30 – 18:30	Open Dialogue – Mobilizing Aid for Trade: Focus Caribbean
	<p>The Dialogue will be moderated by Simon Evenett, Professor University of St. Gallen with initial remarks from a Minister of Finance and a Minister of Trade followed by additional triggering comments by: Havelock Brewster, Senior Advisor, Caribbean Regional Negotiating Machinery, (CRNM) Randolph Cato, Director of the Economic Affairs Division, Organization of Eastern Caribbean States Secretariat (OECS) Kelvin Dalrymple, Chief Research Economist, Caribbean Development Bank, (CDB) Peter Thompson, Director for Trade and Development, Directorate General of Trade, European Commission Carol Ayoung, CEO, Caribbean Business Forum</p>

**15:00 – 15:45 Session 2C: Mobilizing Aid for Trade: Private Sector Strategies
– Focus Central America, Mexico (Venecia Room)**

Case Study Presentation: Focus Central America and Mexico

Arturo Condo, Dean, INCAE Business School

15:45 – 16:30 Networking Break

**16:30 – 18:30 Open Dialogue – Mobilizing Aid for Trade:
Focus Central America and Mexico**

The Dialogue will be moderated by **Alberto Trejos**, *Former Ministry of Trade, Costa Rica* with initial remarks from a **Minister of Finance** and a **Minister of Trade** followed by additional triggering comments by:

Pamela Coke-Hamilton, *Director, Department of Trade, Tourism and Competitiveness, Organization of American States (OAS)*

Patricia R. Francis, *Executive Director, International Trade Centre, (ITC)*

José Manuel Salazar, *Executive Director, Employment Sector, ILO*

Paul Bonicelli, *Assistant Administrator for Latin America and the Caribbean, US Agency for International Development*

Carlos Araya, *President, Artinsoft, Costa Rica*

19:00 – 21:00 Reception - Hosted by the Government of Peru

Friday, September 14

**9:00 – 9:45 Session 3: Mobilizing Aid for Trade – Latin America and
the Caribbean (Copacabana Room)**

The Session will be a dialogue moderated by **Claudia Uribe**, *Ambassador of Colombia to the WTO*. The Session will be opened with Brief Reports (5–10 minutes) of the main issues discussed at side events by Representatives of the WTO, OECD and Private Sector. In addition the previous day session's moderators will report on the discussions of the panels and put forward key issues to be addressed during Session 4A and 4B.

**9:45 – 11:00 Session 4A: Supply Side of Aid for Trade –
Financing Partnerships**

This session will be moderated by **Richard Lapper**, *Latin America Editor, Financial Times* and will look at the region's supply side capacity and infrastructure gaps from a financing perspective.

11:00 – 11:30 Coffee Break

11:30 – 13:00 Session 4B: Demand Side of Aid for Trade: Ministerial Roundtable (Copacabana Room)

Roundtable with **Ministers of Trade and Ministers of Finance** moderated by **Richard Lapper**, Latin America Editor, Financial Times

13:00 – 13:15 Closing Plenary Session

Alan Garcia, President of Peru

Pascal Lamy, Director General World Trade Organization

Luis Alberto Moreno, President Inter American Development Bank

13:15 – 15:00 Lunch (by invitation only)

Aid-for-Trade Workshops (September 12 & 14)

September 12 (All Day)

Workshop On The Standards And Trade Development Facility
Organized By WTO And IDB

September 12 (All Day)

Workshop On Private Sector And Aid For Trade Initiatives
Organized By IDB And ITC

September 14 (Afternoon)

Workshop On Needs Assessment And Monitoring Aid For Trade
Organized By OECD And IDB

Mobilizing Aid for Trade: Latin America and the Caribbean

Standards and Trade Development Facility Workshop

September 12, 2007

Miraflores Park Hotel, Maroma Room

Lima, Peru

Making market access opportunities a reality means complying with a growing body of non-tariff requirements. These requirements may be legal obligations or commercial realities. Particularly difficult can be standards related to the complex area of food safety, animal and plant health (collectively known as sanitary and phytosanitary (SPS) measures). Compliance with SPS measures is becoming an increasingly important determinant in market access, not just into developed country markets, but also in regional trade relations. The fall-out from health scares related to food and feedstuffs can have global and long-lasting negative consequences.

