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**ROUND TABLE 3: ISSUE PAPER**

**Making trade work for the poor –  
Stimulating the real economy's response**

**Vienna, Austria**



### Round Table 3

## Making trade work for the poor – Stimulating the real economy's response

Tuesday, 2 December 2003, 11:30 a.m. - 1:30 p.m.

### Introduction

What is the global setting facing the real economies of countries today?<sup>1</sup> Perhaps it can best be described as one of intensifying globalization, driven by accelerated technological progress, by trade and investment liberalization, by enforceable international rules and regulations, and by the progressive spread of integrated global production systems or value chains—initiated and dominated by transnational corporations (TNCs).<sup>2</sup>

This emerging global scene offers greater opportunities for income and employment generation and for welfare gains. But it also presents new challenges. The real economy of a given country faces growing competitive pressures. Resources tend to flow to relatively few economies. Leading TNCs from developed countries are increasingly able to control the production, marketing and distribution of many of the world's most important commodities and products, though they are also keen on bearing corporate responsibilities and on the joint initiatives that link businesses in developed countries to the achievement of Millennium Development Goals, like the UN Global Compact. It is estimated that around two-thirds of visible trade worldwide is conducted by TNCs. They are particularly dominant in activities where there are economies of scale in innovation, production and marketing.<sup>3</sup>

The world is also witnessing increasing inequality, ecological disruption and marginalization. According to 1999 data, approximately 1,169 million people still live on less than \$1 a day.<sup>4</sup> And although the proportion of people living on less than US

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<sup>1</sup> The real economy refers here to enterprises utilizing the factors of production and natural resources in production processes for goods (in agriculture and manufacturing) and services for the market.

<sup>2</sup> See also UNIDO, 2003, Sectoral Studies Sequence: *The Global Wood Furniture Value Chain: What prospects for upgrading by developing countries; The Global Automotive Industry Value Chain: What prospects for upgrading by developing Countries; The global Apparel Value Chain: What Prospects for Upgrading by developing countries*

<sup>3</sup> UNCTAD, World Investment Report, 1999, “*Foreign Direct Investment and the Challenge of Development*,” pp 14 & 26, Geneva (See UN, 2003, “How the Global Compact Works: Missions, actors, and engagement principles”, New York).

<sup>4</sup> World Bank, 2003, World Development Indicators, p. 5, Washington DC.

\$2 a day fell from over 62 per cent in 1990 to around 56 per cent in 1999, more than half of the world's population (i.e. 2,802 million) still lives in poverty. Furthermore, the income gap between high- and low-income countries widened between 1997 and 2001. The Gross National Income per capita of high-income countries was 58 times that of low-income countries in 1997. By 2001 it had risen to 62 times.<sup>5</sup>

The role of an open trade regime in stimulating growth and fighting poverty has been widely researched and debated by academic economists. According to one study, an increase of one percentage point in the share of trade in Gross Domestic Product (GDP) raises income by at least one-half of one per cent.<sup>6</sup> The same study suggests that trade increases income by spurring investment in human and physical capital, and by stimulating productivity. Empirical analysis of country-specific data also confirms the existence of a link between economic growth and poverty reduction.<sup>7</sup> For example, the experience of India, over the last two decades, shows a correlation between growth and poverty reduction on the one hand and increased openness to trade on the other.<sup>8</sup>

The poverty-reducing effects of an open trade regime are likely to be stronger in the case of developing countries because trade in goods is a more important source of income than it is in the developed world. But the relatively larger share of trade in developing countries' GDP also means they are more exposed to volatility in demand. The least developed countries (LDCs) are extremely vulnerable, because their export earnings tend to depend on one or two commodities, for which world prices are at their lowest levels for 150 years.<sup>9</sup>

There is, as noted, a vast empirical literature on how open trade boosts income growth and output and on the requirements needed to realize the beneficial effects from trade reforms in low-income countries as well as on the lives of the poor.<sup>10</sup> The rural poor are usually found in agriculture and the urban poor are found in low-skilled, labour-intensive, often informal, sectors. In general, open trade can reduce poverty in rural areas when it generates employment in small-scale agriculture, and can reduce urban

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<sup>5</sup> World Bank, 2003, World Development Indicators, pp. 4-5; World Bank Data Query, website <http://devdata.worldbank.org/data-query>.

<sup>6</sup> Frankel J. and D. Romer, 1999, "Does Trade cause Growth? ", *American Economic Review*. 89(3): pp. 379-99.

