

Building Trade Capacity in the Developing World

USAID STRATEGY



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Executive Summary

The Relationship Between Trade and Development

Integration into the global economy can be a powerful force for economic growth and poverty reduction. In its recent *National Security Strategy*, the Bush administration established the goal of igniting a new era of global economic growth through free markets and free trade.

Trade and investment are the principal mechanisms through which global market forces—competition, human resource development, technology transfer, and technological innovation—generate growth in developing and developed countries. During the 1990s, developing countries that successfully integrated into the global economy enjoyed per capita income increases averaging 5 percent annually. However, countries that limited their participation in the global economy saw their economies decline.

In its recent National Security Strategy, the Bush administration established the goal of igniting a new era of global economic growth through free markets and free trade.

Developing countries' overall share of global trade is increasing, and the flow of foreign direct investment to poor countries has grown rapidly. But this growth is concentrated in a few countries, and many of the poorest developing countries remain on the sidelines. Not surprisingly, development issues have become increasingly prominent in international trade negotiations. The Doha Development Agenda recognizes that continued multilateral trade liberalization is necessary to accelerate growth and reduce poverty in developing countries and that World Trade Organization (WTO) member countries must help developing countries build their capacity to take advantage of trade liberalization. USAID trade capacity building (TCB) assistance programs—\$423 million in FY2001 and \$476 million in FY2002—are already

helping developing countries to integrate themselves into the global economy.

The Conceptual Framework: Participation, Implementation, and Economic Responsiveness

While ongoing programs address a variety of TCB needs, a conceptual framework is needed to focus USAID's efforts and guide the selection of new activities. The agency's goal is to increase the number of developing and transition countries that are harnessing global economic forces to accelerate growth and increase incomes. To this end, USAID's trade capacity building projects will support the following:

- *Participation in trade negotiations.* Government decisionmakers, in consultation with the private sector and civil society, need the skills to participate fully in international trade negotiations, analyze their effect, and build domestic support for negotiating positions and the international commitments that result.
- *Implementation of trade agreements.* Both human and institutional capacity are required to implement commitments made in the course of multilateral, regional, and bilateral trade negotiations.
- *Economic responsiveness to opportunities for trade.* To promote economic growth, reduce poverty, and sustain support for trade liberalization, developing countries must be able to take advantage of the opportunities created by trade. To do so, developing countries need support for their efforts to strengthen economic policies; remove trade barriers; build well-functioning economic, political, and legal institutions; improve regulatory policies that affect the way firms compete; and improve private sector operating practices and strategies.

USAID's Strategy

USAID will enhance ongoing TCB programs with new initiatives to support developing countries' *participation* in international trade negotiations. USAID will increase support for WTO accessions,

help countries develop trade analysis expertise, and enhance the information resources available to trade analysts in partner countries. To support trade agreement *implementation*, USAID will introduce new programs to promote sound systems of commercial law and improved customs management. The agency will also help developing countries establish open and competitive markets in services sectors that are critical to trade. To strengthen *economic responsiveness* to opportunities for trade, USAID will continue to implement a wide range of trade-related economic growth projects that improve economic policies and institutions, transfer technology, reduce dependence on exports of unprocessed tropical agricultural commodities, and assist local private sectors to meet product standards in international markets and take advantage of preferential market access programs.

USAID's strategy for trade capacity building recognizes that activities are likely to have the greatest impact when they are implemented in reform-minded developing countries.

The selection and prioritization of TCB activities at the country level will continue to be determined by missions' strategic plans and resources linked to agency priorities for economic growth and poverty reduction. In most cases, these strategic plans are determined jointly with partner governments, taking into account country needs, circumstances, and priorities from a development standpoint. USAID will give top priority to projects that help generate local support for trade reforms. USAID will increasingly complement these field activities with new worldwide and regional programs and resources that enhance missions' efforts to facilitate trade negotiations, implement liberalization commitments, and expand the benefits of trade.

Specific considerations that will influence the agency's approach to TCB include support for

multilateral, regional, and bilateral trade negotiations, particularly bilateral Free Trade Area negotiations with the United States; the trade aspects of labor, gender, and environmental issues; availability of funding; and coordination with U.S. Government agencies and other donors. USAID will work closely with other U.S. Government agencies and through the interagency process to coordinate TCB assistance.

USAID's strategy for trade capacity building recognizes that activities are likely to have the greatest impact when they are implemented in reform-minded developing countries—those that already have made progress in establishing a sound investment climate and in liberalizing financial and other service sectors that support competitive exports.

Next Steps

In parallel with the new activities described above, USAID will continue to build its own capacity to deliver more—and more effective—TCB assistance. Efforts are already underway to build trade into the agency's planning and programs by enhancing staff trade knowledge and skills, requiring country strategies to consider trade and investment, developing best-practice trade and investment tools, and communicating capacity building needs identified in negotiations. USAID will continue to rely on expertise provided by private sector contractors and nongovernmental organizations in implementing the bulk of its TCB projects. The agency will work with country missions to harness the unique capabilities of other U.S. Government agencies where appropriate.

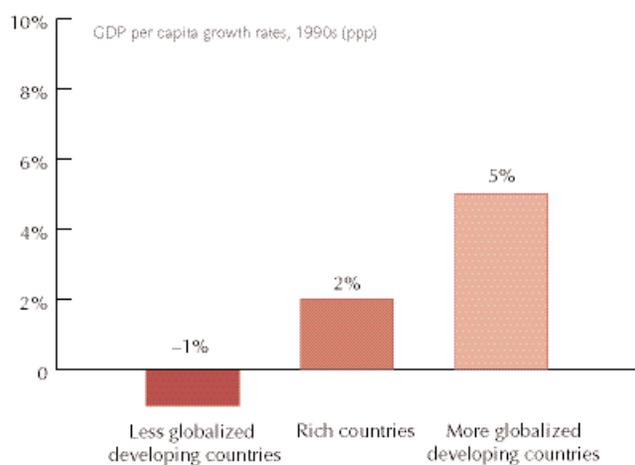
USAID expects the results of this strategy to include more active and better informed participation by developing countries in a range of international trade negotiations and related activities. Results should also include tangible improvements in the effectiveness of developing countries' commercial laws and institutions, and, over time, improvements in the quantity and quality of individual developing country's exports, imports, and foreign investment.

Trade and Development

Developing countries' share of global trade is increasing, and the flow of foreign direct investment (FDI) to poor countries has grown rapidly in recent decades. During the 1990s, developing countries that successfully integrated into the global economy enjoyed per capita income increases on an average of 5 percent annually. Conversely, those countries that protected their domestic markets with tariff barriers and other measures that limited their participation in the global economy saw their economics decline.¹

At the March 2002 International Financing for Development Conference in Monterrey, Mexico, leaders of developed and developing countries agreed that trade and investment are critical sources of development finance—far outweighing foreign assistance in the broader context of international capital flows. President George W. Bush pointed out that developing countries receive \$50 billion a year in aid, while foreign investment inflows total almost \$200 billion and annual earnings from exports exceed \$2.4 trillion. The president also noted that,

Figure 1. Globalization and Growth in the 1990s



Source: David Dollar and Aart Kraay, "Trade, Growth, and Poverty," 2001. <www.worldbank.org/research/growth/pdffiles/Trade5.pdf>

in 2001, trade opportunities created by the African Growth and Opportunity Act (AGOA) alone boosted African exports to the United States by more than 1,000 percent, generated nearly \$1 billion in investment, and created thousands of jobs.

Trade and investment are the principal mechanisms through which global market forces—competition, human resource development, technology transfer, and technological innovation—generate growth in developing and developed countries.

It is clear that integration into the global economy can be a powerful force for economic growth and poverty reduction. Trade and investment are the principal mechanisms through which global market forces—competition, human resource development, technology transfer, and technological innovation—generate growth in developing and developed countries. Trade expansion is particularly critical for many of the smallest and poorest developing and transition economies, where local demand is too weak to support rapid expansion of production, employment, and incomes. Integration into the global economy can also enhance economic and social stability, a factor in conflict prevention. Participation in the rules-based trading system reinforces good governance and strengthens legal and institutional reforms, creating a more predictable and conducive environment for mobilizing private finance and generating economic growth. For these and other reasons, fostering developing countries' participation in international trade is a core element of the Bush administration's recent *National Security Strategy of the United States of America*.²

While the potential benefits are clear, developing countries' capacities to take advantage of opportunities for trade and investment vary considerably. As a whole, developing countries now supply about one-third of world exports, but China, the Asian newly industrializing economies, and a few oil-producing states account for the lion's share of this total. The

¹ World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (Washington, DC: World Bank, 2002).