The Standards and Trade Development Facility (STDF) workshop brings together senior officials concerned with SPS compliance and trade, key donors and private sector representatives. The focus will be on the role of SPS capacity building in promoting the integration of developing countries into world trade. The workshop will have a regional focus, looking in detail at six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), but the conclusions which will be drawn have significance for the broader Latin American region.

Objectives:

- Underline the importance of SPS compliance for market access.
- Identify capacity building needs in six case study countries.
- Highlight the evolving nature of official and commercial standards in the SPS area.
- Survey the provision of SPS-related technical assistance in case study countries.
- Examine how best to foster good practice and bridge the gap between needs and the provision of assistance.
- Set out further steps to galvanize interest and resources on SPS-related technical assistance.

Web Link to Background Conference Papers:

“Overview of SPS capacity building needs assessments and compliance studies for Central America and Panama (2000–2006)”

Web download link: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1083874>

“Overview of SPS-related assistance for Central America and Panama (2001 – 2007)”

Web download link: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1083889>

Other Useful Links:

Standards and Trade Development Facility: <http://www.standardsfacility.org>

Inter-American Institute for Co-operation on Agriculture: <http://www.iica.int>

Food and Agriculture Organization: www.fao.org

World Health Organization: http://www.who.int/topics/food_safety/en/

World Organization for Animal Health: www.oie.int

World Bank:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:20629901~menuPK:222955~pagePK:148956~piPK:216618~theSitePK:239071,00.html>

World Trade Organization: http://www.wto.org/english/tratop_e/sps_e/sps_e.htm

AGENDA

**The Role of SPS Capacity Building in Promoting the Integration
of Developing Countries into the World Trade:
The Case of Central American Countries**

08:30 – 09:00 Registration

09:00 – 09:15 Opening Remarks

**09:15 – 09:35 Session 1: Addressing the Challenge of the increasing
Importance of SPS Measures on International Trade**

Speaker:

Mr. Luis Barcos, *Regional Representative for the Americas, World Organization for Animal Health*

The impact of Sanitary and Phytosanitary (SPS) measures on international trade is significant and will continue to grow as consumers in both developed and developing country markets strive for greater food safety. Enhanced market access opportunities for developing countries need to be accompanied by a targeted effort to increase capacity to address SPS issues as part of a broader strategy to improve competitiveness and modernize agro-food chains. This session will look at the increasing importance of SPS measures on international trade and highlight challenges faced by developing countries in addressing SPS issues within a broader development strategy.

**09:35 – 09:45 Session 2: Overview of the Programme and
Expected Outcomes**

Speaker:

Mr. Michael Roberts, *Secretary of the Standards and Trade Development Facility, WTO*

A brief introduction to the STDF, its linkages to Aid for Trade and the workshop programme will be given.

**09:45 – 11:15 Session 3: Strengthening the Demand Side – SPS Needs in
Costa Rica, El Salvador and Guatemala**

Presentation:

Mr. Julián Vélez, *Independent consultant*

Needs evaluations in the SPS area have been performed for many countries by a variety of organizations – many as part of the CAFTA preparations. This session will examine evaluations for Costa Rica, El Salvador and Guatemala, identifying the most pressing challenges and limitations faced by these countries as an example of the concerns that developing countries of the Latin American region

need to address in order to increase their participation in export markets. It will provide an opportunity for the countries surveyed to verify that their needs have been accurately evaluated and discern how these needs have evolved over time. The discussion will look at the way in which these case study countries have integrated their SPS capacity building needs into broader national strategies for enhancing competitiveness.

