WORLD TRADE ORGANIZATION

OECD

AID FOR TRADE AT A GLANCE 2019

ECONOMIC DIVERSIFICATION AND EMPOWERMENT

POCKET EDITION

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World Trade Organization

OECD

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FOREWORD

Economic diversification and empowerment are essential for achieving the Sustainable Development Goals. Both objectives also embody the rationale behind the Aid for Trade Initiative. Economic diversification offers a pathway for empowerment, while empowement allows women, youth and micro, small and medium sized enterprises to engage in trade. Growth in agriculture, manufacture and services offers entrepreneurial opportunities and generates productive jobs. In turn, this economic diversification contributes to rising incomes and human development more generally. We have seen this pattern of progress in many developing countries bringing substantive reductions in extreme poverty.

However, the pace of economic diversification is uneven and the pattern evolving, while some economies face inherent challenges. This is especially true for small, island, landlocked or resource dependent countries and those that are affected by fragility and conflict. At the same time, rapid technological progress threatens to disrupt established pathways for economic development, but also offers new growth and development opportunities. Elevated environmental risks require new approaches to economic diversification.

International trade can help. An open, rules based trading system contributes to global welfare. It helps diffuse goods and services, and also the technology and knowledge to manage environmental challenges. But turning trade opportunities into trade flows, requires us to redouble our efforts to tackle the numerous supply side constraints that many developing countries are still facing, particularly the least-developed countries.

Much is already happening. Since the Aid for Trade Initative started in 2006, USD 409 billion in official development assistance and USD 346 billion in low concessional loans has been disbursed to help developing countries build their trade capacities. Almost another USD 100 billion in both flows combined is committed in 2017. In addition, South-South providers contributed USD 9 billion and foundation USD 100 million.

The *At a Glance* report illustrates many examples of how this support helps developing countries improve their competitiveness, expand and diversify their trade, attract foreign direct investment, and create employment for men and women. Improvements in trade facilitation are a case in point. It highlights that support aligned around national priorities works best and contributes to an environment in which business can prosper, in particular the micro, small and medium sized enterprises that are the backbone of most developing economies. This report also highlights the scale of the challenge still ahead.

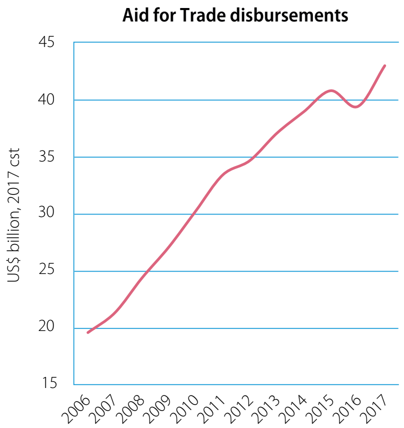
We need to learn from these examples to reinforce the coherence between aid and trade that is required to address the challenges and opportunities of economic diversification and empowerment. Most of all we need to consider that the economic empowerment of youth and women is not the outcome of the process of economic diversification, but frequently the starting point.

Angel Gurría
Secretary-General, OECD

Roberto Azevêdo
Director-General, WTO

AID FOR TRADE FACTS AND FIGURES

FINANCING FLOWS



US$ 410 billion
disbursed from 2006 to 2017

US$ 154.9 billion to Asia

US$ 146.2 billion to Africa

US$ 12.2 per capita in least-developed countries (LDCs) in 2017

US$ 4.7 per capita in non-LDCs in 2017

Source: OECD Creditor Reporting System Database

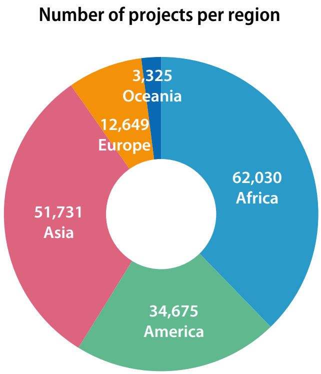
PROJECTS AND PROGRAMMES

Aid for Trade projects since 2006

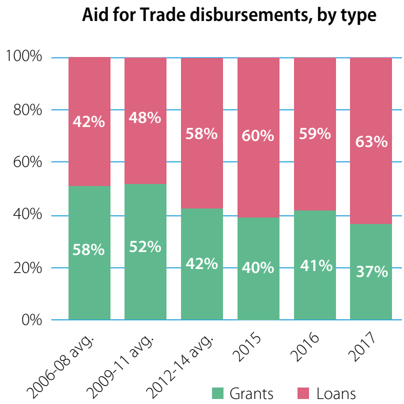
A total of **178,141** Aid for Trade projects have been funded since 2006.

The median project size is **US$ 98,400.**

The average project size is **US$ 2.25 million.**

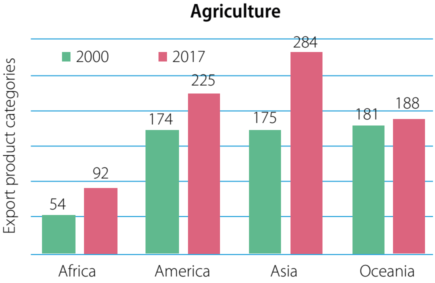


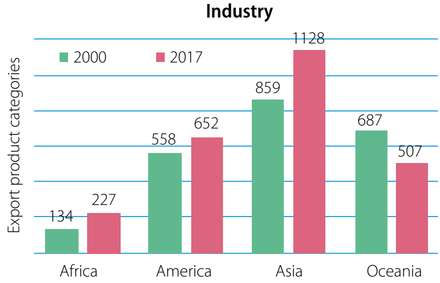
Source: OECD Creditor Reporting System Database



TRADE OUTCOMES

Export diversification (*Source:* WTO Database)

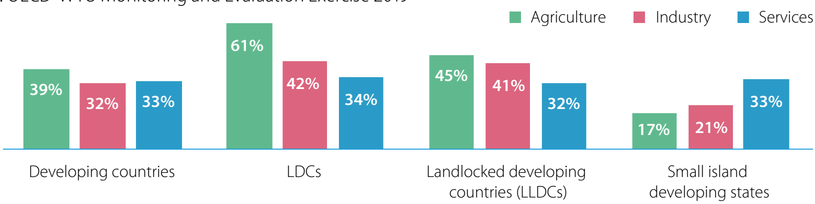




Progress in economic and export diversification is not uniform nor universal. According to the OECD-WTO Monitoring and Evaluation Exercise 2019, 53 per cent of developing countries reported **progress in economic diversification** since the launch of the Aid for Trade initiative in 2006 – 66 per cent for LDCs. Services is the sector with the second-most progress after agriculture, as reported by 33 per cent of developing countries.

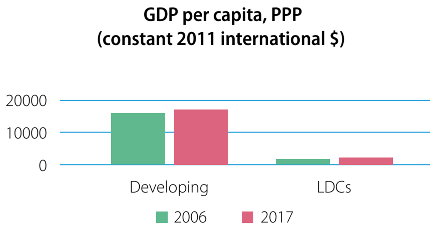
Sectors where respondents reported most progress

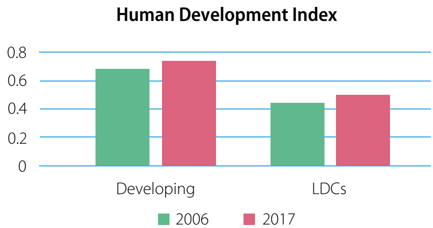
Source: OECD-WTO Monitoring and Evaluation Exercise 2019



IMPACTS

Ninety per cent of developing country respondents recognized **economic empowerment as a priority** in their national or regional development strategy – 95 per cent for LDCs and landlocked developing countries (LLDCs).