<sup>7</sup> Dollar D. and A. Kraay, 2000, "Trade Growth and Poverty," *Policy Research Working Paper 2199*, The World Bank, Washington, DC;

<sup>8</sup> Ferro, M., Rosenblatt D. and N. Stern, 2002, "Policies for Pro-Poor Growth in India," The World Bank, mimeo.

<sup>9</sup> UNCTAD Handbook of Statistics, 2000, Table 1, pp. 18-19; OECD Document, TD/TC(97)19, Paris 1997.

<sup>10</sup> Sachs J. and A. Warner, 1995, "Economic Reforms and the Process of Global Integration," *Brookings Institutions Papers on Economic Activity*, 1: 1-117; Dollar. D, 1992, "Outward-oriented Developing Economies Really do Grow more Rapidly: Evidence from 95 LDCs", 1976-85, *Economic Development and Cultural Change*, Vol. 40, Issue 3, pp. 523-544; Edwards, S., 1993, "Trade Policy, Exchange Rates and Growth", *NBER Working Papers no.4511*, Cambridge, Massachusetts, February; Edwards, S., 1998, "Openness, Productivity, and Growth: What Do We Really Know?", *Economic Journal*, 108(1): pp. 383-98; Ben-David, Dan, 1993, "Equalizing Exchange: Trade Liberalization and Income Convergence," *Quarterly Journal of Economics*, 108, pp. 653-79; Frankel and Romer, 1999, *ibid*;

poverty when it is associated with increased output and export of labour-intensive manufactures.<sup>11</sup>

Despite successive rounds of multilateral trade negotiations under the GATT and WTO, as well as unilateral and bilateral liberalization of trade and investment, and despite the potential benefits of new technologies on the lives of the poor, most developing countries have been unable to benefit from these new market opportunities and to integrate into the global economy.<sup>12</sup> Industrial activity and production capabilities are highly concentrated in a few economies, both industrialized and developing. Most developing countries remain on the bottom rung of the technology ladder.<sup>13</sup> Low-income countries in particular, are technologically weak and vulnerable. Exports of manufactures are also highly concentrated within a small group of developing countries. Only a few developing countries have experienced dynamic production growth and export structure characterized by an increasing share of technology-intensive products. These have achieved sustainable income growth. But many developing countries, which have actively participated in the process of international specialization, have been unable to achieve sustainable income growth.

### **Why has trade not worked for the poor?**

There are several reasons why trade has not worked for the poor and they vary by groups of countries. In the case of the low-income countries, the core problem is related to lack of capacity to produce a surplus of exportable goods of sufficient quantity, stable quality, and required standards that can be traded internationally. Such countries have therefore not been able fully to utilize the duty- and quota-free market access offered by developed countries' preferential initiatives.<sup>14</sup>

For other developing countries, the challenges are related to various barriers to international trade. Trade in goods continues to be impeded by trade-distorting policies on tariffs and non-tariffs, imposed by both developed and developing countries alike. Recent research has outlined that the low-income countries face tariffs on global markets that are more than twice the level of those faced by non-poor producers.<sup>15</sup> Barriers to external market access are particularly high in agriculture and

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<sup>11</sup> Oyejide A., 2003, "Trade Reform for Economic Growth and Poverty Reduction", The World Bank, *Development Outreach*, July 2003

<sup>12</sup> While WTO members reconfirmed their commitment to multilateralism in Doha, regionalism is still an important challenge to the multilateral trading system. (See more in WTO, 2003, Annual Report 2003, Geneva). Regarding the impact of regionalism on the regional division of labour and industrial development, there is some evidence that regionalism has stimulated the creation of regional production systems with a high degree of integration (e.g. the cases of NAFTA, Mercosur and the EU), but the issue of how much it has stimulated the industrial upgrading of countries which belong to regional trade groupings, and low-income countries among them in particular still remains.

<sup>13</sup> UNIDO, 2002, Industrial Development Report 2002/2003, *Competing Through Innovation and Learning*, Vienna, Austria.

<sup>14</sup> Medhora R. and S. Joekes, 2002, April 15, Presentation to the Sub-Committee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade, International Development Research Centre, Canada.