Moderator:

Mr. Alan Hruska, *Plant production officer, FAO, Chile*

Key questions to be discussed in this session include:

- Do existing needs evaluations capture the reality of the situation in these countries? What are the main challenges faced by countries, at both national and regional level?
- What are the emerging trends in food safety, animal and plant health compliance with which producers must comply?
- What are the implications of the shift towards a “farm to fork” approach in controlling SPS issues, the growing body of private standards and the increasing influence of retailers on supply chains?
- How to involve not just government regulatory services in the process of needs evaluation, but also the private sector and other stakeholders (e.g. consumers groups) in the process of needs evaluations ?
- How can ownership of evaluations be stimulated, not just at a technical level, but also at a senior political level?
- Is it possible to agree a single needs assessment shared by donors, international organizations and beneficiaries and design an over-arching action plan on this basis?

Panel Discussion:

Mr. Fernando Ocampo, *Jefe Negociador Adjunto para Asuntos Comerciales, Ministerio de Comercio Exterior, Costa Rica*

Mr. Luis Vásquez, *Dirección General de Sanidad Vegetal y Animal, Ministerio de Agricultura y Ganadería, El Salvador*

Mr. Jorge Gómez, *Jefe, Oficina de Normas y Procedimientos, Ministerio de Agricultura, Guatemala*

Ms. Felicia Echeverría, *Directora Ejecutiva, Certificadora de Productos Orgánicos Eco-LOGICA, Costa Rica*

Ms. Fanny de Estrada, *Director, Asociación Gremial de Exportadores de Guatemala – AGEXPORT, Guatemala*

11:15 – 11:30 Coffee Break

11:30 – 12:45 Session 4: Strengthening the Demand side – SPS Needs in Honduras, Nicaragua and Panama

Needs evaluations in the SPS area have been performed for many countries by a variety of organizations – many as part of the CAFTA preparations. This session will examine evaluations for Honduras, Nicaragua and Panama, identifying the most pressing challenges and limitations faced by these countries as an example of the concerns that developing countries of the Latin American region need to address in order to increase their participation in export markets. It will provide an opportunity for the countries surveyed to verify that their needs have been accurately evaluated and discern how these needs have evolved over time. The discussion will look at the way in which these case study countries have integrated their SPS capacity building needs into broader national strategies for enhancing competitiveness.

Moderator:

Ms. Ana Marisa Cordero, *Agricultural Health and Food Safety Specialist, IICA*

Key questions to be discussed in this session include:

- Do existing needs evaluations capture the reality of the situation in these countries? What are the main challenges faced by countries, at both national and regional level?
- What are the emerging trends in food safety, animal and plant health compliance with which producers must comply?
- What are the implications of the shift towards a “farm to fork” approach in controlling SPS issues, the growing body of private standards and the increasing influence of retailers on supply chains?
- How to involve not just government regulatory services in the process of needs evaluation, but also the private sector and other stakeholders (e.g. consumers groups) in the process of needs evaluations ?
- How can ownership of evaluations be stimulated, not just at a technical level, but also at a senior political level?
- Is it possible to agree a single needs assessment shared by donors, international organizations and beneficiaries and design an over-arching action plan on this basis?
- What similarities and differences exist at a regional level which should be considered in the design of projects?

Panel Discussion:

Mr. Omar Toro, *Director General, SENASA, Secretaria de Agricultura y Ganadería, Honduras*

Mr. Guillermo Ibarra, *Director, Protección y Sanidad Agropecuaria, Ministerio Agropecuario y Forestal, Nicaragua*

Mr. Ariel Espino, *Director Nacional de Sanidad Vegetal, Ministerio de Desarrollo Agropecuario, Panamá*

12.45 – 14.15

Lunch Break

14.15 – 16.00

Session 5: Assessing the Supply Side of SPS Related Assistance – Compilation of Selected Donors' Assistance in Central American countries

Presentation:

Mr. Jorge Méndez, *Independent consultant*

This session is focused around presentation of a compilation of the SPS assistance provided by donors to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama over the past five years. The discussion will identify priority areas where assistance has been received and assess the impact of that assistance, particularly in the context of Central American countries' broader development strategies. The view from the perspective of donors will complement the discussion.

