Economic and Political Development Concentration

School of International and Public Affairs

Study Center
Columbia University

Program in International Finance and Economic Policy

School of International and Public Affairs

"The World Bank and Trade: Looking Ahead Ten Years"

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John Wilson, Lead Economist in the Development Economics Research Group at the World Bank ("the Bank") and Visiting Fellow at Columbia University, gave a presentation at Columbia's School of International and Public Affairs (SIPA) assessing the unique challenges and new opportunities available in shaping the global development agenda through the lens of the Bank, particularly in the area of trade facilitation and high trade-related transactions costs. The event was moderated by Sara Calvo, Lecturer in the Discipline of International and Public Affairs and a member of the Center for International Business Education and Research (CIBER) at Columbia University. It was co-sponsored by Columbia University's APEC Study

Center and SIPA's Economic and Political Development Concentration and Program in International Finance and Economic Policy.

Mr. Wilson began by reflecting on the past decade and addressing the context of international trade. World trade has grown twice as fast as gross domestic product (GDP) and is interconnected with some of the most important aspects in human development: wealth generation, poverty alleviation, education, technology, idea exchanges, and international security. These linkages have been proven through not only anecdotal but also empirical data. Trade has also assisted international institutions in anchoring the global economy. Given these benefits, Wilson argued that trade matters a great deal, especially regarding development.

Over the last several decades, trade has empowered growth opportunities for the middle income and least developed countries. In fact, developing country share of global gross national income (GNI) has grown from 32% in 1980 to 45% in 2009. Export growth in the least developed countries has increased from -3.4% in the 1980s to 18.5% in the 2000s. Lastly, trade has been expanding not only in the North-South framework but also in the South-South context, expanding in the latter from 15% of imports in 1980 to 35% in 2008.

However, Wilson noted, much of trade literature suggests that the barriers and opportunities to trade are within the South-South context. These "behind the border" barriers include high-cost service inputs, supply chain bottlenecks, and the expansion of these supply chains that link the global economy together. The Bank has been investing funds in research projects aimed at understanding these barriers, particularly in Sub-Saharan Africa. Wilson also asserted that many constraints result from domestic policy. For example, there is a lack of political will to reform in some developing countries. In one country, for instance, three families own all the import quotas for sugar, salt, textiles or cotton, which drives prices up and restricts trade. Issues of governance play a significant role in increasing the inefficiency of trade and stunting economic growth.

Among other initiatives, the Bank has developed databases which provide insight into the barriers and performance of developing countries with respect to economic development. One example is the "Doing Business" report, which includes measures of the costs of doing business in various modes including trade. Looking at the data, it is clear that it is still very time intensive to export and import in many developing countries. Wilson noted that in trade, "time is money," and the length of time and high costs associated with crossing a border in Sub-Saharan Africa are discouraging. The 2008 economic crisis served to highlight the importance of diversification across markets and products; cooperation to keep markets open; a renewed focus on trade costs; and the need to better understand constraints and aid effectiveness.

Turning his attention to the Bank's trade agenda for the next ten years, Wilson emphasized that trade facilitation is essential. The Bank's agenda has moved beyond liberalization (i.e. the traditional modes of reducing tariff rates and protection) to bolstering a nation's supply capacity and helping to expand trade by reducing trade costs in developing countries.

The Bank's trade lending is a blend of concessional and non-concessional funds. In fiscal year 2009, the Bank saw an increase in "crisis lending," where it fast-tracked grants and projects through the trade pipeline to those most in need. Although the mixture of lending has been changing, the Bank has not disengaged from middle-income developing countries like China. Instead the Bank has allowed for the rapid expansion of this group to become lenders themselves. The Bank does not envision itself as a lone actor and recognizes the large capacity of the private sector as a source of lending, as well as bilateral donors and regional development banks, for example. Wilson remarked that the Bank maintains a great interest in engaging with the private sector, desiring to harness the private sector's energy and dynamism and to partner with it in areas such as operations.

John Wilson, Sara Calvo

Wilson then outlined the Bank's lending, noting that lending to Africa represents 36% of the total. Trade facilitation and market access make up an additional 46% of its lending activities. The Bank also supports policy-based lending, which asks nations to implement certain policies before loans are provided. The bulk of the International Bank for Reconstruction and Development's (IBRD) lending is a blend of technical assistance and investment projects—hardware and computer systems, roads, and bridges.

The Bank also sees its role as investing data and research to provide a public good. Looking ahead, it hopes to work more directly with developing country researchers and those outside of Washington. Although discussions around trade have been excessively focused on exports and trade imbalances, Wilson said it is also important to encourage reforms to increase imports and lower South-South trade costs. Exploring these issues, along with cutting trade costs to increase private sector capital flows and foreign direct investment (FDI), are critical.

Examining GDP figures before and after the crisis, Wilson noted that the Bank anticipates GDP growth from 2011 through 2015 will be 6.8%—slightly more favorable than other outlooks. Beyond the "trade as development" agenda, the Bank also desires to explore the key question of aid effectiveness. Bilateral donors and shareholders of the bank are under tremendous fiscal pressure and the Bank has increased its work to understand the effectiveness of aid.

Wilson then presented information on where aid funds with trade goals are being directed. Economic infrastructure projects (i.e. transport, storage, communications and energy) receive the largest amount of funds. Production capacity in business development, business climate, access to trade finance, and trade promotion received the second largest amount of funds. Trade policy and regulation comes in third, including funds directed toward trade negotiations, trade agreement implementation, mainstream trade policy, standards and customs development and regulatory reform. While aid is directed toward infrastructure, some analysts believe that the highest rate of return will come from trade policy and regulation.

