



INTER-AMERICAN DEVELOPMENT BANK

INTEGRATION AND REGIONAL PROGRAMS DEPARTMENT



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Integration, Trade and  
Hemispheric Issues Division

# Trade Related Capacity Building: An Overview in the Context of Latin American Trade Policy and the MERCOSUR-EU Association Agreement

Robert Devlin  
Ziga Vodusek

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February, 2005  
Occasional Paper 29

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Institute for the Integration of Latin America and the Caribbean IDB - INTAL  
Esmeralda 130, 16<sup>th</sup> and 17<sup>th</sup> Floors (C1035ABD) Buenos Aires, Argentina - <http://www.iadb.org/intal>

Integration, Trade and Hemispheric Issues Division  
1300 New York Avenue, NW. Washington, D.C. 20577 United States - <http://www.iadb.org/int>

The opinions expressed herein are those of the authors and do not necessarily reflect the official position of the IDB and/or INTAL-ITD, or its member countries.

Printed in Argentina

Institute for the Integration of Latin America and the Caribbean  
Trade Related Capacity Building: An Overview in the Context  
of Latin American Trade Policy and the MERCOSUR-UE Association Agreement  
1<sup>a</sup> ed. - Buenos Aires: IDB-INTAL, 2005.  
60 p.; 28 x 21 cm. (INTAL-ITD Occasional Paper 29)

ISBN 950-738-206-2

1. Mercosur I. Título  
CDD 338.91

US\$ 5.00

Editing:  
Susana Filippa

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**TRADE RELATED CAPACITY BUILDING:  
AN OVERVIEW IN THE CONTEXT OF LATIN AMERICAN TRADE  
POLICY AND THE MERCOSUR-EU ASSOCIATION AGREEMENT**

**Robert Devlin and Ziga Vodusek**<sup>\*</sup>

**I. INTRODUCTION**

Trade has become an increasingly important strategic objective for developing countries. This is a relatively new phenomenon for many of them. Hence the demand to intensify an insertion into the world economy often advances faster than their institutional capacities to formulate effective strategies, trade policies and institutions. This is further complicated by the fact that the insertion is increasingly being undertaken through negotiation of ever more complex trade agreements with important asymmetries between the parties and large repercussions from market opening.

Under these circumstances it is not surprising that trade-related capacity building (TRCB) has increasingly gained the attention of developing countries and donors alike. By practicing the art of the possible many advances have been achieved. But many shortcomings are still hindering the delivery of effective TRCB; ironically, some of them being outgrowths of attempts to perfect TRCB.

This paper first outlines the nature of Latin America's emerging strategic approach to trade. It then highlights the major challenges of the strategy and why TRCB is important. This is followed by a discussion of the evolution of thinking about technical assistance for trade. Then the paper reviews and compares some of the major characteristics of important multilateral initiatives in this area, advances and remaining limitations. It is important to stress that our focus is on "delivery systems" as such and not the effectiveness of the TRCB projects themselves.

This review is followed by a more lengthy discussion of the European Commission's (EC) approach to TRCB. The final substantive section makes a proposal about how the EC could pursue TRCB in MERCOSUR in light of the protracted negotiations for a MERCOSUR-EU Association Agreement (MEU).

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<sup>\*</sup> Respectively, Deputy Manager, Integration and Regional Programs Department and Senior Economist of the Special Office in Europe; of the Inter-American Development Bank. This paper was prepared for the Chaire MERCOSUR of Sciences Po Working Group Meeting, April 29, 2004. The authors thank Alexandra Olmedo for her excellent assistance and Paolo Giordano, Ernesto López-Córdova, and Mauricio Mesquita Moreira for their comments. The opinions expressed here are those of the authors and not necessarily of the Bank.



## II. LATIN AMERICA'S MULTIPOLAR TRADE STRATEGY

Trade policy has been at the vanguard of the structural reform process of Latin America and the Caribbean. One of the strategic objectives of trade is to improve articulation with the world economy. The broad rationale behind this approach is to capture the opportunities for growth and transformation that more open economies offer. As the Post-War world economy increasingly retakes the path of globalization, first witnessed in the 19th and early 20th centuries, it has become clearer to policy makers that rapid growth has some relation to the comprehensiveness of a national economy's links with the rest of the world (Table 1).<sup>1</sup>

**TABLE 1**  
**ARTICULATION WITH THE WORLD ECONOMY/TRADE**  
(% average annual change GDP)

	1974-1992
Strong External Orientation	7.8
Moderate External Orientation	4.6
Moderate Country Autarchy	3.4
Strong Autarchy	2.4

Source: Larroulet [2004].

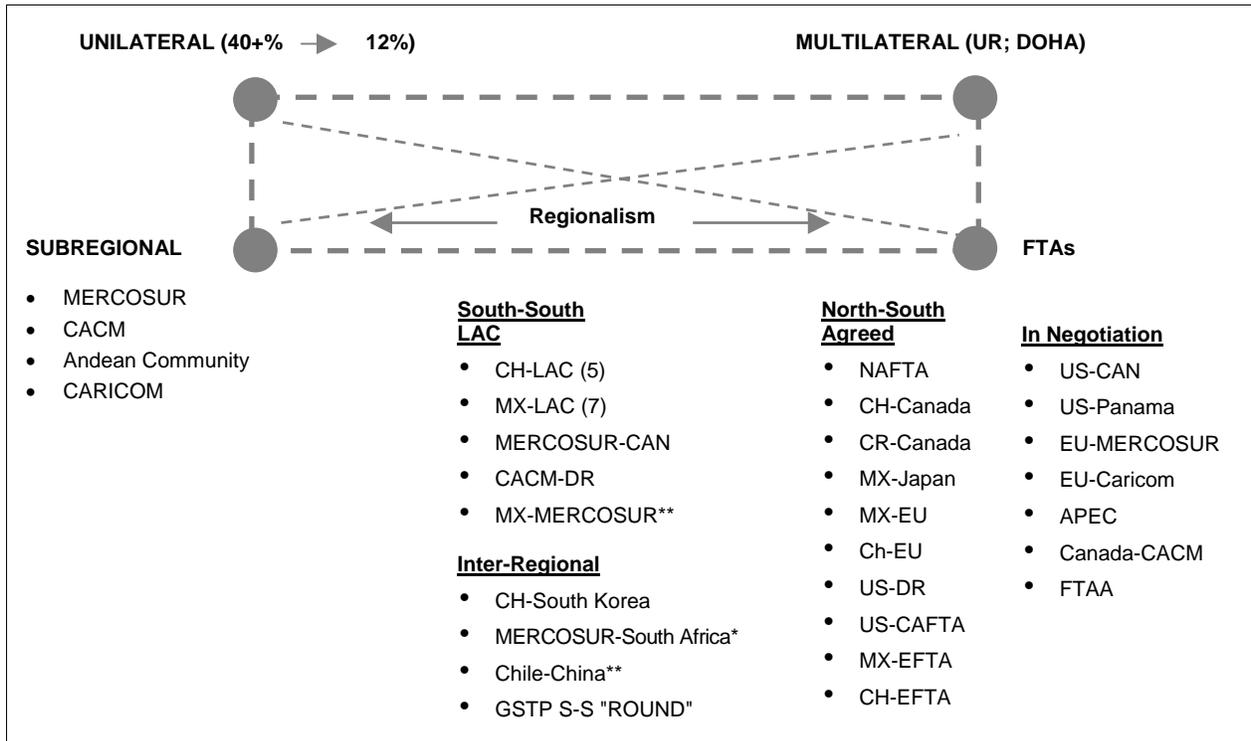
Standard economic theory would suggest that the best way to advance trade liberalization is through unilateral opening. But in a second best world where economic distortions and strategic political economy considerations enter into play, reciprocal openings in the context of a trade negotiation can be a complementary or even superior option.

Since the late 1980s Latin America has witnessed a maturing multipolar trade strategy that reflects this latter consideration. The components of the strategy have included unilateral opening, but also active participation in multilateral trade agreements and pursuit of a New Regionalism in the form of subregional common market projects (where trade opening is a first step) and bilateral/plurilateral free trade areas (Ethier [1998]; Devlin and Estevadeordal [2001]). In effect, Latin American trade policy was in a very powerful "four wheel drive" mode during most of the 1990s (Figure 1).

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<sup>1</sup> There has been some recent debate about the causality (Rodriguez and Rodrik [1999]). Nevertheless, the dominant thought is that openness (not always uniformly defined) is associated with better economic performance. Indeed, one can cite many more success stories of countries which have found a way to progressively open than those which have stayed closed (Machinea [2004]).

**FIGURE 1**  
**SINCE 1990: A MULTIPOLAR TRADE POLICY IN 4 WHEEL DRIVE (4X4)**



Notes: \* In negotiation; \*\* in negotiation?

Source: Devlin [2004a].

- Unilateral liberalization has been an important component of the process as illustrated by the fact that average tariffs fell from over 40% in the mid-1980s to around 12% in the mid-1990s. Average tariff dispersion was greatly reduced as well along with many non-tariff barriers.
- Multilateral liberalization was comprehensive in the context of the obligations emerging from the Uruguay Round. Not only were tariffs reduced, but countries assumed many new trade and trade-related (behind border) disciplines such as services, intellectual property and investment that were new to the multilateral system. Countries moreover are now engaged in the negotiation of the WTO's Doha Development Agenda (DDA).
- Meanwhile, traditional subregional integration processes with objectives of a common market recovered from the lagging progress and crisis of earlier decades. Traditional subregional integration agreements were re-launched with rapid and comprehensive preferential trade liberalization in goods and new agreements like MERCOSUR were created with trade liberalization as a major starting point.
- Countries also pursued bilateral/plurilateral free trade areas with Latin American and Caribbean neighbors. With the onset of NAFTA there also emerged a growing expression of interest in comprehensive FTAs that would go beyond traditional goods trade to incorporate services and trade-related disciplines, many of which are more comprehensive than those found in the Uruguay Round.

- Even more striking was a progressively broader interest in pursuing comprehensive FTAs with Northern industrialized countries. This is manifest in the launch of the Free Trade Area of the Americas (FTAA) process at the end of 1994, and Latin American bilateral agreements with Canada, the EU and more recently the US and Japan.
- Interregional South-South agreements also began to emerge with the Chile-South Korea FTA and on-going negotiations between MERCOSUR and South Africa.
- All told there have been nearly 30 regional agreements signed since 1990 and a large number of additional agreements are currently under negotiation (Table 2).

The multipolar strategy contributed to Latin America's trade growing faster than world trade and regional GDP in the 1990s. Moreover, in the subregions much of the trade was in higher value-added manufactured goods. Nevertheless, the effectiveness of trade policy in terms of exports was handicapped by, among other things, macroeconomic disequilibria in a number of countries, coupled with erratic external financial flows and lagging growth of competitiveness. With a slowdown in the world economy in 2000-2002 and economic problems in a number of Latin American countries trade performance flattened severely for the region as a whole. However, a recovery was observed in 2003 as it is estimated that the value of the region's exports expanded by 8% (IDB [2003a]).

