

**BetterAid Statement: 'Aid for Trade': False Assumptions
November 2011**

This statement has been endorsed by the BetterAid Coordinating Group.

BetterAid unites over 1700 development organizations from civil society worldwide, and has been working on development cooperation and challenging the aid effectiveness agenda since January 2007. BetterAid is leading many of the civil society activities including in-country consultations, studies and monitoring, in the lead up to the Fourth High Level Forum on Aid Effectiveness (HLF4) in Busan in November/December 2011. www.betteraid.org

Aid for trade has become somewhat like a 'magic wand'¹ for the World Trade Organization (WTO) to make good on its commitment to the stalled 'Development Round' of trade negotiations since Doha in 2001. The Aid for Trade (AfT) framework was formally adopted at the 2005 WTO Ministerial Conference in Hong Kong aiming at "*assisting developing countries to increase exports of goods and services, to integrate in the multilateral trading system, and to benefit from the liberalized trade and increased market access*". Thus, "*Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within countries*"².

Trade can indeed contribute to a country's economic development and bring about benefits for its population. However, several studies have shown that the 'automatic' relationship between trade liberalization and growth, which proponents of AfT so vehemently claim, does not exist.³ Furthermore, evidence of the positive effect of AfT on growth is largely missing.⁴ In fact, liberalization, a crucial part of the AfT agenda and one of its basic premises, can lead to large-scale negative effects for developing countries that outweigh any potential benefits coming from trade or aid.

Large costs for developing countries

While World Bank (WB) estimates have put the benefits arising from a successful conclusion to the Doha Round at roughly USD 96 billion globally, only about USD 16 billion would benefit the developing world, accounting for gains of just one cent per person.⁵ The United Nations Center for Trade and Development (UNCTAD) estimates that under a Non-Agricultural Market Access

¹ Melchior A. (2006), 'Aid for Trade and the Post-Washington Confusion', Norwegian Institute of International Affairs

² WT/AFT/1, Recommendations of the Task Force on Aid for Trade, 26 July 2007; in Iorio, M. (2006), *The Doha Development Agenda (DDA) and Aid for Trade: Finding the Policy Link*. IGTN: Geneva, Switzerland.

³ Njinkeu, Dominique & Hugo Cameron (2007), 'Aid for Trade and Development', Cambridge University Press, New York

⁴ Cali M. & te Velde D. W. (2008), 'The effectiveness of aid for trade: Some empirical evidence', Trade Hot Topics Commonwealth August 2008, Issue No. 50

⁵ Gallagher K.P. & Wise T. A. (2008), 'Back to the Drawing Board: No Basis for Concluding the Doha Round of Negotiations', RIS Policy Brief, No. 36 April 2008

<http://www.ase.tufts.edu/gdae/Pubs/rp/RISPolicyBrief36DohaMay08.pdf>

(NAMA) treaty, tariff losses to developing countries could amount to USD 63.4 billion⁶, almost four times the projected gains under the WB's assessment.

Least Developed Countries (LDCs) will be hardest hit as tariff earnings make a substantial part of total government revenues with little to no ability to raise lost revenues through other means. Falling government revenues will have direct impacts on public infrastructure spending and social services and consequently on poverty, inequality and development of LDCs. In addition, restricted policy space under WTO rules and regulations means that support and protection for domestic industries and natural resources will not be available to developing nations.⁷

... for which aid is not enough

For some, AfT represents a mechanism for redistributing the unequal gains from a potential Doha agreement to live up to being a 'Development Round'. This view, however, carries significant concerns. On the one hand, it is doubtful that any amount of monetary compensation can remedy losses in industry and capacity for a national economy. Aid at its best is just a remedial patch without addressing the root problems. On the other hand, tariff losses from trade liberalization greatly outweigh the potential aid flows from AfT.