² See <www.whitehouse.gov/nsc/nss.html>.

49 least developed countries (LDCs) account for just 2 percent of developing country exports and 0.5 percent of global exports.³ Similarly, FDI to developing countries has grown dramatically—from \$2 billion in 1970 to \$240 billion in 2000 (in nominal terms)—but the bulk goes to China and a few other large emerging markets. LDCs receive only a small fraction of the total.⁴

It should be no surprise, then, that development issues have become increasingly prominent in international trade negotiations. In November 2001, members of the WTO launched a new round of negotiations in Doha, Qatar. The negotiating agenda adopted in Qatar has been labeled the “Doha Development Agenda” because WTO members recognized that: 1) continued multilateral trade liberalization is necessary to accelerate growth and poverty reduction in developing countries, and 2) specific steps must be taken to help developing countries take advantage of the opportunities created by trade liberalization. This agenda calls for renewed efforts by donors to help developing country members of the WTO participate more effectively in trade negotiations, comply with and implement existing trade agreements, and improve their economies’ competitiveness in the global economy.

USAID is committed to actively supporting the Doha Development Agenda and other trade liberalization initiatives. The agency will continue to step up its support for a broad range of projects that respond to developing countries’ TCB needs, as described in Appendix 1 and *United States Government Initiatives to Build Trade Related Capacity in Developing and Transition Countries*.⁵ This will include projects that help developing countries participate in international trade negotia-

tions and effectively implement the resulting agreements. It will also address the broad range of reforms and human, institutional, and physical capacity building that will allow these countries’ economies to effectively respond to the opportunities created by international trade and investment. A country’s effective trading capacity has many dimensions that overlap with the broad needs of economic development (see Appendix 2). USAID will seek to take full advantage of the opportunities that trade capacity building offers to complement and enhance USAID’s broader development assistance strategies.

Recognizing that increased ability to trade in a global marketplace is highly correlated with improvements in the local investment climate, and that trade and investment are complementary engines of economic growth, USAID programs under this strategy will focus on TCB assistance rather than on promoting investment per se. A successful strategy for TCB assistance will directly improve developing countries’ investment climates.

Trade Capacity Building and The National Security Strategy of the United States of America

The September 2002 *National Security Strategy of the United States* identifies eight goals. One of them is to ignite a new era of global economic growth through free markets and free trade. Another is to “expand the circle of development.” These goals are closely linked—the strategy emphasizes that trade and investment are powerful engines of economic growth. USAID’s strategy for trade capacity building lies at the intersection of these two goals and reinforces both. It will encourage developing country support for open markets. It will also enhance their capacity to reap the benefits of a rules-based global trading system, thereby accelerating their development progress.

³ World Trade Organization, *International Trade Statistics*, 2001 (Geneva: WTO, 2001).

⁴ For example, in 2000, China, Hong Kong, and Brazil accounted for over 50 percent of total FDI to developing economies, and the top 10 developing economy recipients of FDI absorbed 77 percent of the total flows. The 49 LDCs absorbed just 0.3 percent of the global FDI inflows and just 1.6 percent of the total FDI inflows to developing countries in 2000. United Nations Conference on Trade and Development, *World Investment Report 2001* (Geneva: UNCTAD, September 2001).

⁵ See <www.dec.org/pdf_docs/PNACN110.pdf>

USAID will ensure that its response to partner-country requests for assistance in trade capacity building complies with existing legislative measures intended to protect U.S. trade, investment, and employment.⁶ This guidance helps ensure that TCB assistance does not conflict with or undermine USAID's interests in promoting U.S. trade, investment, and employment. Some of this guidance has been in place for a long time and may or may not reflect the current views of Congress. To determine whether changes or new interpretations are warranted, agency staff will review such guidance in view of current U.S. commitments to expanded TCB assistance.

New Opportunities Created by International Negotiations

Over the next few years, trade negotiations will provide great opportunities to generate economic growth in developing countries. Trade capacity building is a fundamental feature of international cooperation in support of these negotiations. Led by the United States, trade ministers of the industrialized countries made an unprecedented commitment at the WTO's Fourth Ministerial Conference in Doha to assist developing countries to benefit from the rules-based trading system. Commitments to capacity building are also contained in other trade forums, such as the Free Trade Area of the Americas (FTAA), Asia Pacific Economic Cooperation (APEC), and negotiations on bilateral free trade area agreements between the United States and a number of developing countries. Because development agencies are expected to supply the required TCB, they have a mandate and a new base of support for promoting economic growth in the developing world.

Over the next few years, a variety of multilateral trade negotiations are likely to yield agreements that create dramatic new opportunities for develop-

ing countries. Reductions in trade barriers—both in developing countries' export markets and in their internal markets—will improve economic and commercial efficiency and spur economic growth.

Another core objective of those negotiations is to ensure transparency and predictability in economic governance, reinforcing economic reforms that are critical for successful development. For this reason, the concessions a country makes in trade negotiations frequently may have as favorable an impact on its economic growth as the concessions it receives from other countries. The Doha negotiations, for example, offer promise in all these areas. Doha agricultural negotiations are expected to reduce subsidies, tariffs, and nontariff barriers to exports of agricultural commodities that are especially important to developing country economies. Similarly, Doha negotiations on trade in services will encourage countries to increase competition in sectors such as energy, transportation, and telecommunications, where expensive and unreliable supply currently inhibits domestic producers' ability to supply goods and services that meet international standards at

Trade Agreements and USAID's Democracy and Governance Objectives

Many WTO and other international trade agreements can act as an international anchor for critical national reforms designed to combat corruption and promote democracy and good governance. Binding commitments to transparency, due process, and public accountability are at the core of these agreements. Many of those agreements—such as those relating to customs, government procurement, and the application of sanitary and phytosanitary (SPS) measures—include procedural requirements that limit discretionary actions by public authorities. Predictable implementation of these procedures can be particularly helpful in strengthening anticorruption efforts.

⁶ See USAID Policy Determinations 20 and 71, <www.usaid.gov/pubs/ads/300/pd20.pdf> and <www.usaid.gov/pubs/ads/200/pd71.pdf>.

competitive prices. Because successful trade negotiations will generally accelerate reforms that can increase economic growth, TCB includes activities that support specific negotiations and build trade capacity generally. The extent and speed with which developing countries take advantage of these opportunities will depend on their own political leadership, supported by TCB assistance from abroad.

USAID Trade Capacity Building Efforts

USAID assistance programs are already helping developing countries build the capacity to integrate themselves into the global economy. The programs address a range of issues, including the need for market-friendly tax regimes, sound property rights and commercial law, more diverse and market-responsive agricultural products, reformed financial sectors, and strong business skills (see Appendix 2). Some ongoing projects focus on the trade negotiating process, including support for WTO awareness, accession, and implementation of trade agreements. Others address countries' capaci-

ties to respond to trade and investment opportunities. A number of programs are explicitly designed to complement U.S. regional trade initiatives, such as the AGOA and FTAA.

The total value of USAID's funding for trade capacity building is increasing—it reached \$423 million in FY2001 and \$476 million in FY2002. The geographic distribution of these funds reflects the multiple objectives of the U.S. foreign assistance program. Recipients of the largest amount of funds are countries of Eastern Europe and the former Soviet Union, followed by Egypt and Jordan.

TCB funds for LDCs are significant but relatively small—\$42.4 million in FY2001, 10 percent of the total. The diversity of fund recipients means that the agency's TCB strategy must be adaptable to different situations and must set clear geographic and programmatic priorities for the application of new activities and funds.

Conceptual Framework

USAID's goal for TCB is to increase the number of developing and transition countries that are harnessing global economic forces to accelerate growth and increase incomes. In pursuit of that goal, TCB activities will help countries meet three strategic requirements for benefiting from the global trading system: *participation*, *implementation*, and *economic responsiveness*.

