Aid for Trade:
From Donor Countries’ Perspectives

Yuri Hatsuse

Introduction

While the World Trade Organization (WTO) is not a development assistance institution, Aid for Trade has become an important complement to the Doha Round negotiations. In fact, just before the Hong Kong Ministerial Conference in 2005 the United States (the U.S.), the European Union (the EU) and Japan all made financial pledges to Aid for Trade programs. In addition, after the conference, an Aid for Trade Task Force was established at the WTO in order to ask the WTO Director-General to provide recommendations regarding the effective operation of Aid for Trade.

It is clear that the primary goal of Aid for Trade is the integration of developing countries into the global economy. This integration takes precedence over simply increasing market access for developing countries. Indeed, the WTO Task Force mentions that Aid for Trade is about assisting developing countries in increasing exports of goods and services in order to integrate them into the multilateral trading system. This language indicates that Aid for Trade programs focus on increasing absolute wealth of both donors and recipients through increasing the ability of recipients to enter into mutually beneficial trade arrangements. This approach reinforces the current trade relationships and in fact might even further crystallize the status quo in which the situation for developing countries is not improving. In order for Aid for Trade to have a positive effect on poverty and to improve the outlook for developing countries, there must be less emphasis on integration and more on increasing the relative wealth of developing countries as compared with that of developed countries.

This focus on integration has resulted from donor countries unilaterally setting the Aid for Trade agenda. Donor countries have had the freedom to do so because despite the increasing interest in Aid for Trade it is still unclear exactly what Aid for Trade itself entails. There is no common definition of what is considered to be Aid for Trade. It obviously means different things to different people and needs to be properly defined to facilitate dialogue among so many players. One group of countries claims that Aid for Trade is a sub-set of aid for development. Another contends that it is a rather generic term that can encompass a broad range of issues. What form it will ultimately take is not yet clear and donor countries will continue to use Aid for Trade to increase integration into a system they so thoroughly dominate.

This piece aims to establish what the specific contents of Aid for Trade programs are and what should be the scope of their application from the perspective of donor countries, particularly Japan, the EU and the U.S. While Aid for Trade is often delivered by cooperation among international organizations, regional banks, donor countries and the like, it is important to describe those programs initiated individually by donor countries as they best indicate the intentions of each donor country in offering Aid for Trade packages. The ambiguity of what Aid for Trade should consist of requires a review of what kinds of Aid for Trade donor countries have been providing. While certainly there are donors focusing
on helping recipient countries maximize the benefits of the trade liberalization, there might be others trying to minimize the costs of trade liberalization suffered by developing countries. This review should also help approach questions regarding other concerns about Aid for Trade namely whether or not donors are just providing aid which facilitates intra-company trade? Is there aid being provided to support exports from small local producers in developing countries? Finally, are there any aid programs which indicate or imply the use of Aid for Trade programs to offer some protection for their own domestic producers?

Considering these goals, this piece first provides an analysis of the general framework behind Aid for Trade theory, specifically regarding the different rationales, particularly economic rationales, that indicate the need for such a program. Also discussed will be Aid for Trade’s process-oriented and expanding character. Following that, the second chapter identifies the types of Aid for Trade packages being provided by each donor country and analyzes the scope of those programs through the application of the general framework provided above. The third chapter details three main problems associated with the Aid for Trade programs currently being provided by donor countries. The first problem is the arbitrary contents and scope of Aid for Trade set by each donor country unilaterally. The second problem is related to the potential for Aid for Trade to be used by developing countries as rewards in order to convince developing countries to enter into Economic Partnership Agreements (EPAs) or Free Trade Agreements (FTAs). The third problem addressed is the similarity between Aid for Trade and the Structural Adjustment Programs during the 1980’s in that both attempt to avoid altogether the question of compensation for the losses caused by trade liberalization. Finally this piece discusses its concerns and potentials.

1. A Framework for Aid for Trade

This piece mainly refers to economic rationales for Aid for Trade in order to clarify the possible contents and scope of Aid for Trade programs. As discussed below, economic rationales are directly related to concrete contents of Aid for Trade. Therefore, it is more important to explain economic rationales for Aid for Trade in this piece. On the other hand, there are other relevant types of rationales, including political and moral rationales. Political and moral rationales are briefly discussed and summarized below (See Table 1).

1-1. Political and Moral Rationales

**Political Rationales**

Some analysts argue that Aid for Trade has been used as an instrument to “buy” progress in the Doha Round. For example, according to Stiglitz, Hufbauer regards Aid for Trade as “your (rich countries’) normal negotiating side payment” in order for the Doha Round package to achieve the Pareto improvement for all developing countries. This political rationale is regarded as “Bargaining Chip” of developed countries.

The second political rationale for Aid for Trade is shaping LDCs’ positive perceptions of economic integration by international economic institutions. I call this political rationale as “Shaping Positive Perceptions of Economic Integration”. Prowse argues that “providing sizeable assistance has historically been of considerable importance in helping persuade countries to adopt more democratic, open market oriented systems.”