**TABLE 2**

<b>INTRA-LAC FREE TRADE / CUSTOMS UNION AGREEMENTS</b>	<b>Entry Into Force</b>
Central American Common Market (CACM)*	1960
Andean Community*	1969
Caribbean Community (CARICOM)*	1973
Southern Cone Common Market (MERCOSUR)	1991
Costa Rica-Mexico	1995
Group of Three (G-3)	1995
Bolivia-Mexico	1995
Chile-MERCOSUR	1996
Bolivia-MERCOSUR	1997
Mexico-Nicaragua	1998
Chile-Peru	1998
Chile-Mexico	1999
Mexico-Northern Triangle of Central America	2000
CARICOM-Dominican Republic	2000
Panama-El Salvador	2002
Central America-Chile	2002
Central America-Dominican Republic	2002
MERCOSUR-Andean Community	2003
Chile-South Korea	2003

**TABLE 2 (continued)**

<b>NORTH-SOUTH AGREEMENTS</b>	<b>Entry Into Force</b>
North American Free Trade Agreement (NAFTA)	1994
Canada-Chile	1997
Mexico-European Union	2000
Mexico-EFTA	2001
Costa Rica-Canada	2002
Chile-United States	2003
Chile-European Union	2003
Chile-EFTA	2004**
Central America-United States	2004**
Dominican Republic-United States	2004
<b>SELECTED NEGOTIATIONS ONGOING</b>	<b>Projected Date of Completion</b>
Panama-United States	2004
Colombia/Peru/Ecuador/Bolivia-United States	2004
Central America Four-Canada	2004
Mexico-Japan	2004
MERCOSUR-South Africa	2004
Brazil-India	2004
CARICOM-European Union (post-Cotonou reciprocal arrangements)	2007
MERCOSUR-European Union	2006

Notes: \* Relunched in the 1990's.

\*\* Awaiting ratification.

Source: Integration and Regional Programs Department, IDB.

### **III. THE MULTIPOLAR TRADE STRATEGY AND THE DEMAND FOR TECHNICAL ASSISTANCE**

The Multipolar strategy has generated a comprehensive demand for technical assistance over a wide range of trade issues. This was not the case during the 1980s and the early 1990s as the donor-country focus then was overwhelmingly on "trade sectoral policy reform" geared to unilateral reduction/elimination of border barriers, coupled with fiscal reforms to substitute trade tax revenue and customs modernization. Other trade related demands were not strong.

The New Regionalism initially focused on tariff reduction for goods trade. This was the starting point for common market projects (which also demanded construction of common external tariffs) and the sole basis of the first FTAs under the banner of the New Regionalism.

The initial technical challenges for the countries were not especially daunting. The region had a long tradition of negotiating and implementing (only with limited success) reciprocal tariff reduction on intra-Latin American goods trade during the great episode of regionalism of the 1960s-1970s (Devlin and Giordano [2004]). Moreover, the initial foray of the New Regionalism was among Latin American countries with similar capacities, while the implication for opening were modest as a history of protection meant that intra-Latin American trade started from a small base.

As for the Uruguay Round (UR), initiated in 1986, most Latin American countries participated. The demands on capacity were severe given the complexity of the issues. Yet with some exceptions, effective participation-and hence demands for assistance - was limited. Being seen as a formal part of the UR negotiations as such - in order to provide credibility to the structural reform process- was to a certain extent more of an objective for many countries than a proactive role in the complex negotiations themselves.

However, demands for more comprehensive technical assistance began to emerge after the UR. As mentioned above, the UR generated a mass of unprecedented trade disciplines for developing countries (and developed as well). As these disciplines began to bite progressively during the post-1994 implementation phase of the Round, many developing countries realized that they had signed onto obligations that were difficult to fully understand and manage as well as very complex and costly to implement. Hence a growing demand for assistance to implement areas such as TRIMS (investment), TRIPS (intellectual property), a new dispute settlement mechanism, customs valorization, etc.

The second impulse to more demand for assistance was the growing interest in North-South (N-S) FTAs. If there was a major organizing force to the demand for trade related technical assistance it was clearly the FTAA process. It entered into operation in January 1995 as a preparatory exercise with formal negotiations launched in 1998. As negotiations moved towards the end game of specific offers and requests for liberalization in 2001, countries became increasingly concerned about their asymmetric negotiating capacity *vis-à-vis* the US and Canada.

This concern was magnified by the launch of the Doha Development Agenda in 2001 with another complex negotiating agenda. When the US decided in 2002 to aggressively pursue bilateral FTAs parallel to the FTAA negotiations the realization of the need for technical assistance took another

leap in the participating countries (Central America, Panama, the DR, and the Andean Community). After Central America and the DR reached agreement on a bilateral FTA with the US (and Chile with the EU and US) interest began to heighten for assistance to implement N-S agreements, to support the adjustments required to open an economy to a major trading partner and to exploit market opportunities.

In sum, the need to respond to the complex agendas of a North-South FTA and the large repercussions for opening to an industrialized trading partner greatly expanded the scope and complexity of the demands for technical assistance (Table 3). The major areas of concern are:

### **A. Refining Trade Strategies**

How to select partners, sequence trade negotiations and unilateral policies, decide on objectives and desirable content of agreements are all important strategic issues that should be incorporated into a global trade strategy before embarking on a negotiation. Countries must also position themselves in the multilateral Doha Development Agenda. There are implementation, adjustment, social cohesion and competitive issues as well. And of course that trade strategy must be coherent with the overall development objectives.

Embarking on trade initiatives without a strategy is dangerous as outcomes could under-exploit real opportunities and even be welfare reducing. But formulating a coherent strategy has become ever more challenging as the playing field for the region's trade policy has evolved from complicated to ever more complex.

The initial round of unilateral opening involved strategic political economy consideration for the home market in terms of speed and depth, competitiveness, sectoral adjustments<sup>2</sup> and fiscal solvency. The initial decision to enter into common market projects primarily involved strategic decisions on selection of partners, negotiation of a speed and scope for the regional opening in a way compatible with WTO rules and formation of a common external tariff (CET). Meanwhile, the multilateral trade forum placed demands on negotiating complex issues, asymmetric capacities and implementation. The North-South FTAs were probably the most complex of all due to the need to select and sequence partners; negotiate even more complex (WTO+) trade issues, the more intense asymmetries between partners; the greater difficulty of implementation, large fiscal and economic impacts, very demanding head to head competitiveness issues and a demand for more rigorous enforcement than Latin America is accustomed to.

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<sup>2</sup> The adjustment issue was much less a problem than originally thought since tariffs had considerable "water" in them. Hence even though reduction of tariffs between 1985-1995 was dramatic, dislocations in domestic markets were relatively mild.

**TABLE 3**  
**EXAMPLES OF SOME OF THE DISCIPLINES IN N-S TRADE AGREEMENTS**

	WTO	US-CAFTA	Chile-UE
Tariffs	√	√	√
Preferential Rules of Origin		√	√
Agriculture	√	√	√
Textiles	√	√	√
SPS Measures	√	√	√
Technical Barriers to Trade	√	√	√
Investment	√	√	√
(Including Investor-State Dispute Settlement)		(√)	
Services	√	√	√
(Including Cross-border trade, financial)	(√)	(√)	(√)
Government Procurement	√ <sup>(1)</sup>	√	√
Intellectual Property Rights	√	√ <sup>(3)</sup>	√ <sup>(3)</sup>
Anti-Dumping	√	√	√
Competition Policy	√	√	√
Dispute Settlement	√	√	√
Labor/Environment		√	√ <sup>(2)</sup>
Special and Differential Treatment	√	√	√
Customs Procedures	√	√	√
Electronic Commerce	√	√	√
Transparency	√	√	√
Safeguards	√	√	√

Notes: <sup>(1)</sup> "Plurilateral" agreement because it is signed by only a few WTO members.

<sup>(2)</sup> Environment only.

<sup>(3)</sup> WTO + +

Source: IDB, Integration and Regional Programs Department.

## **B. Negotiations**

Reciprocal trade agreements must be negotiated intelligently in order to maximize potential benefits and to assume politically sustainable obligations.

The dilemma facing Latin American governments is that while their trade ambitions have expanded exponentially, their internal ministerial apparatus has been organized for the era of import substitution (Jordana and Ramió [2003]). This was a period when trade was not a central development tool, trade negotiations were focused only on goods, most initiatives were with peers in Latin America, civil society was less aware, concerned and organized concerning trade issues and many governments were not as democratic as they are today.

The types of challenges faced in the current environment are:

- Following on the initial round, unilateral liberalization today does not generally benefit from "water" in levels of tariff protection so that reduction of protection often bites into "static" margins of competitiveness. This complicates the technical and political economy dimensions of planning and formulating trade initiatives and liberalization.
- Multilateral and regional negotiations have much more technically complex agendas that under the pressure of bilateralism continue to expand in scope. Moreover, as we have seen, countries are negotiating on multiple fronts. This raises demands in most countries to increase the skill levels and perhaps the number of negotiators as well as to organize effective inter-ministerial coordination.
- Negotiating South-South FTAs usually has minor up front impacts due to initial conditions in which bilateral trade is modest. But N-S agreements usually involve a major market opening. Moreover, the opening is asymmetric since the industrialized country already has low protection, while average protection in the developing country is three to five times higher. Hence, countries need a more analytical and empirical framework to identify offensive and defense interests. This requires, among other things, improving access to in-house and external technical support accompanied by development of relevant databases, software and modeling techniques.
- Governments cannot negotiate intelligently without evaluating insights from the private sector and labor which bear the benefits and burden of trade opening. In an age where civil society is concerned about globalization and mobilized to give expression to that concern it is important to have broader consultations as well. However, this is a new front of action for Latin America. Reflecting past practice, channels of communication traditionally have been nonexistent, underdeveloped and inefficient or overly selective (INTAL [2002]).
- Congress and parliaments must ratify treaties. However, in many countries congress people become involved only when a finished treaty is placed on their desk. In a democratic framework trade ministries must increasingly develop effective channels of communication with the legislature before and during a negotiation.
- For the private sector, labor, civil society and the legislature to be effective interlocutors they must be conversant in the arcane world of trade, understand the nature of the expanding trade agenda and be able to evaluate the impact of different scenarios on them. Many segments of these groups are relatively uninformed and unskilled in the world of trade, eroding their capacity to provide constructive input plus making them vulnerable to undue influence from outside parties.
- The members of each subregion have been negotiating jointly in their initiatives with the EU, US, Canada and the FTAA. Coordinating positions is always difficult, but even more so since most subregions have not agreed upon and implemented all the disciplines concordant with modern trade agendas.
- Modern trade agreements often reduce domestic policy space. Examples are restrictions on the use of export performance requirements for FDI, maquila, capital controls, intellectual property restrictions, investor-state dispute, etc. Hence in addition to negotiating these issues countries must also evaluate their impacts and develop alternative policy instruments when important vacuums emerge. This is difficult in developing countries which already typically suffer from a deficit of viable policy instruments.

### **C. Implementation and Administration of the Agreements**

Negotiating an agreement is only the "prologue" of the trade story. The chapters really only begin with implementation.

After negotiating an agreement, there is the challenge of congressional ratification and administering its implementation, monitoring rights as well as obligations, using dispute settlement and evaluating impacts.

- The first step of ratification requires outreach at home and sometimes lobbying in the capital of the northern country(ies) when there is significant resistance to the developing country partner.
- The bulk of Latin America's experience was in agreements for goods only. Now implementation typically involves services and a battery of behind the border disciplines. Hence, accommodation of new disciplines often requires design of new domestic legislation.
- Domestic agencies responsible for monitoring or regulating the different legal areas of the agreement need to be modernized or created, while adequately trained personnel, updated facilities and equipment (e.g., information technology) and budgets that accommodate the new responsibilities also must emerge.
- Implementation is further complicated when a country must simultaneously accommodate systems of rules that are quite different as happens for countries which have FTAs with both North America and the EU.
- Private sectors and judiciaries must be assisted so that they have a full understanding of the new obligations.
- Impacts at home must be monitored and monitoring must also be done on the partner's implementation as well in order to protect rights.
- Modern dispute settlement is intensive in the practices of litigation (Dearden [1996]). Latin America has limited experience in dispute settlement, especially US legal practice which now dominates many N-S FTAs.