<sup>15</sup> World Bank, 2002, *Global Economic Prospects*, Washington DC.

in labour-intensive manufacture—crucial sectors for the development of low-income countries and for the poor—because of the presence of tariff peaks, tariff escalation and quantitative restrictions.<sup>16</sup> Tariff barriers to external markets are complemented by non-tariff measures, like agricultural subsidies, anti-dumping duties and threats, and rules of origin.<sup>17/18</sup> Trade in manufactures between developing countries, which accounts for the lion's share of the external trade of developing countries, is also heavily constrained by high tariffs and by the increasing use of anti-dumping measures.<sup>19</sup>

Stringent product standards and conformity requirements, as well as various forms of certification have also emerged as new barriers to participation in the global economy. According to recent enterprise surveys, which include both developed and developing countries, the highest non-tariff barriers include performance standards, product quality standards, technical measures, product requirements relating to standards and technical regulations, conformity assessment, labeling and testing, and certification requirements.<sup>20</sup>

Standards can create trade barriers and they can also segment markets.<sup>21</sup> They can impose costs on developing countries, as they call for upgrading skills and capabilities, mastering new technologies, and enhancing old and establishing new institutions (e.g. accreditation bodies, metrology, standardization and technical support facilities). The costs of such requirements can be very high relative to the value of exports and can thus pose a barrier to exporting. Moreover, many standards and technical regulations are applied to products that are already heavily protected by tariff and non-tariff barriers, particularly in the developed countries. These tend to be products in which developing countries enjoy comparative advantages (e.g. agricultural and agro-industrial products, textiles and clothing and footwear).

Other impediments to trade, such as slow and unclean customs administration, complex administrative requirements including certification of origin, inefficient trade logistics, bad transport links and lack of access to information and technology networks, are also important, as they contribute to the inefficient allocation of resources.<sup>22</sup>

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<sup>16</sup> A significant number of quantitative restrictions remain in place under the WTO Agreement on Textiles and Clothing (ATC).

<sup>17</sup> Walmsley, T. and L. A. Winters, 2002, "Relaxing Restrictions on Temporary Movement of Natural Persons: A Simulation Analysis," University of Sussex, mimeo; Winters, L. A., 2002, "Doha and the World Poverty Targets", World Bank, mimeo; Hoekman, B., F. Ng and M. Olarreaga, 2002a, "Tariff Peaks in the Quad and Least Develop Country Exports," *World Bank Economic Review*, Vol. 16, pp. 1–22.

<sup>18</sup> See figure 1, Annex 1, analyzing non-tariff barriers to accessing global markets

<sup>19</sup> Somesh K. M., 2003, "Trade Liberalization and the Poor: A framework for Poverty Reduction Policies with Special Reference to Some Asian Countries Including India"; Nicholas Stern, World Bank, *Ibid*.

<sup>20</sup> World Bank, 2003, World Bank TBT Database, preliminary results covering 17 developing countries, presentation at the DFID, June 2003.

<sup>21</sup> The World Bank, World Bank TBT Database, preliminary results: presentation at DFID, June 2003.

<sup>22</sup> UN Economic Commission for Europe (UNECE): Hewitt A. and Gillson I., 2003, "Income Distribution Impact of Trade Facilitation in Developing Countries", Overseas Development Institute

Given these constraints, developing countries and low-income countries in particular, find it extremely difficult to earn foreign exchange by means of accessing dynamic comparative advantages. They may find some of their existing productive structures obsolete. Their productive supply capabilities may be stagnating and they may even face an increase in poverty through a loss of export earnings.

### **What has to be done?**

What has been done so far on the level of technical assistance to change this situation? Not enough. Trade-related technical assistance has been scattered and has dealt with individual impediments to trade in a rather isolated manner. In this context, it is important to note that the ability of developing countries to identify and spell out trade capacity building needs tends to increase with their respective levels of exposure to the international playing field. For LDCs, technical assistance needs are the least defined and focused and worse served<sup>23</sup>. Today, trade-related technical assistance needs a more holistic approach. This has been widely accepted by the developing countries initiatives like NEPAD, as well as by the development community.<sup>24</sup> Such trade capacity building should be based on an economic analysis of possible trade potentials in main export goods and services of a given country, on an evaluation of existing obstacles to trade, as well as on the evaluation of the role of the public sector in supporting services that are vital for businesses.<sup>25</sup>

It is therefore worth discussing developed and developing country trade-related policy issues that impede open trade at different levels, a discussion that could contribute to multilateral and bilateral trade negotiations and would guide technical assistance in this area. At the multilateral level, what is called for is "a new grand bargain", involving both developed and developing countries, to expand external market opportunities for the exports of low-income countries and for the poor.<sup>26</sup> The recent end of the Cancun Ministerial Conference demonstrated that this is not an easy process.