Finally, advocacy or slogan might be the third political rationale for Aid for Trade. I also call this rationale as “Advocacy or Slogan”. There are two levels in this rationale: 1) domestic level; and 2) global level. Firstly, this rationale is related to the political economy of domestic policies. It is difficult for developing countries’ governments to undertake trade-policy reforms that benefit them in the long term. Nielson argues that these governments are more likely to choose policy courses which are related to education or health issues. According to Lamy, the WTO can play an important advocacy role in encouraging the trade and finance ministers and their officials in developing countries to incorporate
Table 1

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<th>Political Rationales</th>
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<td>1. Bargaining Chip</td>
<td>1. Duties</td>
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<td>To facilitate negotiations at the WTO</td>
<td>To mitigate the negative impacts of trading rules and to make compensation protection</td>
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<td>2. Positive Perception</td>
<td>2. Fairness</td>
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<td>To shape a developing countries’ positive perception of international economic integration</td>
<td>To provide redistributive mechanism Different principles at the global level</td>
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<td>3. Advocacy or Slogan</td>
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<td>1) To prioritize trade policies in developing countries Political economy of developing country (at the domestic level) 2) To meet MDGs (at the global level)</td>
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trade and development agenda into their national development programs.\(^{10}\)

At the global level, more aid is immediately needed from the international community so as to meet the Millennium Development Goals (MDGs) by 2015. Until now, the amount of aid per year is insufficient. Sachs estimates that the cost of achieving the MDGs should be at $50–$70 billion extra per year now and increase to $195 billion in 2015.\(^{11}\) Therefore we might assume it is particularly important to advocate Aid for Trade as a slogan to meet the MDGs goals.

**Moral Rationales**

When considering the possible moral arguments for undertaking an Aid for Trade program there seem to be two basic moral rationales for Aid for Trade. The first is related to duties owned by developed countries while the second relates to fairness.

Regarding duties, Pogge emphasizes that global factors have strong influences on domestic problems, such as oppression or corruption in poor countries. In line with this basic argument, Pogge mentions the impact of global trading rules on the evolution of the international distribution of per capita GDP. According to him, “affluent societies are not merely helping too little, but also harming too much: by imposing a global institutional order under which, foreseably and avoidably, nearly half of humankind are still living in abject poverty and about one-third of all human deaths are still from poverty-related causes.”\(^{12}\)

Furthermore, Pogge insists on a negative duty, which does not harm others by cooperating with a system that imposes upon them an institutional order that produces anticipated and avoidable human rights deficits.\(^{13}\) He contends that each of us can avoid harming others by making compensating protection.\(^{14}\) Therefore, in the context of global trading rules, developed countries should owe duties to provide Aid for Trade so as to mitigate the negative impacts of trading rules, in other words, so as to avoid harming others due to those rules they themselves benefit from.

In contrast to Pogge’s focus on duties, fairness is the central concept behind Garcia’s approach. Rawls’s *A Theory of Justice* strongly affects Garcia’s thinking.\(^{15}\) Firstly, he regards nation-states as individuals as suggested by Rawls’s theory. Garcia starts from Rawls’s argument about inequality in natural endowment or social inequality and mentions “a veil of ignorance.” Following that, he argues smaller economies’ situations shall be improved through social institutions such as international economic law. Therefore, he strongly supports and regards the special and differential treatments and technical assistance as Rawls’s difference principles at the international level. For Garcia, Aid for Trade can be difference principles, which require a mechanism of redistribution at the global level.
1-2. Economic Rationales

Economic rationales provide a general framework within which to clarify the contents and scope of Aid for Trade, since the economic rationales are directly related to the terms and contents written into Aid for Trade programs.

To understand these economic rationales for Aid for Trade we have to differentiate between two distinctly different types of economic rationales. One type tries to maximize the benefits of trade liberalization, whereas the other attempts to minimize its costs. The former aims to remove the obstacles to liberalization, while the latter tries to compensate for the losses from trade liberalization (See Table 2). It is important to differentiate between these two aims because discussions regarding Aid for Trade often ignore minimizing the costs of liberalization and consider Aid for Trade only as it pertains to increasing integration and liberalization. In order for constructive decisions to be made about the future of Aid for Trade programs, both objectives need to be discussed and fully understood. Presently there is not a complete understanding of why cost minimization is an important topic.16

Economic Rationales: Maximizing the Benefits from Trade Liberalization

Regarding the first type of economic rationale for maximizing the benefits of trade liberalization, we say this approach relates to a supply-side constraint problem of developing countries. In fact, market access on its own is not sufficient to bring the benefits of trade to developing countries. Developing countries, particularly the Less Developed Countries (LDCs) are often unable to take advantage of new trade opportunities due to their limited supply-side capacity.

