



## **Enabling Developing Countries to Participate in International Trade Strengthening the supply capacity**

### **A UNIDO Strategy for capacity building**

#### **I. The issue**

##### ***Despite improving access conditions .....***

In recent years trade has occupied center-stage in the international development dialogue. This owes much to the Uruguay Round trade agreements signed in 1994 by most developing countries. Much attention in the area of trade in goods continues to be focused on the reduction of tariffs and quota. This is clearly in the interest of both developed countries and developing countries. One case in point is the recent high-profile EU “everything but arms” initiative, under which all imports from LDCs into the EU will be tariff free (except arms and with delay for some other products). In general, potential benefits for developing countries of such market opening measures are expected to be massive. A 50 per cent worldwide reduction in barriers to trade would entail potential welfare gains for developing countries of over \$100 billion per year (IMF, 2000). Additional export earnings by developing countries in textiles, clothing and other labor-intensive products alone might well exceed \$500 billion if advanced industrial countries open up their markets (UNCTAD, 2000).

An exclusive focus on tariffs and quotas, however would be hard to justify after the many years long experience of the Yaounde, Lome and Cotonou conventions as well as other international concessions. These have resulted in rather limited levels of additional developing country exports, and as a consequence, have had rather limited development impact. It should be evident that the (theoretical) market access is not the only requirement for increased participation of developing countries in world trade. There is no doubt that duty-, tariff- and quota free access of developing country products to developed country markets can contribute to the development efforts of these countries. However access to markets, albeit a precondition for increased trade, is obviously *not* sufficient.

##### ***... a limited supply response from LDCs due to a lack of productive capacity....***

In reaction to the European Union “everything but arms” initiative, the UN Secretary General noted: “... the LDCs have neither the surplus of exportable products nor the production capacity to take immediate advantage of new trade opportunities. They will need substantial investment and technical assistance in order to expand their production” (Financial Times of 5 March 2001). If this condition is not met, most targeted countries simply will not be able to reap the opportunities stemming from developed country market opening and will therefore miss out on the resulting benefits.

##### ***... and countries' inability to comply with international standards and requirements.***

In addition to constraints in supply capacity, there is a second major problem that is not receiving the attention it deserves. Even where supply capacity is in place or could be expanded rapidly, or where products are available, there are problems with actually selling into the international markets. Products have to comply with a myriad of technical standards, health and safety requirements and regulations etc. set by the importing markets. These standards and regulations often lend themselves to discretionary enforcement by potentially importing countries amounting to effectively restricting market entry, despite the absence of tariffs and quota. Even when applied properly, they pose a major problem, as it is de-facto the responsibility of the seller to demonstrate that the products satisfy applicable requirements.

The complexity and extent of this problem is demonstrated by the fact that the worldwide stock of standards and technical regulations is well above 100,000, and that this number is growing rapidly (OECD TD/TC/WP (98) 36/FINAL of February 1999). While there is no doubt that standards and technical regulations provide many important advantages to producers and consumers, both in domestic and export markets, and that they will continue to gain in importance, it is also clear that in many cases they have become a real hurdle to increasing developing country exports. Large scale and well-coordinated assistance to build up the capabilities and capacities to conform to these requirements is needed on an urgent basis if trade liberalization is to have its intended impact on these countries.

Important progress has been made in the area of standards and regulations through the Technical Barriers to Trade (TBT) Agreement and the Agreement on the Application of Sanitary and Phyto-sanitary Standards (SPS), both negotiated as part of the Uruguay round. These agreements were meant "...to ensure that technical regulations and standards do not create unnecessary obstacles to trade..."(Preamble to the TBT Agreement). However, in spite of these agreements, it is apparent that the importance of standards and technical regulations has been growing, and can be expected to grow, *pari passu* with continued market liberalization.

