



harnessing
international trade
for development



nzaid

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HARNESSING INTERNATIONAL TRADE FOR DEVELOPMENT

This policy statement outlines the New Zealand Agency for International Development (NZAID) approach to international trade and development. It is consistent with NZAID's policy statement, *Towards a Safe and Just World Free of Poverty*, the vision, mission and values within it, and the cross-cutting NZAID policies on human rights, gender, and the environment that reflect wider New Zealand Government policies in these areas.

NZAID has a central focus on poverty elimination and a core geographic focus on the Pacific region. It seeks through development partnerships to achieve these strategic outcomes:

- fulfilment of basic needs
- sustainable livelihoods
- sustainable and equitable development
- safe, just and inclusive societies.

This policy describes the links and benefits of trade and development and sets out NZAID's overarching operating principles as they relate to trade and development. It specifies priority areas for NZAID's contribution to policy engagement, and programming in relation to trade and development. It is designed as a policy framework to enable decisions to be made on the application of New Zealand's official development assistance (ODA) to trade-related development activities in a manner consistent with the New Zealand Government's ODA policies and its wider trade and development agenda.

This document outlines NZAID's policy and position that:

- **trade can reduce poverty**
- **but trade delivers best when critical economic and governance factors are in place**
- **developing countries face challenges in making trade work for development**



- **and the international donor community can play a key role in overcoming these challenges and constraints.**

NZAID works through policy engagement and programming to help development partners address these challenges and constraints.

BOX 1

“ No single change could make a greater contribution to eliminating poverty than fully opening the markets of prosperous countries to the goods produced by poor ones.”

Source: Kofi Annan

In line with Millennium Development Goal (MDG) 8: *Develop a Global Partnership for Development*, NZAID is committed to supporting the further development of an open, rules-based, predictable, non-discriminatory trading and financial system (Target 12), and addressing the special needs of Least Developed Countries, landlocked countries and small island developing states (Targets 13 and 14). It also seeks to contribute to NZAID's strategic outcome of sustainable livelihoods.

NZAID is committed to working with developing countries and development partners to support their poverty elimination strategies and efforts, measured against the MDGs. It considers that Goal 8 plays an important role in making resources available to achieve, and lock in, progress towards sustainable development and a world free of poverty.

NZAID recognises that trade growth and liberalisation, under certain supporting conditions, can deliver sustainable poverty reduction and substantially stimulate development worldwide. The keys to an effective NZAID role, consistent with its vision and values, are:

- targeted policy engagement on trade and development issues
- trade-related programming that supports developing countries' ownership of trade policies, participation in multilateral trade processes, trade access and efforts to develop policies and institutions to harness trade for development.



NZAID implements this policy according to its operational guidelines. Its strategic and assessment frameworks and approaches seek to reflect wider trade and development considerations where appropriate.

Section 1

THE LINK BETWEEN TRADE AND DEVELOPMENT

BOX 2

“ A universal, rules-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalisation can substantially stimulate development worldwide, benefiting countries at all stages of development. In this regard, we reaffirm our commitment towards trade liberalisation and to ensure that trade plays its full part in promoting economic growth, employment and development for all.”

Source: Monterrey Consensus – Financing for Development Conference 2002

Trade can reduce poverty ...

The potential financial and welfare gains from universal, open, rules-based, predictable and non-discriminatory international trading arrangements far outweigh the financial flows from development assistance (*see Box 3*). Nevertheless, development assistance still has a vital role in helping developing countries and their peoples to take advantage of new opportunities arising from a fairer international trade system.

In recent years, research conducted by a variety of multilateral organisations, academics and international NGOs has pointed to the potential of international trade to:

- stimulate increased national wealth and contribute to government revenue for sustainable development (for example, increased spending on education and health)



- increase local employment opportunities
- increase access to knowledge and technologies relevant for development
- encourage resource allocation into areas of comparative advantage
- lead to improved access to a wider range of goods and services for consumers
- assist countries to achieve sustainable borrowing levels to finance their development priorities.

BOX 3

THE POTENTIAL IMPACT OF HARNESSING TRADE FOR DEVELOPMENT

Reshaping the global trade architecture for development could lead to developing country growth rates that would lift some 600 million people above the poverty line by 2015.