Participation in Trade Negotiations

Government decisionmakers, in consultation with the private sector and civil society, need to understand the substance and modalities of international negotiations, analyze the effect of negotiations on national interests, and build domestic consensus for negotiating positions that reflect those interests. TCB activities include

- support for a country's efforts to accede to the WTO and harmonize domestic policies, laws, and regulations with WTO requirements
- technical support to public and private organizations that provide trade negotiators with

Agriculture, Rural Poverty, and International Trade

Because the world's poorest and most vulnerable populations depend on the health of the rural economy, agricultural development and diversification are critical elements of USAID's economic growth and poverty reduction strategies. Projects that help developing countries participate in agricultural trade negotiations, implement related agreements, and take advantage of opportunities to tap into global food and agricultural commercial networks make important contributions to these efforts. Such projects can spur economic growth and raise incomes by, for example, fostering access to new technologies and providing information and assistance needed to meet regulatory requirements in key markets.

analysis of economic impacts and opportunities resulting from trade policy scenarios

- training in the procedures and modalities for participation in international trade negotiations

Implementation of Trade Agreements

A country requires both institutional and human capacity to implement commitments made in the course of trade negotiations, acceding to the WTO, or joining a regional trade agreement. Illustrative trade capacity building activities could include

- assistance in implementing WTO requirements for customs valuation, import licensing, and/or rules of origin
- support for a country's efforts to satisfy licensing requirements of AGOA and other preferential trade programs

Economic Responsiveness to Trade Opportunities

Workers, firms, and economies as a whole must be able to respond quickly and efficiently to international market signals to take advantage of trade opportunities and reap the benefits of the international trading system. This means they must be

competitive and productive. In USAID's view, competitiveness is essentially a matter of productivity. Competitiveness and productivity are determined by three factors. One factor is the macroenvironment—including macroeconomic policies; openness to trade; and stable, well-functioning political and legal institutions. The second is the microeconomic business environment—including the quality of the workforce and nonlabor inputs, infrastructure, institutions, and the array of regulatory and other policies that affect the way in which a nation's firms compete. The third factor is the operating practices and strategies of companies.

TCB activities aimed at enhancing economic responsiveness, competitiveness, and productivity are sometimes called "supply-side" or "behind-the-border" assistance. These activities may address a wide range of development needs in the public and private sectors—from helping governments create a competitive and enabling environment to supporting local enterprises' abilities to identify and produce goods and services the world is willing to buy.

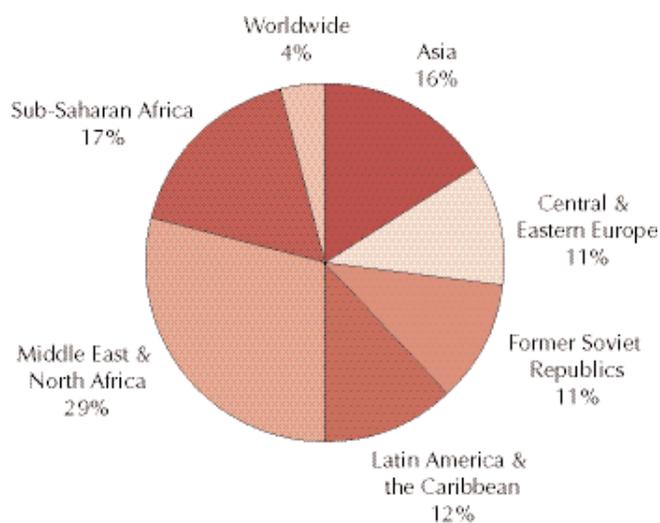
Examples of projects in the public sector include

- increasing competition in transportation, telecommunications, and other trade-related service sectors
- strengthening commercial law
- developing the financial sector, including reforms in banking and securities markets and implementation of laws and regulations that protect and promote trade-related investment
- strengthening competition policy and antitrust laws, and building institutional capacity to address anticompetitive monopolies

Examples of projects in the private sector include

- assisting sector and industry clusters to identify and address constraints to participation in international trade
- developing efficient and competitive business development services, including enterprise and

Figure 2. USAID TCB Funding by Region, 2001



trade finance,⁷ insurance, advertising, marketing, and freight forwarding services

- improving agricultural producers' capacity to meet international sanitary and phytosanitary (SPS) standards and regulations
- helping firms obtain and analyze international market information, linking them with international "enterprise networks" and developing local commercial and labor skills
- remove barriers to the establishment and growth of small and medium-sized enterprises

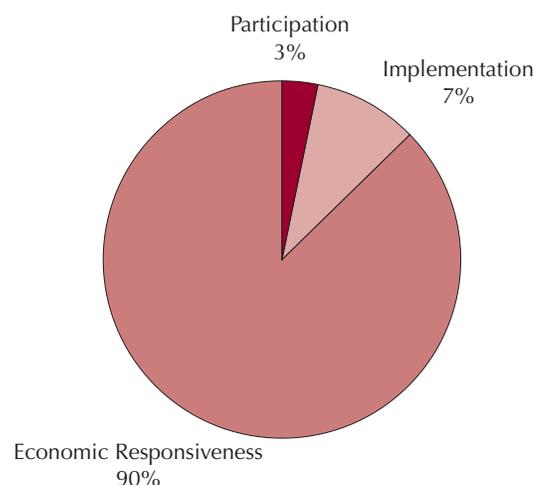
TCB projects often address two or all three of these strategic requirements. For example, a project that helps develop an efficient and competitive financial services sector may concurrently help prepare a country to participate in international negotiations on trade in services, implement existing agreements affecting that sector, build political consensus for participating in and implementing international agreements, and improve the competitiveness of other goods and services sectors that are dependent on high-quality, low-cost financial services.

Historically, the bulk of USAID TCB projects have focused on economic responsiveness, competitiveness, and productivity as the keys to raising living standards in developing countries. The Doha Development Agenda and other trade negotiations are increasing demand for assistance that addresses participation as well as implementation needs.

An Agency-Wide Strategy

USAID's TCB priorities need to be set at both agency and country levels. The selection and prioritization of TCB activities at the country level will continue to be determined by missions' country-specific strategic plans and resources. Priorities will vary from country to country, depending on levels of income and develop-

Figure 3. 2001 USAID TCB Funding by Category



ment, the quality of key leadership, geography, activities of other donors, the current and prospective composition of trade, and other important factors. In countries associated with specific trade negotiations or agreements, it will be important to consider needs identified in trade negotiations and through the interagency process.

At a global level, the agency's allocation of incremental TCB resources will be determined by its goal: to increase the number of developing and transition countries that are harnessing global economic forces to accelerate growth and increase incomes. TCB projects have the greatest promise for promoting rapid *integration* into the global economy when they are implemented in countries that already have made progress in establishing a commercial rule of law and liberalizing financial and other service sectors that support competitive exports. The projects are likely to have the greatest impact on *incomes* when they are implemented in reform-minded LDCs. In other low- and middle-income countries, TCB projects might have spillover benefits, helping generate economic growth in surrounding LDCs and other developing countries.

In this context, USAID will seek to direct new resources to TCB projects in countries where governments committed to reform and openness are in place or emerging. All else equal, USAID will give priority to reform-minded LDCs. The agency

⁷ Where financial systems are particularly weak, USAID's Development Credit Authority may be able to play a catalytic role in expanding access to trade finance.

will also give precedence to other reform-minded, low-income countries (other than LDCs) when accelerated growth in those countries may have broad regional benefits for surrounding LDCs and other developing countries. In the context of ongoing trade negotiations, the agency will consider the need for assistance to improve the enabling environment for reform in countries that can play key roles in advancing U.S. trade liberalization initiatives. The prioritization of incremental resources under this strategy will not affect TCB projects that are implemented under other USAID strategic objectives, including projects in countries that do not fall in the categories described above.

The agency will continue to support projects that address participation, implementation, and economic responsiveness. The bulk of overall TCB efforts will continue to focus on economic responsiveness to trade opportunities. At the same time, the agency must prepare itself to respond to increasing demand for projects that address challenges relating to developing countries' participation in trade negotiations and implementation of trade agreements. Many of these challenges may be identified in the course of trade negotiations. For this reason, it will be important for USAID and, in some cases, for individual missions to follow closely the substance and progress of global, regional, or bilateral trade negotiations and to coordinate with the U.S. Trade Representative (USTR) and the interagency process.

In support of developing countries' *participation* in international trade negotiations, USAID will

- increase support for developing and transition countries' efforts to accede to the WTO and participate in its consultations and negotiations
- help countries develop the analytical expertise, information, and resources they need to participate more effectively in trade negotiations and global trade development⁸

⁸ For example, USAID's regional program in Central America is helping five countries build needed analytical expertise and skills for negotiations on a U.S.-Central American Free Trade Area (CAFTA) Agreement and negotiations on the FTA.