Source: World Bank – World Development Indicators, United Nations Development Programme - International Human Development Indicators

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EXECUTIVE SUMMARY

The 2019 aid-for-trade monitoring and evaluation exercise shows that economic diversification and empowerment are core objectives of the trade and development strategies and policies of WTO Members and observers. Many of the 133 respondents to the exercise highlight how economic diversification is a gateway for economic empowerment. What also emerges from the replies is that the link between diversification and empowerment runs in the opposite direction too. Empowerment through skills and training is essential for economic diversification, particularly when it enables youth, women and micro, small and medium sized enterprises (MSMEs) to engage in international trade. Progress is cited in the responses, but it is not uniform, with least-developed, landlocked, and Small Island Developing States facing particular challenges. This is also the case in fragile and conflict afflicted states. For these countries and others, economic diversification is inextricably linked with the achievement of higher levels of productivity resulting from the reallocation of economic resources within and between economic sectors.

Past growth in manufacturing and related services sectors has absorbed large numbers of workers. This increases employment and contributes to prosperity. However, after several decades of so-called "hyper-globalisation", the world may be entering a period characterized by slower growth of trade in physical goods and lower foreign direct investment flows. In addition, the greater automation and digitisation of production processes is changing the nature of manufacturing and the future of industrialisation. Where potential for trade expansion exists, it is likely to contain a significant services component. Action to prevent services restrictions from dampening these growth prospects is needed.

The United Nations Agenda 2030 for Sustainable Development calls for economic growth to be inclusive and sustainable. This requires paying greater attention to the social and environmental impact of economic diversification and growth. While this new environment creates challenges, targeted policies promoting economic diversification and structural transformation can create ample opportunities for inclusive and sustainable development. These policies include the supply of appropriate incentive frameworks; investments and policy reforms targeted at reducing trade costs; policies to support adjustment and the reallocation of resources; and government interventions correcting market, policy and institutional failures.

The entry into force of the WTO Trade Facilitation Agreement is a case in point. Progress is being made. Developing countries' level of alignment to the Agreement is increasing, with notable improvements in publication of measures, automation and streamlining of procedures and engagement with the trade community. Positive impacts from these aid-supported reforms have also been registered. Country reports and periodic time release studies show reduction in customs physical inspections, elimination of unnecessary documents, automation of manual processing steps, and consequent reduction of clearance times.

Economic empowerment can be fostered through programmes that are specifically aimed at improving the extent to which marginalized groups, including women and youth, participate in and benefit from international trade At the same time, small and medium sized enterprises (SMEs) are finding it difficult to attract the skilled employees they need to be competitive and trade. The twin problems of youth unemployment and SME competitiveness can and should be solved together; the objectives of youth economic empowerment and SME competitiveness are synergistic. That is, the relationship goes both ways: improved youth skills and innovation promote SME competitiveness and exports, while internationally competitive SMEs provide more and better jobs for young people.

There is widespread agreement that women's economic empowerment is one of the key drivers of sustainable development. Donors have been increasing their attention to gender dimensions in aid for trade. Activities include technical studies or project design that specifically focus on incorporating a gender dimensions in the particular area or activity. However, short-term donor programmes may prove insufficient to bring about meaningful policy changes or to sustain women's economic activities. One approach could include encouraging more awareness raising and training to design gender sensitive investments. This guidance would address two SDGs – Goal 5 which focuses on unpaid care and domestic work through the provision of public services and infrastructure and Goal 8 which promotes women to be engaged in productive employment.

Many least developed countries have made substantial development progress over the last thirty years. Five countries have transitioned out of LDCs status since 1971 when the category was established, while Vanuatu and Angola are scheduled to do so in 2020-2021. Ten additional countries are at different stages of meeting the graduation thresholds, which points to a heightened pace in recent years. However, 35 LDCs are yet to reach any of the graduation criteria. Progress towards graduation from LDC status requires triggering and sustaining a process of structural transformation to generate economic growth that is both pro-poor and environmentally sustainable.

Since the start of the Aid for Trade Initative in 2006, donors have disbursed USD 409 billion in official development assistance to help developing countries build trade capacities. In addition, USD 346 billion in low concessional loans was disbursed. Almost another USD 100 billion in both type of flows is committed in 2017. South-South providers contributed USD 9 billion according to OECD estimates. Empirical studies and programme evaluations find that this support is helping developing countries improve their competitiveness, expand and diversify their trade, attract foreign direct investment, and create employment.

While economic diversification is essentially a nationally driven process, the international community can offer assistance in creating an enabling environment for the trade integration of developing countries and helping tackling supply-side constraints. To promote empowerment, aid programmes need to focus more explicitly on helping developing countries create more opportunities for women and youth. Youth employment or entrepreneurship can be harnessed by addressing firm level market failures and improving the business ecosystem. Women's empowerment should receive more attention, particularly in sectors such as transport, energy, banking and financial services, as well as mining and industry. In this context, the development of concrete guidance on how to plan, monitor and evaluate donor activities in contributing to women's economic empowerment through aid for trade will be useful. ■

ACKNOWLEDGEMENTS

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The report has been prepared under the overall guidance of Frans Lammersen (OECD) and Michael Roberts (WTO). Managerial support was provided by Jorge Moreira da Silva, Ken Ash (OECD) and Shishir Priyadarshi (WTO).

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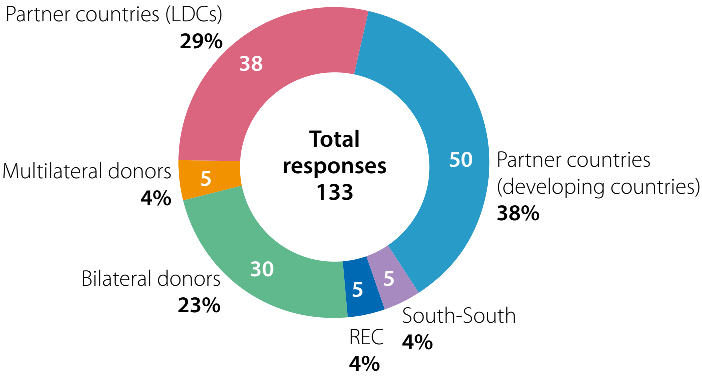
CHAPTER 1. SETTING THE SCENE

World Trade Organization

In 2019, 88 developing countries, of which 38 were least developed countries, participated in the aid-for-trade monitoring and evaluation exercise by submitting self-assessments based on questionnaires. A total of 35 donors also replied: 30 bilateral and five multilateral donors. Five providers of South-South trade-related support also submitted questionnaire responses. Additionally, five regional organisations took part in the 2019 aid-for-trade monitoring and evaluation exercise.

Figure 1. Responses submitted in the aid-for-trade monitoring exercise



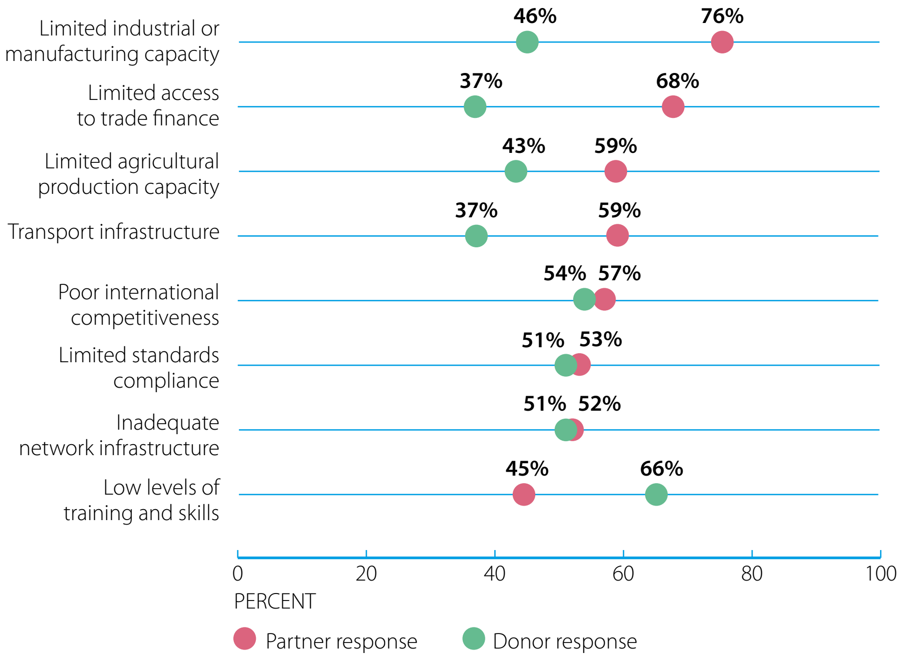
Source: OECD/WTO aid-for-trade monitoring and evaluation (2019)

The 2019 joint OECD-WTO aid-for-trade monitoring and evaluation (M&E) exercise highlights the continued centrality of economic and export diversification as a trade and development policy objective. Among least developed country (LDC) and landlocked developing country (LLDC) respondents, there was unanimity in policy prioritisation of economic and export diversification. Africa scored the highest among regions prioritising diversification, with a particular focus on promoting growth in the manufacturing sector. Many respondents also viewed invigorating the services sector as a pathway to diversification. Others highlighted the potential of natural resources. Fisheries was cited as a focus for diversification by the Pacific Island respondents.