According to Stiglitz, there are three types of assistance to build the supply-side capacity of developing countries: technical assistance for implementation of WTO rules; trade-related infrastructure; and enterprise development.17

Technical Assistance for Implementation of WTO rules

The purpose of technical assistance for implementation of WTO rules is to help developing countries participate in or integrate into the multilateral trading system, the WTO.18 In developing countries, trade policy capacity is limited. They do not possess enough staff, finances, knowledge or depth of skills to pursue their interests in trade negotiations. They do not have sufficient knowledge and skill to implement WTO related policy within their own countries and it takes legal expertise to enforce the rules and regulations they make.

Creating even more problems for developing countries were the terms of the Uruguay Round (1986–1994) outcomes. After these negotiations developing countries owed unprecedented obligations not only to reduce trade barriers, but also to conduct reforms both on trade procedures, such as customs valuation, and areas of regulations, such as intellectual property law.19 This leads to the situation where each developing country has to spend a significant amount of money. For just three of the WTO agreements,20 each developing country has to spend $130 million, which is more than the annual development budget for seven of the twelve LDCs.21

Jordan is one country that has been given aid designed to improve their capacity to implement WTO regulations. Jordan had faced enforcement difficulties regarding intellectual property rights (IPR), prior to joining the WTO in 2000. USAID and the U.S. Patent and Trademark Office worked with the Jordan Intellectual Property Association to improve enforcement of IPR in Jordan.22 As a result, Jordan drafted legislation to join international agreements on patent and trademark registration.23 Also the U.S. provided support for public seminars to improve copyright awareness and strengthen enforcement. The number of copyright case referred to the courts has increased sharply due to the assistance from the U.S.24
**Trade-Related Infrastructure**

The purpose of trade-related infrastructure aid is to assist with the identification of infrastructure bottlenecks and financing infrastructure projects. Improved market access without the capacity and transportation to sell is not of much use. The conditions of transportation such as roads, railways, ports or airports affect the export competitiveness of developing countries. Indeed, according to UNCTAD, international transport costs for imports of landlocked African countries account for an average of 20.7% of the value of imports, compared to the world average of 5.1%. 25

Examples of major trade-related infrastructure projects can be found while considering United States aid programs in Africa. The U.S. has supported projects including the rehabilitation of Nigeria’s transport facilities and Mozambique’s railroad system. 26 The U.S. extended assistance to modernize the international airport in Nigeria and upgrade its aviation system. 27 In Mozambique, USAID also supported the restructuring and privatization of Mozambique’s three main railroads which link Swaziland, South Africa, Zimbabwe and Malawi to the country’s Indian Ocean ports. 28

**Enterprise Development**

Enterprise development is a term for those programs which intend to help private sector enterprises to trade while also supporting the creation of a favorable business climate. Although public sector infrastructure is important, enhancing the capacity of private sector is also necessary in order for companies to do a better job in taking advantage of export opportunities. The importance of engaging the private sectors with Aid for Trade has been particularly insisted upon by the EU. 29 Aid that is related to, investment promotions, public-private sector networking, e-commerce, or trade finance initiatives could be considered to be aid for enterprise development.

One EU project that was clearly an instance of enterprise development involved Kenya. In this example the EU indicated that aid for a banking system for peripheral areas that could operate though mobile phones in Kenya and was developed by Vodafone is a good example of aid for enterprise development. 30

**Economic Rationales: Minimizing the Costs of Trade Liberalization**

Trade liberalization creates winners and losers both at the global and domestic level, even though it might ensure economic growth in general. Hence, minimizing the costs of trade liberalization, particularly costs assumed by the losers, could be one of the economic rationales for Aid for Trade. At the global level, the costs of trade liberalization includes three major categories of losses; 1) preference erosion; 2) difficulties facing net food importing countries; and 3) fiscal losses. Through Aid for Trade it might be possible to conduct income transfers from WTO members to the previous beneficiary countries, which can no longer expect preferential tariff rates and have to face new competition coming from all WTO members. Income transfers could also be provided for net food importing countries, which become dependant on cheap food imports from developed countries, such as the U.S.

At the domestic level, providing a social safety net for unemployed people who increased in number through trade liberalization could be an issue that is related to minimizing the costs. When tariffs are reduced, import-competing firms might reduce their production, causing their workers to lie idle for a period. 31 In developing countries, social safety nets are not well organized despite their necessity for those laid-off workers. This kind of compensation has been provided to losers in developed countries, such as the U.S. through the Trade Adjustment Assistance. This provides direct compensation to workers from industries injured by trade liberalization. Compensation includes low interest rate loans for firms and occupational training for workers who lose their jobs. 32

Since it is very controversial and still unclear whether compensation type aid should be included in the name of Aid for Trade, it might be a first step to ask the question: do we really need compensation through Aid for Trade in the face of losses or losers from trade liberalization? In addition, to answering this question, it is important to consider this
question in the specific context by comparing both the benefits and costs created by trade liberalization. Regarding the compensation aid for losers at the domestic level, it is also crucial to take into account developing countries’ domestic economic structure and the Structural Adjustment Programs (SAPs) which did not provide enough social safety nets type aid during the 80’s. Moral rationales for Aid for Trade are also relevant when considering this idea of social safety nets. The importance of compensating the losers from trade is a moral issue as much as it is economic.