- strengthen USAID's in-house expertise and capabilities for responding to the growing demand for assistance related to participation in international negotiations

To support the agency's field programs in this area, new USAID/Washington projects will

- distribute user-friendly trade data and analytical tools to a wide range of public and private sector users throughout the world⁹
- strengthen the ability of African research institutions to conduct sophisticated analyses of national trade interests and provide policy-relevant recommendations to government decisionmakers¹⁰

In support of efforts to *implement* international trade agreements, USAID will

- develop strategies and, as needed, create new mechanisms to support trade facilitation and customs reform, taking into account other donors' activities
- support reform, liberalization, and increased efficiency in transportation, telecommunications, trade finance, marketing, and other services sectors that are critical to trade

USAID/Washington will strengthen and catalyze field implementation projects by

- seeking to develop mechanisms to respond to unanticipated requests for short-term assistance needed to implement trade commitments
- supporting efforts to comply with customs-related WTO requirements, including customs reform, reduction of customs clearance delays, and other trade facilitation measures, taking into account other donors' activities¹¹

⁹ These analytical resources include trade flow and trade barrier information that can be used to identify and analyze market opportunities.

¹⁰ This has been one of the most frequently raised needs by developing country WTO members at Doha and subsequent WTO consultations.

¹¹ Trade diagnostic studies consistently identify customs problems as being among the top two or three most serious TCB constraints.

- assisting in the privatization and creation of meaningful competition in key trade-related services sectors, in tandem with WTO negotiations on trade in services¹²

USAID will continue to focus primarily on projects that strengthen and enhance developing countries' *economic responsiveness to trade opportunities*. To that end, the agency will

- continue to implement a broad range of trade-related economic growth projects, ranging from agricultural trade diversification and human resource development to commercial law and regulation, fiscal and financial sector reforms, and economic governance
- assist developing countries seeking to take advantage of trade opportunities created by preferential market access programs such as those established by AGOA and the Andean Trade Promotion and Drug Eradication Act (ATPDEA)

USAID/Washington will help to strengthen field projects in this area through new programs that

- expand the use of USAID's successful commercial, legal, and institutional reform diagnostic tools, with particular focus on LDCs
- support agricultural producers' capacity to meet food safety, pest management, and other SPS requirements in international markets
- strengthen fiscal reforms that create growth-friendly tax regimes, reduce dependence on tariff revenues, and make room for continued tariff liberalization
- foster the growth of business development services, trade finance, and other services industries that facilitate integration into the global economy

¹² Support for the privatization of Kenya National Railways is an early example.

- exploit the latest information technologies to create an "all-horizon" trade lead system to link developing country entrepreneurs with domestic and international business partners

USAID must be opportunistic as well as strategic. In particular, the agency will look for opportunities where TCB projects can catalyze a range of mutually reinforcing political, economic, and social factors—including trade negotiations; international commercial networks; domestic political, legal, and governance reforms; and local economic capabilities and resources—to maximize their impact on economic growth and poverty. USAID will give top priority to projects that help generate local support for trade reforms, such as projects that mainstream trade into broader national development strategies.

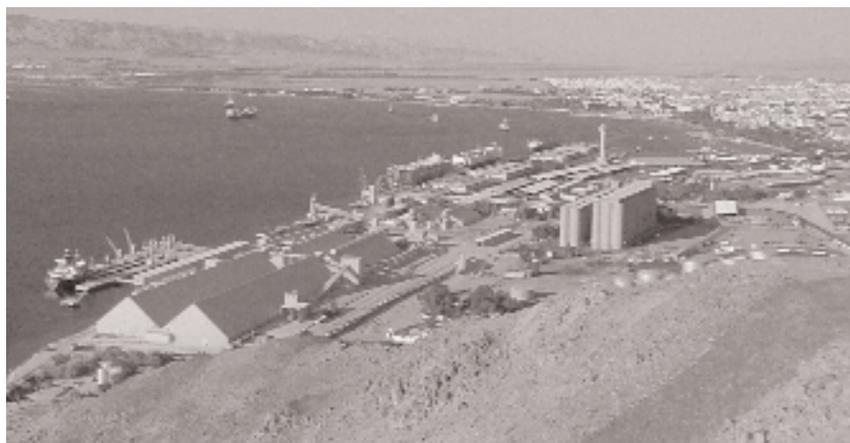
USAID/Washington must be prepared to assist field missions in identifying and addressing these opportunities, particularly those emerging from international trade negotiations and initiatives. Therefore, USAID/Washington will facilitate the flow of policy and technical information to the missions. It will develop technical resources that assist missions to implement country-specific TCB projects in promising new fields, and support TCB assistance on a global or regional basis.

Country-Level Strategies

At the country level, a range of local trade and development issues needs to be considered—from the quality of staff at a ministry of trade to the strength of the business services that support producers, importers, and exporters. The Integrated Framework for Technical Assistance to LDCs (IF)¹³ is undertaking a series of diagnostic *Integration and Competitiveness* studies of LDCs. Three such studies—in Madagascar, Cambodia, and Mauritania—have been completed, and 11 more are underway or planned through mid-2003. These

¹³ The IF was established by WTO trade ministers in 1997 to promote the integration of LDCs into the global economy. Participating agencies include the WTO, the International Monetary Fund, the International Trade Centre, the United Nations Development Program, the United Nations Conference on Trade and Development, and the World Bank.

studies (or studies modeled on them) can be a key resource for identifying local TCB needs. Also, with the ongoing FTA negotiations in the Western Hemisphere, USAID is assisting countries with their efforts to develop national TCB strategies as a vehicle for prioritizing their trade-related assistance needs and to mobilize donor, public, and private sector support. For example, within the FTAA, countries are preparing national TCB strategies to facilitate the mobilization of assistance resources under the Hemispheric Cooperation Program.



Aqaba Special Economic Zone, Jordan. USAID

Though TCB needs will vary from country to country, in general the following apply:

- The poorer the country, the more comprehensive the range of TCB needs, though problems related to economic responsiveness, competitiveness, and productivity will likely be particularly acute.
- Customs procedures and customs clearance are problems in most developing countries.
- Transportation bottlenecks are often a significant impediment to developing countries' ability to respond to international demand; rural producers may be particularly affected.
- The capacity of LDC governments and small economies to manage trade participation and compliance requirements may be limited, so priorities must be set carefully.¹⁴
- In low-income countries, projects that support trade in agriculture are likely to have significant poverty reduction benefits.

¹⁴ In many LDCs, there are only a few key individuals who must handle all trade-related negotiations—multilaterally, regionally, and bilaterally. Many LDCs do not have a trade mission in Geneva to assist with WTO-related negotiations. Further, the ability of LDCs and small economies to manage simultaneously complex negotiations and implementation tasks is impeded by high turnover among staff and illness (particularly in countries with a high incidence of HIV/AIDS).

- In LDCs and developing countries dependent on farm and fisheries products, producers lack awareness of and ability to meet foreign market requirements such as SPS standards.¹⁵

No universal prioritization or standard sequencing of TCB assistance applies to all countries. If analysis shows a country has largely implemented its WTO commitments, for example, attention may focus on economic responsiveness issues, and/or assisting the government to participate more effectively in trade policy development. If internal markets are too distorted for economic responsiveness approaches to generate reform from within support for participation in a regional trade agreement (RTA) or the WTO may elicit new pressures and new domestic sources of support for developmental change.

As in other areas of development assistance, the degree of political will and reform-minded leadership in support of particular TCB initiatives may ultimately prove the decisive factor in success. A variety of internal and external factors can be useful to galvanize local leadership. Interest groups such as exporters may generate pressure for change from within. The political imperative to join the EU or the WTO has motivated governments in Eastern Europe and Jordan to make major trade reforms. The IF can be a catalyst in LDCs. A political commitment to regional trade agreements—such as the Southern Africa Development

¹⁵ Quality control issues, including those related to SPS standards in target export markets, were noted as significant impediments to export competitiveness in the IF diagnostic studies of Madagascar, Mauritania, and Cambodia.

Community—can provide momentum for trade-related improvements at home.

Thus, country-level TCB priorities should be assessed in the light of a wide range of trade and investment-related factors. However, the final choice of activities to support may need to be opportunistic as well. Where possible, USAID country missions should take advantage of and encourage the internal and external forces—such as membership in RTAs and the IF—that can catalyze local support for trade-related change.

Specific Considerations

A number of specific considerations will influence the agency's approach to TCB.