Moderator:

Mr. Frans Lammersen, *Principal administrator, Development Cooperation Directorate, OECD*

Key questions to be discussed in this session include:

- What have been the key drivers of SPS-related assistance in the Central American region? What factors will drive future SPS-related assistance ? Is the current level of assistance sustainable ?
- How are country needs considered in the design of programmes ? Is assistance correctly targeted? How can donor co-ordination and reporting be improved ?
- Why is assistance focused so much on training and information? What is holding back assistance in the development of hard infrastructure?
- What do donors and beneficiaries consider to be the impact of assistance ? How can good practice be identified and promoted in future assistance?

Donor Discussants:

Mr. Rolf Schoenert, Canadian Food Inspection Agency, Canada

Mr. Christian Foster, Assistant Deputy Administrator, Office of Capacity Building and Development, USDA

Ms. Ana Marisa Cordero, Agricultural Health and Food Safety Specialist, IICA

Mr. Lalith Goonatillake, Director, Trade Capacity Building Branch, UNIDO

Sr. Jorge Biga, Ministro (Director de Cooperación bilateral y a cargo del Programa de Cooperación Técnica externa Fondo Argentín de Cooperación Horizontal)

Beneficiary Discussants:

Ms. Alejandra Aguilar, Asesora en Materia de MSF, Ministerio de Comercio Exterior, Costa Rica

Ms. Astrid Moreno, Subdirectora de Política Comercial, Ministerio de Economía, El Salvador

Mr. Fernando Arceyuz, Asesor, Dirección Administración Comercio Exterior, Ministerio de Economía, Guatemala

Ms. Suyapa Andino, Encargada del Tema de MSF, Secretaría de Industria y Comercio, Honduras

Mr. Maxwell Reyna, Dirección de Organismos Internacionales, Ministerio de Fomento, Industria y Comercio, Nicaragua

Mr. Jaheel Araúz, Dirección Nacional de Negociaciones Comerciales Internacionales, Ministerio de Comercio, Panamá

16.00 – 16.15 Coffee Break

16.15 – 17.30 Session 6: Bridging the Gap Between Supply and Demand – Lessons Learnt from Existing Processes

Strengthening the link between needs and the future supply of technical assistance is key to maximizing the positive impact of technical assistance. Adequate identification and surveying of needs, good practice in the delivery of technical assistance and consistent follow-up are essential in promoting that link. The discussion will focus on concrete ways in which the needs of the Central American countries can be synchronized with the future supply of technical assistance in the SPS area.

Moderator:

Ms. Anabel González, Director, Agriculture and Commodities Division, WTO

Key questions to be discussed in this session include:

- How can good practice be integrated into the design of future assistance strategies?
- What techniques are available for beneficiaries to prioritize their needs? How can these assist donors in targeting resources ?
- How can donor response be better synchronised with beneficiary needs and co-ordinated between assistance providers ?
- How can the long term sustainability of donor assistance be ensured?
- How can national SPS control authorities raise the political profile of their work?
- What next steps should be envisaged in this process?

Panel Discussion:

Ms. Carolyn Robert, Trade and Investment Specialist, Integration and Trade Sector, IADB

Mr. Alan Hruska, Plant production officer, FAO, Chile

Mr. John Lamb, Sr. Agribusiness Advisor, Agriculture and Rural Development Department, World Bank

Mr. Peter Thompson, Director for Development and Economic Partnership Agreements, European Commission