Preference Erosion

There are some fears among the preference beneficiary countries that the overall reductions in MFN tariff rates through trade liberalization might reduce the special benefits of preference tariff rates, which are lower than MFN tariff rates. In the face of preference erosion, the LDCs, which tend to receive zero tariff rates, are most likely to suffer. Therefore, Aid for Trade might or can be used in order to compensate the losses of former beneficiary developing countries, particularly LDCs. However, most research indicates that the average effect of preference erosion on LDCs is likely to be small and there are more benefits from reductions in MFN tariff rates. Therefore, it is controversial to include the losses by preference erosion into Aid for Trade.

Net Food Importing Countries

The reduction in domestic support and export subsidies for agricultural products in developed countries would impact other countries, particularly the net food importing countries and its consumers, due to high international prices led by the reduction. Middle East, North Africa and small island economies would be hurt by liberalization. However, at the same time, these costs should be considered in the context of the benefits from trade liberalization of agricultural products. Therefore, we might assume it is also controversial whether to include these losses of net food importing countries into Aid for Trade.

In fact, aid relating to preference erosion and NFIC has been provided by the Trade Integration Mechanism (TIM) of the IMF. The TIM is available in the context of regular Fund arrangements to provide added financial assurance where members are concerned about potential balance of payments problems as a result of trade liberalization by other countries. This additional assurance is not limited a priori, subject to the overall maximum access limits of the underlying Fund arrangements, but must be commensurate with the expected size of the shock and appropriate adjustment. Bangladesh and the Dominican Republic received an aggregate amount of $180 million under this mechanism.

Fiscal Losses

In developing countries, trade taxes account for between one-quarter and one-third of total tax revenues. Of course, governments can attempt to replace lost tariff revenues with other sources, but this might require high associated costs. By contrast, developed countries are by and large immune from this problem since in developed countries trade taxes account for less than 10%. As a result, developing countries are likely to suffer either a loss of tax revenue or administrative costs for reforming the taxation system.

The IMF has been providing assistance to member countries with the redesign of tax system in the face of tariff revenues loss and with customs administration reform and modernization.

In addition, the IMF and World Bank are now trying to establish a new fund to address specific adjustment costs arising from trade liberalization. This fund is for preference erosion but also for other adjustment issues, such as fiscal losses.
Social Safety Nets

At the domestic level, the trade liberalization also brings about winners and losers. This situation is more severe in developing countries than in developed countries, since social safety nets are not well organized and supported in developing countries. First, most industry in developing countries is concentrated on just a few select industries. Under this kind of situation the costs of adjustment might be large since the laid-off workers from primary industry cannot be absorbed into other employment. Secondly, adjustment costs might be also exacerbated in poor areas because of limited access to credit. The laid-off workers cannot find funds to sustain themselves until they can find a new job. Thirdly, in developing countries unemployment rates tend to be high. As a result, individuals in those countries spend longer times unemployed compared with unemployed individuals in developed countries.

Finally, there has been a lack of political will to address the needs of social safety nets and a lack of related aid coming from international society. This trend was particularly obvious under the SAPs during the 80’s. The SAPs encouraged recipient countries to conduct privatization and trade liberalization. It overestimated the market mechanism and underestimated the social consequences of its programs.

1–3. The Contents and Scope of the Doha Agenda

Table 2 summarizes the contents and scope of Aid for Trade. According to the Hong Kong Ministerial Declaration, “Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.” Therefore, the scope of Aid for Trade covers aid which helps to build up the supply-side capacity and trade-related infrastructure, while aid for minimizing the costs of trade liberalization is not covered in this declaration.

On the other hand, Annex F on Special Differential Treatment states that all donors and relevant international institutions are urged to “assist those (LDCs) in managing their adjustment processes, including those necessary to face the results of MFN multilateral trade liberalization.” In addition, the recommendation from the Aid for Trade Task Force refers to aid for trade-related adjustment. It mentions that this type of aid should be reported as Aid for Trade when these activities have been explicitly identified in the recipient country’s national strategies. Therefore, it is still unclear whether adjustment cost type aid is covered under the current agenda in the name of Aid for Trade, although there might be a possibility that this type of aid would be provided, and it would first be provided to the LDCs.