- *Least developed countries:* Concentrated in Africa, LDCs are the most marginalized from the global economic system. They account for one-fifth of the membership of the WTO, and the United States has a stake in addressing their concerns. USAID will give priority to LDCs with strong reform leadership.
- *Integrated Framework:* The IF provides a focal point for reinforcing LDC reforms and coordinating TCB activities among donors. USAID country missions will be encouraged to incorporate the outcome of IF diagnostics in formulating their country strategies and to support follow-on projects identified as priorities in IF diagnostic reports. USAID may continue to make modest contributions to the IF Trust Fund to support additional diagnostic studies, but the agency's principal support to the IF will be in the form of follow-on TCB projects under the agency's bilateral programs.
- *Large-scale physical infrastructure projects:* Roads, ports, airports, rail transport, telecommunications, and other physical infrastructure are essential for improved trade and investment. Direct USAID finance for large-scale infrastructure will be limited. But where such lack of infrastructure is a critical constraint, the agency will seek opportunities to facilitate the

development of ownership and management structures and to strengthen the legal and competitive environment to attract other funds, particularly from the private sector. In some cases, USAID will serve in a technical advisory role for large infrastructure projects being planned by other donors.

USAID country missions should take advantage of and encourage the internal and external forces—such as membership in RTAs and the IF—that can catalyze local support for trade-related change.

- *Trade and labor:* The development record indicates that rapid growth in trade—particularly in exports—is typically associated with increased demand for labor (especially unskilled labor), higher wages, and more and better employment opportunities. Part of USAID's work in the area of competitiveness and productivity promotes well-functioning labor markets, including a flexible, qualified, and mobile workforce. Labor issues raised in the context of trade (but extending well beyond trade to other production activity) include core labor standards, child labor, trafficking of persons, and safety nets for displaced workers. Programs in a number of U.S. Government agencies—particularly the Department of Labor and USAID—address these issues. As required in legislation granting the president trade promotion authority and echoed in the recently issued *National Security Strategy*, the United States will incorporate labor concerns into U.S. trade negotiations and will use the International Labor Organization, trade preference programs, and trade talks to improve working conditions in conjunction with freer trade.
- *Trade and gender:* Along with the concerns mentioned above, gender considerations are part of a more general concern about links between trade and poverty. More specifically, the concern is

that the poor—especially poor women—are in a weak position to take advantage of the economic opportunities provided by trade because of inadequate education and training and limited access to assets such as credit. On the general issue of trade and poverty, a recent review of research indicates that the economic growth generated by expanded openness and

trade tends to benefit all income groups proportionately to their incomes, with no discernible impact on income distribution. Thus, the general expectation based on the empirical record is that if overall income rises by 10 percent, income of the poor will also rise by 10 percent, despite the disadvantages that the poor face.¹⁶ A separate review of research more specifically focused on gender concludes that “the direct effect of trade expansion on employment opportunities and wages appears generally to favor women, particularly in manufacturing and service sectors. Although the jobs pay significantly less than they pay in the developed countries, they usually pay more than the local ‘going rate.’”¹⁷ The research stresses the importance of investments in human capital in the form of education and training so that women can better take advantage of the opportunities generated by increased trade. USAID emphasizes such programs, as well as programs that increase access of women to credit and other assets in its overall approach to development.



Trade goods in Ghana. Roger Taylor, NREL

- *Trade and environment:* Trade-led economic growth and poverty reduction strategies must be pursued in the broader context of sustainable development. Trade capacity building and efforts to improve environmental protection and sustainable resource management are mutually reinforcing. Projects that raise incomes in communities located in highly stressed rural agricultural ecosystems and that promote the development of ecotourism are important examples. USAID TCB activities will seek to take advantage of such win-win opportunities. As required in the Trade Act of 2002, which granted the president trade promotion authority, and as was echoed in the *National Security Strategy*, the United States will incorporate environmental concerns into U.S. trade negotiations.
- *Availability of discretionary economic growth funds:* Funding for most USAID trade and investment capacity building programs comes from the agency’s Economic Growth (EG) budget. Except for the Europe and Eurasia region and Economic Support Fund-supported country missions, access to discretionary EG funds is limited, particularly for the reform-minded LDCs prioritized in this strategy. USAID will explore the potential for increasing the EG budget to expand capacity building activities and reach priority countries.

¹⁶ Andrew Berg and Anne Krueger, “Trade, Growth, and Poverty,” prepared for the Annual World Bank Conference on Development Economics, April 2002, <www.econ.worldbank.org/files/13377_Berg_and_Krueger.pdf>

¹⁷ Samuel Skogstad, “International Trade: Impact, Opportunities and Constraints on the Participation of Women—A Review of Empirical Research,” prepared for USAID’s Office of Women in Development.

- *Support for the Doha Development Agenda and other trade initiatives:* The timetables for the Doha Development Agenda, the FTAA, and other trade negotiations imply a rapid increase in TCB activities within a shorter period than normal planning and implementation cycles. The administration expects USAID to be responsive and to react in the context of the negotiating timetable. Developing countries and parts of the administration also expect TCB assistance to produce tangible results in a short timeframe. USAID will need to accelerate delivery of TCB assistance and seek additional TCB-related funding in FY2003 and FY2004, when multilateral and regional trade negotiations will be intense. Given the normal pace of institutional change and structural adjustment in LDCs, it may be difficult to demonstrate dramatic and tangible outcomes in the short timeframe of ongoing trade negotiations. The agency will therefore need to set ambitious but realistic objectives for its IF followup projects.
- *Regional trade arrangements:* USAID will actively assist developing countries pursuing bilateral or regional trade arrangements with the United States. Participation in multilateral trade initiatives and other trade agreements involving both developed and developing countries is likely to contribute more to economic growth than will RTAs between developing countries alone. In some cases, regional cooperation between developing countries on technical issues (e.g., standards testing and certification), customs unions, and other RTAs may reinforce multilateral liberalization, promote investment, and bolster reforms. Experience suggests, however, that USAID should proceed cautiously with projects that are exclusively focused on regional activities in which there is no developed country participation. In particular, it is important to ensure that RTAs will not distort trade, and that the political commitment of participating governments is sufficient to ensure effective and sustained implementation.
- *Preferential trade agreements:* Many developed countries provide preferential access to LDC

products through such programs as the U.S. Generalized System of Preferences (GSP), the ATPDEA, the Caribbean Basin Initiative, and AGOA. The EU, Australia, Canada, Japan, and New Zealand also have GSP-type programs. In addition, the EU has the Cotonou Partnership Agreement and Everything But Arms (EBA) initiatives. But these arrangements are complex, and developing countries (governments and private sector entities) often lack the capacity to comply with requirements such as licensing or rules of origin. USAID will assist developing countries to take particular advantage of U.S. preferential access programs such as AGOA, but it will also assist them to take advantage of opportunities to gain access to other markets.

- *Coordination with other U.S. agencies:* Because of the growing overlap between trade and development, USAID and the trade policy agencies need to work together closely to coordinate U.S. responses to developing country requests for TCB assistance. As part of this process, some missions will need to be involved in interagency discussions and decisions on TCB needs relating to specific ongoing trade negotiations. An agreed USAID TCB strategy should help focus and inform the agency's participation in interagency meetings. Nonetheless, increased coordination with other agencies, the increasing number of trade negotiations, and acceleration of negotiation schedules will place large new demands on staff.¹⁸ In addition to USAID, 14 U.S. Government agencies provide TCB assistance to developing countries. USAID should take a primary role in coordinating assistance among these agencies.
- *Contribution to trade policy:* USAID does not make trade policy but focuses on TCB assistance. Because many trade policies have a sig-

¹⁸ TCB needs are being discussed in a growing number of trade negotiating forums, including the WTO, the FTAA, APEC, trade agreements under the Stability Pact in the Balkans, and bilateral negotiations envisaged under U.S. trade initiatives like the CAFTA, the U.S.-Morocco Free Trade Area, and the Southern Africa Free Trade and Development Agreement. The U.S. Trade Representative has 60 interagency subcommittees of the Trade Policy Staff Committee, many of which require USAID participation. Ad hoc participation or briefings of the 33 USTR private sector advisory committees are also likely.

nificant impact on development, USAID will, as it deems necessary, contribute its development perspective within the U.S. interagency framework for trade policy.

- *Coordination with other donors:* Multilateral development banks, development institutions, trade institutions, and bilateral donors are increasingly providing TCB assistance. Coordination among donors—both in capitals and in the field—is essential to avoid redundancy and to leverage funds. But donor coordination is also staff intensive, and additional staff resources will be required to support the level of coordination required. To the extent that coordinating institutions such as the IF exist, USAID will support them.