Products aimed at developed country markets have to meet any applicable standards, quality requirements and technical regulations. In addition, the burden of proof that these are met lies with the exporter. The effective implementation of the respective agreements, as well as the increased participation of developing countries in global trade depend therefore on the ability of the signatory countries to fully satisfy such requirements. For this they need the adequate physical and institutional infrastructure as well as the scientific and technological skills and capabilities. Only thus will developing countries be in a position to provide internationally recognized product certification and conformity assessment services to producers and potential exporters as well as to participate in international standards setting activities and organizations. However such capacities are rarely available in developing countries and even less in LDCs. Without these capacities however, any potential benefits of agreements in terms of improved market access or increased transparency and fairness, will be largely lost.

## II. What is needed

### ***Developing countries need to invest, ...***

LDCs' investments required to comply with UR commitments have been estimated to exceed their budget for development for an entire year. (J. Michael Finger and Philip Shuler, Implementation of the UR Commitments: The Development Challenge", The World Economy, April 2000). While this is probably an overestimate, and includes buildings and other facilities that in many cases are already available, it illustrates the nature of the problems involved in effectively complying with the UR agreements. Technical assistance has a key role to play in this context.

### ***... and with the help of developed countries....***

Article 12.7 of the TBT agreement specifically states: "Members shall ....provide technical assistance to developing country Members to ensure that the preparation and application of technical regulations, standards and conformity assessment procedures do not create unnecessary obstacles to the expansion and diversification of exports from developing country Members". A special reference to the LDCs even strengthens this point. Similarly, Article 9 of the SPS agreement states that "Members agree to facilitate the provision of technical assistance to other members, especially developing country Members, either bilaterally or through the appropriate international organizations. Such assistance may be, *inter alia*, in the areas of processing technologies, research and infrastructure, including in the establishment of national regulatory bodies, and may take the form of advice, credits, donations and grants, including for the purpose of seeking technical expertise, training and equipment to allow such countries to adjust to, and comply with, sanitary or phyto-sanitary

measures necessary to achieve the appropriate level of sanitary or phyto-sanitary protection in their export market". However, so far only limited assistance has been provided.

**... establish an infrastructure to comply with agreements and be able to participate in the trading system....**

In order to be able to manage their commitments and participate fruitfully in the global economy, developing country exporters need the following operational capacities:

**A national/regional standards/standardization body:** Standards are essential for production and trade, but also for consumer protection. To ensure international (and national) standards are set in a balanced manner, developing countries need to participate in the development of such standards. Both in order to develop appropriate national as well as to adopt international standards (for instance those issued by ISO), a national standardization body is required. Such national capacity is evidently also required to enable meaningful participation by developing countries in the setting of international standards.

**A national/regional metrology system:** A system that ensures that the measurements and tests required for all production, quality and certification activities are consistent and correct. This includes operational laboratories for primary and secondary physical standards as well as certified reference materials for chemical and microbiological purposes; laboratory capacities for legal and industrial metrology; a framework and system for calibration and materials testing. Legal metrology, the basic function to ensure measures used in the country in daily life in the market place, is a particularly basic function with major importance for consumers, that however in many countries does not exist.

**A certification/conformity assessment system:** A system including internationally recognized testing facilities that are able to test products and certify that products and management/production processes comply with applicable requirements and standards. In international trade, certification for ISO 9000 (evidence of a functional quality management system); ISO 14000 (evidence of a functioning environmental management system) and Hazard Analysis of Critical Control Points (HACCP) are increasingly important pre-requisites. The only current alternative to domestic facilities is to send samples for testing overseas. The heavy cost and time burden on exporters this brings about makes exporting not viable for most medium or small enterprises. The only viable way to address this is to establish testing facilities within the country.

**An accreditation system:** A system which evaluates calibration and testing laboratories and other bodies involved in certification of products, systems and processes, with a view to ensuring that testing facilities and methodologies, and thereby the certification activities satisfy international standards. In order for the national accreditation system to be accepted by international markets, the regional/national accreditation bodies have to obtain recognition by the International Accreditation Forum (IAF) and/or the International Laboratory Accreditation Cooperation (ILAC).

**Technical support and information services:** Given the many and complex requirements, and the quality demands, producers in LDCs are at a loss when it comes to know which standards to be met and how this can be done. They require support services to provide information on applicable standards and product requirements including product specifications, quality standards, packaging, labeling etc., and to assist producers in improving their process and product quality.