17:30 – 17:45 Closing Remarks

Ms. Anabel González, Director, Agriculture and Commodities Division, WTO

Mobilizing Aid for Trade: Latin America and the Caribbean

Private Sector and the Aid for Trade Initiative Workshop

September 12, 2007
Miraflores Park Hotel
Room: Splendido
Lima, Peru

The WTO Task Force on Aid for Trade has foreseen an important role for the private sector in Aid for Trade. It recognized that “an increased dialogue between the public sector and private entrepreneurs would improve effectiveness in assessing aid for trade needs, in diagnostics and in implementation as well as in evaluating effectiveness in implementation.” Organized by the Inter American Development Bank and the International Trade Centre (ITC), this event will provide an opportunity to take stock of successful initiatives in the role of private sector on the formulation of trade policy and regulations, public-private sector partnerships to build trade-related infrastructure, overcoming supply-side constraints and trade finance. Based on presentation of experiences drawn from different parts of Latin America and the Caribbean (LAC), the event is designed to foster a dialogue and gather insights into the public-private collaborations for trade development as well as supporting private sector initiatives aimed at increasing and strengthening trade flows within the region, as well as between LAC and the rest of the world.

The Private Sector and Aid for Trade Initiatives Workshop is open to all participants of the “Mobilizing Aid for Trade: Focus Latin America and the Caribbean” Meeting.

Links:

International Trade Centre <http://www.intracen.org/>
Inter American Development Bank <http://www.iadb.org/>
The Multilateral Investment Fund <http://www.iadb.org/mif/>
World Bank <http://www.worldbank.org/>
World Trade Organization <http://www.wto.org/>
International Trade Forum <http://www.tradeforum.org/>

AGENDA

8:30 – 9:00 Registration

9:00 – 9:20 Key Note Address

Ana Maria Rodriguez, IDB Representative Country Office Peru

Patricia Francis, Executive Director, International Trade Centre (ITC)

9:20 – 10:45 Session 1: Role of Private Sector in Trade Policy Making and Supply Capacity Building

Brief Presentation

Eric Alvarez, Chief Office for Asia, Pacific, Latin America and the Caribbean, International Trade Centre (ITC)

The governments are increasingly involving the private sector in the formulation and implementation of trade policy for (i) better diagnosis of the problems and design of appropriate trade policy reform for creating a business friendly environment, (ii) making policy reforms easier to implement by promoting better understanding of the reform package, (iii) building an atmosphere of mutual trust and understanding between public and private sectors and (iv) promoting transparency and good governance. In developing countries therefore, trade policy support and supply-side assistance go hand in hand for businesses to reap the benefits of trade liberalization.

Panel Discussion:

Mr. Oswaldo Barriga Karlbaum, General Manager CADEX, Camara de Exportadores de Santa Cruz (Bolivia)

Mr. Enrique S. Mantilla, Camara de Exportadores de la República Argentina (CERA) (Argentina)

Mr. Stephen Lande, President, Manchester Trade Ltd

Mr. Anthony O' Sullivan, Head of Division, Private Sector Development OECD

10:45 – 11:15 Networking Break

11:15 – 12:30 Session 2: Infrastructure Trends and Financing

Brief Presentation

Mr. Rafael Fuentes, Commercial Counsellor of the Spanish Embassy

Agencia Española de Cooperación Internacional, Madrid, Spain

Public-Private partnerships in building trade related infrastructure come in many forms. For example, an enterprise group, composed of public and private interests, produces a public service for profit. These include build, own and operate (BOO)

and build, operate and transfer (BOT) schemes for the development of trade related infrastructure, such as road networks, airports, ports etc. It may also include partnerships such as, the joint management of a cold storage at the airport with the equity put into the venture by the partners being paid through user fees, or partnerships for the delivery of “public” services like the customs through establishing a single window for imports and exports.