Next Steps

The decentralized nature of USAID programming means that most USAID TCB projects will be conceived and managed in the field. Success will require strengthening the trade knowledge and expertise of field staff, sharpening the trade focus of field programs, and providing technical leadership in the area of best practices and global innovation. Accordingly, in addition to the initiatives discussed above, USAID will mainstream trade into the agency's planning and programs at all levels by the following:

- *Enhancing trade knowledge and skills.* Trade training sessions and workshops for staff have already started, covering trade theory and trends, trade institutions, and TCB. Over 80 staff have completed an intensive two-day course, and another 80 will complete the course by the end of 2002. The course will be offered to an additional 80 staff per year through 2004. More than 20 senior staff have completed a half-day workshop on trade and development, and additional workshops are planned.
- *Requiring country strategies to consider trade and investment.* In consultation with USAID country missions and the regional bureaus, the

Bureaus for Policy and Program Coordination and Economic Growth, Agriculture and Trade (EGAT) will develop appropriate guidelines for this process and will offer the analytical tools to help missions examine the role of trade in their countries and make strategic choices.

- *Developing best-practice trade and investment tools.* EGAT will develop technical resources and tools that can be adapted to country or regional needs and deployed quickly and cost effectively in the field.

Success will require strengthening the trade-related knowledge of field staff, sharpening the trade focus of field programs, and providing technical leadership in the area of best practices and global innovation.

- *Communicating capacity building needs identified by USAID/Washington.* Given the centralized nature of trade negotiations, it is likely that some capacity building needs will be identified at the negotiating table and communicated to USAID/Washington. Headquarters will provide information on such needs to the field for appropriate integration into missions' ongoing TCB strategies and projects.

Regional Initiatives

USAID TCB activities have been widely and fairly evenly distributed throughout the developing world. A variety of new region-specific TCB initiatives are under way or planned. These are particularly important and high profile in Africa and Latin America, where they complement and support AGOA, FTAA, and an anticipated free trade agreement with Central America. Region-specific initiatives and anticipated regional patterns in USAID's TCB programs are summarized in Appendix 3.

Assessing Progress

USAID's progress in implementing this strategy will be measured on several levels.

- In the short term, more developing countries will accede to the WTO; those that are or become WTO members will effectively implement an increased number of WTO obligations. Developing countries will put into place specific trade- and investment-inducing reforms.
- Missions will have an increasing number of active trade-related programs that will reflect USAID staff's increased knowledge and sophistication in trade issues. The programs will respond to the needs of host countries and to the timetables of ongoing trade negotiations.
- Developing countries will become more active, better informed participants in the Doha Development Agenda negotiations. They will recognize that they are getting increased levels of assistance and that such assistance is enabling them to participate more effectively in multi-lateral negotiations.
- TCB activities will produce tangible results in individual countries. For example, government-owned utilities or transport facilities will be privatized; customs clearance times will be shortened; and commercial, legal, and institutional frameworks will be strengthened.
- Over time, the quantity and—more importantly—the quality of developing countries' exports, imports, and foreign investments will improve. The quality of trade can be measured by increasing diversification of a developing country's production and consumption of traded goods and services, both for products and for markets and sources. It may also be measured by the value added to exports. The principal indicator of the quality of investment will simply be a measure of FDI flows.

Funding

The success of U.S. trade negotiations and the developmental impact of TCB rely on a significant increase in USAID TCB assistance during the next few years, in tandem with Doha, FTAA, and other negotiations. Funding for an expanded program in FY2003 and FY2004, including the activ-

ities described above, is essential and must be identified and secured.

Working With Other U.S. Government Agencies

USAID funds 75 percent of total U.S. TCB assistance overseas. This reflects the agency's conviction that trade is a critical factor for development. Fourteen other federal agencies also contribute.¹⁹ Many of these are funded by USAID through 632(a) and 632(b) Interagency Agreements.

USAID will continue to rely on expertise provided by private sector contractors and nongovernmental organizations in implementing most of its TCB projects. However, in areas such as competition policy, customs reform, food safety regulation, and intellectual property rights protection, U.S. Government personnel may be the most appropriate providers of TCB assistance. In response to such needs, USAID/Washington will work with country missions to harness the unique capabilities of other government agencies in support of this strategy.

To maintain close and regular communications on TCB issues between trade and development agencies and between USAID/Washington and the missions, EGAT will continue to co-chair an inter-agency working group on trade-related technical assistance and will disseminate information on U.S. trade policy, trade negotiations, and the current activities of other U.S. Government agencies in trade capacity building to other USAID bureaus and missions.

¹⁹ The 14 federal agencies are: Department of Energy, Department of Justice, Federal Trade Commission, Food and Drug Administration, Environmental Protection Agency, Department of the Interior, Small Business Administration, the U.S. Peace Corps, Department of Commerce (National Institute for Standards and Technology, Patent and Trademark Office), Department of the Treasury, Trade and Development Agency, Department of Agriculture, Department of Labor, and Department of State.

Appendix 1

Project Categories Identified in the FY2002 U.S. Survey of TCB Activities

Beginning in the summer of 2001, the U.S. Government conducted two surveys of its programs and activities that promote trade capacity building in developing and transition economies around the world. Activities included in the most recent survey, reflecting TCB projects funded under the FY 2002 federal budget, were reported in the categories shown below. These categories are comprehensive and include TCB implemented by USAID and 15 other federal agencies. Because they were developed to establish a baseline of data on government-wide activities, the categories do not necessarily correspond to the conceptual framework set out in this strategy.

Trade facilitation is generally defined as assistance in lowering the costs of engaging in or eliminating obstacles to international trade flows. In the USAID survey of U.S. Government initiatives in trade capacity building, trade facilitation is reported as the sum of the following six subcategories:

- *Customs operation and administration* is assistance to help countries modernize and improve the performance of their customs services.
- *E-Commerce development and information technologies (IT)* includes assistance to help countries acquire and use IT to promote trade by creating business networks and disseminating market information.
- *Export promotion* includes assistance to increase market opportunities for developing country and transition economy producers.
- *Business services and training* includes support to improve the associations and networks in the business sector as well as to enhance the skills of business people engaged in trade.
- *Regional trade agreement (RTA) capacity building* includes assistance to an RTA or to an individ-

ual country that increases the ability of the RTA to facilitate trade. It can also include assistance to a potential member of an RTA that improves the analytical capacity of the country's government with respect to RTA issues.²⁰

- *Other trade facilitation* includes support to increase trade flows that is not categorized in one of the other five subcategories.

Human resources and labor standards assistance helps support the enforcement of labor standards and worker rights, development of trade unions and dispute resolution mechanisms, strategies for workforce development and worker training, and the elimination of child labor.

Physical infrastructure development assistance helps establish trade-related telecommunication, transport, ports, airports, power, water, and industrial zones.

Trade-related agricultural development assistance supports trade-related aspects of the agriculture and agribusiness sector.²¹

Environmental sector trade and standards assistance establishes environmental standards or promote environmental technology.

Governance/transparency and interagency coordination includes support for institutional reform to improve governance and make policies more transparent, as well as assistance to help the different agencies of a host country government function more effectively in the trade policy arena.

Financial sector development and good governance assistance includes financial sector work, monetary and fiscal policy, exchange rates, commodity markets, and capital markets.

²⁰ It does not include TCB assistance in a specific area that is being provided to countries through an RTA. For example, technical assistance to help RTA member countries comply with SPS standards should be reported as trade-related agricultural development or the WTO Agreement on SPS Standards.

²¹ Support intended to help countries participate in the WTO Agreement on Agriculture or SPS standards is reported separately.

Competition policy and foreign investment assistance supports the design and implementation of antitrust laws, and laws and regulations related to investment and investor protections.

Services trade development includes support to help developing and transition economies increase their flows of trade in services. Services trade development is the sum of the assistance in the following two subcategories:

- *Tourism sector development* includes assistance to help countries expand their international tourism sectors, including ecotourism.
- *Other services development* includes assistance to help countries develop trade in services in all sectors other than tourism, including financial services, energy, transportation, and education.

WTO awareness and accession assistance is the sum of support in the following two subcategories:

- *WTO awareness and participation* assistance helps governments and private sector institutions benefit from membership in the WTO or understand fully the benefits of membership.
- *WTO accession* includes assistance to help countries in the WTO accession process to meet the requirements of accession.

Specific WTO agreements includes assistance that enables countries to better implement and benefit from particular WTO agreements. The U.S. survey reports TCB projects related to the WTO Agreement on Customs Valuation, Agreement on Agriculture, Agreement on the Application of Sanitary and Phytosanitary Measures, Agreement on Trade-Related Aspects of Intellectual Property Rights, General Agreement on Trade in Services, and 12 other WTO agreements. Assistance relating to these agreements often helps developing countries build the capacity to participate in negotiations and implement similar agreements made in other regional and bilateral forums.