At the national level, the domestic policy agenda to make trade work for the poor extends far beyond traditional trade policy reform to embrace industrial policies, and other complementary policies addressing macroeconomic stability, labour market functioning, institutional and regulatory factors, social safety nets, investment and competition. These policies must be addressed by individual country governments as well as by the donor community. They will work for the poor only if they are used in an appropriate mix and targeted effectively.

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(ODI), document: UNECE TRADE/2003/21, 8 April 2003.

<sup>23</sup> See UNIDO, 2003: "Trade Capacity Building", page 4

<sup>24</sup> Doha Declaration, paragraph 42.

<sup>25</sup> See UNIDO, 2003: "Trade Capacity Building", page 9

<sup>26</sup> Hoekman B., 2003, "More Favorable Treatment of Developing Countries: Towards a New Grand Bargain"; The World Bank, *Development Outreach*, July 2003, Washington DC.

At the core of "behind-the-border" industrial policy-making is the issue of how to create the capacity-building capabilities needed to produce and trade diversified groups of products, in the context of the restrictions that international rules and disciplines now put on the use of the various policy instruments, which were deployed in the past by successful developing economies to stimulate their industrial development.<sup>27/28</sup> Today, industrial policy-making is based on the belief that greater reliance on the free functioning of the market mechanism is the best incentive for effective and dynamic allocation of resources. But the majority of developing countries face an array of market, government and institutional failures, which mean that market forces alone are not a sufficient condition for industrial development.

Developing countries that participate in global value chains must confront the reality that TNC global strategies do not always coincide with their development objectives. For developing countries, the real challenge is to convert foreign affiliates, joint-venture companies or sub-contractors of TNCs into developmental enterprises that actively contribute to productive national capacity building and enhance export potential in goods with higher added value.

These constraints shorten the time horizon within which developing country producers must adjust and face intensified competition. Developing countries need to adopt a wider interpretation of industrial policy in general, and of the particular instruments to be used. Those instruments should be directed at correcting the market and institutional failures that are inherent in low-income economies. There is also a growing need for strengthening technical cooperation in this area.

A "behind-the-border" industrial policy agenda would therefore include: issues related to removing government-imposed barriers to entrepreneurship; policies geared towards the supply of public goods like knowledge, information, basic research, technology extension, and standards and metrology; policies and institutions that support the participation of national firms in international markets (investment promotion, export processing zones, industrial parks and market intelligence); and policies that promote the provision of services to support small and medium sized enterprises (SMEs) in their efforts to leverage resources for development (e.g. promoting small business export consortia and associations, and export-oriented clusters and networking).

### **The round-table discussion focus**

The focus of this round table discussion is on the tools that can be used at a national level to help the real economy strengthen its productive capacity in order to grasp the

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<sup>27</sup> ICTSD, 2003, The Second Dimensions of S&DT: "Spaces for Development Policy" Revisiting Special and Differential Treatment; *Working Draft* – 16 May 2003, <http://www.ictsd.org/dlogue/2003-05-06/06-05-03-prog.htm> .

<sup>28</sup> Nicholas Stern, 2002, Senior Vice President and Chief Economist of The World Bank, "Making Trade Work for Poor People," Speech delivered at: National Council of Applied Economic Research, New Delhi, November 28. See also UNDP, 2003, *Making Global Trade Work for People*, Earthscan Publications, Ltd, London and Sterling, Virginia.



opportunities arising from new market developments, and on identifying technical-assistance needs in these areas. These tools include a wide range of institutions and organizations that support the building of skills; acquisition of capital, technology and information; and compliance with international conventions and agreements, and with different types of technical, environmental, and health standards. More specifically the round table discussion is structured around following two areas:

- I. Strengthening supply-side capacity**
- II. Enhancing capabilities to assess and prove conformity with standards, technical regulations and other market requirements**

### **I. Strengthening supply-side capacity**

A wide variety of institutions and organizations provide services that can help enterprises to meet the information, skills, knowledge and finance, and other needs that are difficult to satisfy in open markets. Industry associations, export agencies, productivity centers, technology information centers, metrology, standards, testing and quality infrastructure, R&D laboratories and cluster development institutions, can together create a business environment rich with knowledge and information on new technology, essential for enhancing productive supply capacity.