### **D. The Transition to Free Trade**

This fourth component is probably the biggest challenge that countries face. In effect, and especially for North-South agreements where the market opening implications are very large, major macro, sectoral and micro adjustments are required. These must be done effectively to fully capture opportunities and manage costs in a socially equitable way, all with a view to stimulating growth, employment and poverty reduction. Thus, upon implementing an agreement a major national economic challenge emerges.

Some of the issues that must be considered (drawn from Iglesias [2004]) in the transition to free trade are:

### *Macroeconomics*

- Trade agreements open markets for trade and investment. A stable national macroeconomic environment is a *sine qua non* to exploit the opportunities that can emerge. Proactive macro policies to preserve stability will be required in the transition to freer trade as prices and quantities in economies will undergo important transformations due to the reallocation of resources to the more competitive activities.
- Control of inflation is a fundamental requisite since severe alterations of domestic prices distort the price signals that must guide production and investment.
- The real exchange rate is without a doubt a key relative price that provides incentives to exports, production of import substitutes and investment in both. It is important to avoid protracted overvaluations. One potential challenge in this regard is effective management of sudden and unsustainable surges in short term capital inflows that could arise in international markets, especially in the initial phases of North-South integration. These surges can contribute to loss of competitiveness, extreme volatility of the exchange rate and even crisis. US investment chapters of FTA agreements restrict capital controls, eliminating one instrument that countries like Chile have found to be a useful tool to preserve macroeconomic balances.
- Stable rates of growth are also necessary to promote investment and exports. Countries need to improve their ability to implement countercyclical policies that partially compensate fluctuations in the terms of trade, capital inflows and world economic activity. To do this there is a need to substantially increase public savings during the "good years" and manage sustainable levels of foreign debt.
- In the face of reduced trade revenues, there will be a need in many countries for fundamental fiscal reform, including tax and customs, to maintain fiscal balances and generate the public resources required to assist in the social transitions to free trade.

### *Sectoral Adjustments*

- A free trade area with margins of preferences should provide immediate opportunities for many sectors. However, experience has shown that benefits can rapidly dissipate if a country and its firms stand still in a world economy driven forward by increasingly intense competition and progressive erosion of trade preferences due to generalized processes of liberalization. So a trade agreement is not a "silver bullet" for development, but rather a window of opportunity that can generate sustained benefits only in a context of progressive upgrading of firms' productive and marketing capacities.
- To succeed, local firms must continuously reallocate and improve their use of resources. Decisions on streamlining, cutting costs, refocusing of product lines and exploiting market niches, greater horizontal and vertical specialization, higher investment in technological capabilities, standards' conformance and mergers and acquisitions will be more than ever the order of day for companies in the region. The future of the economies in the region hinges very much on macro and microeconomic restructuring decisions that enhance productivity and boost the region's competitiveness.

- Successful restructuring decisions depend not only on the incentives of competition but also on a set of supportive policies and institutions, especially where market failures are prevalent. Restructuring requires factor mobility, coordination, information, skills and finance on reliable terms. These are conditions that autonomous market forces do not always provide satisfactorily and for which supply is often hampered by unnecessary obstacles arising from ill-conceived public policy. Governments that do not address these issues risk facing stalled restructuring processes, which might result in the unwanted survival of inefficient activities or in the elimination of potentially viable firms and activities.
- Specific actions should arise out of a public-private sector alliance, which departs from the old public-private sector divide that so characterized the region's domestic economic relations of the past. In designing strategies some attention might be given to programs that have been successfully deployed in North America, Europe and the region, but with due care for adjusting to national institutional and financial realities. One also should not overlook the possibilities for exploiting synergies among sectors.

### *Infrastructure and Human Capital*

- The quantity and quality of modern physical infrastructure is a fundamental determinant of the capacity of countries to integrate and to ensure a balanced distribution of activity between and within nations. Roads, telecommunications and energy connections condition trade and investment and the equitable access of populations to productive activities and better standards of living. Indeed, there is a relation between available infrastructure, growth and the distribution of economic activity. But quantity is not enough. Quality and the efficient use of infrastructure matters in terms of the effects of resource allocation on growth.
- Environmental sustainability and impacts on local development, indigenous groups and the quality of life must be an integral part of the planning of infrastructure development.
- Improving the region's human capital is a central condition for capturing the potential benefits of integration for growth and social and economic development. Educated and better-trained societies help absorb and intermediate the technology, which underpins the productivity growth that is so essential to raising income levels.
- The availability of human capital helps to attract the direct foreign investment that regional integration is supposed to facilitate and provides better conditions for positive spillovers to domestic investment.
- Higher human capital also is associated with lower fertility rates and can contribute to conditions that mitigate violent crime and other social malaises that handicap trade, investment and employment.

## *Poverty and Equity*

- Trade is a means not an end. The ultimate goal is to raise the standard of living of the region's societies. Trade agreements can generate net social welfare gains, but inevitably also create losers as well as winners. Part of the net gains must be used to compensate vulnerable groups, especially those who are already poor. This is based on equity considerations but also political economy as losing sectors will be more disposed to oppose integration if they anticipate that they will be left unprotected.
- If workers cannot readily move to industries with comparative advantage because they lack the new skills demanded by markets, because of advanced age, or because job opportunities are concentrated in different regions within the country, trade liberalization could make them worse off. Rural sectors producing domestic staples may be especially vulnerable.
- Trade agreements include arrangements, such as extra long transition periods, that can assuage some of these adverse distributional outcomes. But this type of assistance has its limitations. There is no substitute for active involvement by national governments to ensure that integration benefits everyone.
- Ultimately, each national government is responsible for choosing those policies that it considers most appropriate given its own needs and taking into account the political realities they face. There is a need to seriously think now about how other policy realms, beyond trade and foreign direct investment promotion, should face up to the challenge of balancing economic integration and social inclusion. Some of the policies worth considering are:
  - Bringing the benefits of economic integration to all regions within the country by improving roads, railroads and ports, and, in general, by improving infrastructure and local institutions to raise competitiveness and attract national and foreign capital.
  - Breaking the vicious cycle of poverty with increases in expenditure in education and health. Fortunately, recent poverty alleviation programs in the region - such as Brazil's Bolsa Escola, Mexico's Opportunities, and Chile's Chile Solidario - indicate this is a feasible goal.
  - Removing distortions in the agricultural sector created by incentives that induce farmers to produce crops where a comparative advantage does not exist, and moving toward support schemes that give farmers the means to choose more profitable production.
  - More profitable production opportunities will also rely heavily on industrialized countries eliminating protection and trade distorting practice in agriculture, an objective that clearly is central to Latin America in all N-S trade negotiations.
  - Updating curricula and modernizing existing education systems so as to compete in the global economy.
  - Support workers that are displaced by trade liberalization and offer them re-training and employment relocation programs.

## *Good Governance*

- Good governance is an essential enabling environment for the economic activity that brings nations closer together. Stable democratic political processes are as important as stable macroeconomic environments for capturing the economic potential of integration and trade and indeed the two usually go hand in hand. This involves among other things, quality public personnel and institutions, robust fiscal capacities, transparency (including effective channels of communication between government and civil society) and a political culture intolerant of corruption.
- While guarding public welfare, countries must aspire to modern regulatory frameworks that encourage rather than discourage competition, investment and employment. The so called "country cost" of inefficient regulation has been shown to put a drag on the volume of investment and its quality, both foreign and local.
- The cross border flow of investment is a powerful integrating force and a central part of the logic of pursuing integration for social and economic development. However, gross uncertainties over basic property rights can dissuade investors and raise their reservation prices for operating in a market.
- Good governance also means a good government *cum* a good public service apparatus. In the initial years of the reforms there was an under appreciation of the role of government intervention in markets and the development process. There is growing awareness that markets in developing countries exhibit incompleteness and failures that government policy intervention can help ameliorate, often in the context of public-private alliances. However this requires, among other things, that governments have solid fiscal positions to finance their policy interventions and to attract and maintain competent and credible managers and technicians to plan and support strategies.

All the above, of course, is only a partial list of national policy concerns in the transition to free trade but is indicative of the great challenges ahead.

In any event, the challenges of having a relevant trade strategy, effective negotiation, implementation and transition to freer trade are together of historic dimensions. The agreements being put in place today will regulate Latin America's articulation with the world economy for decades to come. Done well they should energize the development process through better and more secure market access, institutional modernization and creation of an enabling environment for insertion into a globalizing world economy. Done poorly they could create severe economic and political stress.



#### **IV. DONORS AND TRADE CAPACITY BUILDING**

Capacity Building is often considered a subset of Capacity Development (UNDP [2002]). Capacity Development is an endogenous process that involves creating and building capacities with use and retention in a multilayered environment of markets, institutions, and local factors. It tends to look at capacity building in an integrated or holistic approach. Capacity building as such is narrower in that it focuses on creating and building specific capacities in a circumscribed context, often against a specific emerging challenge.

The terminology and scope of action for donor support of trade has evolved. Early Post-war trade assistance in developing countries was in the spirit of trade facilitation. In the 1960s and 1970s it was termed technical assistance, which was functionally aimed at a specific project to improve some narrow aspect of trade in a country. In the 1980s and much of the 1990s the approach was termed capacity building which was more programmatic in nature and geared to transfer of knowledge and development of local capacity to accomplish something in a broader area of trade. More recently the mainstream focus of donors has been trade-related capacity development. This is the endogenous multilayered process mentioned above which involves raising the capacity of individuals, institutions, and societies to formulate, implement and evaluate homegrown trade policies which are fully integrated into a development policy (UNCTAD [2004]). As can be seen the "semantic evolution" of assistance reflects movement from an atomistic methodology to a holistic approach which seeks progressively higher degrees of coherence among different policy spheres, greater coordination among relevant actors with higher degrees on endogeneity and sustainability.

Proponents of the comprehensive approach are critical of the narrower alternative (Prowse [2002]; Solignac Lacompte [2003]). Moreover, most major trade support from donors today seems to be an attempt to express the spirit of capacity development, although there are exceptions where the programs are closer to the narrower concept of trade capacity building. Nevertheless, while scope may be different, both approaches attempt to overcome many of these following traditional bottlenecks to the delivery of trade assistance (Devlin [2004b]):

##### *Countries*

- Getting trade to be mainstreamed in the development priorities and domestic and external financial pipelines. Often there is a "disconnect" between the Ministry of Finance/Planning (that move the levers of development priorities and finance) and other ministries. This can be aggravated for trade ministries since traditionally trade was not a priority for development and trade ministries not a traditional user of comprehensive external assistance.
- Trade-related ministries often have technical difficulties in identifying needs.
- Bullets one and two inhibit an integrated view of trade needs.
- Without an integrated view of trade needs it is hard to set priorities and establish efficient sequencing of requests for assistance.
- Countries can be inexperienced in the preparation of "bankable" project profiles.

- Trade and finance ministries are accustomed to grant money for trade-related issues (see below). This has its proper role but a "grant mentality" also can be the flip side of lack of ownership.
- Many countries have limits on foreign debt which inhibit access to loans for comprehensive trade-related assistance.