Panel Discussion:

Mr. Michael E. Lucente, *Managing Director, Merrill Lynch Global Markets & Investment Banking*

Mr. Antonio Henrique Pinheiro Silveira, *Chefe Adjunto da Assessoria Econômica, Unidade de Parceria Público-Privada, Brazil*

Mr. Ricardo Carciofi, *Director, Institute for the Integration of Latin America and the Caribbean of the Inter-American Development Bank*

12:30 – 2:30 Lunch Break

2:30 – 4:00 Session 3: Helping SMES Take Advantage of Opportunities of Trade Liberalization

Brief Presentation

Fernando Jimenez Ontiveros, *Deputy Manager, Multilateral Investment Fund (MIF), IDB*

Overview of MIF activities in support of SME involvement in foreign trade. Activities will include the Facilitation of International Trade and Investment projects as well as other lines of action such as access to markets through global value chains and clusters, support to new exporters, programs to raise the awareness of SMEs on opportunities generated by trade liberalization, and the dissemination of best practices on export promotion. The goal is to present specific cases of projects and/or client institutions that could illustrate current good practices as well as potential new approaches to private sector and the aid for trade agenda

Panel Discussion:

Ms. Sonia Solari, *Executive Director, Fundación Fortalecer, (Argentina)*

Mr. Richard Hall, *Executive Vicepresident, CORPEI (Export and Investment Promotion Corporation), (Ecuador)*

Ms. Fany de Estrada, *Director, AGEXPRONT (Guatemala)*

Ms. Dinah Hippolyte, *Trade Policy Officer, Caribbean Association of Industry and Commerce (Trinidad & Tobago)*

4:00 – 4:30	Networking Break
4:30 – 6:00	Session 4: Trade Finance as a Tool for Aid for Trade
<p>Brief Presentation</p> <p>Hans U. Schulz, <i>Manager , Structured and Corporate Financing (SCF) Department, IDB</i></p> <p>The SCF will present an overview on its trade finance products, outlining the structure, rationale and impact of the Trade Finance Facilitation Program (TFFP) and the IDB's support for Investment Funds active in trade finance in the LAC region. Special focus will be given to initiatives on how to increase and deepen the outreach of these trade finance products in the region through donor support, which could play an important role in overcoming resource and risk-taking constraints. For instance, increasing access to international markets for Micro, Small and Medium-Sized Enterprises (MSMEs) in LAC to enable them to grow, create employment and wealth by taking advantage of opportunities arising from trade through the expansion of the TFFP to MSMEs and boost its pro-poor impact by increasing the supply of trade finance through their partner banks.</p> <p>Panel Discussion:</p> <p>Mr. Raul Baltar, <i>CEO, Banco Interamericano de Finanzas (Peru)</i></p> <p>Mr. Christopher E. D. Hesketh, <i>Senior Regional Advisor, Zuercher Kantonalbank (Switzerland)</i></p> <p>Mr. Pablo Romero Mercado, <i>Commercial Manager, Banco Economico (Bolivia)</i></p> <p>Mr. Oswaldo Sandoval, <i>Partner, Crecera Finance Company (Trade Finance Investment Fund, US)</i></p> <p>Mr. Franco Naranjo Jimenez, <i>Manager, Banco Improsa (Costa Rica)</i></p>	
6:00 – 6:20	Closing Remarks: IADB, ITC, UNIDO

Mobilizing Aid for Trade: Latin America and the Caribbean

OECD Practitioners Forum: Making the Most of Aid for Trade

September 14, 2007
Miraflores Park Hotel
Room: Splendido
Lima, Peru

The Organisation for Economic Co-operation and Development (OECD) is working to make Aid for Trade more effective. In that context, it is collaborating with the WTO in setting up a monitoring framework for aid-for-trade. This OECD forum aims at ensuring that developing countries take full advantage of the aid-for-trade initiative and in particular the WTO-led monitoring framework. The forum will include a discussion on the objectives and process of the monitoring framework and a special session dedicated to the use of the WTO-OECD recipient questionnaires as a reporting template for the WTO Global Aid-for-Trade Reviews. A second session will target implementation issues and aims at developing a regional dialogue on how to address the most common trade development challenges through aid for trade.

The OECD Practitioners forum has been designed to promote an open dialogue among all participants. They should include government officials from the ministries of finance, trade and planning/development with responsibilities ranging from trade performance, the design and implementation of aid-for-trade programmes to reporting to the WTO on Aid for Trade.