...nevertheless large sums flow into AfT

Prior to 2005, AfT already constituted a significant part of total ODA and since then has increased considerably. In 2009, AfT commitments have reached a new high of about USD 40 billion representing a 60 percent increase from its 2002-2005 baseline. Over the same period, disbursements have reached USD 29 billion and consequently account for about one quarter of total ODA. Notable is that while half of all AfT comes in the form of grants, the remaining half continues to flow in the form of debt-creating loans that squeeze already strained government budgets.⁸

... while the WTO mainstreams trade

An integral part of AfT is the provision of trade-related technical assistance that aims at mainstreaming trade. The main provider of such assistance to LDCs is the Enhanced Integrated Framework (EIF), a multi-donor initiative that draws principally on WB expertise for its technical assistance needs and is hosted by the WTO. The aims of the EIF are twofold, *"to support LDC governments in trade capacity building and integrate trade issues into overall national development strategies."*⁹

The OECD/WTO 'Aid for Trade at a Glance' 2011 report shows that progress towards mainstreaming trade in LDCs has been directly linked to the work of the EIF. The EIF has been particularly successful in mainstreaming trade into LDCs' national development plans. Mainstreaming trade into countries' national strategies ensures that trade liberalization in itself

⁶ Quintos, P. (2008), 'Aid for Trade', Reality Check April 2008, The Reality of Aid

⁷ Chang H. J. (2008), 'Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism', Bloomsbury; 2008

⁸ OECD/WTO (2011), 'Aid for Trade at a Glance 2011: Showing Results', <http://dx.doi.org/10.1787/9789264117471-en>

⁹ p. 1 available from: http://www.google.com/url?sa=t&source=web&cd=4&ved=0CDcQFjAD&url=http%3A%2F%2Fwww.uneca.org%2Faidfortrade%2Fdocs%2FFrom%2520IF%2520to%2520EIF%2520_English_.pdf&ei=BlRXTtKcl47trQellZzFCg&usq=AFQjCNFAss03UAc08kcJ6gOGTqnjVTQYuw&sig2=sS7QGnXZZvr6Jw86C0pihg

is becoming an integral part of poverty reduction strategy papers. Ex-ante mechanisms ensure that this process is not a voluntary one. In order to access additional AfT funds, LDCs need to mainstream trade prior to any release of funds.¹⁰ AfT then becomes a form of policy conditionality for promoting trade liberalization.

... to integrate AfT into a Global Busan Compact

The AfT framework is being prepared by the WTO and OECD to become an integral part of the upcoming Fourth High Level Forum on Aid Effectiveness (HLF4) in Busan, South Korea. The presence of WTO representatives at the Work Party on Aid Effectiveness meetings in July 2011 also sent a powerful message to establish AfT as a formal recognized part of development cooperation.

Without a clear development mandate, the WTO possesses neither justification nor the right to engage or participate in development cooperation discussions, negotiations and its provision. Donors and partner countries alike need to be wary of the effects AfT will have on development practice. AfT should not be used as a policy conditionality or 'carrot' for trade liberalization and the coming HLF4 must put a stop to this as it goes against development effectiveness.

BetterAid Recommendations, Busan and Beyond

Not all AfT is controversial. Providing essential infrastructure from ports to roads and stimulating beneficial trade can prove to be a positive stimulus for economic and social development alike. However, trade always needs to be seen within the larger context of independently determined and owned social and political development strategies and not as a condition for development per se.

As such, BetterAid urges all stakeholders in development towards the realization of a broad-based reform agenda at Busan and beyond. Our demands:

- Immediately halt all 'blanket' trade liberalization. Stopping the spread of further trade liberalization also needs to be accompanied by reviewing and rolling back of existing trade agreements that distort development and pose a threat to environment, labor or public interest.
- Remove the WTO from development cooperation processes in general and AfT in particular. An alternative governing body that carries a democratic development mandate could come through the United Nations system i.e. UNCTAD. A reformed system for AfT needs to be based on institutions and structures that support economic governance that is accountable to the people while promoting their rights and interests.
- To guarantee effectiveness of AfT, all of its assistance needs to follow aid and development effectiveness principles. As such AfT needs to be bound to respect democratic ownership, human rights, policy space and freedom for developing countries to choose their own trade strategies in accordance with local needs and priorities and sustainable development.
- Ensure independent monitoring and evaluation. AfT needs to be monitored and evaluated on a regular basis through independent processes that guarantee democratic ownership as the principal pillar for reform.

¹⁰ http://www.wto.org/english/tratop_e/devel_e/a4t_e/enhance_if_e.htm accessed August 26, 2011