A look at international trade statistics explains this policy focus on economic and export diversification. More than half the LDCs export in fewer than 100 of the product codes used to capture merchandise goods exports (HS codes). No LDC currently exports in more than 805 HS code categories. On average, landlocked countries export in 279 product categories. In contrast, the top three traders (China, United States and the European Union) report merchandise exports in more than 4.500 product categories and reach more than 200 markets. The average number of export markets reached by countries in the UN category of Small Island Developing States (SIDS) is 43, even fewer than that of LDCs.

Progress in economic and export diversification emerges from the M&E exercise, but it is not uniform. Forty-seven respondents, mostly from Africa, reported progress in economic diversification since the launch of the Aid for Trade initiative in 2006. The share of LDCs reporting progress was 50% higher than the rest. Agriculture is the top sector in which most progress in economic diversification has been reported, followed by services and industry. These responses validate the picture that emerges from trade statistics.

Figure 2. Partner and Donor views on the main factors limiting economic diversification



Source: OECD/WTO aid-for-trade monitoring and evaluation (2019)

Among the factors holding back economic and export diversification, limited industrial or manufacturing capacity is cited as the top constraint, particularly among LDCs. Access to trade finance also came out strongly as a limiting factor in the 2019 M&E exercise. Among donor respondents, low levels of training and skills was the barrier most frequently mentioned as limiting diversification. Other challenges cited reflect inherent constraints; high trade costs for respondents from landlocked countries and small domestic markets for the UN SIDS category.

Responses to the M&E exercise highlight that economic empowerment can be both the outcome of economic and export diversification, as well as the catalyst for this process. Importantly, the needs to focus on the economic empowerment of youth, women and micro, small and medium sized enterprises are priorities that were highlighted in the national or regional development strategies of 90% of respondents. Many of these strategies also include specific targets and indicators to track progress on economic empowerment.

Responses to the 2019 monitoring exercise demonstrate the continued relevance of aid for trade to support economic diversification and empowerment. This is very much in line with the objective for Aid-for-Trade first articulated by the 2006 Aid for Trade Task Force "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". ■

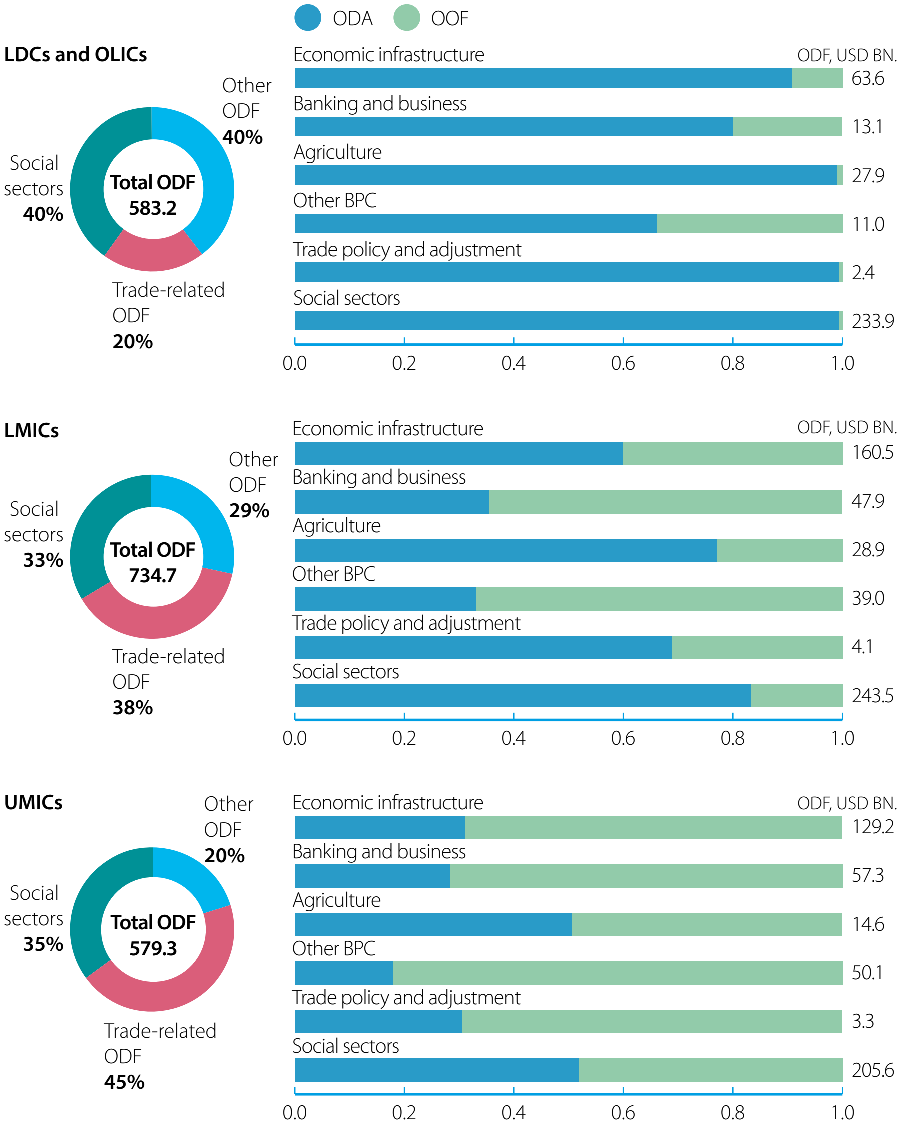
CHAPTER 2. AID FOR TRADE, ECONOMIC DIVERSIFICATION AND EMPOWERMENT

Organisation for Economic Cooperation and Development

Since the start of the WTO-led Aid for Trade Initiative in 2006, some 60 donors that report their official development assistance (ODA) to the OECD Creditor Reporting System have disbursed USD 409 billion to build trade-related capacities and infrastructure. They provided USD 5,7 billion to help developing countries elaborate trade development strategies, and negotiate and implement trade agreements. Furthermore, USD 91.6 billion was disbursed to improve energy supply; USD 125.4 billion to build roads, ports, and telecommunications networks; USD 180 billion to support the private sector; and, USD 230 million to help countries pay for the costs associated with trade liberalisation. In addition, USD 346 billion in low concessional loans has also been disbursed since 2006.

In 2017, aid for trade commitments increased by 12% in real terms and reached USD 57 billion, almost two and half times the 2002 – 06 base line average. This amount is supplemented with USD 9 billion from South-South providers who are growing in importance as a source of financing for developing countries. Development finance intervention mobilised from the private sector amounted to USD 154 billion during 2012 - 17. The overwhelming share supported projects in the upper middle-income countries (54%) and lower middle income countries (36%) with only 10% for the LDCs and

Figure 3. Share of ODA and OOF in total ODF disbursement 2006-2017 by income and sector groupings, 2017 constant prices (USD billion)



Source: OECD (2019), "International development statistics (database)", OECD, Paris, http://www.oecd.org/dac/stats/idsonline.htm.

StatLink http://dx.doi.org//10.1787/888933952881

other low-income countries. Banking and financial services (USD 43.7 billion), energy (USD 38.9 billion) and industry, mining and construction (USD 28.8 billion) attracted the overwhelming portion of this type of development finance.