Export earnings account for more than a quarter of the combined GDP of all developing countries, with an increasing proportion of this made up by sales of manufactured goods. However, Least Developed Countries, including those in the Pacific, account for less than 3% of world trade, despite making up more than 40% of the world's population. Rich countries export goods and services worth approximately US\$6,000 per capita each year, but the equivalent figure for developing countries is US\$330, and less than US\$100 for low-income countries.

If developing countries increase their share of earnings from world exports by just 5% this would generate some US\$350 billion in additional income – seven times as much as they receive in aid. A study by Oxfam International indicates that a 1% increase in world export share for each developing region could potentially reduce poverty by 12%.

Seventy percent of the world's poor, the majority of whom are women, are directly or indirectly involved in agriculture. Average agricultural tariffs are in the



region of 60% whereas industrial tariffs are rarely above 10%. OECD research suggests that if significant improvements in market access and trade are to be achieved for developing countries there will need to be deeper tariff cuts, big increases in volumes admitted at lower tariffs, a phase out of export subsidies, and a reduction in trade distorting domestic policies (subsidies are currently over US\$300 billion per annum). **Phasing out restrictions on agriculture could produce gains in income amounting to nearly US\$400 billion by 2015.**

The Doha Development Agenda aims to address these issues.

The lack of policy coherence between aid and trade limits the effectiveness of trade in promoting sustainable development. For example, OECD members spend a considerable amount of ODA money on strengthening the trade capacities of developing countries, but at the same time they restrict developing country access to their own domestic markets. Another example is the export of military goods to countries where conflict is the dominant factor hindering development.

Sources: World Bank (2001/02), OECD (2001), Oxfam International (2002)

... but trade delivers best when critical factors are in place

OECD studies conclude that if open trade and investment policies are to be fully effective in addressing poverty, they need to be supported by a number of critical economic and governance factors. These are:

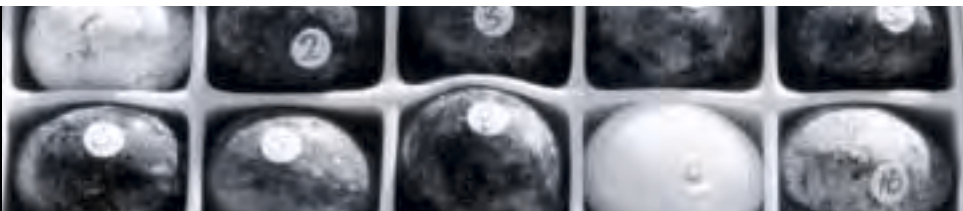
- coherent, locally-owned, national, sustainable development strategies that are underpinned by sound macro-economic policies so that the benefits of international trade reach all segments of the population
- strong local capacity and political will to put in place the legislative and policy frameworks and supportive institutional systems that will ensure trade can be harnessed for pro-poor development



- social policy and programmes appropriately designed and phased to address poverty so that workers and communities can be protected from the possible negative effects of economic change and external trade shocks
- respect for human rights, including promoting participation in policy-making processes at all levels of society so the voices, especially of the poor and marginalised are heard in determining trade policy
- alternative revenue generating possibilities (for example replacing trade tariffs with VAT, or consumption tax, income tax, or resource rents) to ensure fiscal and budgetary stability and so maintain government capacity to meet development spending commitments and priorities
- in certain cases, measures aimed at reducing debt and achieving debt sustainability.

Where the above economic and governance factors are not in place, trade may not contribute to reducing poverty for affected populations. When effective policy and/or regulatory frameworks are absent, or there are trade restrictions that work against the poor, adverse effects can include:

- intensified exploitation – especially of women, children and minority populations and of natural resources
- heightened income insecurity
- an increasing sense of isolation, powerlessness and inequity
- human rights abuses, including labour rights abuses
- social and ethnic tensions and political instability
- environmental degradation
- increased corruption
- the diversion of local productive capacity away from meeting local needs
- the undermining of local industry and production, particularly of staple foods, which then adversely affects food security.



Developing countries face challenges in harnessing trade for development...