To further explore aid effectiveness, the Bank has been conducting extensive research as well as providing input into discussions of the Group of Twenty (G20). In particular, Bank research suggests that $1 invested in trade policy and regulatory reform could increase exports by as much as $697. Thus the highest rate of marginal return was found in the area where the least amount of official trade development assistance is flowing.

While progress has been made, the shock from the recent economic crisis requires new thinking and different platforms must be utilized in order to move forward. The G20 has established a Development Working Group which focuses on trade activity. The Bank will send a delegation to the fourth United Nations Least Developed Country Conference (UN LDC IV), taking place in May 2011 in Istanbul, Turkey. Lastly, the World Trade Organization (WTO) will be holding a July Aid for Trade Review to assess the effectiveness of various private sector programs.

Question & Answer Session

Ms. Calvo opened the Q&A by discussing trade obstacles facing Uganda and Morocco, wondering how issues like these (i.e. sanctions brought together by the private sector in the fish industry) fit into Wilson's argument that the cost of trade transactions is the main bottleneck.

Wilson acknowledged that broad statements regarding an internal or external trade issue is hard to justify without looking at the country level. Thus, the Bank conducts country strategy research to explore these issues. Wilson then reiterated that a country's domestic policy agenda is needed to anchor reform and good governance.

The next questioner asked how the Bank is pushing investment rates from the private sector into developing countries.

Wilson responded that the International Finance Corporation (IFC) has a Foreign Investment Advisory Service (FIAS) that conducts intensive missions in developing countries and considers all the factors affecting the flow of private capital and foreign direct investment, including a country's openness to trade, skill acquisition, and labor mobility. The Bank takes a country-by-country approach to determine clear openings and to showcase success in order to engender more interest in the private sector.

The following questioner asked if the Bank sees a world with less government intervention in the agricultural market.

Wilson replied that the Bank "most definitely" sees this reality. The Bank has been looking at this sector to locate methods for subsidy reduction. Due to the food crisis, there has been quite a bit of work looking at export restrictions from developing countries and how the restrictions have distorted world prices. He then directed audience members to the Bank's Spring Meetings site for detailed information: http://www.imf.org/external/spring/2011/index.htm.

A questioner then wondered how small- and medium-sized firms are integrated into international trade.

Wilson remarked that the IFC is doing a great deal of work on supply chain barriers and trade costs as they relate to small- and medium-sized enterprises (SMEs), starting in Sub-Saharan Africa. The Bank has determined that SMEs account for 50-70% of employment in developing countries, which were hit badly during the crisis. While international organizations have been active in providing credit to smooth out damage, it is still a matter of debate whether this money has adequately reached SMEs.

The next questioner wondered how bilateral agreements help play roles in capacity building.

Wilson replied that analysis on bilateral agreements has continued but may not be as extensive as in the past. At the program level, the Bank provides assistance to implement bilateral agreements. One important area of work suggested by Wilson is to assess the quality of specific bilateral trade agreements in regard to expanding trade between signatories.

A questioner also asked about the Doing Business report and if there are any particular metrics that Wilson finds the most significant.

Wilson noted that the Doing Business group works closely with the FIAS and also has an independent investigation group that reviews policies by sector. Calvo then followed up by asking in which sectors the “low hanging fruit” might lie. Wilson thought that they would be in policy and regulatory reform. For example, countries should develop a global phyto-sanitary standard rather than national-specific standards. Exposing the world to the cost-benefit of moving down these communal paths is essential. Wilson asserted that we cannot ignore the best of international science as it relates to regulation. Calvo then noted that the Bank is still supporting liberalized markets, but the high price of food is leading governments to impose taxes on imports (i.e. in Argentina). As this has indirectly benefited Uruguay, where does Wilson place himself in this debate? Wilson remarked that the “second best” argument is very common. Taxes on imports of food, however, serve to restrict trade over time and limit welfare.

The next questioner wondered what the portfolio of the Bank looks like.

Wilson observed that the Bank’s International Bank for Reconstruction and Development (IBRD) has changed significantly. While it was originally founded on rebuilding Western Europe and Japan, it now focuses on support for developing countries in Africa, South Asia, and other “low income” countries. Additionally, countries graduate out of the assistance programs as their baseline statistics on wealth rise.

The following audience member considered the Bank’s activities in Egypt and if the Bank is doing anything now to aid Egypt in restoring its economy.

Wilson replied that across the Middle East and Africa, the Bank is looking to promote stability and support in restarting the economy. Robert Zoellick, president of the Bank, recently gave a speech addressing the Middle East and Africa and noted how the Bank has been working with non-traditional counterparts in developing countries to help increase stability. The Bank does not get involved in delicate situations, restricting its funding to non-controversial areas.

The last questioner posed the concern of many that the Bank is simply a tool of big business in the United States and developed countries.

Wilson responded by asserting that the Bank does not force governments to do anything; the organization only acts when there is a direct request from the government to engage the Ministry of Finance for an agenda that the government has requested. There are 187 shareholders – member governments of the International Bank for Reconstruction and Development – and the United States is only one of these (albeit the member with the largest amount of voting capital). However, the idea that any one shareholder of the bank can put an agenda before the other shareholders and unilaterally have that adopted is not how the system works. Furthermore, there is currently an agreement among the major shareholders that the Bank should devolve the shares and diversify the number of voting shares across the bank, known as "Voice Reform."