**National capacity to implement the WTO agreements:** The recent Doha Ministerial Declaration on Implementation Issues (WTO WT/MIN(01) DEC/17) indicates the existence of serious problems for developing countries in the effective implementation of the WTO agreements including those related to standards and technical regulations. For example one specific commitment, both under both agreements includes the establishment by each member of an "enquiry point" to "answer all reasonable enquiries from other Members and interested parties in other Members" (Article 10.1 of the TBT Agreement, Annex B. point 3 of the SPS Agreement). Only few developing countries have established these.

**Currently**, although some developing countries have part of the requirements in place, in most cases, notably in the LDCs, major parts are missing, and even if services exist, they are usually not recognized internationally, and can therefore not fully assist potential exporters. Furthermore, because of these missing domestic capabilities, developing countries are not able to technically analyze and challenge importing countries claims in relation to exported products. Neither can they identify possible technical solutions to the problem.

**...as well as increase and upgrade their productive capacities.**

Establishing the infrastructure outlined above would obviously not in itself increase exports. Countries also need to ensure that potential exporters have the necessary supply capacity in place, including access to critical support services to enable them to meet export standards and technical requirements and regulations, bringing productivity and competitiveness to international levels and be able to reach export markets.

During the last two years the interest in the subject has increased dramatically – both in developing and donor countries. This was largely prompted by the events surrounding the WTO negotiations with respect to a new round of trade negotiations. Trade, and the contribution it can make to the developing economies figure prominently on the international agenda. Trade related capacity building is frequently mentioned as priority. The final Declaration of the WTO Doha Ministerial meeting -which was warned by the G77 countries about the lack of technical assistance in recent years- in paragraph 41 reiterates the importance of technical assistance: “reaffirms ...the important role of sustainably financed technical assistance and capacity-building programmes”. The New Partnership for African Development (NEPAD) emphasizes the “Market access Initiative” including the diversification and increase of production, competitiveness and related issues, but also quality improvement, standards, technical regulatory frameworks, metrology, testing, accreditation and related capacities.

Unfortunately the focus of the international dialogue is still almost exclusively on capacity building related to the negotiating and trade information aspects. Insufficient attention is paid to the technical infrastructure and capacities required. UNIDO will continue to promote the development of these capacities, as well as undertake promotional work in order to ensure the necessary understanding and appreciation of the issue among member states.

### III. The response

If the global community really means to assist developing countries in achieving a meaningful participation in global trade by 2015, which they need to attain the goals of the Millennium Declaration, a massive technical assistance programme is required, as described in the agreements,

**The overall objective** of this programme is to achieve a considerable increase of actual exports of developing countries.

**UNIDO’s strategy** to contribute to the achievement of the objective consists of a three-pronged coordinated and integrated approach to build up the capacities and exports, combined with a trouble shooting and advisory service:

1. Enable developing countries to rapidly establish the essential quality and conformity assessment infrastructure.
2. Assist selected productive sectors with high export potential to upgrade product and production quality, comply with applicable standards and regulations so that they can export their products successfully.
3. At the request of developing countries provide technical analysis in cases where export products encounter technical barriers, and provide advice on technical

solutions to the problem. As countries build up their own capacities, the demand for these services can be expected to decrease. However during the coming years the demand for this technical analysis and advice is expected to be considerable and increasing.

The combination of establishing the support infrastructure (1 above), and upgrade key export sectors (2 above) is an innovative approach and a key element in the strategy. This integrated approach is expected to ensure a significant trade impact, demonstrate the validity and effectiveness of the approach to donor and developing countries as well as to potential exporters, and, as importantly, develop the actual demand for the services being established. This will allow the generation of fee income for specific services (e.g. certification, calibration or metrology), many of which can be privately provided, and thereby help to ensure their sustainability.