In the present global setting the role of such intermediaries becomes even more important. These intermediaries can provide support for building capabilities to use new technologies, adapt and improve processes and products and move up the value chain into more sophisticated production activities. In other words, they can support the real economy along the "high road" to competitiveness by helping it to avoid reducing wages, devaluing national currencies, disregarding labour or environment regulations—the "low road" to competitiveness that is incompatible with sustained growth.

The functioning of many of these institutions and organizations depends on government subsidies. Market failures, the public-good character of the services provided, constraints on public policy, and multilateral trade agreements' constraints on what policy instruments to use, are some of the factors that favor the subsidized provision of these services. In developed countries many of these services are supplied through the market, but even here it is necessary to augment what is supplied through the market.

Many developing countries have established institutions and organizations designed to support the real economy, but they often function badly, providing poor quality services with inadequate equipment, poorly motivated and remunerated staff, not responding to demand, with unrealistic objectives, bad management and a lack of financial resources. Equally, enterprises in developing countries and in low-income countries particularly, frequently do not have a clear idea of the services they need, and they have difficulty in assessing the suitability of both the services and those

offering them. There is a clear need for technical assistance in this area, underpinned by well-defined priorities and guidelines.

There are several areas in which these intermediaries can provide support to the real economy. The first crucial area relates to supporting firms' technological efforts and productivity enhancements. Technology extension services include extending available technology to enterprises lacking such capabilities; helping firms use cleaner production technologies; providing information on available technology; assisting firms by demonstration and implementation of new technologies, etc. Productivity enhancement services include efficiency and productivity improvements, management strategies, and training.

The second crucial area relates to meeting internationally agreed standards. Local business associations and/or various government programmes can also play a critical role in raising awareness of the need for quality systems to meet the requirements of foreign markets.

The third important area of support relates to proof of conformity through testing, measurement and certification. Entry into new industry supply chains increasingly depends upon testing and measurement facilities and upon certification requested by the targeted markets. The relevant products have to be tested to exacting standards, and continued control over their production requires that measuring equipment needs to be calibrated. The provision of such facilities plays an important role in enabling firms to meet the requirements of foreign markets. For instance, for firms linked into supply chains for original equipment manufacturing (OEM), where the buying enterprise gives all specifications to contracting firms (supplying assemblers and certified replacement parts), quality control and certification is essential. It is to be expected that ever-greater emphasis will be placed on enterprises meeting environmental standards, such as ISO14000.

In well-established markets, much of the process of certification and also the provision of consultancy services for enterprises preparing to meet these standards can be provided through market mechanisms. Private-sector provision of certification services tends to follow the market. When standards requirements are first developed, both governments and business associations can support their diffusion. If the certification process is to include locally owned certifiers, then it is critical that the accreditation process for certifying firms is credible. There have been difficulties in some developing countries relating to the credibility of certification agencies.<sup>29</sup>

The fourth area of support for local firms relates to technical education and training systems. Increasingly, buyers in global industries impose exacting standards, but do not wish to be involved in helping their suppliers to meet them. Firms wishing to maintain their involvement in global value chains must invest in engineering skills, which are particularly important in the area of process engineering in order that

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<sup>29</sup> UNIDO, 2003, The Global Automotive Industry Value Chain: what prospect for upgrading by developing countries, Sectoral Studies series, Vienna, Austria.

technical and quality standards can be met. Therefore, provision of skilled labour here is vital.

The fifth area of support focuses on the provision of information, market intelligence services and investment promotion. The long-term survival of small firms in the global value chains of particular industries will depend upon access to information on new technologies, global information networks, and proactive market strategies, seeking out new customers and new markets. This is costly for small and medium-sized enterprises (SMEs), and there is a case to be made for the collective provision of market intelligence and promotion of an industry presence at trade fairs. The promotion of foreign investments serves as a vital tool for enriching the indigenous base of technological capabilities and for achieving strategic industrial development objectives through exploiting the potential complementarities between local and foreign producers.<sup>30</sup>

Issues to be discussed:

- *What is the critical mass of real economy support institutions for low-income countries, particularly with reference to their participation in the global economy?*
- *What is the role of technical assistance in this area and what are the guiding principles for this assistance?*

## **II. Enhancing capabilities to assess and prove conformity with standards, technical regulations and other market requirements**

### ***Standards compliance***

Standards, technical regulations, and the certification against them, relate to products and processes and labour conditions (food safety: HACCP–Hazard Analysis and Critical Control Point, quality management: ISO 9000, environmental management: ISO 14000, and labour conditions: SA 8000). Their principal intention is to protect public and workers' safety and health and to provide confidence to the international clients. They can also be a stimulus for technology transfer and a driver of innovation through acquisition of best international practice.