Appendix 2

Conditions Conducive to Trade and Investment in Developing Countries

Political and Security Environment

- A stable and secure nation free from territorial, ethnic, religious, social, or other sources of internal or external instability
- Leadership committed to market-oriented reform

Macroeconomic Environment

- A stable and transparent currency regime and a competitive exchange rate
- A diversified base of production (industrial, agricultural, raw materials) that is not excessively dependent on a limited number of products or markets
- Low inflation
- Availability of private and public savings (domestic or foreign) to fund needed investment, particularly in physical infrastructure and human capacity development

Trade Environment

- Effective trade institutions, including an interministerial coordinating mechanism:
 - qualified, trained staff sufficient to handle the trade-related needs of their institutions
 - institutional mechanism for ensuring effective public-private sector collaboration, exchange of ideas, and evaluation of policy options
 - no state monopoly over trade in goods and services
 - availability of accurate trade data (for imports and exports) to permit trade-remedy actions to stave off import surges, or to slow or cease exports to avoid trade-remedy actions against exporters

- Membership in the WTO and regional trade arrangements, as appropriate:
 - compliance with obligations
 - effective participation in negotiations
 - regional/provincial compliance with and enforcement of trade laws
- Bilateral trade agreements or preferential trade agreements with trading partners:
 - private-sector awareness and ability to meet requirements of preferential trading arrangements (e.g., GSP, AGOA, EBA)
- Availability of low-cost production inputs:
 - low import tariffs, simplified tariff structure
 - no nontariff barriers, including registration requirements, for imports and exports
 - access to duty-free production inputs (e.g. through duty drawback, bonded warehouse, free trade zone, or other schemes)
- Low transactions costs:
 - liberalization of key services sectors (GATS obligations and country schedules)
 - efficient, predictable, and transparent customs processing for needed inputs and exports (in compliance with Harmonized Tariff System, Customs Valuation Agreement, WTO Agreement on Rules of Origin, and other international customs rules)
 - expeditious import and export clearance procedures
 - risk-management procedures for any preshipment inspection requirements
 - availability of trade facilitation services (warehousing, marketing, market research)
- National technical standards that conform to international practices and procedures:
 - private sector awareness of and ability to

- comply with, standards affecting key exports to key markets
- Availability of trade financing and export credits
- Transparent, open, competitive public procurement processes
- Trade promotion organizations, chambers of commerce, industry associations

Investment Environment

- Transparency and predictability of investment regime, consistent with international rules and conventions:
 - membership in and compliance with multilateral and regional trade and investment agreements
 - national treatment for domestic and foreign investors
 - effective protection of intellectual property rights
 - protection of persons and property from expropriation
 - repatriation of profits permitted and guaranteed
 - transfer of assets permitted and guaranteed
 - formalized dispute resolution process
 - bilateral investment treaties
 - accession to international conventions on arbitration and the enforcement of arbitral awards
- Streamlined, efficient administrative processes:
 - expeditious investment approval, licensing, permits
 - one-stop shop for foreign investors (government-sponsored foreign investment advisory body)
- Investment incentives (e.g., taxes, import duties, loans, hiring and firing of labor,

access to land and utilities):

- export promotion zones
- Availability of low-cost inputs (including imports):
 - efficiency, predictability of customs processing of imported inputs/exports
- Receptivity to foreign investment (limited, clearly identified exclusions):
 - privatization of public entities in a transparent, competitive, and equitable manner in which foreign participation is permitted
 - receptivity to a variety of forms of foreign investment, including majority foreign ownership and wholly owned foreign enterprises

Commercial and Regulatory Environment

- Commercial banking regime that provides funds to finance investment (including long-term investment); lends on the basis of creditworthiness of the borrowers, with risk-adjusted interest rates that represent the opportunity cost of capital, combined with a collateral system that facilitates commercial lending by creating recognized security interests in assets; includes adequate prudential and supervisory institutions and policies
- Company law regime allowing for market entry and operation and that defines norms for the organization of formal commercial activities by two or more individuals
- Competition policy regime that preserves competition in the market place by regulating or proscribing cartels and other anticompetitive behavior
- Contract law regime that creates, interprets, and enforces commercial obligations between parties
- Bankruptcy law regime that facilitates the orderly liquidation of outstanding financial claims by creditors against companies

- Other commercial laws and regulations influencing the production and sale of goods and services, such as
 - the hiring and firing of labor and worker rights
 - land ownership and other property rights
 - price controls
 - good governance (antibribery and anticorruption)
 - environmental protection/sustainable development policies
 - internationally accepted accounting standards
- Tax laws and regulations ensuring the fair, transparent, and equitable collection of taxes by national and local government entities

accounting firms, lawyers, marketing firms, advertising firms, and business consultants)

Infrastructure

- Availability of efficient, low-cost, internal, and crossborder transportation links, including roads, rail, airports, and port facilities to permit efficient transport of export goods and necessary production inputs
- Availability of related distribution services, including cold storage facilities, warehouses, and express delivery services
- Availability of telecommunications links (both internal and crossborder)
- Availability of reliable, competitively priced power supplies and distribution networks

Access to Foreign Markets

- Access to foreign markets for goods and services the developing country produces

Market Participants (Institutions and Human Resources)

- A pool of skilled and trained labor and management
- Social safety net, retraining, and transition assistance to encourage reintegration into the workforce of dislocated workers
- Market-responsive producers (agriculture, industry, raw materials, and services) eager to develop export capacity and responsive to market conditions (including standards, competition, fashion, and quality); market-responsive (upstream) suppliers of inputs; (downstream) marketers, distributors, and exporters of production
- Producer organizations (agriculture, industry, raw materials, and services) that can exchange information on foreign market conditions and provide input to government officials charged with formulating and implementing commercial and trade policy
- Business development services that can provide support to private enterprise (e.g.,

Appendix 3. Regional Trade Capacity Building Initiatives

Asia and Near East

TCB is a growing priority in the Asia and Near East (ANE) bureau. USAID is supporting an increasing number of bilateral agreements, continuing ongoing support for WTO implementation and preparation for the Cancun Ministerial, and supporting the development agenda through behind-the-border and beyond-the-border activities.

Bilateral agreements with countries such as Morocco, Jordan, and Vietnam have recently taken the stage. The United States and Morocco began negotiating FTA in 2002. USAID will support this process by helping identify TCB needs related to the negotiation, implement an FTA, and enhance Moroccan producers' ability to take advantage of the trade and investment opportunities created by an FTA. USAID has also assisted with the negotiation and implementation of the Jordan Free Trade Agreement and the Vietnam Bilateral Trade Agreement, which were signed in 2000 and 2001, respectively.

USAID support for WTO accession and implementation reflects a steady, ongoing commitment. In preparation for the Cancun Ministerial, USAID assistance is helping countries better understand and prepare for trade negotiations and better meet WTO commitments, especially customs valuation, SP measures, trade-related aspects of intellectual property rights (TRIPS), and technical barriers to trade. USAID supports this kind of long-term work in countries such as the Philippines, Indonesia, and Jordan. In the Philippines, USAID TCB activities highlight the link between good governance and trade standards. In Lebanon, USAID is helping the government raise public awareness on and accede to the WTO by the end of 2003. Vietnam also has a goal of acceding to the WTO by 2005. In Cambodia, USAID supports

the IF (an item of the Doha development agenda) by assisting civil societies to advocate trade reform.

USAID aims to better integrate TCB into developing countries' development agendas and poverty reduction strategies. While market access depends on at-the-border and beyond-the-border work involving trade agreements, such work does not bring about effective participation in global markets or meet concerns expressed by developing countries at Doha. USAID promotes a broad range of behind-the-border activities to help improve the capacity of countries to trade in the ANE region and in the rest of the world. These include programs that support competitiveness in Sri Lanka and Mongolia, financial market reform in India and Southeast Asia, and information and communication technology in Jordan, Egypt, Bangladesh, and the Philippines.

Europe and Eurasia

Throughout Europe and Eurasia, USAID continues to focus trade- and investment-related assistance on facilitating the sustainable integration of countries into the global economy. In broad terms, USAID will continue efforts to help transition countries establish market economies by creating an enabling environment for trade and investment, develop commercial laws and implementing institutions, promote competitive industries and clusters, and reform banking systems and financial markets. These measures are expected, among other things, to promote foreign direct investment inflows and increase intraregional trade.