Empirical findings clearly show that this support has helped developing countries expand and diversify their trade, improve competitiveness, attract foreign direct investment, and create employment for men and women. Results, however, vary depending on the type of aid-for-trade intervention, the sector at which the support is directed, the income level, and the location of the recipient country. Evaluations have found that targeted support, no matter how well designed and implemented, is unlikely to bring about sustained gains for the poor without simultaneous policy and institutional reform. However, focusing support exclusively on the enabling environment ignores that micro and small enterprises often lack the capacities needed to exploit new market opportunities. Moreover, women and youth are frequently disadvantaged in their economic capabilities and suffer from discrimination and lack of political voice to influence policy outcomes. Empowerment is thus essential for addressing the multiple dimensions of exclusion. Policies and investment need to focus more explicitly on expanding the economic opportunities for women and youth. Thus, aid for trade programmes should consider political economy factors that affect the position of women and youth in particular in relation to future demands for employment. ■

CHAPTER 3. PROMOTING ECONOMIC DIVERSIFICATION AND STRUCTURAL TRANSFORMATION THROUGH INDUSTRIALISATION

United Nations Industrial Development Organization

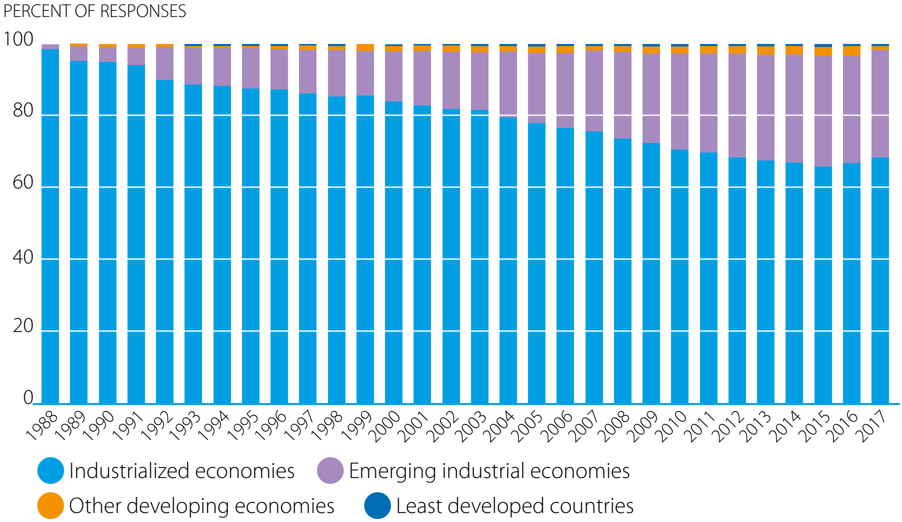
The manufacturing sector and the process of industrialisation are the key drivers of economic growth and therefore remain at the core of many national and regional economic development strategies, reinforced by Sustainable Development Goal (SDG) 9. Industrial development based on the interplay between supply and demand factors is a major driver of economic diversification and structural transformation. Through technological and skill development (supply side) and effects on income (demand side), firms have an incentive to continuously enhance their production capabilities and innovate to diversify their product range. In countries that have successfully industrialised, the growth of manufacturing and related services sectors has led to the absorption of large numbers of workers from the agriculture and informal sectors into productive jobs, and this has increased the prosperity of those workers' families and communities. Moreover, the industrial sector generates employment in other sectors through intersectoral linkages and thus serves as a basis for future economic growth.

The major sources of employment in emerging and developing countries are low-tech and labour-intensive industries that target basic human needs. Demand for manufactured products increases formal employment opportunities and thus significantly contributing to income growth.

This opportunity can, in turn, be used to foster human capital investments (education and skill development) to support increases in productivity by promoting the workforce's ability to implement new technological innovations in the future. Marginalized groups, youth and women, in particular, can benefit considerably from successful industrialisation, which makes the industrial sector a relevant factor in terms of sustainable and inclusive economic diversification.

Moreover, trade in manufactured goods affects the entire economy considerably through newly created demand, global technology spillover effects and access to an established global production network and thus plays a pivotal role in the manufacturing sector's expansion. Figure 4 presents the market share of manufactured goods in global export markets between 1988 and 2017, illustrating that emerging industrial economies in particular increased their share of manufactured goods in global export markets. Such increased participation in global markets has strong implications for industrial diversification and thus serves as a driver of sustainable economic development through demand and supply channels

Figure 4. Share of manufactured goods in global export markets



Source: UNIDO elaboration based on UN Comtrade (2018)

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The changes in industrialisation processes through phenomena like automatisation and digitalisation give rise to potential challenges but also to opportunities, especially for developing and emerging economies. Additional skills and good quality infrastructure are necessary to exploit the advantages of newly emerging technologies. Thus, to support the development of their manufacturing sector, governments should place a strong focus on human capital development and scale up technology adoption. A successful industrial policy should aim to avoid current and future capacity constraints that are related to unreliable infrastructure, trade barriers and lack of a skilled labour force.

The expansion of the manufacturing sector could, however, also increase harmful greenhouse gas emissions and the exploitation of natural resources. Ensuring the exchange of green innovations through access to foreign technologies and relevant knowledge from high- to low-income countries is indispensable to sidestep the environmental trade-off pattern. Developing countries in particular will thereby benefit from existing technologies and have the possibility to pursue environmentally friendly production processes. ■

CHAPTER 4. AID FOR TRADE IN CHALLENGING CONTEXTS

United Nations Development Programme and the Enhanced Integrated Framework

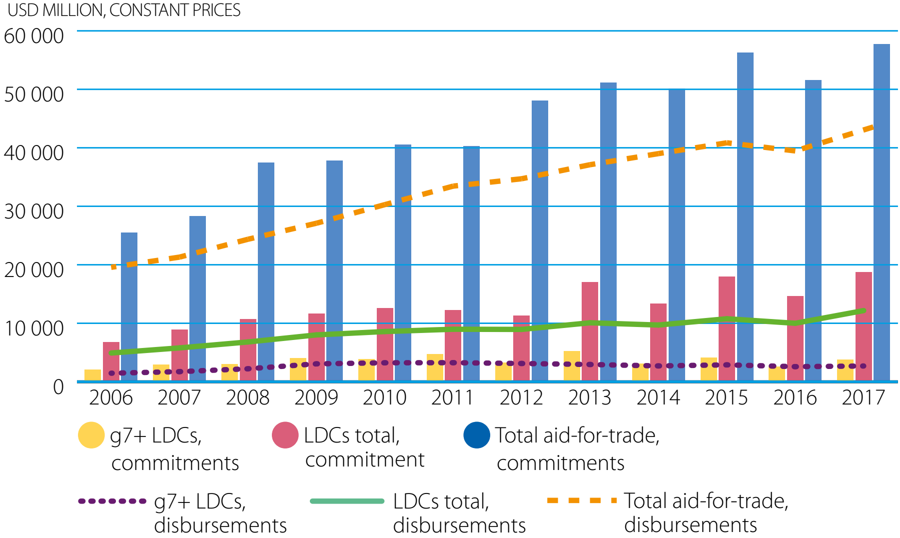
The least developed countries have come a long way in realising trade-led development opportunities, lifting people out of poverty, and achieving significant milestones of economic development. Since 1971, five countries have successfully graduated from LDC status. Twelve more have met at least two of the graduation criteria under the auspices of the United Nations Committee for Development Policy, thereby contributing to achieving the Istanbul Programme of Action for the LDCs (2011-2020) which calls for half of the LDCs to meet at least two of the three graduation criteria by the end of the decade. However, many challenges remain. 35 LDCs are yet to start their graduation path. Speaking at the 11th WTO Ministerial Conference in 2017, several LDCs acknowledged the challenges of fragility and conflict, underscored the importance of trade-led economic development, and called for greater development cooperation.