### *Donors*

- Donors also have had trouble mainstreaming trade. Often it has been overshadowed by important, but also more fashionable, development issues such as poverty reduction, the environment, governance, etc. Hence, donor staffs may not have trade issues centrally place in their programming and may not be technically conversant in the trade challenges that countries face.
- Donors also often do not have an integrated view of trade capacity needs. Hence they may end up responding to requests that reflect more the proactive strategy of a particular ministry or office rather than a priority issue in the overall trade picture.
- When countries do not have a clear picture of their own needs they can become victim of agenda pushing by donors driven by ideology, in-house expertise or national trade priorities in the case of bilateral donors (Solignac Lecomte [2003]). This situation erodes ownership and sustainability of capacity.
- Bilateral assistance can be tied to national procurement of assistance.
- Coordination among donors has been traditionally poor leading to duplication, unconstructive competition, and inefficient allocation of resources. When coordination occurs it can be compartmentalized, with loss of synergies, in partisan initiatives even though many effects are Most Favored Nation (MFN) in their effects.
- Donors have increasingly scarce grant money, which is useful for the poorest countries, especially in the initial stages of a program.
- Capacity for the evaluation of the effectiveness of assistance programs is still in its infancy.

In sum, traditional problems have led to a situation where the revealed demand for assistance may not equal the real effective demand and where the latter is not cleared by the donor supply of assistance.

## V. DONOR DELIVERY SYSTEMS

Here we will uniformly use the term trade-related capacity building (TRCB) to refer to trade technical assistance. Trade-related capacity development is often interchangeably used with trade-related capacity building. But the distinction can still be made between the two by examining the scope of the content of the programs: the former is more comprehensive and holistic whether termed capacity development or building. The content of capacity development-like programs may formally be integrated into development of specific strategies for poverty reduction, environmental protection, gender issues, development, growth, etc. The content of capacity building as such is more functional to achieving a sectoral objective related to trade while generally supporting an existing development strategy selected by the country, or at least not being inconsistent with it. Another difference may be that capacity development has a longer term perspective of deepening sustainability. Meanwhile, capacity building programs would like to do the same but are often focused on a present or imminent specific challenge, e.g., creation of an FTA, that must be addressed immediately even at the risk of dissipation of some of the longer term effects.

Countries receive TRCB mainly through two channels: bilateral aid or multilateral and regional institutions. We focus here on the programs delivered by the latter.<sup>3</sup> The main players in this field as regards the amount of funds involved and the impact on recipient countries are (see also Box 1):

- The Integrated Framework (IF) which formally joins the IMF, the International Trade Commission (ITC), UNCTAD, UNDP, the World Bank and the WTO in an initiative to provide TRCB for the integration of the Least Developed Countries into the multilateral trading system.
- The Joint Integrated Technical Assistance Program (JITAP) unites the WTO, UNCTAD and the ITC in a program to provide TRCB to selected African countries.
- APEC which has a TRCB program on WTO disciplines for 16 developing members of the 21 member initiative.
- The European Commission<sup>4</sup> which provides TRCB at the national and especially at the level of regional groups where it has a special interest.
- The FTAA Hemispheric Cooperation Program (HCP), which organizes TRCB for 29 of the 32 developing countries participating in this negotiation. It receives technical support from the Inter-American Development Bank (IDB), the Organization of the American States (OAS) and the UN Economic Commission for Latin America and the Caribbean (ECLAC) joined together in their Tripartite Committee.
- The WTO, apart from its participation in the IF and JITAP, also has extensive training programs for the developing country members of the organization.

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<sup>3</sup> Assistance programs of individual governments are very important in the overall aid profile for development, (see McGillivray, Feeny and White [2004]).

<sup>4</sup> The Commission, strictly speaking, is not a multilateral or regional development agency and indeed may be closer to a bilateral agency. But data on multilateral aid include the Commission's programs, (see McGillivray, Feeny and White [2004]).

## Box 1 X-RAY OF PROGRAMS

### **INTEGRATED FRAMEWORK (IF)**

The IF (I) was inaugurated in October 1997 at the WTO High Level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development, in response to the complexity of the LDCs' trade-related problems. Six multilateral institutions participate in the IF: the IMF, ITC, UNCTAD, UNDP, World Bank and the WTO. The objective is to enhance the development dividends to LDCs from the Multilateral Trading System (MTS), by complementing each other in their distinct area of competence.

The IF is a four-part process. 1. Awareness-building on the importance of trade for development; 2. Diagnostic for a Trade Integration Strategy (DTIS) to identify constraints to trade, sectors of greatest export potential, and a plan of action for integrating into the global trading system; 3. Integrating the plan of action into the national development plan, such as the Poverty Reduction Strategy Process (PRSP); and, 4. Implementation of a plan of action in partnership with the development cooperation community. As regards its operational structure, the IF is formed by a Working Group (IFWG), chaired by the Deputy Director General of the WTO and responsible for the overall management of the IF, including monitoring and evaluation of field resources and oversight of the IF Trust Fund. The Working Group consists of representatives of the six core agencies, and two representatives each from LDCs and donor countries. The OECD has observer status.

The IF process was "revamped" by the Heads of Agency in July 2000 IF (II). They recommended several initiatives to enhance its effectiveness: mainstreaming capacity building needs in a broad development context; creation of an IF Trust Fund; redefinition of tasks for each agency. At the operational level, the IF (II) proposed the establishment of a steering committee. The IF Steering Committee (IFSC) will oversee the work of the IFWG and provide direction, assess progress, and ensure total transparency in the IF. To ensure greater transparency, more accountability and ownership, the IFSC has been designed as a tripartite arrangement with representation from agencies, donors and LDCs. All WTO members and observers can participate in the IFSC.

### **JOINT INTEGRATED TECHNICAL ASSISTANCE PROGRAM (JITAP)**

African Trade Ministers, meeting in Tunis in October 1994, called on the international community to help strengthen their capacity to: participate in the WTO; integrate into the new multilateral trading system (MTS); and take advantage of new trade opportunities arising from the globalization of world markets. During the UNCTAD IX conference in Midrand, South Africa (1996) the heads of WTO, UNCTAD and ITC announced their commitment to develop a joint program to help meet the needs expressed by these countries. They carried out needs assessment, based on national program documents, in the eight African partner countries during 1996-1997. Jointly they identified priority needs and prepared national technical assistance projects to meet these needs. When in March 1998 the three organizations set up with donors a Common Trust Fund to mobilize donor support, the individual projects were transformed into the JITAP program and implementation initiated.

The operational structure adopted has two layers: the Geneva level (the Common Trust Funds Steering Group, the so-called 'mechanism' at the inter-agency level, the Programme Coordinator); and the country-level (National Steering Committee, National Focal Point, National facilitator). The National Steering Committee promotes coordination among participating institutions. The National Facilitator is typically either a private sector operator or an export promotion agency. The National Focal Point is typically the multilateral trade section of the Trade Ministry; the NFP is the official interlocutor and central to ensuring that JITAP helps to meet official needs in the area of trade. Two Regional Coordinators, one based in Abidjan, Côte d'Ivoire for the four West African countries, and the other in Kampala, Uganda for the three East African countries, coordinate technical inputs and assist individual countries in implementing activities, facilitating interaction between Geneva and the participating countries. The second phase – JITAP II – was launched in February 2003 and included eight new African countries.

### **EUROPEAN COMMISSION TRCB (EC)**

The EC has a long tradition as provider of technical cooperation that goes back to the 1960s. Yet until recently, trade-related technical cooperation and capacity building have been mixed with other activities in broad development cooperation programs. The turning point occurred in 2000 when the EC identified trade as one of the six priority areas for development policy (cf. COM (2000) 212 final, 26 April 2000).

The process of programming technical assistance of the EC is based on a policy dialogue and needs assessments with each country, resulting in a main programming, multi-annual framework document – the so-called Country/Regional Strategy Papers (CSP/RSP) – in which the priorities for the allocation of aid resources are decided and the sectors of concentration chosen. In this context, the EC and the country assess the needs, and earmark a specific sum for trade-related assistance. On the basis of CSPs/RSPs, the EC and partner countries sign a Memorandum of Understanding on Cooperation, which has the objective of defining multi-annual guidelines for cooperation programs. The EC has recently undertaken a major reform in the management of development assistance, giving more responsibility to EC delegations in the recipient countries; the delegations have direct responsibility for following the full project cycle. An interdepartmental Task Force for Trade and Development has also been created in the EC, with a view to coordinating efforts in the area of trade-related assistance and mainstreaming trade in CSPs/RSPs. One should note that the trade-related capacity building programmes are often linked to new trade agreements or association agreements with the EU.

**ASIA-PACIFIC ECONOMIC COOPERATION TRCB (APEC)**

Since it was formed in 1989, APEC has been a strong supporter of the WTO and has worked hard to ensure its developing members have the capacity to implement WTO agreements. APEC recognizes that the ability of its members to implement these accords directly affects their capacity to implement APEC's Osaka Action Agenda, and thereby to meet APEC's commitment to creating open markets in the Asia-Pacific region. APEC's driving mission, known as the Bogor Goals, commits members to free and open trade and investment in the region no later than 2010 for industrialized economies and 2020 for developing economies.

The majority of APEC projects are funded and organized bilaterally with 12 of APEC's 21 economies. In these cases, APEC conducts a survey of TRCB needs, which are compiled and submitted to bilateral donors. Nonetheless, APEC counts with a special trust fund instituted by Japan, the Trade and Investment Liberalization and Facilitation (TILF) Special Account. The life cycle of an APEC project, under the APEC Operational Account and the TLIF Special Account, begins with a project proponent in an economy proposing a project (including a proposed budget). These projects are also elaborated on the basis of an APEC survey on TRCB. The Budget and Management Committee (BMC) examines and, if necessary, ranks the project proposals across all APEC fora with a view to obtaining Ministers' final approval. Once funding has been approved the project "Overseer", with the assistance of the APEC Secretariat, will seek requests for proposals to implement the project. The maximum life span of a project is two years by which time all disbursement should be completed. Multi-year projects (more than two years) may be approved under particular conditions. At the end of the project, it is evaluated and the results reported back to the relevant fora for further discussion.

**WORLD TRADE ORGANIZATION TRCB (WTO)**

The WTO was created in January 1995 succeeding the GATT. WTO ministers agreed in 1996 (Singapore), on a "Plan of Action for Least Developed Countries". This included technical cooperation to enable them to participate better in the Multilateral Trading System. The WTO mandate to carry out technical cooperation activities is provided for in various WTO agreements and decisions. This mandate was clarified and further enhanced in several paragraphs of the Doha Ministerial Declaration (November 2001). In 2002, the WTO adopted a work program for developing countries with greatest needs. The mode of delivery of TRCB is organized in products many of which are training exercises. All products, whether in Geneva or in the field, are geared towards achieving the same general objective. In light of their pressing trade development needs, priority will be given to LDCs. This priority will be articulated through specially designed events and, for beneficiaries of the IF, activities will be linked to their process of mainstreaming trade into their national development plans. The Institute for Training and Technical Cooperation (ITTC), as well as the Technical Assistance Management Committee (TAMC), play a central role in coordinating the implementation of the activities contained in the Plan. The implementation of the Plan will involve virtually all WTO Divisions, as well as partner institutions, regional development banks and other agencies.

**FTAA Hemispheric Cooperation Program (HCP)**

The FTAA HCP emerged in 2003 as an initiative to assist the developing countries members of the FTAA in the areas of negotiation, implementations and transition to free trade. Technical support is provided by the IDB, OAS and ECLAC (Tripartite Committee). The TPC prepares a detailed template of typical needs in the three areas. The countries prepare National Action Strategies of TRCB and priorities using the template as a guideline. The documents highlight a country's trade strategy and how it fits into overall development objectives. The document also outlines TRCB needs. Country authorities develop the document with technical support by the Tripartite committee as needed. The national strategies are iterative and ongoing. Donor roundtables are organized to allow donors to identify and coordinate their support. The donor roundtables are organized at the sub regional level. Sub regional strategies are also an option.