A second important element of the UNIDO strategy is to build on and strengthen **existing regional trade related organizations and arrangements**, and work with the secretariats of such organizations and with any specialized structures at the regional level. This approach has three major advantages. Firstly it allows a more cost effective technical assistance delivery, combining expertise and training for the whole group of countries, and drawing on any resources available from within the region. Secondly it allows some parts of the required support infrastructure to be shared between countries, resulting in important reductions in the cost of establishing the service, but also in the operating cost. Thirdly, the programme can provide a major boost to the regional integration by ensuring compatible standards and regulations, mutual recognition of laboratories and certification, and possibly joint participation in international standards setting activities.

**The UNIDO contribution** consists of four components:

Component 1: Formulate required assistance programme:

- a) Identify precise country/regional level requirements. This should identify which factors inhibit or prevent potential exporters from exporting as well as their economic significance; which are the main actual and potential export (sub)-sectors involved; which facilities and structures required for conformity assessment and quality improvement are already in place; which regional trade related organizations or arrangements apply.
- b) Draw up in close cooperation with the countries, (sub)-regional organisations, donors and other international organisations programmes of assistance to address the requirements. Wherever possible, countries should closely cooperate and pool their capacities at the sub-regional level, while coordinating activities taking place at the national level. Such an inter-country approach would enable major economies of scale, reducing overall financial requirements.

Component 2: Establish or strengthen the quality and conformity assessment capacities as defined in the section II above.

The approach and phasing of this process will vary considerably between countries where conformity assessment support services exist and have been operational on the one hand, and countries where these activities are still to be initiated. However close cooperation at regional level between countries may facilitate early effective

availability of services. One important goal here is to assist developing countries in meeting the requirements to be in a position to reach Mutual Recognition Agreements (MRAs) with other developing countries.

Component 3: Sector-focused productive capacity development, upgrading and quality improvement programmes

At the country level this component would focus on those (sub-) sectors considered to have the highest export potential and/or the highest effective demand for the

conformity assessment and related support services being established under component 2. Intensive technical and managerial upgrading and other export related assistance to sectors and companies that have the ability and intention to export successfully, is explicitly combined with, and builds on the establishment of these conformity assessment services. This approach is expected to ensure effective demand for the quality and export related services, the best stimulus to ensure their effectiveness. An effective combination of the two would evidently also have the highest impact in the short term in terms of increased exports. Sectors most likely included are food products, leather and textiles, all with good (export) potential in LDCs. Technical support will include assistance to selected enterprises in meeting ISO 9000, ISO 14000, HACCP and other relevant international standards, and in improving productivity and competitiveness.

Component 4: Technical analysis and advice related to actual “technical barriers to trade” encountered by developing country exporters.

This component would establish a facility under which, at the request of an exporter and/or the government of an exporting country, UNIDO would provide a technical analysis of products and production processes in cases where exports actually encounter a technical barrier. Based on this analysis advice, and if needed further assistance could be provided to find and implement a technical solution to the problem.

#### **IV. UNIDO’s activities and experience**

UNIDO has been active in the areas of standards, quality and quality improvement, accreditation, metrology and certification since its creation. The main focus has always been on the establishment and development of national capacities in these areas, as well as on specific applications such as food safety and targeted quality improvement activities. In recent years the interest has increased considerably, and most UNIDO integrated programmes developed in 1999-2001 include, at the request of governments and industry, components of the required infrastructure and strengthening of productive capacities and competitiveness. A major programme with the Union Economique et Monétaire Ouest Africaine (UEMOA) funded by the European Commission is under implementation. Similar programmes are under development in cooperation with SADC and ECOWAS. Other preparatory work is being done for the Central American region, the Arab region and the countries of ASEAN. An overview of UNIDO’s recent activities and experience in standards, quality and related areas is available in a separate document.

Similarly UNIDO has extensive experience in working at the sector level, providing various types of technical assistance to export oriented enterprises. Specially relevant are focused upgrading programmes that have been implemented in recent years, assisting sectors with upgrading products and productivity, continuous improvement programmes, application of special software tools etc.