Overall, based on the current agenda, Aid for Trade clearly covers technical assistance and trade-related infrastructure type of aid. The history of Aid for Trade shows that technical assistance type of aid has been already
delivered by the WTO. At the same time, however, it is important to recognize that Aid for Trade has a process-oriented and expanding character. The scope of Aid for Trade is likely to expand.\(^{(49)}\) In fact, through the programs initiated by the IMF and World Bank, adjustment cost type of aid has been already provided under the name of Aid for Trade.\(^{(49)}\) Moreover, at the WTO, many LDC countries suggest that aid for Trade should not only be seen from the trade perspective, but also from the development perspective.\(^{(50)}\)

2. Aid for Trade from Donor Countries’ Perspectives

2–1. Aid for Trade by Japan

In 2005, Japan made its own financial pledge in the name of the Development Initiative. In fact, before this initiative Japan had already planned technical assistance programs which would aim to facilitate the implementation of WTO agreements by developing countries and to improve the abilities of developing countries to participate in trade negotiations. Under these programs Japan has held regional seminars regarding each sector of WTO agreements and delivered specialists to developing countries.\(^{(51)}\) Moreover, since 2001, Japan has provided about 4 million yen to the Global Trust Fund at the WTO for technical assistance.\(^{(52)}\) Also, through bilateral assistance, Japan has provided 1200 assistances for trade-related technical assistance and capacity-building every year.\(^{(53)}\)

With regard to Development Initiative, Japan pledged $10 billion in assistance over a three-year period on production, transportation, distribution, infrastructure, export and marketing. Additionally, Japan will support the exchange of more than ten thousand trainees and specialists in total during the same period. The main objective is “to help developing countries develop their capacity to export, thereby obtaining a fair share of the benefit of the free trade system.”\(^{(54)}\) As a unique aspect of this initiative, the announcement stated “the attempt to link farmers, fishermen, and workers of small and medium-sized enterprises in developing countries with consumers of Japan.”\(^{(55)}\) Also, the Japanese government has stated that the Development Initiative “significantly improves access to the Japanese market for LDCs through duty free, quota free measures.”\(^{(56)}\)

Applying the framework as proposed above, Aid for Trade by Japan covers at least technical assistance type aid and aid for trade-related infrastructures. The Development Initiative also covers a unique aid for market access in Japan. It supports the job of selling goods from LDCs in Japan. This type of aid might be covered by the general framework of Aid for Trade in the category of enterprise development for small producers in developing countries. On the other hand, aid for minimizing the costs of trade liberalization is not covered by Japanese initiatives.

2–2. Aid for Trade by the EU

The EU is collectively the biggest donor in the field of trade-related assistance.\(^{(57)}\) Since 2001, the actual average EU commitment for trade-related assistance (not including infrastructure) has been above 700 million euros per year.\(^{(58)}\) In December 2005, the EU announced its commitment to provide 1 billion euros a year in trade-related assistance from 2010. It matches the 1 billion euros per year from 2007 pledged by the European Commission at the Gleneagles summit in 2005.\(^{(59)}\) It means that total EU trade-related assistance would rise to 2 billion euros from 2010.\(^{(60)}\)

As the announcement shows, in 2005, the EU emphasized that these packages do not include existing funding for African infrastructure, such as roads, energy and water. These new trade-related assistance packages are to be offered in additional to this support for Africa.\(^{(61)}\) The EU tried to separate trade-related assistance from general aid for infrastructure in order to emphasize its character of additionality.

The EU identifies that trade-related assistance consists of two categories: 1) “trade policy and regulation”; and 2) “trade development.”\(^{(62)}\) The first refers to “support for the effective participation of developing countries in multilateral trade negotiations, analysis and implementation of multilateral trade agreements, trade-related legislation and regulatory
reforms, tariff structure, support to regional trade arrangements, trade facilitation, including customs regimes and equipment, and issues such as security of the supply chain.

The second covers "business development and activities aimed at improving the business climate, business support services and institutions, access to trade finance, trade promotion and market development in the productive and services sectors, including at the institutional and enterprise level.

Applying the framework which proposed above, we might assume that Aid for Trade by the EU definitely covers technical assistance type aid. It also covers aid for enterprise development and might include aid for trade-related infrastructure, although the amount of money they spent for these types of aid depends on the categories they created for these types of aid. At present, aid for minimizing the costs of trade liberalization is not covered by Aid for Trade packages by the EU, but in future there is a possibility that it will be covered by EU packages, particularly for support in order to allow countries to make fiscal reforms.

2-3. Aid for Trade by the U. S.

The U.S. is the largest single-country donor of trade capacity building assistance. In 2003, total U.S. funding for trade capacity building activities was $752 million, up from $369 million in 1999.

Trade capacity building assistance by the U.S. fall into two categories: 1) assistance related to participation in and implementation of the WTO Technical Assistance Plan and regional trade arrangements; and 2) assistance that address supply-side obstacles and helps developing countries create conditions conducive to open trade and respond effectively to the opportunities created by trade liberalization.