Trade plays a vital role for LDC economic development. Yet their share in world trade remains below 1%. Over half of the overall LDC trade share is split among three graduating LDCs – Angola, Bangladesh, and Myanmar. LDC merchandise exports are concentrated in few products, with primary commodities accounting for over 60%. Agriculture remains a major economic sector in terms of GDP and employment. However, agricultural productivity in LDCs is just a fraction of other developing countries. The existing evidence acknowledges significant challenges in the quest towards economic diversification, thereby transitioning from low to higher productivity activities in agriculture, manufacturing and services. The LDC respondents to the 2019 M&E exercise confirm that most of the progress on economic diversification occurred within the agricultural sector.

While several LDCs in Asia have experienced significant progress in transitioning to manufacturing exports (72%), the Small Islands LDCs export mainly agricultural products (82%), and LDCs in Africa mostly export fuels and minerals.

These trade trends are even more acute in 18 LDCs that identified themselves as fragile under the g7+, They signed the New Deal of Engagement in Fragile States, which calls for improving development policy and practice in fragile contexts. Trade flows are even more important for their economies, reaching up to 70% of GDP, while exports are even more concentrated with the top three products representing at least 40% of merchandise exports. The existing evidence highlights that greater economic diversification in those contexts would provide a tangible contribution to building resilience from external trade shocks. While the path to economic diversification is country-specific, investing in infrastructure, strong institutions, conducive business environments and targeted policies to support productive capacity remains essential across the board.

Figure 5. AfT flows to the LDCs and the g7+ LDCs, average 2006-2017



Source OECD/CRS StatLink http://dx.doi.org//10.1787/888933953299

Since 2006, the international development community has been supporting LDCs in boosting economic development through aid for trade. Over the past five years, commitments to LDCs have fluctuated, while disbursements remained stable. The flows to g7+ LDCs have also remained stable over the same period, although the per capita flows remain below the LDC average. Aid-for-trade flows to LDCs and g7+ LDCs are highly concentrated among key recipients, key development partners, and key sectors. For example, transport and storage, agriculture, and energy account for close to 80% of aid for trade to LDCs including g7+ LDCs, leaving only 2% and 3% respectively for trade policy and regulations. Yet, the evidence-based analysis of g7+ LDCs highlights the need for technical assistance for trade policy formulation, implementation, and institutional strengthening.

Economic diversification in LDCs is essential for creating new employment opportunities, including for women and youth, contributing to stability and growth, and reducing the impact of external shocks. This process requires significant investments, both public and private, which means strengthening institutions, investing in human capital, reforming the business environment, and ensuring more targeted policy implementation to support the development of productive capacity. The recent aid-for-trade trends to LDCs, including g7+ LDCs, highlight that boosting efforts to those who need it most remains vital. It is important to ensure greater coherence between humanitarian, development, and peacebuilding efforts. Greater attention to the local context, and peacebuilding and statebuilding is key in designing future aid-for-trade programs in fragile contexts. ■

CHAPTER 5. ECONOMIC DIVERSIFICATION: LESSONS FROM PRACTICE

World Bank Group

No single formula exists that can promote an orderly process of structural change able to enhance the resilience of economies to external shocks and provide citizens with the more productive employment opportunities they crave. Policy must always and everywhere adapt to the specific circumstances, differing geographies and endowments, and contrasted institutional, governance and implementation capacities of countries at differing levels of development. The success of diversification efforts ultimately depends on the mix, sequencing, and timing of investments, policy reforms and institution building, and on their consistency with the underlying assets and related comparative advantages of any given country. Investments in skills, infrastructure, institutions and governance quality (i.e. enhancing the transparency, accountability, and predictability of government decision-making) increase the likelihood of success of diversification but are in turn affected by the extent of diversification.

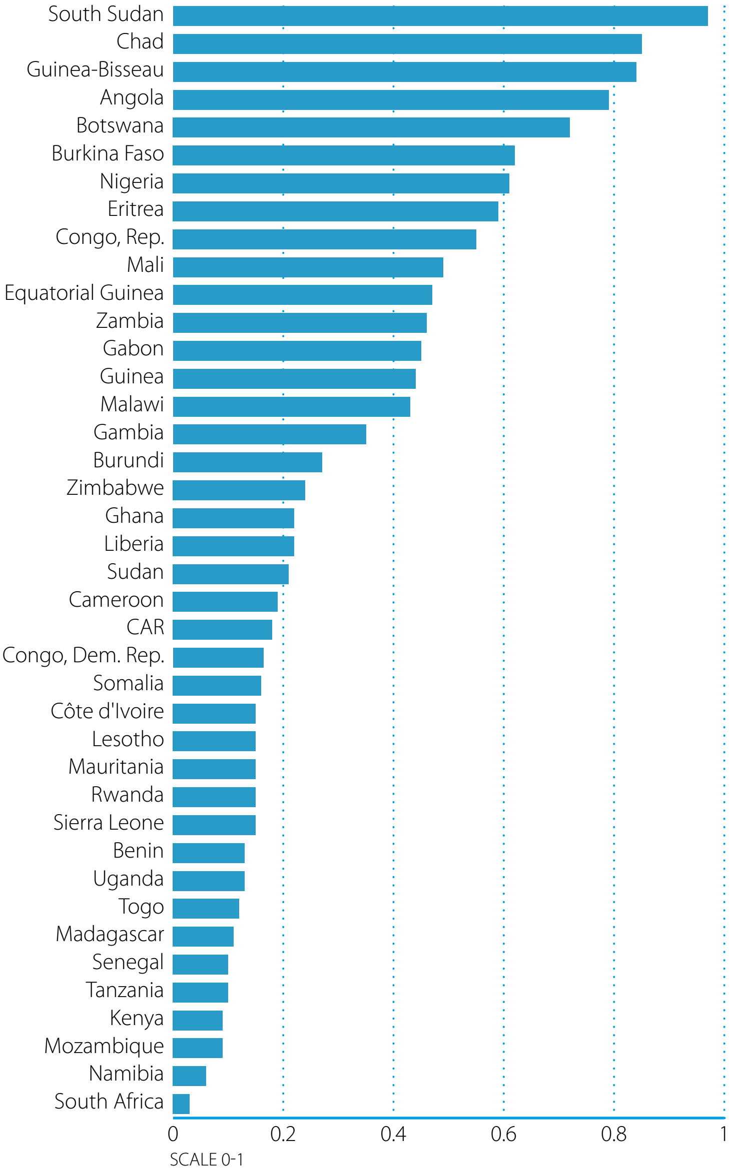
While every country follows a different path to diversification, a number of common features are apparent from successful cases of sustained trade-led structural change. Few countries have successfully diversified their economy without integrating in the global economy. The experience of a range of countries suggests that the following are important drivers of successful diversification efforts:

(i) a broad level of political commitment within government and societal support towards the goals of economic development, poverty reduction and social stability;

(ii) a focus on export growth, FDI attraction and on increasing the range of goods and services exported;

(iii) the importance of a strong, technically capable administration to manage the diversification process;

Figure 6. Export diversification in Sub-Saharan Africa, 2017



Source: Authors' calculations.based on Herfindahl–Hirschman Index that measures firm's size in relation to the industry and competition between them.

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(iv) the presence of influential stakeholders with interests in non-mineral exportable sectors, to offset in part the political influence of the dominant sector(s); and

(v) the importance of building both human capital and institutional capacity.

In many instances, sustaining a diversification drive will require a multi-pronged approach targeted at stimulating exports of agricultural and manufacturing products and services. In most country settings, no single sector can (nor should) provide the necessary export growth on its own. Similarly, there are important and growing interdependencies between sectors, such that a sector cannot sustain growth without sufficiently competitive inputs from other sectors.