The ability of developing countries to maximise the potential benefits of international trade is constrained by other factors. These can be externally or internally generated.

EXTERNAL

These constraints generally relate to the actions of other governments, in both the developed and developing world, in restricting access to markets. This is particularly the case with agriculture and some light manufacturing on which many developing countries rely, and in which many have, or could develop, a comparative advantage.

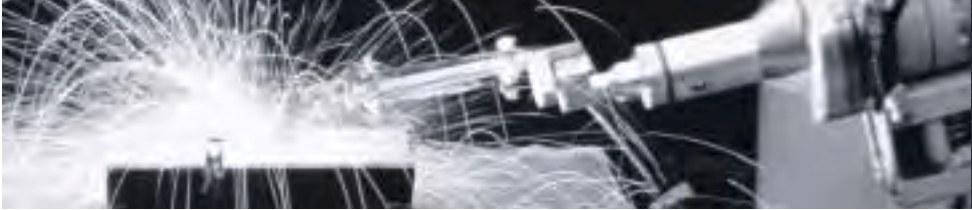
Such constraining factors include:

- imposition of tariffs, quotas and technical/non-tariff barriers to imports which reduce the competitiveness of developing country goods or constrain their access
- subsidisation of domestic producers leading to uncompetitive trading
- dumping of subsidised and/or surplus goods which undermines fragile developing economies
- use of instruments, such as intellectual property rights, in ways that limit or constrain the protection of traditional knowledge and folklore and the transfer of knowledge and technology
- failure to acknowledge and resolve the difficulties faced by developing countries in gaining full and equal participation in international and regional trade policy processes.

DOMESTIC

Many people in developing countries are unable to take advantage of new trading opportunities because of:

- limited skills due to poor access to basic education, lack of business skills training and lack of understanding of new technologies and practices



- reduced capacity to work due to poverty-related poor health
- poorly developed, maintained or repeatedly damaged physical infrastructure (for example, roads, electricity telecommunications, ports) and a weak services infrastructure
- lack of information on new markets, prices, quality standards, trends, costs and potential partners
- an inability to tap appropriate and reliable financial markets.

... and the international donor community can play a key role

Developed country governments and development agencies such as NZAID have an important role to play in helping to address these challenges through development cooperation partnerships and by advocating for the legitimate development interests of developing countries. Governments also have an obligation to ensure their trade and development policies, amongst others, are consistent and do not undermine each other.

Through its trade programmes (*see Section 3*), NZAID helps developing countries, particularly Pacific Island states put these critical factors in place, and assists in addressing internal and external constraints.

BOX 4

NZ WORKING FOR DEVELOPING COUNTRY INTERESTS IN INTERNATIONAL FORA

The World Trade Organisation (WTO) Doha Development Agenda

The mandate governing the Doha Development Agenda seeks to ensure that trade liberalisation enhances developing countries' socio-economic development. The Agenda responds to developing country demands for a more development focused



multilateral trading system: a system that supports their interests in areas such as improved access to markets, special and differential treatment (S&DT) in the implementation of agreements, and support for capacity building. The multilateral trading system should also ensure negotiation arrangements take account of developing country priorities, capacity constraints, vulnerabilities and other national conditions. New Zealand has a keen interest in seeing that the negotiations and agreements in this round deliver on the promise of the Doha declaration.

New Zealand fully supports proposals designed to enable developing countries to participate fully in the global trading system in order to maximise the benefits that can flow from trade liberalisation. This includes special and differential treatment in appropriate circumstances and provision of technical assistance and capacity building so developing countries can participate in the round negotiations, and implement the outcomes for their economic development.

NZAID continues to work with other parts of the New Zealand government, and other governments and agencies to ensure that development issues are addressed in trade negotiations.

To facilitate developing country participation in the WTO, NZAID made an inaugural contribution of NZ\$370,000 to the establishment of the WTO Doha Development Agenda Global Trust Fund.

The UN dimension

Discussion of trade and development also features in various UN agencies and processes, international financial institutions and other international and regional forums. Achieving coherence between the policies, obligations and approaches adopted by the respective agencies and processes presents a challenge to all the world's governments.