With regard to the former assistance, the U.S. continues its support of WTO technical assistance through the Global Trust Fund and International Trade Center. In addition, the U.S. provides the former assistance at the regional level, such as to sub-Saharan African countries or also at the bilateral level. As for assistance through the International Trade Center, the U.S., over the three-year period 1999–2001, has provided $69.7 million in support of regional planning and development, transportation networks, mainly road and aviation, and telecommunication design. Also, the U.S. supports aid for business development, such as helping build up a well-regulated finance and banking systems.

Aid for Trade by the U.S. covers much broader ranges of issues than that by Japan or the EU. U.S. Aid for Trade policy also covers aid for environment and labor issues within the scope of its program. The U.S. assistance helps developing countries achieve high level of domestic environmental protection or enforce domestic environmental laws and regulations. It helps them strengthen the protection of worker rights and eliminate the exploitation of child laborers.

However, Aid for Trade by the U.S. does not cover the compensatory type aid. Applying the general framework, we might assume that it covers all types of aid for maximizing the benefits of trade liberalization, but does not cover aid for minimizing the costs of trade liberalization. On the other hand, its scope includes aid related to environmental or labor issue, which is outside of the general framework mentioned above.

2-4. Summary

Table 3 summarizes Aid for Trade from the perspective of each donor country. From this table, we see that Aid for Trade has a process-oriented and expanding character, since the EU tries to cover aid for fiscal losses in future and the U.S. has already provided aid for environmental and labor issues in the name of trade capacity building or Aid for Trade. In addition, compared to the current agenda at the WTO (See Table 2), every donor definitely provides aid for enterprise development in the name of Aid for Trade.

The contents and scope of Aid for Trade clearly varies across the donor countries. However, in general, every donor country covers aid for maximizing the benefits of trade liberalization, while does not cover aid for minimizing the costs
of trade liberalization. The latter type of aid, particularly at the global level, is or will be provided by the international organizations such as the IMF and World Bank (See Table 2), but not by each donor country.

3. Problems with Aid for Trade by Donor Countries

There are three main problems with the Aid for Trade as provided by the donor countries. The first problem is the arbitrary contents and scope of Aid for Trade. The second problem is the linkage between the Free Trade Agreement (FTA) or Economic Partnership Agreement (EPA) and Aid for Trade. Lastly, there are similarities between Aid for Trade and the SAPs during the 80’s.

3-1. Arbitrary Contents and Scope of Aid for Trade

Firstly, due to the arbitrary problem, the amount of money they provide could be changeable. For example, capacity building assistance, or Aid for Trade, by the U.S. covers aid for environmental or labor issues whereas trade-related assistance or Aid for Trade, by Japan does not cover that type of aid. This leads to the situation where we can not compare the money provided by each donor country and donor countries can arbitrary calculate the amount of aid they have given. Considering the political rationales for Aid for Trade, particularly ‘bargaining chip’ rationale, this problem might lead to a situation where developing countries would not calculate its future aid properly and just give trade concessions to developed countries. A unified temporary definition of Aid for Trade is needed.

Secondly, if Aid for Trade expands, we might not differentiate general aid for development, such as aid for education, from Aid for Trade as such. It is important to see Aid for Trade from the perspective of development concerns but it is also important to avoid the situation where general aid for development is just renamed or relabeled to Aid for Trade. Therefore, a unified definition of Aid for Trade is also needed in this regard.

Thirdly, donor countries provide aid from their political interests in the name of Aid for Trade. The U.S. case reveals this character clearly, since the scope of Aid for Trade by the U.S. is broad and the U.S. clearly covers aid for the environmental or labor issues as trade-related aid or Aid for Trade. From my perspective, in future, Aid for Trade regarding these issues can be an excuse or a justification for the U.S. to apply trade-related environment or labor

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<th>Economic Rationales for Aid for Trade</th>
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<td>Trade-Related Infra.</td>
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<td>Other Rationales</td>
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<td>Aid for environmental and labor issues.</td>
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measures, which prohibits certain imports from developing countries, on the ground that the products from those countries still do not meet certain standards for environmental or labor protection in spite of aid from the U.S. The meaning is that the U.S. can ban imports on the grounds of environment and labor concerns so long as they first make an effort to improve the situation that create those concerns. In fact, the U.S. government has been requiring higher environment or labor standards to developing countries as a way of protecting its own domestic industries.  

Finally, considering the history of aid given and the donor countries’ approach to offering Aid for Trade, it is clear that donor countries provide aid which maximizes the benefits of trade liberalization, but they do not currently provide aid which minimizes its costs. Realizing this limited focus of Aid for Trade programs by donor countries, there must be an assessment done of the benefits being gained from Aid for Trade within the current context. Who is benefiting after all? It is obvious that Aid for Trade benefits donor countries themselves so as to facilitate the global economic integration of developing countries. As developing countries integrate into the global economic system, the donor countries can expect to see new markets for their exports, better regulatory regimes in the developing countries to protect their export products and in general more opportunities for trade and investment.