**Sources:** IDB, Integration and Regional Programs Department, based on official information.

In reviewing the delivery systems we focus on Principles, Elements and Modes of Intervention, with a checklist comparison in Table 4.

**TABLE 4**  
**GENERAL DESCRIPTION OF MAIN TRCB PROGRAMS' MODE OF DELIVERY**

	IF	JITAP	EC	APEC	HCP	WTO <sup>(1)</sup>
<b>Principles</b>						
National Ownership	√	√	√	√	√	
Mainstreaming	√	√	√	√ <sup>(2)</sup>	√	
Long-Term Sustainability	√	√	√			
Holistic Approach	√	√*	√	√ <sup>(2)</sup>		
Accompanying Objectives:						
A. Poverty Reduction	√	√*	√	√ <sup>(2)</sup>		
B. Sustainable Development	√	√*	√	√ <sup>(2)</sup>		
C. Gender Criteria		√	√	√ <sup>(2)</sup>		
<b>Elements</b>						
Preferred locus of activity						
Country-level/category of country	√	√				√
Country-level	√	√	√	√	√	
Regional-level		√	√	√		√
Needs-Assessments						
Special Documents	√	√	√	√	√	
Others Sources		√				√
Participation of						
Ministries	√	√	√	√	√	√
Private Sector	√	√	√	√	√	
Academia		√	√			
NGOs	√	√	√	√		
Funding						
Bilateral / Multilateral	√	√	√	√	√	√
Trust Fund	√	√		√	√	√
Evaluation - Monitoring						
Indicators	√	√	√			√
<b>Areas of Intervention</b>						
Negotiations	√**	√	√	√	√	√
Implementation	√**	√	√	√	√	√
Transition to Freer Trade	√**		√		√	

Notes: \* Consistent and supportive of country Poverty Reduction Strategies.

\*\* Elaboration and validation of action plans as basis for TRCB delivery.

<sup>(1)</sup> Programs others than the IF.

<sup>(2)</sup> Depends on the donor country.

- *Principles* of the program designate the criteria determining the very essence (the conception) of TRCB program and its mode of delivery, *e.g.* national ownership, mainstreaming, long-term-sustainability, holistic approach, etc.

- *Elements* of the mode of delivery are its components, *e.g.* main locus of activity, preparation of needs-assessment, funding, evaluation and monitoring, etc.

- *Areas of intervention* focus on the objectives of TRCB according the three basic areas outlined above.

## **A. Principles**

### *National Ownership*

This is now a general principle guiding most TRCB. It too represents an evolution in thinking on capacity building for developing countries. On the road to ownership donors first sought "priority setting", later the focus was on "commitment." In any event, ownership means that the program is demand-driven: what is done is what the country wants to do and is committed to translate that into effective action (UNDP [2002]). The other side of the coin of ownership is the neutrality of the donor, *i.e.*, no agenda pushing or alternatively the abandonment of supply-driven assistance. Ownership has many facets: ownership of ideas and strategies across a wide range of actors, of the process, of resources and of outcomes. All the programs under review emphasize the objective of national ownership in terms of responsibility for the conception of the program, coordination of implementation and monitoring of activities.

With a view to implementing the principle of ownership, a number of programs undertake a process of policy dialogue with all stakeholders in the beneficiary countries. This process is particularly important in the early stages of the programs. Dialogues are thus organized at various levels, ranging from the inter-ministerial level, to interaction with various segments of civil society. In the case of the Integrated Framework (IF) for the least developed countries of the WTO a dialogue with the beneficiary countries is now also being put into place in the earliest phase, prior to the initiation of the Diagnostic for a Trade Integration Strategy (DTIS) process so as to raise the level of awareness, ownership and commitment to the IF in the countries. Early action is also seen to address the capacity to manage and implement the IF, before any recommended actions within the IF are carried out.

### *Mainstreaming*

Linking TRCB programs to a national development strategy is a second common feature. In the case of the IF, the program is to contribute simultaneously to formulating the development strategy and ancillary objectives as well. Only the APEC program does not talk explicitly about mainstreaming.

As regards the IF, integrating trade and TRCB into poverty reduction strategies and development plans has proven to be a long and rather difficult process; even in the countries where mainstreaming has been accepted, priority is often given to other sectors such as health, education, etc.

### *Sustainability*

The long-term sustainability of projects and programs is explicitly put forward by the IF, JITAP, and the EC. This is intimately linked to the ownership issue.

### *Coordination*

Coordination is now another overriding principle that all donors profess to follow. In practice however, it is not easy to do. Formal institutionalized coordination is found in the IF where six multilateral donors work together to support TRCB for the WTO's least developed countries, while in JITAP three multilateral agencies systematically coordinate. The WTO "seeks" to cooperate with multilateral and regional donors, while the HCP organizes donor roundtables where loose coordination is expected to take place. APEC's coordination is also loose and more like a monitoring system. The EC also is open to coordination with donors, although most effort has been focused on EU member government programs (OECD [2001]).

The issue of coordination has been brought up in particular with regard to the IF and JITAP, given that the first focuses on the least developed countries, and the second on African countries, many of which are also in the least developed WTO category. The two programs are seen as complimentary, with the JITAP potentially assuming the role of implementing projects coming out of the action plan as identified by the IF. At present it is also proposed that the steering committees of the two programs be merged in the countries where both programs are present.

### *A Holistic Approach*

This essentially means that TRCB is proactively "embedded" in a broader setting of structural reform and other objectives. The IF is the best expression of this approach; its TRCB is intimately linked with assistance for other integrated objectives such as poverty reduction and sustainable development. The JITAP does not seem to be bound by the holistic approach but will operate in consistency with country Poverty Reduction Strategies (PRS) and the IF's DTIS where they exist. The EC also professes to follow this approach.

## **B. Elements**

### *The Preferred Locus of Activity*

This refers to whether the focus is on individual countries or at the regional (or sub-regional) level. Some hold that TRCB programs need to be tailored to each specific country as specificities

differ greatly from one country to another. At the same time, other practitioners point out that several countries in a same region may have broadly the same type of needs (including common subregional obligations), in which case, delivering cooperation at the regional level engenders economies of scale and may have as a by-product the fostering of interaction and creation of networks.

Programs are delivered mainly at the country-level by the IF, the JITAP and the HCP. The latter two have a subregional option. The HCP also organizes donor meetings at the subregional level. The EC prefers the regional level when possible. Meanwhile, the WTO Secretariat has traditionally been multilaterally and country level category focused, but recently has become receptive to delivering TRCB regionally and subregionally. APEC operates nationally and for the bloc as a whole.

### *Need Assessments*

The IF is by far the most comprehensive approach. It undertakes a Diagnostic Trade Integration Study (DTIS). This diagnosis examines TRCB needs but in the much broader context of poverty reduction (often in tandem with preparation of a Poverty Reduction Strategy Paper), the impact of trade reform on growth, and development of a complementary policy agenda for trade development. Sectoral studies are included as well. Household survey's and modeling are part of the package (see Figure 2). This Diagnostic leads into an Action Plan for TRCB.

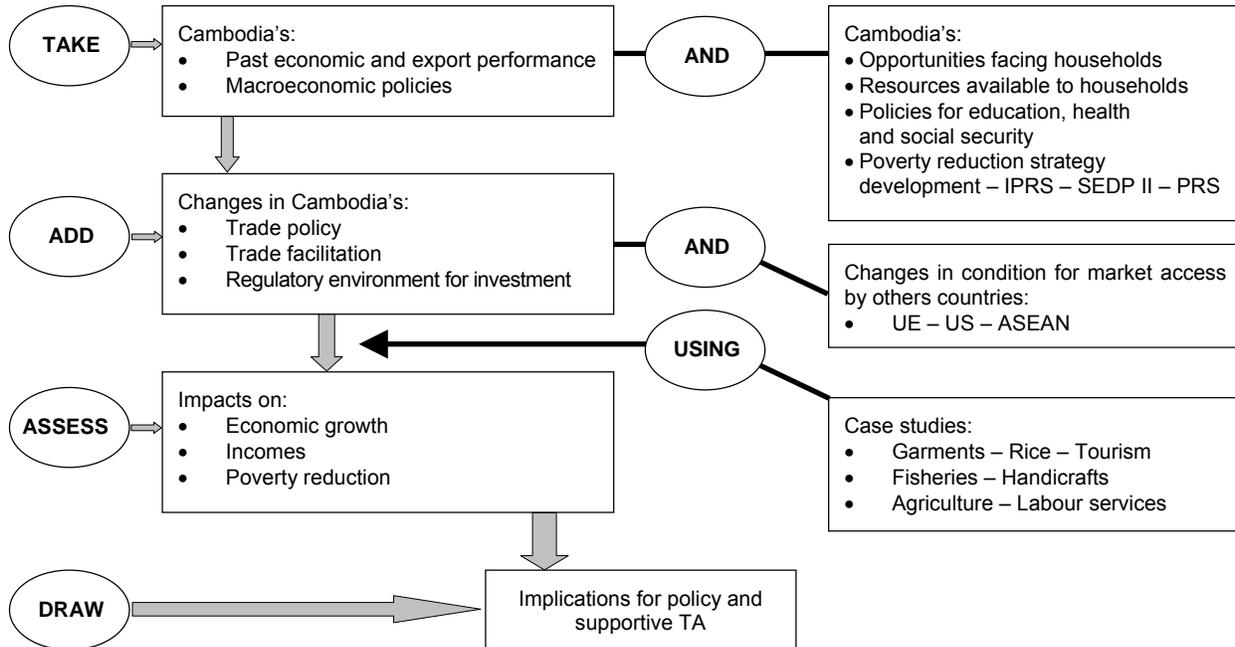
APEC, focuses on WTO related-capacity building, using field surveys-guided by the economies themselves. The surveys ask countries to identify their TRCB donors, assess the effectiveness of past support, identify new TRCB needs and propose new projects.

The JITAP analyses needs through joint TRCB programming of the three involved UN agencies in consultation with a broad array of public and private stakeholders. It relies on the DTIS when available.

The EC uses its own country and regional programming processes and also draws on the Poverty Reduction Strategy Papers. As for the WTO Secretariat, it does not undertake country-by-country needs assessment, although the WTO organizes "trade policy clinics", which have something of a diagnostic character.

The HCP uses a template with a detailed checklist of typical needs in the 4 critical areas of TRCB. This guides the countries' preparation (with support of the Tripartite Committee if requested) of national TRCB strategies that identify needs and priorities in the context of a development strategy and give use to project profiles.

**FIGURE 2**  
**INTEGRATED FRAMEWORK APPROACHED: EXAMPLE OF CAMBODIA**



Source: OECD [2001].

### *Participation*

The IF, JITAP, HCP and EC have inter-ministerial consultation to develop government consensus. However, the former two reach out much further with the JITAP having the most extensive consultation, with the private sector, academia, NGOs, etc. The most formal setup is the JITAP, which organizes a National Steering Committee. This is consistent with its stress on Network Building. APEC is mostly a trade ministry related exercise, while the WTO programs only recently have reached out beyond trade ministries. The HCP reaches out to basically ministries and the private sector.

### *Funding*

All but the EC rely on voluntary bilateral and multilateral funding. The IF, JITAP, APEC, WTO and HCP have complementary special trust funds. The IF trust fund is designed to develop the capacity of countries to fully participate in the complex IF exercise. EC programs are fully funded up front out of budgetary resources.

### *Evaluation and Monitoring*

Most programs have some type of evaluation and monitoring process. But as mentioned earlier, methodologically speaking the processes leave much to be desired and work is now being concentrated on developing ex-ante and ex-post indicators (OECD [2001]). This is not a problem limited to TRCB, but plagues development assistance in general.