However, a challenge developing countries are facing is the growing number of international standards. With close to 100,000 standards being applied world-wide and increasing at a rate of 1,000 new standards a year, developing countries have great difficulty in creating awareness of new standards and disseminating information about them at national levels.<sup>31</sup>

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<sup>30</sup> UNIDO, 2003, Industrial Development Report 2002/2003: *Competing through Innovations and Learning*, pp. 119-120.

<sup>31</sup> The most recent official data supplied by ISO show that by December 2001, 510,616 ISO certificates and 36,765 ISO 14000 certificates had been recorded. Also, as of 2005, developing country food products entering the EU market should comply with EU directive 179/2002 that requires the implementation of the traceability system, which might lead to non-tariff barriers for developing

While tariff barriers can be removed by a simple piece of legislation, standards and technical regulations present a challenge that developing countries must address. At the core of this challenge is the need to enhance institutional infrastructure. Building and maintaining a quality infrastructure should ensure that developing countries are able to produce goods of a standard that can be traded globally and thus to take advantage of free trade.

Conforming to standards is undeniably more difficult than defining the standards themselves. It is a matter of reforming and upgrading standards-setting regimes, as well as establishing efficient testing, certification and laboratory accreditation mechanisms that conform to the requirements of the SPS and TBT Agreements and enjoy international recognition.<sup>32</sup> It is also a question of the developing countries asserting themselves in standards-setting bodies.

#### ***Assessment and proof of conformity***

Developing country producers thus must be able to prove the reliability of their test data and inspection procedures, as well as the conformity of their products to international standards and/or those applied in the recipient country. Testing, calibration and certification facilities are therefore of extreme importance. If such facilities are not recognized internationally, a country's trade potential is seriously hampered and the prices its products can command on global markets are correspondingly lower. Moreover, local metrological and testing capabilities reduce the associated costs for products that would otherwise either have to be tested abroad or locally by international certification companies at very high rates. Effective assessment also provides domestic companies with objective results, which are essential to improving designs and technologies and assuring quality. Although markets in both the certification process itself and the preparation of firms for certification will emerge, governments can play an important role in developing and regulating these markets.

In order to prevent technical regulations and industrial standards whose original purpose was to protect public health and safety, and which vary from country to country, from becoming barriers to trade, the WTO includes the Agreement on Sanitary and Phytosanitary Measures (SPS), and the Agreement on Technical Barriers to Trade (TBT). Yet despite these Agreements, many producers, from both developed and developing country a like, complain that such regulations are still used as non-tariff barriers, obstructing access to markets, and/or that they are applied in an arbitrary or discriminatory, and sometimes exaggeratedly restrictive way.<sup>33/34</sup> Also,

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countries. (See UK Food Standard Agency: "Traceability in the Food Chain - A preliminary study", London, March 2002.

<sup>32</sup> In the survey to assist developing country members to identify and prioritize their specific needs in the TBT field conducted by the WTO TBT Committee, 62 per cent of the respondents indicated a need for assistance in infrastructure and capacity building in relation to conformity assessment bodies as against 35 per cent who indicated a need for assistance in infrastructure and capacity building in relation to standardizing bodies.

<sup>33</sup> An added problem is that contractors in developing countries are often required to produce according to technical standards set by buyers that are neither international nor consensual.

despite initial accordance by the signatories to the TBT and SPS Agreements to facilitate the provision of technical assistance to those signatories not yet able to adjust to and comply with the agreements, such assistance has been limited so far.<sup>35</sup>

Developing countries also lack awareness of such standards and regulations and not enough has been invested in the requisite infrastructure and skills.<sup>36</sup> Constructing a scientific and technical base, as well as the productive capabilities able to meet the challenges posed by WTO agreements and the quality demands of industrialized country markets, can take decades and calls for levels of investment, which most developing countries, and LDCs in particular, cannot afford.