The Europe and Eurasia (E&E) bureau manages the TRADE (Trading Regionally and Developing Expertise) Network in southeastern Europe, which seeks to develop crossborder trade and investment and regional business integration by facilitating trade linkages. This is accomplished through a network of consultants and business support institutions in Bulgaria, Croatia, Romania, and Hungary. The European TRADE Network seeks to strengthen the capacity of businesses in the region to meet

international standards (including ISO compliance) and attract international investment. In addition, the network addresses common constraints to growth of regional businesses and develops partnerships to take advantage of crossborder business opportunities.

The E&E bureau has also launched an agro-industry competitiveness initiative to facilitate increased competitiveness of agricultural industries and clusters in the region. The program will assist entrepreneurs to judge the competitiveness of their products in domestic, regional, and international markets. It will also identify areas of cooperation within the sector to improve overall competitiveness as countries anticipate WTO membership and EU accession. The program will also provide a forum to discuss common constraints to trade and growth for agricultural markets. Finally, competitiveness assessments are being completed in a number of E&E countries to identify competitive sectors, sub-sectors, and industries, and to identify potential competitiveness activities for USAID missions.

At the country level, several USAID programs address the issue of competitiveness. This is accomplished through support to clusters and facilitating efforts at the national level to improve overall competitiveness. USAID/Macedonia recently launched a major initiative to focus national efforts on improving the country's overall competitiveness and enhancing its enterprises through support to industry clusters. Similar activities at the national level are underway in Bulgaria, Croatia, and Kosovo; others are contemplated for Russia and Central Asia. Other activities focus on support for firm-level performance and productivity improvement, as well as the facilitation of trade and investment linkages through regional trade fairs and other business-to-business opportunities. Finally, USAID maintains numerous small- and mid-sized enterprise (SME) credit and technical assistance programs throughout the region. One activity in Kazakhstan is working to enhance quality management services—including ISO compliance—for SMEs that serve the energy sector.

A number of capacity building programs focus on providing technical assistance to facilitate accession to the WTO. Twelve countries in the region are seeking accession: Armenia, Azerbaijan, Belarus, Bosnia Herzegovina, Kazakhstan, the Former Yugoslav Republic of Macedonia, Russia, Tajikistan, Ukraine, Uzbekistan, and the Federal Republic of Yugoslavia. Many of these countries will receive USAID technical assistance with WTO awareness and accession.

For the countries of Central and Eastern Europe, the process has also involved entry into the EU. Ten countries in the region are in line to join. Two—Bulgaria and Romania—receive significant USAID assistance that focuses on key gaps with respect to EU membership, including judicial reform and SME development. The remaining eight countries—Poland, the Czech Republic, Slovakia, Slovenia, Hungary, Estonia, Latvia, and Lithuania—all graduates of USAID assistance, continue to receive USAID support to facilitate EU membership, particularly in financial sector reform. Through the Partnership for Financial Stability, USAID is assisting these countries to reform their respective financial sectors in order to meet EU entry requirements.

At the country level, USAID is providing significant levels of assistance to reform national financial sectors. Banking reform and/or capital market development projects are underway in Armenia, Georgia, Kazakhstan, Kyrgyzstan, Uzbekistan, Ukraine, Bulgaria, Romania, Croatia, and Bosnia. The focus of these activities is on bank supervision, bank accounting, and transparent capital market operations.

Fiscal reform is another major area of USAID assistance throughout Europe and Eurasia. Typically, USAID activities support improved fiscal policy environments in recipient countries, and focus on tax policy, tax administration, performance-based budgeting, and intergovernmental finance. Fiscal reform activities are underway in

Croatia, Kosovo, Serbia, Montenegro, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Armenia, and Georgia.

A major challenge continues to be integration into the global economy of the economies of Eurasia (the former Soviet Union, excluding the Baltics). Many countries remain relatively autarchic, or strongly linked to Russia, or both, with relatively few economic ties to the rest of the world. Further, because the export sectors in some of these countries (Russia and Kazakhstan, for example) are heavily dependent on natural resources such as energy, minerals, and agriculture, the countries are vulnerable (or potentially so) to volatile fluctuations in commodity prices. In Central Asia, USAID has initiated a series of trade facilitation programs to assist Kazakhstan, Uzbekistan, and Tajikistan to accede to the WTO. Meanwhile, USAID continues to assist Kyrgyzstan fulfill its post-entry WTO requirements. Activities include a customs modernization project, development of common standards to facilitate crossborder trade, removal of investment constraints, and launch of a new regional trade network.

Latin America and Caribbean

The Latin America and Caribbean (LAC) bureau is expanding its subregional and bilateral trade and investment capacity building programs, in response to 1) approaching negotiation deadlines for the FTAA and the Doha Round and the launching of negotiations for CAFTA; and 2) mounting requirements for assistance in implementing agreements resulting from these negotiations. All LAC countries except the Bahamas are already members of the WTO. USAID support for TCB in the region is focused on assisting countries to prepare for trade negotiations, implement trade agreements, and enhance competitiveness in world trade.

In the Caribbean, USAID is building on Secretary of State Colin Powell's Third Border Initiative to strengthen partner countries' trade and investment

capacities, including support for consensus-building activities involving the public and private sectors. The program is being led by USAID/Jamaica's Caribbean Regional Program.

In Central America, USAID is working through the rural development Opportunity Alliance initiative to support partner country efforts to prepare for and participate in the negotiation of CAFTA. The program is being led by USAID/Guatemala's Office for Central American Programs. USAID is also working with other donors to develop assistance programs to respond to national TCB priorities as identified in the national strategies of the Central American countries. These strategies were developed to help the countries prepare for the U.S.-CAFTA negotiations. In addition, USAID will continue to work with other LAC countries developing country strategies under the FTAA Hemispheric Cooperation Program.

In South America, USAID is implementing the Andean Regional TCB Program to assist the five Andean Community countries to meet WTO obligations (e.g., SPS), enhance competition policy investigation and enforcement, and address other priority TCB needs identified by USAID in consultation with the Andean countries. The program is being led by USAID/Peru.

Individual bilateral missions also are ramping up their support for TCB, while USAID/Washington has put in place a new "quick response" mechanism to give it the flexibility to respond rapidly to TCB needs where the required response cannot be met in a timely manner through existing subregional, bilateral, or central programs and mechanisms.

Sub-Saharan Africa

Comprising predominantly LDCs, sub-Saharan Africa (SSA) will continue to require significant USAID assistance in trade and investment capacity building. Most SSA countries are already members of the WTO. Only Cape Verde, Sudan, and

Seychelles are seeking to accede, although Ethiopia, Eritrea, Equatorial Guinea, and São Tomé (all currently WTO observers) may seek to join the WTO as well. WTO-related assistance will therefore focus primarily on enabling countries to participate more effectively in the ongoing negotiations, identify their national interest with respect to policy options, and achieve domestic consensus. Many SSA WTO members also need assistance in complying with their trade commitments. Other TCB assistance will focus on behind-the-border activities.

The IF diagnostics will be particularly important in identifying priorities in individual countries, as many of these countries are undergoing an IF diagnostic study. USAID activities will blend country-specific programs with support for regional trade groupings. USAID assistance will also complement AGOA, which provides qualifying countries preferential access to the U.S. market.

President Bush's new Trade for African Development and Enterprise initiative (TRADE) will promote U.S.-African business linkages, enhance the competitiveness of African products and services, expand the role that trade plays in African poverty reduction strategies, improve the delivery of public services supporting trade, build African capacity for trade policy formulation and implementation, and strengthen the enabling environment for African businesses. One of its first activities is to fund Regional Hubs for Global Competitiveness, located at USAID's three regional missions in Ghana, Kenya, and Botswana. Beginning in 2003, TRADE (Africa) funding will be available for programs in individual countries. It is anticipated that IF diagnostic studies and the new worldwide trade activities already described will be useful in identifying activities for TRADE funding.

Abbreviations and Acronyms

AGOA	African Growth and Opportunity Act
ANE	Asia and Near East (USAID bureau)
APEC	Asia Pacific Economic Cooperation
ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAFTA	Central American Free Trade Area
EBA	Everything But Arms
E&E	Europe and Eurasia (USAID bureau)
EG	economic growth (USAID budget)
EGAT	Economic Growth, Agriculture and Trade (USAID bureau)
FDI	foreign direct investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GSP	U.S. Generalized System of Preferences
IF	Integrated Framework for Technical Assistance
LAC	Latin American and Caribbean (USAID bureau)
LDC	least developed country
RTA	regional trade agreement
SME	small- and mid-sized enterprise
SPS	sanitary and phytosanitary
TCB	trade capacity building
TRADE (Africa)	Trade for African Development and Enterprise
TRADE (Europe)	Trading Regionally and Developing Expertise
USTR	U.S. Trade Representative



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