### *Areas of Intervention*

The critical areas for TRCB outlined (negotiation, implementation and transition/adjustment) in earlier chapters are covered by most of the programs. The WTO and APEC do not really focus on the transition issues, while the IF goes well beyond the three areas in its holistic-approach.

It should be noted that the IF, as a framework that defines policy recommendations to address constraints to trade, does not in itself define, finance or implement TRCB projects. The latter is carried out by development cooperation agencies, mostly at the multilateral level. In this regard, and with a view to enabling a more rapid identification of projects, the US\$ 8 million Window 2 facility was set up within the IF Trust Fund. JITAP, next to the areas of negotiations and implementation, also covers the development of national capacity on the MTS, as well as enhancing the capability of enterprises to export to new and existing markets.



## VI. TRCB DELIVERY: ADVANCES AND LIMITATIONS

Some of the traditional problems for TRCB were outlined in earlier sections. Since the late 1990s there have been advances in improving programs, although much still remains to be done.

- One major advance in TRCB is that it now has become an important activity for both countries (at least at the level of trade ministries) and donors. A few years ago it was not on many radar screens and the scope of interest/action was much more circumscribed than it is today.

Parallel to this has been an increase in funding. For instance, the WTO Secretariat saw a major increase in its available funding with the launch of the Doha Development Agenda (a total of US\$ 60 million is currently devoted to TRCB; this includes the WTO Trust Fund, budgetary resources and in kind support). Resources are still considered inadequate *vis-à-vis* needs, but in any event the ability of the Secretariat to absorb more work at current staffing levels is quite limited. Meanwhile, bilateral and multilateral donors have substantially increased their available funding for TRCB (OECD [2003]). For instance, the WTO/OECD estimate that in 2001-2002 TRCB was equivalent to 5% of total aid commitments.<sup>5</sup> More precisely there was an:

- annual average of 1,665 projects or US\$ 719 million for aspects of trade policy and regulations related to WTO issues;

- annual average of 1,860 commitments, or US\$ 1.4 billion to trade development activities.

In addition another US\$ 8.1 billion (20% of aid) was committed to infrastructure.

Grant money is still in very short supply *vis-à-vis* demands. But at least in Latin America countries have shown a willingness to borrow to meet urgent TRCB needs. Indeed, a Special Trade Loan Facility created by the IDB in 2001 to support TRCB for negotiation and implementation issues has been actively used by the Bank's lesser-developed borrowing members. Meanwhile, an IDB Special Lending Program for the transition to freer trade, authorized in mid-2003, already has its first client, Costa Rica, for an operation amounting to US\$ 300 million.

- In the age of the New Regionalism there is much overlap in the nature of demands for TRCB across initiatives; i.e., many (but not all) of the requirements to negotiate, implement, and undertake efficient external opening are not terribly different between modern agreements, especially of the N-S type. Yet programs for TRCB are highly compartmentalized. Donors participating within any given program attempt to coordinate (often still very imperfectly), but there is little contact between programs. One example is TRCB in Latin America. The HCP, WTO, APEC, and EU programs cover many of the same issues in the region but operate autonomously of each other, partly because each has its own political dynamic in the lead donor countries. One suspects that there is duplication, or at least under exploitation, of potential synergies among donor programs.

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<sup>5</sup> This is probably an underestimate due to gaps in the reporting system for trade.

- The link between TRCB needs and financing is precarious. In other words, needs assessment is undertaken without "hard" sources of financing ready and waiting. Thus countries spend time and money identifying needs in the spirit of ownership and mainstreaming but become frustrated when their expectations for support are not fulfilled in timely fashion due to any number of obstacles for a quick channeling of donor support. This was a problem in Phase 1 of the IF. As mentioned, the only TRCB process explicitly backed up front more or less fully by resources/budget is the EU programming exercises. Trust funds in the JITAP, HCP and APEC also are providing a certain capacity to respond immediately to some of the results of needs assessments.
- Intentions to achieve holism can greatly slow down the delivery of TRCB due to the complex layers of analysis and processes that are involved. This has been one of the criticisms of the IF. The EC programming is also laborious and often falls short on specific project identification and timely project disbursement. In any event, the slowness of TRCB programs can be detrimental to responding to immediate challenges such as effective participation in the Doha Development Round negotiations or emerging bilateral FTAs with northern partners. The risk is that good opportunities pass or bad decisions are made while awaiting delivery of integrated and sustainable TRCB programs. Perfection can be the enemy of the good.

The holistic approach may be the only possible solution for very underdeveloped countries like those that participate in the IF. Capacities are extremely low in almost all dimensions of policy. But for Latin America this may not be the case. Most Latin American countries have a development strategy to build on and have maturing structural reform programs, with a commitment to opening their economies through the "4 wheels" mentioned earlier. Overall policy capacity is not weak. But trade related capacity, reflecting the shadow of the past, often is. The bottleneck is in refining trade strategy and getting TRCB on time. Indeed, major market defining trade negotiations are already underway or completed and in the process of implementation. The timing of an elaborate multilayered integrated approach thus would be out of step with the urgency of opportunity and need. A more pragmatic, or "rough and ready", program is called for.

The HCP is just such a scaled down pragmatic response. It attempts to systematically identify TRCB as such, but in the confined world of managing the specific dynamics of an FTAA accord. The HCP takes existing development strategies as a given and attempts to complement, or at least not contradict, development objectives when formulating national TRCB strategies. In developing the TRCB strategies the primary consultation is inter-ministerial and with the private sector. The national strategies are iterative and refined on an on-going basis parallel to encouraging immediate flows of urgent TRCB to priority areas in the national TRCB strategies. The HCP also encourages priority setting and limiting the transition to free trade TRCB to the biggest issues. Sustainability is desirable but should not hold up delivery of urgent assistance in the face of immediate challenges.

Nevertheless, the HCP suffers from many of the same problems of other processes: gaps between identified needs and mobilization of resources, limited grant money, fostering effective inter-ministerial coordination and mainstreaming TRCB in the government, the

difficult birth of good project profiles and risks of a sectarian or insular approach to mobilizing donor support.

APEC TRCB is also scaled down but suffers from the lack of a systematic diagnostic process and a proactive program aimed at "value added" TRCB over and above what donors would do anyway. Finally the WTO program is mostly generic and would benefit from needs analysis and more customization.

- With the exception of the EC, regional integration is not a high profile part of the TRCB processes. This is an important gap if one considers subregional integration to be a valuable tool for navigating insertion into a globalizing world economy (Devlin and Estevadeordal [2001]).



## **VII. TRCB AND THE EUROPEAN COMMISSION (EC)**

EC trade-related assistance and capacity building (TRCB) can be seen as being developed along two main parallel, and in many ways complementary fronts. On one side are TRCB activities in the context of the Doha Development Agenda, and on the other activities linked to the process of cooperation of the EC with partner countries and regions. The latter are reflected in various types of agreements, including the innovative Association Agreements, based on three pillars – institutionalized political dialogue, strengthening of trade relations (FTAs) and economic cooperation, which includes a TRCB component.

In response to the Doha Development Agenda the EC has developed in 2002 a strategy for TRCB, which has stimulated a significant increase in the trade component of cooperation programs (European Commission [2002a]). Indeed, trade related assistance is considered by the EC to be one the six priority areas of EC development policy. This form of technical assistance is also carried out in cooperation with the WTO. The EC is very active in its support of the IF.

The EC has recently undertaken a major reform in the management of development assistance in order to make its assistance more timely and relevant. In effect, it has given more responsibility to EC delegations in the recipient countries; the delegations have direct responsibility for following the full project cycle. An interdepartmental Task Force for Trade and Development has also been created in the EC, with a view to coordinating efforts in the area of trade-related assistance and mainstreaming trade.

The process of programming technical assistance of the EC is based on policy dialogue and needs assessment with each beneficiary country/countries, resulting in a strategic document, the so-called Country/Regional Strategy Papers (CSP/RSP). Following the preparation of a draft CSP/RSP proposal by the beneficiary country in dialogue with the EC delegations, the proposal is fine-tuned with the EC services in Brussels, whereupon a programming mission is undertaken. The CSPs/RSPs are then further refined in the so-called National/Regional Indicative Plans (NIPs/RIPs) in which the priorities for the allocation of aid resources are decided and the sectors of concentration chosen.

In this context, the EC and the country assess the needs through dialogue, and when trade is chosen as a sector of priority, earmark up front a specific sum for trade-related assistance. On the basis of NIPs and RIPs, the EC and partner country (ies) undertake project identification and preparation. The identification of issues and proposed activities is carried out through a process of consultation with stakeholders, including governmental bodies in the beneficiary countries, EC's services, member states' government representatives in the countries, the private sector (chambers of commerce, trade associations), and relevant international organizations.

At the end of this process, a financing proposal is prepared and presented for approval by the EU member states. Based on this, a financing agreement is concluded which lays out the objectives and contents of the project/program. The execution of the project is carried out through implementing the provisions of the financing agreement with the operational partner (normally a ministry), which often delegates the implementation of the program to a "management unit". The latter is responsible for the proper implementation of the agreement in terms of its effectiveness, transparency, participation of various stakeholders, correct use of resources and coherence with the

orientations and recommendations of the institutional forums set up in the frame of the Association Agreements. Detailed work plans with established calendars are also prepared. A permanent system of follow-up and internal assessment is set up, producing periodic technical and financial reports. External evaluations are also prepared, both during the process of implementation (e.g. at mid-term) and following the program's completion.

The EC has concluded a range of cooperation agreements at bi-regional levels, with specific subregions, and at the level of specific countries. An illustration is the Euro-Mediterranean Partnership, which calls for the establishment of a Euro-Mediterranean Free-Trade Area by the year 2010 (target date). On this basis the EC has been negotiating Euro-Mediterranean Association Agreements with the countries of the region; these agreements are replacing the Cooperation Agreements signed in the 1970s which had unilateral EU preferences.

In the case of Latin America, the EC has signed two threepillar agreements: an Economic Partnership, Political Coordination and Cooperation Agreement (also called "Global Agreement") with Mexico,<sup>6</sup> and an Association Agreement with Chile. Relations with the other countries still are based on the more standard framework of cooperation agreements.

TRCB with the Latin American countries under the cooperation agreements traditionally has been relatively modest compared to cooperation in other priority sectors of poverty reduction strategies (health, education, basic public services, etc). Where TRCB exists, it is often linked to issues like productive diversification, trade and export promotion (particularly of SMEs) through EC horizontal programs (such as ECIP, AL-INVEST, establishment of Eurocenters, etc). Following the adoption of the new EC strategy on trade and development in 2002, TRCB is being increasingly incorporated in the cooperation programs (CSPs) of countries in the region, as well as at the subregional level, linked to the process of integration. An example of a program that reflects the new approach is that for Bolivia, approved in 2002.<sup>7</sup>

Regarding MERCOSUR, the EC has an Interregional Framework Cooperation Agreement that dates back to 1995 and which entered into force in 1999. The main objective of the Framework Agreement is to support negotiations for an Interregional Association Agreement (MEU) which includes a free trade area. As laid out in the 2002-2006 MERCOSUR Regional Strategy Paper (European Commission [2002c]), EC cooperation is to contribute to the process of deeper regional integration and institutional strengthening of MERCOSUR. The three priority areas for cooperation are: first, support to the implementation of the MERCOSUR internal market, second, support to MERCOSUR institutionalization, and third, support for civil society.

In the first area of completion of the internal market, special attention is to be given to actions supporting the improvement in cross-border infrastructure (customs), improvement of the veterinary

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<sup>6</sup> For analysis of this negotiation see Zabludovsky and Gómez Lora [2004].