#### **V. Co-operation partners**

The overall approach requires the cooperation with, and involvement of two groups of international actors. On the one hand a number of specialist organizations operate at the global level in areas immediately relevant to the programme like standards, metrology etc. On the other hand, different international organizations, (including UNCTAD, ITC, WTO, FAO, WHO) have mandates and expertise closely related to the programme and complementary to UNIDO. Close cooperation already exists in many cases, and these networks will be developed and formalized further.

**Technical organisations at international or national level.** As UNIDO has been working in this area since many years, it has already established a network of links with these specialist organizations. UNIDO is strengthening and formalizing this network, and will involve its

partners more systematically in the design and delivery of capacity building services to developing countries. The main organizations currently involved include:

**In Standards/standardization: The International Standards Organisation (ISO)**

UNIDO has been closely cooperating with the International Organization for Standardization (ISO) setting up and upgrading national and/or regional standardization bodies in coordination with the Developing Countries Committee (ISO/DEVCO) and participates regularly as observer in the ISO Annual General Assemblies and related workshops. The cooperation is formalized through a Memorandum of Understanding signed in 1986

In 1997, in cooperation with ISO and the International Trade Center (ITC), UNIDO lead a survey "Implications of International Standards for Quality and Environmental Management Systems". This related to experience of the first ten years with family of Quality Management Standards (ISO/IEC 9000) and five years of Environmental Management Standards (ISO/IEC 14000). In addition to set-up costs to Management Standards implementation, the infrastructure for certification and accreditation as well as the lack of international recognition of certificates issued by some national bodies in developing countries were reported as major practical problems. Based on these findings, further cooperation was developed with the international organizations in the field of Accreditation.

**In Accreditation: The International Accreditation Forum (IAF)  
The International Laboratory Accreditation Cooperation (ILAC)**

UNIDO has been cooperating with the two organizations, essentially with a view to develop innovative approaches to capacity building and to accreditation, that would facilitate the inclusion of developing countries in their activities and develop the capacity building activities of these organizations.

As a follow up of the above mentioned survey, negotiations with ISO and with the International Accreditation Forum (IAF) resulted in the creation of IAF's Multilateral Mutual Recognition Agreement for certifiers of Quality Management Systems (MLA QMS) in 1998 as well as the development of UNIDO Procedures for Pre-Peer Evaluations in cooperation with IAF and ISO. This scheme aims at providing relevant national accreditation institutions in developing countries (and countries with economies in transition) with an integrated approach in order to facilitate their introduction within the context of above-mentioned IAF Agreement. A Memorandum of Understanding was signed in 1997 in relation to these Pre-Peer Evaluations, and as a result six accreditation bodies have been pre-evaluated since then.

In 2000 a further Memorandum of Understanding was signed with the International Laboratory Accreditation Co-operation (ILAC) and ISO. Under the terms of this MOU, the Pre-Peer Evaluation approach was adapted in 2001 to be applied to laboratory accreditation bodies of developing countries that are willing to join ILAC's Mutual Recognition Arrangement (MRA). Four such bodies were pre-evaluated in 2001 and two of these reached the status of Associate Member of ILAC, proving the validity of the approach.

**In Metrology: Bureau Internationale de Poids et Mésures (BIPM)  
Organisation International de Métrologie Légale (OIML)**

The Pre-Peer Evaluation model will be applied also to other areas of relevance to developing countries. This may include the Mutual Recognition Arrangement (MRA) for national measurement standards and for calibration and Measurement certificates (coordinated by the BIPM as well as the Certificate System for Measuring Instruments to facilitate administrative procedures and international trade through mutual recognition of type/ pattern approval of measurement instruments used for legal purposes from the International Organization for Legal Metrology (OIML).

Together with OIML and the Federal Institute for Physics and Metrology of Germany (PTB) a concept to support the development of Legal Metrology Systems in developing countries is under development.

As these organizations have only very limited budgets, based on subscriptions of member organizations, there is very limited scope for funding activities aimed at developing countries that, with very few exceptions, are not (yet) members of these organizations. It is clear from the above that it is essential that these organizations develop activities and approaches that facilitate the inclusion of organizations from developing countries. UNIDO intends therefore to continue and expand its cooperation with these organizations aimed at this objective.