While the benefits for the donor countries are clear. How and if the recipient countries will benefit remains a controversial issue. For example, Aid for Trade given in the form of technical assistance for the implementation of WTO rules facilitates domestic regulation reforms in developing countries. While these reforms cost a significant amount for developing countries, it is not certain whether or not these reforms will foster beneficial results for developing countries, since each developed country seems to demand these reforms to be done in “my way”. Even worse, there are situations where the introduction of all the rules and regulations imposed by the WTO on its members might actually require a developing country to take action that works against its own development plan and path. For example, implementing the TRIPS agreement sometimes works against development, since this agreement results in the denial of access to cheap medicine for many impoverished people in developing countries.

3-2. Relationship between Aid for Trade and FTAs or EPAs

With regard to the second problem, Aid for Trade is not just a tool for facilitating to negotiations at the WTO as a “bargaining chip”, but also a tool for enhancing the agreements reached in FTAs or EPAs. Donor countries particularly focus on providing Aid for Trade to the regions where they have interests so as to reach the FTA or EPA easily. For example, since 2002, Japan has started a series of workshops in APEC region on the implementation of the WTO agreements such as TBT, AD/CVD and GATS. The EU declares that specific attention to the Aid for Trade needs related to the ongoing negotiations of EPAs with ACP countries. As for the U.S., during the Dominican Republic-Central America-United States Free Trade Agreement negotiations, a separate Trade Capacity Building Working Group met for the first time in the parallel with the negotiating groups.

From this phenomenon, Aid for Trade by donor countries is relevant to donors’ economic or political interests. Once donor countries find any interest or potential for future FTAs or EPAs, they are willing to provide Aid for Trade in order to promote the bilateral trade liberalization. If they do not find any interest or potential, in general there is no incentive to provide Aid for Trade at the bilateral level. Therefore, in the face of the stagnation at the WTO, ”facilitating FTAs or EPAs” might be considered as one of political rationales for Aid for Trade and might be added to the categories discussed above, although in order to support this argument, more research should be needed.

Furthermore, there is a possibility that the linkage between Aid for Trade and FTAs or EPAs would make the recipient country situation worse. The case of the JEPa (the Economic Partnership Agreement between Japan and the Philippines) shows this aspect. Technical cooperation through the official development assistance (ODA) is one of the pillars of this agreement.
Indeed, compared to human development aid, such as health, education or housing, the share of the ODA between these countries for economic components, such as trade-related infrastructure, has been increasing from 50% to 67% during the 2001–2006 periods. At the same period, the share of the ODA accorded in the form of loans has also increased and the share is 84%. In future, the Philippines, as a recipient country, has to service its debt owning to the technical cooperation through this new relationship with Japan. In addition, the eliminations of tariff would decrease its tariff revenues. The Philippines has been already suffering from its balance of payment deficits. Therefore, the linkage between Aid for Trade and FTAs or EPAs would put the recipient country in a more difficult position. Dependency of recipient country on donor country also would increase.

3–3. Similarities with the SAPs

As mentioned above, the present Aid for Trade by donor countries still does not cover the compensation type aid. Particularly at the domestic level, losers from trade liberalization will not be compensated by Aid for Trade. Even Aid for Trade led by the international cooperation among the international organizations does not provide this kind of aid to losers within countries.

Indeed, supports for domestic losers from trade liberalization have been purely domestic issues. Each country creates its own policy to deal with those that suffer from trade liberalization. For example, the U.S., through the Trade Adjustment Assistance, provides direct compensation to injured workers and industries of trade liberalization, including low interest rate loans for firms or occupational training for losers.

On the other hand, the lack of aid for losers from trade liberalization implies that Aid for Trade might cause similar problems as were introduced by the structural adjustment programs during the 1980’s. The SAPs initiated by the World Bank and IMF required privatization or trade liberalization as conditionality for lending. This was generally based on market-oriented economic theory. It did not put an emphasis on the social safety net issues, since it desired to reduce government intervention as much as possible.

Of course, there are some differences between Aid for Trade and the SAPs. For example, Aid for Trade led by international cooperation, such as Integrated Framework, emphasizes the importance of ownership of recipient country. Also, this framework tries to integrate the plan of action into the national development plan, such as the Poverty Reduction Strategy Process (PRSP). In addition, Aid for Trade by the EU mentions the importance of social adjustment.

Therefore, this piece just points out some similarities between Aid for Trade and the SAPs. It is important to avoid the situations led by the SAPs and to address the difficulties of losers of trade liberalization in some ways.

4. Conclusion

The discussion presented here only touches on the surface of the basic problems behind the Aid for Trade programs currently being offered by donors. By starting to assess the current situation and the rationales behind it, there will be more possibility for constructive debate in the future. There are a range of extremely important issues that need to be thought about carefully in order to ensure that the Aid for Trade programs of the future are actually benefiting the recipient countries and their citizens. In order to achieve this goal, we need to question even commonly accepted assumptions. As it stands today the basic aim of Aid for Trade is the economic integration of developing countries, which assumes that trade liberalization between developed and developing countries will benefit the developing countries. In fact, there is a possibility that this economic integration would just fix each country’s role of world trade and it would not allow dynamic benefits to developing countries, particularly LDCs, from trade.