<sup>7</sup> The trade-related component of the program covers, among other things, assistance for international negotiations and the implementation of WTO and regional trade agreements, in areas such as TBT/SPS, TRIPS and customs valuation. There is strengthening of the national system of standardization, metrology, accreditation and certification; strengthening of public and private institutions' capacity for technical and administrative management of activities relating to foreign trade and investment; information on SPS regulations and on obstacles to exports to the EU. (European Commission [2002b]).

and agricultural standards, harmonization of technical regulations, and improvement of foreign trade statistics. Institutional support is to focus on harmonizing sectoral policies, on MERCOSUR institutional structures and bodies, support for macroeconomic coordination, and improvement of common policies in favor of regional infrastructure. Actions in support of civil society are to be undertaken through cooperation in the areas of education, culture, the audio-visual sector and information society, as well as through support for dialogue and cooperation between organized civil society in the EU and MERCOSUR.

Ongoing EC trade-related projects at the MERCOSUR level are: support to the MERCOSUR Administrative Secretariat (€0.9 million, initiated in 2002); harmonization of technical standards, technical regulations and conformity assessment procedures (€4 million, initiated in 2004); and customs cooperation (€5.3 million, to be initiated shortly). Projects foreseen in the 2002-2006 regional indicative program are on normalization of SPS standards (€6 million, to be initiated in 2005), on macroeconomic coordination (€7.6 million, 2005), and on statistics (2006). At the country level, following a mid-term review of the cooperation program with Argentina, a trade-related technical assistance project (€5 million) and the setting up of a €5 million fund to assist the implementation of the future EU-MERCOSUR Association Agreement are foreseen. However, the implementation program seems to start only after the Agreement is signed/enters into force. It is not clear whether implementation "needs" have been identified.

The project on EU-MERCOSUR customs cooperation has as its main objective the creation of a single market in the MERCOSUR area, as well as establishing an inter-regional association between the two areas. More specifically, it seeks to lead to the adoption of a common customs code, a common customs document (*documento aduanero único, DUAM*), administrative support for a correct application of the tariffication system, support for the modernization of the customs administrations in the member countries, training of customs officials, etc. The objective is to ensure that goods among the member countries can circulate freely, without additional customs procedures when passing from one member country to the other.

TRCB projects at the subregional level are complementary with those at the national level. Whereas projects at the subregional level are mainly aimed at activities related to trade policy and regulation, those at the national level are also related to trade development issues (trade promotion, business support, public-private networking, etc.), which are important for the improvement of the beneficiary country's competitiveness.

As regards Mexico and Chile, where the concluded agreements establish a free trade area (FTA) with the EC, trade-related technical assistance projects are closely linked to the implementation of the Association Agreements, i.e. accompanying and strengthening the process of trade liberalization as foreseen by the FTA, as well as the promotion of trade flows with the EU.

The agreements with Mexico and Chile cover a total of around twenty priority areas for economic cooperation. The two agreements cover practically the same areas, ranging from sectors such as energy, mining, transport, etc., to those linked to specific issues, for example small and medium enterprises, statistics, investment promotion, as well as to those that can be seen as more directly linked to trade issues, as is cooperation in customs, standards and technical regulations, intellectual

property rights, public procurement etc.<sup>8</sup> In addition, the agreement with Mexico also specifically includes the area of competition, while that with Chile macroeconomic dialogue.

In the CSP on Chile, adopted in November 2002, and which defines the 2002-2006 cooperation strategy of the EC, particular mention is made of trade facilitation, and of the relevance of technical assistance and preparation of studies for the implementation phase of the agreement (as regards technical and statistical standards, customs matters, public procurement, etc.). It is envisaged that technical assistance could be provided for institutional and regulatory capacity building in trade-related fields.

These agreements have only relatively recently entered into force (the agreement with Mexico in October 2000 and with Chile provisionally in February 2003). Hence the first projects are at present in their early phase. In the case of Mexico, a €8 million program for trade facilitation and investment promotion is expected to be agreed-upon shortly – it is to focus on institutional strengthening of government agencies in the area of customs cooperation, industrial standards and technical regulations, sanitary and phytosanitary standards, intellectual property, competition, consumer protection, capital movements and investment regulation.<sup>9</sup> In the case of Chile, in 2003 a project was agreed upon for the setting up of a €5 million fund for facilitating the implementation of the commitments made in the Association Agreement. The fund will cover several areas, with some 40% being earmarked for trade-related technical assistance.<sup>10</sup>

Technical cooperation with the Mediterranean countries provides further insight into the mechanisms and delivery of EC TRCB projects. Over the last years, a number of countries from the region have signed Association Agreements with the EC (including Jordan, Tunisia and Egypt). While these agreements may vary in certain aspects, they have a common structure and cover practically the same areas. Thus, as regards trade, all agreements foresee the establishment of a free trade area with the EC (and at the subregional level), and include specific provisions relating to various sectors as well as to the areas of intellectual property, public procurement, competition rules, state aid and monopolies. The areas covered by the agreements are also very similar to the ones mentioned

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<sup>8</sup> The areas common to both agreements are: industrial cooperation; standards, technical regulations and conformity assessment; SMEs; services; investment promotion; energy, transport; fisheries; customs; statistics, environment; consumer protection; data protection; intellectual property rights; public procurement; tourism; mining. Source: Official Journal of the European Communities, 28.10.2000 (EU-Mexico agreement) and 30.12.2002 (EU-Chile agreement).

<sup>9</sup> In the area of customs, the objective of the program is to strengthen Mexican customs authorities and improve efficiency of customs procedures relating to the introduction of new requirements for bilateral trade with the EU under the FTA, particularly regarding the processing of the preferential proof of origin, discrepancies in tariff classification criteria, inconsistent interpretation of import formalities and requirements among customs offices, and controls compliance with standards and technical regulations (STR) and sanitary and phytosanitary (SPS) measures. Cooperation in the area of STR and SPS is directed to enhance knowledge and understanding of the respective systems and to promote greater conformity of STR and SPS with international standards/recommendations. Regarding intellectual property the program is to contribute to improving domestic authorities' capacity in the enforcement of IPR protection, and to increase public awareness on the importance of IPR protection. In competition, the national authority will be supported in its efforts to guarantee effective application and enforcement of domestic competition law. In the area of information, the program is to ensure that information on bilateral trade, including the legal framework, business opportunities, administrative guidelines, etc., will be largely available to companies, organizations and the public.

<sup>10</sup> In addition, the EC is supporting the creation and development of innovative companies in Chile (approved 2003 in the amount of € 17.5 million) and a program for SMEs in Mexico (approved 2004, € 12 million), to promote the two countries' competitiveness and export capabilities.

in the cases of Mexico and Chile. Compared to the previous cooperation agreements from the 1970s, Association Agreements bring in the trade area, primarily in the context of implementation of the agreements and trade reform, as well as in support of the process of improving competitiveness of the private sector, particularly SMEs. The previous cooperation agreements, on the other hand, would focus on areas such as industrial modernization and economic diversification, structural adjustment, infrastructure, marketing and promotion of sales, etc.

Technical assistance programs for the implementation of the Association Agreements with the Mediterranean countries cover three main areas: free trade (trade facilitation), improvement and enforcement of the legislative/regulatory framework, and institutional strengthening.<sup>11</sup> Support for regional trade agreements with other Mediterranean countries is also covered with these technical assistance projects. In the agreement with Jordan, the EC has pledged to set up a Special Fund to assist Jordanian industries to overcome the negative effects that may result from the implementation of the agreement and to improve export capacity and competitiveness.

An interesting case to look at is that of Egypt. An Association Agreement between the two sides has been signed in 2001 and following the process of ratification has entered into force on June 1, 2004. The implementation of the Agreement is being underpinned by a "Trade Enhancement Program", with the objective of upgrading and reforming the country's trade policy mechanisms.<sup>12</sup> On the basis of cooperation with the Ministries of Trade and Finance, the program is to address the need to upgrade government services to exporters and importers, reduce the administrative, financial and customs hurdles faced by traders, as well meet the broader objectives of promoting the necessary reforms and introducing instruments linked to the country's international and bilateral trade obligations. The program comprises technical assistance components covering a range of technical assistance, training as well as certain equipment inputs. There also is a sector adjustment facility linked to customs reform and the achievement of agreed trade policy measures and the promotion of trade-related aspects of the Association Agreement. The program has specific, including quantitative, performance indicators.

There are basically three Trade Enhancement Programs (TEP) that form a whole, but each with a specific delivery mode. TEP A focuses on the institutional capacity and the upgrading of human resources in the relevant government departments/agencies, in charge of commercial diplomacy, the EU-Egypt Association Agreement, WTO agreements, export promotion and trade facilitation. This program, for an amount of €20 million, will complement trade initiatives by other donors (United States, Japan). It will be delivered through private consultancy firms, on the basis tenders.

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<sup>11</sup> In the case Jordan, the free trade (trade facilitation) supporting programs cover tariff dismantling, customs/ controls related to rules of origin, standards/technical regulation conformity assessment, sanitary and phytosanitary rules (SPS). Areas of support for improvement of the legislative and regulatory frameworks are: right of establishment and services, competition law, establishment and enforcement of company law, introduction and enforcement of consumer protection law, intellectual, industrial and commercial property rights (IPRs), public procurement, accounting/auditing, etc. Institutional strengthening areas related to the Association Agreement are: improved capacity and efficiency of tax authorities, improvement of analytical capacity of the national statistics department, enhancement of impact assessment capacities of the government, regional cooperation and integration. Source: Jordan Country Strategy Paper 2002-2006, pp. 29-31.

<sup>12</sup> Egypt: Country Strategy Paper 2002-2006 and National Indicative Programme 2002-2004, pp. 30-31.

TEP B is a sector policy facility, in the amount of €40 million, aimed at customs reform. It does not foresee a specific technical assistance component. It will be disbursed in tranches. TEP C (€6 million) supports the reform of Egyptian customs, and is to focus on institutional capacity building and training of middle management. The delivery of capacity building involves a novel arrangement in that it will be carried out through the "twinning" mechanism of the EU (originally implemented in the EU accession countries). Thereby, government officials from member EU states are stationed in the beneficiary country, working directly and at the operational level with counterpart staff. The TEP program will also have a €2 million project that will strengthen public awareness on the benefits and challenges of the Association Agreements. It will include information activities and capacity building of target groups, also through study visits.

## VIII. TRCB AND THE MERCOSUR-EU ASSOCIATION AGREEMENT

It can be said that the existing EC technical cooperation and capacity building activities are centered on the strengthening of the process of integration and institution building in MERCOSUR.<sup>13</sup>

This has merits in its own right, but also satisfies an important EU objective of the MERCOSUR-EU Association Agreement: to have the first interregional agreement between two customs unions and to ensure EU goods and services can enjoy the benefits of circulation in a real single market with an environment of macroeconomic stability.

The process of creating a MERCOSUR-EU Association (MEU) has been extremely protracted. Problem areas have been market access, especially in agriculture, negotiation of the new issue trade related areas and organizational problems. At various stages of the negotiation tensions have been high and recrimination frequent. The delay is unfortunate since the MEU has strong benefits for both parties.