The Forum is open to all participants of the “Mobilizing Aid for Trade: Focus Latin America and the Caribbean” meeting. Further information and background documents are available at www.oecd.org/dac/trade/aft/events

AGENDA

14:30 – 14:45 Welcome and Opening Remarks by the Chair*Pier Carlo Padoan (Deputy Secretary General OECD)***14:45 – 15:45 Session I - Monitoring Aid-for-Trade: Why and How?****Moderator***John Hancock (WTO)***Lead speaker***Martina Garcia (OECD)***Lead speaker***Agustín Haya de la Torre de la Rosa (Head of APIC- Peru)*

The objective of this session is to set out the aid-for-trade monitoring framework, including the pivotal role of the WTO annual review, and its potential for providing more and better aid-for-trade. The OECD will present the objectives and the process of the WTO-led monitoring framework. The country expert will highlight the main lessons learned from monitoring the Paris Declaration on Aid Effectiveness.

15:45 – 16:00 Break**16:00 – 17:00 Session II - What to Report to the WTO Aid for Trade Review?****Moderator:***Paolo Giordano (IDB)***Lead speakers:***Marcelo García (Chile);**Alicia Martín (Nicaragua); APCI (Peru)*

The objective of this session is to discuss the use of the partner country questionnaire, which has been developed to assist with the 'in-country assessments' of aid for trade, and has been sent to all relevant WTO member governments. The questionnaire aims to uncover a mixture of qualitative and quantitative data to provide information on resources and policy formulation, on performance and on aid delivery processes. These assessments can be presented at the first Annual WTO Global Aid for Trade Review on 20–21 November 2007. Two or three developing countries from the region will have been asked to pilot the questionnaire. These case studies will provide useful experiences for participants and key recommendations on what and how to report to the Annual WTO Global Aid for Trade Review.

**17:00 – 18:00 Session III- From Needs Diagnostics to Results:
Addressing Implementation Challenges**

Moderator:

Alberto Trejos, *Former Ministry of Trade, Costa Rica*

All participants are invited to intervene. The objective of this session is to identify existing knowledge gaps and institutional constraints as well as solutions and a plan of action for improvement, building on all the lessons emerging from the main *Mobilizing Aid for Trade* event. Participants are invited to discuss:

- How to use the various diagnostic tools currently under development to identify priorities;
- How to develop operational plans for addressing binding constraints to trade development;
- How to ensure ODA is effectively used.

The following background information will be provided:

- A fact-sheet with selected data on regional trade performance;
- An overview of aid-for-trade flows and instruments; and
- A summary of available information on best practices in aid-for-trade.

18:00 – 18:30 Concluding Session

- Reporting on the workshops by the moderators
- Conclusions by the chair of the practitioners' forum

List of Participants

Antigua & Barbuda

Errol Cort
Minister of Finance & the Economy

Winston Baldwin
Prime Minister and Minister of
Foreign Affairs

Argentina

Oscar Tangelson
Secretario de Política Económica
Ministerio de Economía y
Producción

Austria

Christoph Reitingger

Bahamas

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IDB Executive Director for
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Agregado de Cooperación
Embajada de Bélgica en Perú

Kuen Van Acoleyen
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Sergio Ramos
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Christian Fressard
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Marcelo García
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Asesor Ministro de Hacienda

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Gonzalo Gutierrez Viceministro y Secretario General de RREE RREE	Javier Eduardo León Olavarría Embajador, Director Ejecutivo de la Ofic.de Promoc.Económic. RREE	Federico De Aparici Gerente General SNI
Carlos Ferraro Viceministro de Industrias PRODUCE	Javier Augusto Prado Miranda Ministro Consejero, Director de Promoc.Comercial de Bienes y Servicios RREE	Samuel Gleiser Presidente CCL
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Beat Loeliger
Ambassador for Switzerland in
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