There must also be more serious thought put into who is actually trading within the current global economic
context. Nowadays, intra-company trade is increasing. In fact, a 1999 report shows that the share of intra-company trade in total exports and imports of domestic parent companies has been on the rise, with exports to overseas subsidiaries gaining 1.2 points on the previous year from 45.5% to 46.7% and imports from overseas subsidiaries rising 4.6 points from 33.2% to 37.8%.\textsuperscript{3)} Intra-company trade clearly benefits transnational corporations, but whether the welfare gains created by such trade accrue to the economies of developing world is far from certain. There is a risk that the present Aid for Trade will only facilitate intra-company trade. However, the challenge by the Japanese government might encourage alternative trade between small producers in developing countries and consumers in Japan. This piece does not deal with this aspect in detail, but it is necessary to address this problem in future.

These potential problems and weaknesses of Aid for Trade do not suggest that the program is not necessary. What is implied that more thought and consideration needs to be put into why these programs exist and how they can be better defined and refined in order to make them more effective in achieving their goals. The ideas presented here intend simply to show the gap between the moral ideas that gave rise to Aid for Trade and the practice by donor countries today. Understanding why the donor countries offer aid in the way they do and the rationales that support the types of aid they do offer will begin a debate on what the future of Aid for Trade should be.

Returning to the compensation type aid, the moral rationales for Aid for Trade, such as duties or fairness, are related. The current implementations of Aid for Trade clearly act against the basic ideas that provide the foundation behind the moral arguments. Basically, Aid for Trade has failed to mitigate the negative impacts of the trading system from which poor people in developing countries suffer. In addition, these programs do not seem to assure or even increase fairness between developed and developing countries. After all there are still no programs providing compensation type aid, particularly for\textit{ domestic losers}. There are some limited efforts by some international organizations, such as the IMF, to start providing aid to compensate loser countries at the global level in the name of Aid for Trade, but no such efforts have been decided upon or even seriously considered through Aid for Trade and within the WTO.

If Aid for Trade is ever going to become a program that truly can improve the situations of the impoverished countries of this world, the focus needs to be reevaluated and the effects reconsidered. Otherwise Aid for Trade will remain only a compliment to the global economic system which is so clearly unequal and unfair.

Notes

1) WT/AFT/1, Recommendations of the Task Force on Aid for Trade.
2) WT/AFT/W/12, Communication from Colombia, Ecuador and Peru.
3) WT/AFT/W/3, Communication from the International Trade Center.
4) WT/AFT/W/22, Communication from Zambia on behalf of the LDC Group.
5) WT/AFT/W/10, Communication from Brazil.
7) \textit{Ibid}.
14) \textit{Ibid}.
16) WT/AFT/W/21, Communication from the African Group, WT/AFT/W/22, Communication from the Zambia on behalf of LDC Group.
18) Ibid.
20) These are agreements related to customs valuation, sanitary and phytosanitary standards, and intellectual property rights.
22) USAID 2005: 11.
23) Ibid.
24) Ibid.
26) USAID 2003: 30.
27) Ibid.
28) Ibid.
29) WT/AFT/W/14, Communication from the European Communities and its Member States.
30) Ibid.
35) Tokarick 2005: 3.
36) WT/AFT/W/4, Communication from the International Monetary Fund.
37) Ibid.
38) Ibid.
39) See supra. footnote 34.
41) Ibid.
43) Ibid.
44) Ibid.
45) The Hong Kong Declaration: Para. 57.
46) WT/AFT/1, Recommendation of the Task Force on Aid for Trade.
47) Ibid.
48) OECD 2006.
49) WT/AFT/W/4, Communication from the IMF.
50) WT/AFT/W/22, Communication from LDC Group.
51) ODA Hakusho 2006.
52) Ibid.
53) Ibid.
55) Ibid., 2.
56) Ibid.
57) Background note — EU Aid for Trade, MEMO/05/238, 07/06/2005.
58) Ibid.
60) Ibid.
61) Ibid.
63) Ibid.
64) Ibid.
65) Ibid.
66) Ibid.
67) USAID 2003.
68) Ibid.
69) USAID 2005.
70) Ibid.
71) Ibid.
72) Ibid.
73) Basu 1999: 82.
74) Finger and Schuler, 1999: 27.
76) Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, COM (2007) 163 final.
78) From the presentation by Prof. Eduardo Tadem at a Roundtable Forum of the JPEPA held at the Philippine Senate on August 14, 2007.
79) Ibid.
82) See supra. footnote 62.

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[WTO Documents]

WT/AFT/1, Recommendations of the Task Force on Aid for Trade.

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