Issues to be discussed:

- *What is the critical mass of quality-supporting infrastructure for low-income countries and the poor?*
- *How can the provision of cost-effective, sustained and internationally recognized services in testing, conformity assessment and metrology be enhanced through cooperation at the national, regional and international level?*
- *What is the role of technical assistance in this area and on what level? Foreign donor agencies sometimes play an important role in co-funding and organizing these intermediaries, what lessons does their experience offer?*

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<sup>34</sup> Otsuki, T., Wilson J. and M. Sewadeh, "A case study to quantify the trade effect of European food safety standards on African exports", Development Research Group, World Bank, October 2000, Washington DC.

<sup>35</sup> At the time the TBT and SPS Agreements were drawn up, developing countries' inability to comply with the provisions was common knowledge. Despite the clauses in the Agreements, providing for assistance to the developing countries little has been done.

<sup>36</sup> Under the WTO notification system, details of new standards and regulations are available through the enquiry points that have been established for both TBT and SPS.

## Summary

### *The current setting*

1. Developing countries seeking to participate in the international division of labour to access the gains from trade face a world characterized by intensifying globalization under the auspices of international agreements setting the rules of the game and formal barriers to trade; heightened international competition; and increasing control of trade by TNCs, through their dominance of GVCs.
2. The past decade has witnessed increasing concentration of trade and growth in the developed world and in a few successful developing countries; many of the rest, especially LDCs, have been left behind with a declining share of world trade and stagnant growth. There has been a failure of convergence among economies that have attempted to integrate into the international division of labour. Thus the gains from trade, which should flow to the poor, have been limited.
3. This is despite evidence for linkages between increased openness of trade, export growth, economic growth and reduction in poverty. Developing countries' greater openness to trade as compared with developed countries implies that they should gain even more, but this has only happened in a few cases. Many LDCs lack the capacity to produce for the world market and are dependent for export revenues on a few commodities for which international prices are low and demand is volatile; Developing countries, which participate in international trade, confront numerous trade barriers, including increasing numbers of standards and conformity requirements.

### *A new response*

4. New opportunities and challenges for developing countries arise from the freeing of trade under international rules and a new, integrated, policy response is necessary at national and donor level – one which takes account of research into the potential, in conformity with the new international rules, for supporting the national enterprises, capable of accessing economies of scale, of raising productivity, earning foreign exchange and of raising incomes.
5. At the multilateral level, calls for a new "grand bargain" covering international trade reform, aimed at assuring that trade benefits the poor, could result in greater scope for the implementation of policies targeted towards an approach to industrialization based on capability and capacity building. "Behind the border" policy must broaden in scope and focus on an array of macroeconomic and social policies as well as the reform of failing institutions, the creation of new ones, the correction of market failures and the better provision of information, skills, knowledge and technology to support the efforts of enterprises.
6. At a national level, there is a clear role for the provision of technical assistance with aspects of standards conformity, market information and other support services aimed at the establishment of a supportive institutional base for national enterprises. The WTO Agreements on Sanitary and Phytosanitary Measures (SPS)

and Technical Barriers to Trade (TBT) emphasize the need for the provision of such assistance. Developing countries also need to be more closely involved in the development of international standards, whether concerned with health and safety or environmental protection, and of systems for monitoring conformity.

***Round-table focus***

7. The round-table focus will be on the identification of national policy tools and technical assistance possibilities focusing on two overall goals:
  - Strengthening supply-side capacity; and
  - Enhancing capabilities to meet standards, and conformity assessment requirements.
  
8. An array of institutions and organizations, some market based, some government-led can provide services that will help enterprises to meet information, skills, knowledge and finance needs in order to participate in world trade. These intermediaries should focus on providing support in the following five areas:
  - Technology extension and productivity enhancement;
  - Meeting international standards;
  - Proof of conformity through testing, measurement and certification;
  - Technical education and training systems;
  - The provision of market intelligence and investment promotions services.
  
9. With reference to the areas identified under point eight, these specific questions should be considered at the roundtable.
  - What is the critical mass of real economy support institutions for low-income countries, particularly for enhancing their supply side capacity and their participation in global economy?
  - What is the critical mass of quality-support infrastructure for low-income countries and the poor? How can cooperation at the national, regional and international levels enhance the provision of cost-effective, sustained and internationally recognized services in testing, conformity assessment and metrology?
  - What is the role of technical assistance in these areas and what principles should guide it? How can the experience of donor agencies in the co-funding and organization of support providing institutions best be drawn upon?

# ANNEX I

Figure 1 - NON-TARIFF BARRIERS AFFECTING MARKET ACCESS