While the current global environment creates daunting challenges for poor, small, landlocked and/or resource-dependent countries, a range of diversification routes can be followed. For such routes to prove successful, however, policy attention needs to be paid to four key determinants of diversification strategies. Development partners can support this process through targeted aid-for-trade interventions. These are:

(i) an appropriate policy environment that is conducive for trade-led growth;

(ii) investments and policy reforms targeted at reducing trade costs;

(iii) effective policies to support adjustment and the reallocation of resources towards new activities; and

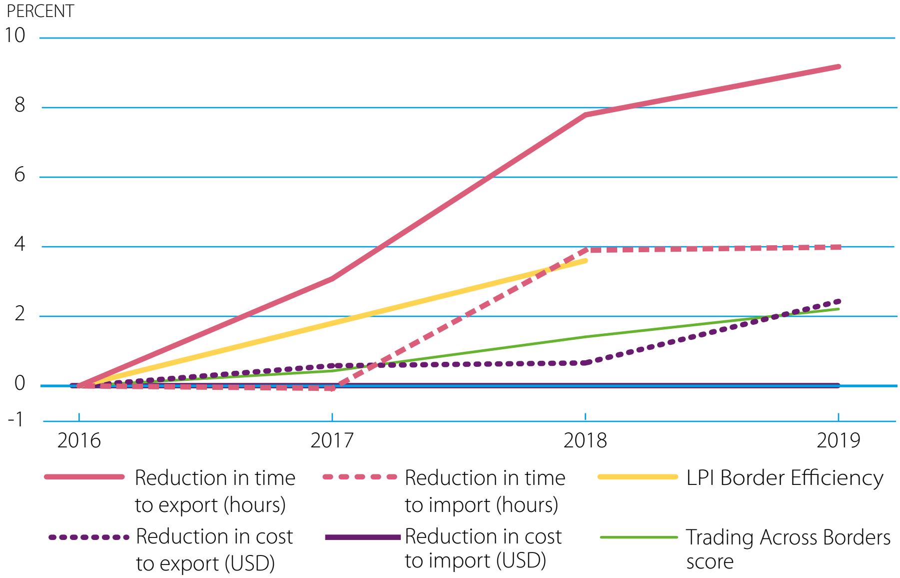
(iv) government interventions directed at specific market, policy and institutional failures.

CHAPTER 6. THE CRITICAL ROLE OF TRADE FACILITATION IN SUPPORTING ECONOMIC DIVERSIFICATION AND STRUCTURAL REFORMS

World Bank Group, Organisation for Economic Co-operation and Development and United Nations Conference on Trade and Development

Two years after the entry into force of the WTO Trade Facilitation Agreement, it is time for an initial stock-taking. How is aid being used to support WTO Members' implementation of the Agreement? What progress has been made? What is the impact of reforms to date? The experience of the World Bank Group Trade Facilitation Support Program (TFSP) and the UNCTAD Trade Facilitation Program, both major providers of trade-related assistance, as well as OECD's analytical work provides insights to these questions.

Figure 7. Percentage Improvement in World Bank Trade Facilitation Indicators TFSP Countries (2016-2019)



Source: World Bank Group

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In these early years, support is generally directed to the "foundational" measures of the Agreement, such as National Trade Facilitation Committees. These will oversee implementation; release studies, providing a baseline to measure progress; and risk management policies and procedures, a precondition for implementation of simplified control and release processes. Progress is being made. TFSP and OECD research find that the level of alignment with the Agreement is increasing, with notable improvements in publication of measures, automation and streamlining of procedures and engagement with the trade community. Positive impacts from these aid-for-trade supported reforms have also been registered. Country reports and periodic time release studies show reduction in customs physical inspections, elimination of unnecessary documents, automation of manual processing steps, and consequent reduction of clearance times. World Bank surveys (the Logistics Performance Index (LPI) and Doing Business) likewise show a positive trend in these aid-supported countries.

What is the future direction of trade facilitation support? There is high demand for financing for national Single Windows, transparency measures, and measures falling under the responsibility of technical border agencies, which typically are not as progressed in the trade facilitation agenda as customs. Facilitation of e-commerce trade should also be considered a priority given the potential this market holds for developing country firms. Full and effective implementation of TFA measures such as *de minimis* duty exemptions, simplified clearance procedures, and pre-arrival processing, support the growth of this market. UNCTAD's "eTrade Readiness Assessment" is a valuable starting point to identify gaps and support needs in that regard. ■

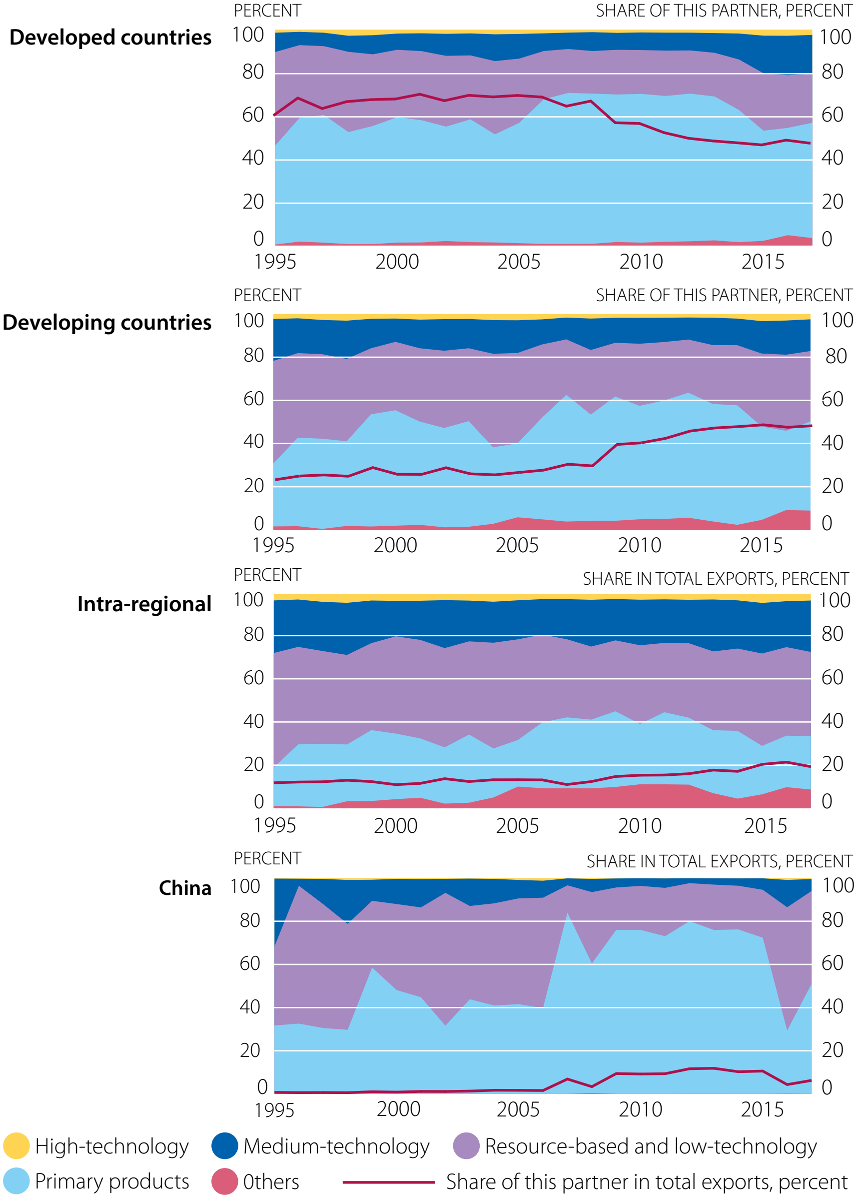
CHAPTER 7. EXPORT DIVERSIFICATION AT THE TIME OF SLOWBALISATION

United Nations Conference on Trade and Development

Export diversification is part of a dynamic process of economic growth and structural transformation that remains an important development objective for many developing countries. In recent decades, as trade in intermediate goods expanded rapidly, many developing countries focused their export diversification strategies on their participation in global value chains (GVCs). Today's global economic trends, however, suggest that the world may be entering a period of "slowbalisation" characterised by slower growth, or contraction, of trade, FDI and capital flows. Growing environmental concerns also raise questions over the viability of repeating the enormous export growth of the past decades. Developing countries may need to reconsider export diversification strategies based on GVC participation to strategies that can achieve trade and economic growth in a context of "slowbalisation" and in a manner that is more environmentally sustainable and inclusive.

The services sector represents the largest segment of most economies, contributing a growing share to GDP, trade and employment. Trade in services has shown continued growth potential even in light of the global economic slowdown. It can contribute to export diversification through two different channels. First, directly as exports, shifting trade away from primary products. Second, indirectly as embedded inputs, since competitive services' as inputs can increase the productivity of the manufacturing sector. Despite this potential, services trade still faces substantial policy barriers.