For the EU an agreement with MERCOSUR is an important beachhead in the global competition for market positioning, regulatory frameworks and geopolitical influence. MERCOSUR is the largest regional market in Latin America. It also is where the EU has the largest presence in Latin America in terms of trade, investment, and cultural affinities. MERCOSUR also has the best prospects in the region of validating the EU's vision of regional integration as a tool for promoting multilateralism, peace, prosperity and social cohesion. Trade agreements, not to mention a 3-pillar approach like that of the EU Association Agreements, can be a tool to further cement all these interests. Indeed, in view of the US's aggressive penetration of Latin America via bilateral FTAs and the FTAA process, a MEU may be essential for the EU to preserve market share in MERCOSUR, not to mention expansion in that market.<sup>14</sup>

For MERCOSUR, the MEU is also important. The EU is a major market for the partner countries. The free trade area could be an important stimulus to exports and growth if it has comprehensive coverage (Figure 3). Given that the domestic political image of doing business with the EU probably is somewhat better than that of the US, a EU-MERCOSUR agreement would be a discrete tool for support of structural reform.<sup>15</sup> The MEU also would ensure more plurality in external relations and allow European best practices to compete better with the penetration of those from North America. A MEU also would give more credibility to the current shaky world image of MERCOSUR and serve as an anchor for the structural reform process. Finally a MEU may serve as a bargaining chip in the FTAA negotiations.

There is some talk of the MEU negotiations being completed by the end of this year. Hopefully so. But these difficult negotiations have repeatedly fallen behind stated expectations of the negotiators.

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<sup>13</sup> Similar agreements for strengthening the process of regional integration are being carried out in the Central American countries (EUR 15 million) and the Andean Community (EUR 4 million). This is anticipated as a prelude to a negotiation of an Association Agreement after completion of the Doha Development Round.

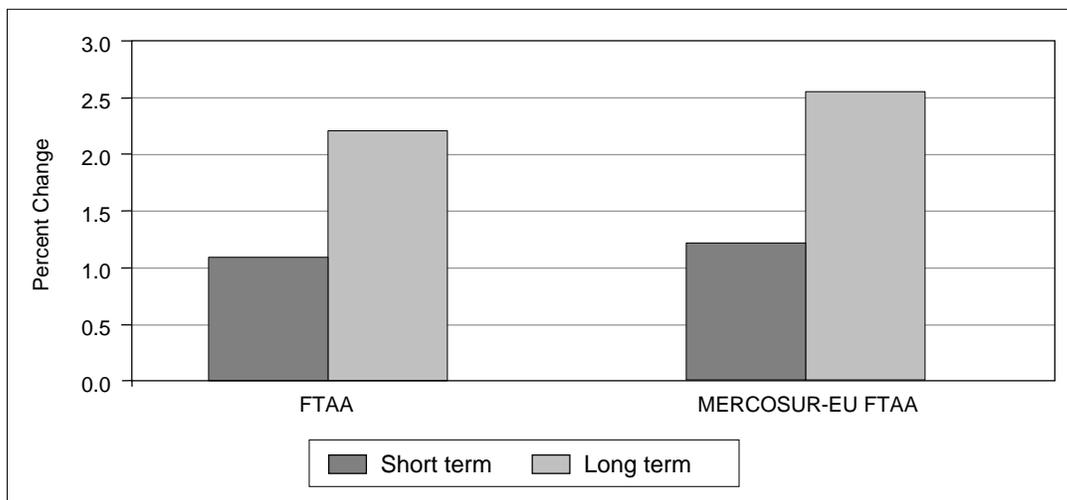
<sup>14</sup> NAFTA contributed to a loss of EU market share in Mexico. The Association Agreement is partly designed to offset that US advantage.

<sup>15</sup> For the role of N-S FTA's in support of structural reform see Devlin and Estevadeordal [2001] and IDB [2003b].

Given the interests involved one suspects that eventually an agreement is inevitable. Nevertheless, the difficulty in constructively engaging a deeper negotiation in a sustained way also embitters the environment and raises the specter of failure. An inability to reach an agreement by the end of the year would further aggravate the environment.

Why not assume that an eventual Association Agreement is indeed inevitable and use EC cooperation and its TRCB to engage now, directly, in that goal instead of the traditional practice of waiting until after signing and ratification? This would have a two-fold benefit. First, by engaging now in joint work on some substantive content of an eventual agreement the parties would further anchor the commitment to overcome difficulties and eventually reach the Agreement. In other words, "win-win" cooperation would have a "engaging" effect on the environment for the negotiations themselves. Second, experience has shown that supply and demand factors contribute to relatively long lead time after signing and ratification of an Association Agreement in terms of the setting up of an assistance program and financing support of implementation.<sup>16</sup> Advancing some types of cooperation now would bring forward the benefits of the eventual agreement for both parties.

**FIGURE 3  
IMPACT ON REAL GDP**



Source: Masakazu Watanuki, Consultant, Integration and Regional Programs Department, IDB.

The idea is to immediately shift part of MERCOSUR's cooperation funding program (or bring forward some future resources) to TRCB that is geared towards implementation of a MEU.<sup>17</sup> Like all N-S agreements the Northern partner's precedents set out a general pattern for its agreements across the board; the Southern partner's space for maneuver is, relatively speaking, limited. Hence many of the basic components of the MEU can be readily anticipated so there is no need to wait until negotiations are finished and agreements ratified before supporting measures that facilitate implementation of the MEU. Let's begin now in earnest.

<sup>16</sup> For the Mexican case, see Zabludovsky and Gómez Lora [2004].

<sup>17</sup> In Mexico, there is a precedent for advancing a pillar of the Association Agreement. In this case it was the FTA pillar, see Zabludovsky and Gómez Lora [2004].

The content of a MEU would be very challenging for MERCOSUR and especially Paraguay. Market opening will be asymmetric and large for the Southern partner. New laws and regulatory frameworks will be required to deal with the new issue areas. Human resources development will be needed to implement and monitor rules. Local firms must begin preparation to compete more intensively with European firms at home and learn the art of market penetration in the expanded EU. To ensure political support and comply with the EU interest in poverty reduction and social cohesion attention must be given to identifying winners and losers, to capacity development for PYMES -intensive in employment- and promotion of intra-industry trade. There must be intensive outreach with civil society. And of course there must be continued support for the deepening of MERCOSUR and perfection of the single market.

Advancing cooperation in this spirit must be timely. Hence, the initial foray into TRCB for implementation of the MEU should avoid still politically sensitive issues and negotiating areas such as GMOs, geographic indications, intellectual property rights, etc. Rather the idea would be to focus on issue areas that are less contentious and in everybody's interest in the context of the Association Agreement and maybe even without it (see Flores [2003] and Devlin [2003]). Illustrations of some MEU-implementation related TRCB that could be advanced by the EC perhaps without disturbing, and maybe enhancing, the negotiation are:

- Business facilitation measures, particularly implementation of the politically "easier" dimensions of the EU-MERCOSUR Business Forum's Plan of Action.
- Training in the EU system of rules of origin.
- Training and information systems for EU technical standards and SPS sigues.
- EU Food Safety Sigues.
- Modes of transparency in government procurement.
- Diagnosis of readiness of trade-related regulatory agencies (mutually agreed likely minimum baseline obligations only).
- Identification of MEU trade and investment opportunities/alliances under a free trade scenario with special attention to PYMES.
- Training in competition policy and technical support for competition agencies.
- Market opportunity studies, especially of the new EU accession countries.
- Development of labor market instruments to address likely adjustment sigues.
- Diagnosis of infrastructure bottlenecks for trade with the EU.
- Civil Society Outreach.
- MEU data bases on trade and investment.
- Establishment of a joint monitoring mechanism for MEU trade and investment and its impact on global and regional development as well as poverty reduction.
- Special MEU- related TRCB programs for Paraguay, including possible "twinning".

It would be important from the standpoint of timely support to avoid a Christmas tree approach to implement-related TRCB. The suggestion would be to select 2-3 areas only and concentrate on them in this early stage. Clearly one candidate would be approval and implementation of measures in the EU-MERCOSUR Business Forum's Plan of Action for Business Facilitation. The FTAA approved and implemented eight business facilitation measures in midstream of its protracted negotiation. This strengthened the content of the process, reinforced a spirit of hemispheric solidarity in a difficult negotiation and undertook measures which were useful for everybody in their own right anyway.

In the context of this proposal, the EC could attempt to strengthen its needs assessment without unduly slowing the delivery of MEU-implementation-related TRCB. A pragmatic exercise operationally patterned in some way after the Hemispheric Cooperation Program (including in the exercise the support for regional integration) could be an option to be studied. Perhaps under the umbrella of the EC-IDB MOU technical support for such an exercise could be provided by IDB staff, piggy backing on the institution's TRCB experience in the HCP and its own TRCB programs. Joint financing of MEU-implementation related TRCB also might be an option to consider. For instance, following the precedent of the FTAA's eight business facilitation measures, perhaps the Bank's Multilateral Investment Fund could support implementation of the EU-MERCOSUR Business Forum's now dormant Plan of Action for business facilitation.

## IX. CONCLUSIONS

Given the great importance of emerging reciprocal trade agreements in determining the pattern and depth of Latin America's articulation with a globalizing world economy for decades to come, coupled with the complexity of the issues and asymmetries in capacity among potential partners, especially in North-South initiatives, it is not surprising that TRCB has moved to center stage in the countries' and donors' development agendas.

In a review of multilateral donor delivery systems for TRCB, it is seen that the approaches have become ever more sophisticated with increasing stress on integrated and holistic methods. The search for perfection, however, has sometimes been the "enemy of the good" as complex processes have placed heavy demands on countries, can slow down identification and delivery of projects and anyway have faced the traditional challenges of mobilizing financing. The FTAA Hemispheric Cooperation Program (HCP) has approached the problem in a more intermediate way. It deploys-with the assistance of the IDB, OAS and ECLAC a "rough and ready", but systematic and comprehensive, Needs Assessment which is geared to be timed to the immediate challenges of an emerging trade agreement. It remains to be seen if HCP proves to be better at mobilizing financial resources.

The EC is a major TRCB player. It has a comprehensive approach. In the Latin American subregions its TRCB prior to an Association Agreement focuses on consolidating regional integration and then only after an Agreement is signed and ratified does cooperation begin to focus on implementation issues. The EC cooperation in MERCOSUR follows this pattern. The initial focus on consolidation of subregional integration makes sense since a free trade area - one of three pillars of an Association Agreement- works more optimally for the EU and the partner country if there is a real single market in which goods and services can circulate freely.

Negotiations for an EU-MERCOSUR Association Agreement (MEU) have been extremely protracted. There is some promise that negotiations might rap up by end year. But such promises have been observed in the past during this difficult negotiation. Cooperation during the negotiation has focused mostly on consolidating the regional MERCOSUR scheme. This paper argues for a break in practice; i.e., that Cooperation for implementation should be brought forward to the current negotiation stage.

There are at least two good reasons for this. Practice has shown that setting up EC implementation-related Cooperation can be slow. Waiting for signing and ratification of a MEU could induce unnecessary delays in vital asistanse -especially regarding the two smaller economies of MERCOSUR-- for implementing complex disciplines and preparing for adjustments. In addition, bringing forward Cooperation for implementation issues could "oil" the negotiations themselves. This would be because implementation-related Cooperation would enhance good will by introducing win-win components into the negotiating environment and by signaling that an Association Agreement, in view of the parties, is all but inevitable - something many think is the case.

The paper suggests that the advance of implementation-related cooperation be in non-controversial areas of the negotiation and in projects that can be implemented relatively quickly. It is also suggested that initial Cooperation be focused on a limited number of activities. Suggestions are made, including

approval and support of measures in the long dormant EU-MERCOSUR Business Forum's Plan of Action for business facilitation.

Initiating now a Needs Assessment for the MEU could be part of the process. The paper suggests that a pragmatic approach similar to the one used by the HCP might be helpful. In this regard, the IDB also might be able to lend some of its expertise and financing to the effort if so requested by the parties involved.

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