In addition UNIDO is building up further a network of cooperation with national specialized bodies in developed countries that could provide expertise as well as specialized services such as AFNOR (France), PTB (Germany) etc.

## **UN and other Intergovernmental organisations.**

### **The World Trade Organization (WTO)**

The WTO has a focused technical assistance programme as part of their mandate. The objectives of the programme<sup>1</sup> are: a) to improve the knowledge of multilateral trade rules and WTO working procedures, b) to help in setting up and strengthening administrative infrastructure of countries so that they can cope with the rights and obligations of WTO Agreements, c) to assist in the implementation of commitments in the Multilateral Trading System and in the full use of its provisions, d) to provide legal advice regarding the Dispute Settlement Understanding and to help in the effective use of that mechanism, and e) to develop trade negotiating skills (i.e. use of different approaches and databases). The paper also states that: "WTO technical assistance is an integral part of the broader development efforts of capacity building undertaken by other international organizations in helping developing countries and economies in transition to participate more fully in the global economy."

UNIDO has regular and close contact with the WTO. UNIDO participates in the WTO Committee on Trade and Development and the Committee on Technical Barriers to Trade as well as in the Sub-Committee for LDCs.

Closer cooperation is expected to develop, specifically with the delivery of assistance to the member countries. As can be seen above, the respective activities are complementary and do not overlap. Key issues on which cooperation with the WTO in field activities is anticipated include awareness building and training on the impact and requirements of the trade related international agreements on the country and its international trade activities.

### **The United Nations Conference on Trade and Development (UNCTAD)**

The technical cooperation activities of UNCTAD aim at:

- assisting countries strengthen their negotiating capacities as regards international trade, finance and investment;
- helping countries improve systems and procedures for trade expansion in such areas as trade efficiency, customs, maritime transport, and for financial management;
- contributing to national policy development, in particular the relationship between trade, technology, finance and investment; and
- promotion of cooperation among developing countries.

These activities are immediately complementary to the UNIDO contributions defined in this paper. Already in a number of technical assistance projects actual cooperation exists where the organizations each contribute based on their own mandates.

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<sup>1</sup> The programme is defined in document WT/COMTD/W/78/Rev.1: "A strategy for Technical Assistance in WTO" dated 11 May 2001.

### **The International Trade Centre (ITC)**

ITC technical support activities focus on trade and market information, export strategies, export marketing activities, and related to the Uruguay round agreements, the establishment of "Inquiry points". An agreement has been signed on specific cooperation between ITC and UNIDO. In respect of the information services and the establishment of "enquiry points", close cooperation between UNIDO and ITC in the analysis of requirements and the implementation of the programmes and projects has been agreed.

### **FAO and WHO**

Close cooperation with FAO and WHO in respect of the Good Hygiene Practices (GHP), Good Manufacturing Practices (GMP), HACCP applications and Codex Alimentarius food safety standards and related national legislation will be an integral part of the strategy.

## **VI. The funding strategy**

Given the volume and diversity of action required, a structured approach to funding is required:

- 1) For larger programmes related to components 2 above (conformity assessment infrastructure), either at the level of regional cooperation groups of countries or at the country level, special purpose contributions will be sought from donors targeting the region or country. Potential donors will be approached in the analytical phase, and if so desired, involved in the formulation of the assistance programme.
- 2) For sector-focused productive capacity development, upgrading and quality improvement programmes, essentially country specific, special purpose contributions from interested donors will be targeted. Again donors will be approached early, at the country level.
- 3) A **Trust Fund** has been established by UNIDO for:
  - a. Preparatory and programme development activities (component 1);
  - b. The technical analysis and advice facility (component 4);
  - c. Joint activities with international specialist organisations in the standards, accreditation and metrology areas, specifically to develop approaches more appropriate for developing countries (see page 8 above).

Donors can make contributions to this trust fund. These contributions can, if so desired, be limited to specific region(s) or purpose (e.g. technical analysis and advice only). A separate note on the Trust Fund is attached.