Figure 8. African exports by technological category and partner, 1995-2017



Source: UN COMTRADE

Note: product categories are based on the classification developed in Lall (2000).

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South-South intraregional trade has consistently been more diversified and contained greater shares of technology-based products than exports to developed countries, as can be seen in Figure 8 for the case of Africa. In the years since 1995, Africa's exports to other developing countries have increased significantly, to reach almost 50% of total exports in 2017. While they include more low- and medium-technology products than exports to developed countries, their main component is primary products, probably due to Africa's commodities exports to China. Intra-African trade on the contrary, is more diversified and contains greater shares of low- and high-technology based products. Similar patterns can be verified for all developing regions, even though South-South regional trade costs remain high. This is particularly true for technical non-tariff measures (NTMs), which have been found to have a greater impact upon trade costs than tariffs.

Services trade restrictions and technical NTMs serve socio-economic and environmental objectives. They can also affect local and foreign producers and consumers. Regional (and global) regulatory cooperation can boost trade in services and intraregional trade, reducing the risk of unintentional effects of regulation on local markets and trading partners. In this sense, regulatory cooperation can encourage export diversification by reducing transaction costs. In addition to provisions on services trade and technical NTMs included in regional trade agreements (RTAs), further regulatory cooperation can take the form of mutual recognition of regulatory measures or harmonisation, or increased regulatory transparency among countries, among others.

Regional regulatory cooperation can help export diversification and by extension the achievement of multiple SDGs, but its process is complex, and time- and resource-intensive, providing a rationale for Aid for Trade. Despite this, the share of aid-for-trade flows with a specific global or regional focus is small and has mostly been devoted to building productive capacity and economic infrastructure. Funds aimed at supporting regional regulatory cooperation, mutual recognition and harmonization efforts seem to have remained low, considering their potential economic benefit. ■

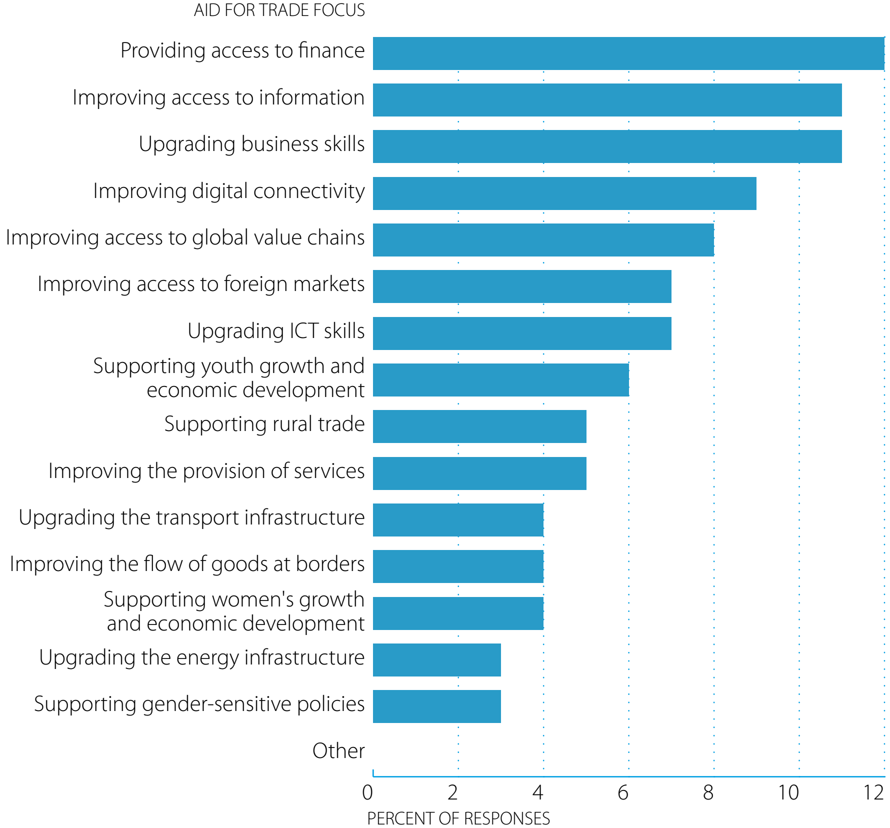
CHAPTER 8. EMPOWERING YOUTH FOR SUSTAINABLE TRADE

International Trade Centre

Youth are a large and growing proportion of the population in many developing countries. They are three times as likely as adults to be unemployed. At the same time, small and medium sized enterprises (SMEs) are facing difficulties finding the skilled employees they need to be competitive and trade. There are important synergies between the objectives of youth economic empowerment and SME competitiveness. As such, the twin problems of youth unemployment and SME competitiveness can and should be solved together.

Small firms in developing countries hire local youth and provide on-the-job training and experience. This can be a gateway to a career, thereby promoting attainment of SDG 8 on decent work for youth. Yet youth can help increase the exports of developing countries by boosting the human capital of

Figure 9. The contribution of aid for trade to youth economic empowerment



Notes: Developing country governments were allowed to choose up to 5 options. 84 governments choose a total of 565 options. The percentage of the total choices that were accounted for by each option is reflected in the figure above.

Source: OECD-WTO aid for trade monitoring exercise (2019)

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firms and fostering innovation, thereby contributing to SDG 9 on innovation and SDG 17 on international trade. Aid for trade focused on youth economic empowerment is thus a win-win opportunity to support the well-being of young people and promote international trade for economic development.

Matching youth skills to firm needs is one way to make this happen. Programmes that align the skills taught by education institutions with the skills needed by SMEs can help young people find jobs. Indeed, firm-level survey data underscores that firms who rate highly the availability of skilled workers tend to hire more young workers. Furthermore, increases in firm-level human capital that are associated with improved youth skills will, according to the economic literature, encourage exports and facilitate export diversification.

Tackling the barriers to youth entrepreneurship can also contribute to SME competitiveness and youth economic empowerment. Globally, one in four young people is self-employed or an entrepreneur, but many of them lack the necessary commercial skills and networks. Aid for trade can help them to develop their business, including by boosting management skills for the competitiveness of their firms. In so doing, they can ensure the survival of many SMEs that can go global.

Governments have a key role in promoting youth economic empowerment for international trade. They can address market failures that are particular constraints to youth-led firms, such as limited access to finance: 76% of youth-led firms report that access to finance is an obstacle to current operations, compared to just 59% of firms led by their older counterparts, according to firm-level surveys. Aid for Trade can play a role here. Increasing access to finance has been identified in the 2019 OECD-WTO monitoring and evaluation excercise as the most important contribution aid for trade can make to strengthening youth empowerment. ■

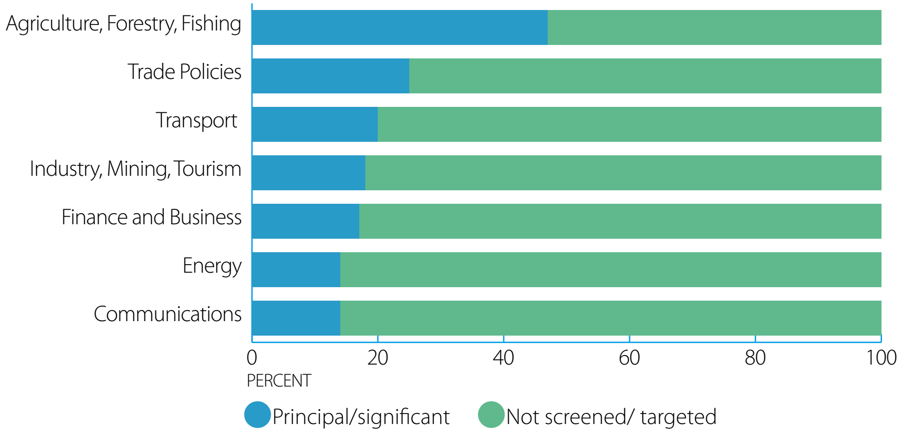
CHAPTER 9. EMERGING LESSONS FROM AID FOR TRADE IN SUPPORT OF WOMEN'S ECONOMIC EMPOWERMENT

Organisation for Economic Cooperation and Development

Women's economic empowerment has been recognised as one of the key drivers of sustainable development. In this context, trade can advance women's position as economic actors with positive benefits for them and their families. On the other hand, special attention needs to be paid to possible unintended negative impacts of trade liberalisation on women. The WTO Task Force on Aid for Trade established a guiding principle to incorporate the gender perspective in aid for trade in order to catalyse women's role in sustainable and inclusive development.

Donors have increasingly incorporated the gender perspective in aid for trade overall. The proportion of aid for trade that integrated the gender perspective within all aid for trade (as measured by the Gender Marker used in reporting) grew from 9% on average in 2006-07 to 24% on average in 2016-17.

Figure 10. Share of gender marked aid for trade per sector, 2016-17



Source: OECD-DAC: aid activity database (2019)

Note: DAC Members, AsDB, EBRD, IADB, World Bank, ILO, and UNDP

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In particular, donors are addressing the gender perspective relatively well in agriculture, forestry and fishing (see Figure 10). Some donors have explicit strategies and guidelines to support economic empowerment of women in these areas. On the other hand, gender perspective not as well integrated in sectors such as trade policies, transport, industry, mining, tourism, finance & business, energy and communications). Many bilateral donors do not have strategies or guidelines on how to promote women's economic empowerment in these areas.

Nevertheless, there are some good examples of donors in integrating the gender perspective in these areas that could be shared with other donors whose approaches are not as well developed. These activities consist of: ensuring that women are included in training programmes; income generating projects for women; increased financial access and employment for women, and studies on strengthening the gender dimensions for the particular sector policy. At the same time, not many donors have adequate indicators or monitoring and evaluation systems to assess impact on women's economic empowerment in these areas. Without these systems, it is difficult to obtain insights as to whether these activities will be effective in ameliorating the situation of women's unpaid work and achieving women's economic empowerment. This calls for awareness raising as well as a revisit on what donors can do more to ensure incorporation of the gender perspective in aid for trade that contributes to women's economic empowerment. It also raises the need to examine how short-term trainings for women are making a difference and how income generation projects and employment can be scaled up for wider impact and sustainability.

In this context, the development of concrete guidance on how to plan, monitor and evaluate donor activities in contributing to women's economic empowerment through aid for trade, particularly in areas such as transport, energy, finance & business, mining and industry might be useful. One element could include how to carry out gender assessments or diagnostics that would consider the impact of infrastructure on women's unpaid care work by examining patterns of mobility or energy use, particularly among the poor in rural areas. Furthermore, it could also encourage more awareness raising and training for men and women to design gender sensitive infrastructure investments. These guidance would address two SDGs – Goal 5 which focuses on unpaid care and domestic work through the provision of public services and infrastructure and Goal 8 which promotes women to be engaged in productive employment. ■

ENHANCED INTEGRATED FRAMEWORK

The EIF is a global partnership that is dedicated to supporting the Least Developed Countries (LDCs) to use trade as a tool for economic growth and poverty reduction through job and income opportunities. The EIF empowers LDCs to identify where and how trade can form an integral part of their national development strategies and assist them in harnessing Aid for Trade towards this objective.

The EIF provides country specific and customized support that addresses the full suite of trade capacity building needs. Through building trade capacity, the partnership works together to support the LDCs' own drive to:

- identify and address the priority constraints to trade;
- ensure trade directly supports the national development agenda;
- set up institutional and coordination mechanisms for trade related technical assistance;
- initiate policy reform and mobilize additional financial and technical resources to address priority trade needs.

INTERNATIONAL TRADE CENTRE

ITC is a multilateral agency fully dedicated to developing the international competitiveness of SMEs. As a joint agency of WTO and UN, ITC focuses on small business export success. ITC works especially in least developed countries, land-locked developing countries, fragile and post-conflict countries, Small Island Developing States and sub-Saharan Africa. We help to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

Focus areas for SME competitiveness include:

- Developing trade and market intelligence
- Building a conducive business environment
- Strengthening trade and investment support institutions
- Connecting to value chains
- Supporting regional integration and South-South linkages
- Mainstreaming inclusive and green trade

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD, which is governed by its 194 member States, is the United Nations body responsible for dealing with development issues, particularly international trade – the main driver of development. Its work can be summed up in three words: think, debate, and deliver. Reflection on development is at the heart of UNCTAD's work. It produces analyses that form the basis for recommendations to policymakers. UNCTAD is also a forum where representatives of all countries can freely engage in dialogue and discuss ways to establish a better balance in the global economy. In addition, UNCTAD offers direct technical assistance to developing countries and countries with economies in transition, helping them to build the capacities they need to become equitably integrated into the global economy and improve the well-being of their populations.

UNCTAD holds a ministerial-level meeting every four years to discuss major global economic issues and to decide on its programme of work. Every two years, UNCTAD organizes the World Investment Forum, which brings together major players from the international investment community to discuss challenges and opportunities and to promote investment policies and partnerships for sustainable development and equitable growth.

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

UNIDO is the specialized agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability. As of 1 April 2019, 170 States are Members of UNIDO. They regularly discuss and decide UNIDO's guiding principles and policies in the sessions of the Policymaking Organs. The mission of the United Nations Industrial Development Organization (UNIDO), as described in the Lima Declaration adopted at the fifteenth session of the UNIDO General Conference in 2013, is to promote and accelerate inclusive and sustainable industrial development in Member States.

The Organization's programmatic focus is structured, in four strategic priorities:

- Creating shared prosperity
- Advancing economic competitiveness
- Safeguarding the environment
- Strengthening knowledge and institutions

WORLD BANK GROUP

The World Bank Group has set two goals for the world to achieve by 2030: end extreme poverty by decreasing the percentage of people living on less than $1.25 a day to no more than 3%; and promote shared prosperity by fostering the income growth of the bottom 40% for every country. In the area of trade and competitiveness, the World Bank Group helps countries achieve these two goals through rapid and broad-based economic growth, centred on strong contributions from the private sector. The World Bank Group is working in this area to help countries expand the volume and value of trade, enhance the investment climate, improve competitiveness in sectors, and foster innovation and entrepreneurship.

WORLD TRADE ORGANIZATION

The World Trade Organization (WTO) is the only global organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The WTO's main activities are to:

- negotiate the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.)
- administer and monitor the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property rights
- monitor and review the trade policies of its members, as well as to ensure transparency of regional and bilateral trade agreements
- settle disputes among its members regarding the interpretation and application of the agreements
- build capacity of developing country government officials in international trade matters
- assist the process of accession of some 30 countries who are not yet members of the organization
- conduct economic research and collecting and disseminating trade data in support of the WTO's other main activities
- explain to and educate the public about the WTO, its mission and its activities.

The WTO currently has 164 members, with more than two-thirds developing economies or separate customs territories.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD. OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

AID FOR TRADE
Global Review
3-5 July 2019

AIDFORTRADE AT A GLANCE 2019
ECONOMIC DIVERSIFICATION AND EMPOWERMENT

Aid for Trade at a Glance 2019 analyses how trade can contribute to economic diversification and empowerment, with a focus on eliminating extreme poverty, particularly through the effective participation of women and youth, and how aid for trade can contribute to those objectives by addressing supply-side capacity and trade-related infrastructure constraints, including for Micro, Small and Medium-sized Enterprises notably in rural areas.

The analysis is based on the views of 133 respondents – 88 developing countries, 35 donors, 5 providers of South-South trade-related support and 5 regional organisations – who participated in the 2019 aid-for-trade monitoring and evaluation exercise. They share the view that economic diversification is a gateway for economic empowerment, but also that empowerment is essential for economic diversification particularly when it enables youth, women and Micro, Small and Medium-sized Enterprises to engage in international trade.

Consult the full publication on line at ***https://doi.org/10.1787/18ea27d8-en.***
This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit ***www.oecd-ilibrary.org*** for more information.

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