

10 Aid for Trade and international cooperation for middle-income countries: the case of Chile

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10.1 Introduction

The Aid for Trade (AFT) programme was launched at the Sixth Ministerial Conference of the WTO, held in Hong Kong in 2005, with the goal of helping developing countries, particularly least-developed countries (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” (WTO, 2005). It seeks to enable developing countries to play an active role in the world trading system and to use trade as an instrument for growth and poverty reduction. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) reaffirms this definition by stating that the purpose of AFT is “... expanding the capacity for growth and economic development of developing countries” (ECLAC, 2008). A direct antecedent of AFT was the “technical assistance related to trade” granted after the conclusion of the Uruguay Round in 1994, especially to LDCs, in order to help them meet their obligations under the multilateral trading system.

With respect to the provision of this type of aid, the Ministerial Conference chose to follow the provisions of the Paris Declaration on Aid Effectiveness of 2005, which sought to enhance general features of the horizontal relationship between the donor community and recipient countries. In 2007, the WTO Secretariat proposed that:

- AFT should not be conceived as a new form of official development assistance (ODA), centred on a donor–recipient relationship, but rather as a tool to seek a joint cooperative relationship
- the projects and programmes should be considered as AFT when these activities have been identified as trade-related development priorities in the national development strategies of partner countries.

* The authors would like to thank the WTO Chairs Programme. The contents of this chapter are the sole responsibility of the authors and are not meant to represent the position or opinions of the WTO or its members.

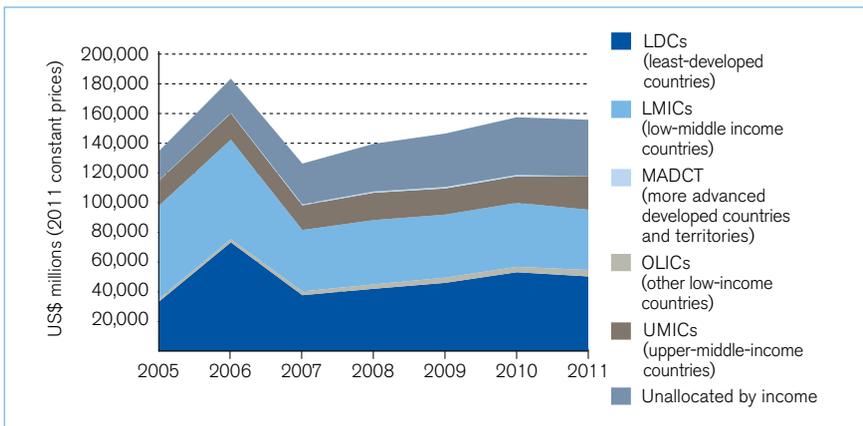
The WTO General Council approved these recommendations in October the same year. Although WTO members have declared that AFT should not become a substitute of the development benefits that a conclusion of the Doha Development Agenda (DDA) would have, the stalled negotiations of the Doha Round had left the AFT programme as one of the main issues on the trade agenda.

Developed countries and international agencies have committed funds to this initiative, and developing countries have identified trade-related development priority areas within their national development strategies. However, the current AFT structure polarizes the relationship between donors and recipients; donors have given priority to those eligible for the World Bank’s International Development Assistance (IDA),¹ leaving aside middle-income countries, particularly upper-middle-income countries (UMICs). Due to their development level, UMICs are not a priority for donors, yet they do not have the availability of funds to become donors, thereby reducing their opportunities and incentives to participate in this initiative. In this chapter we will examine whether and how UMICs can nevertheless play an active role within the AFT framework.

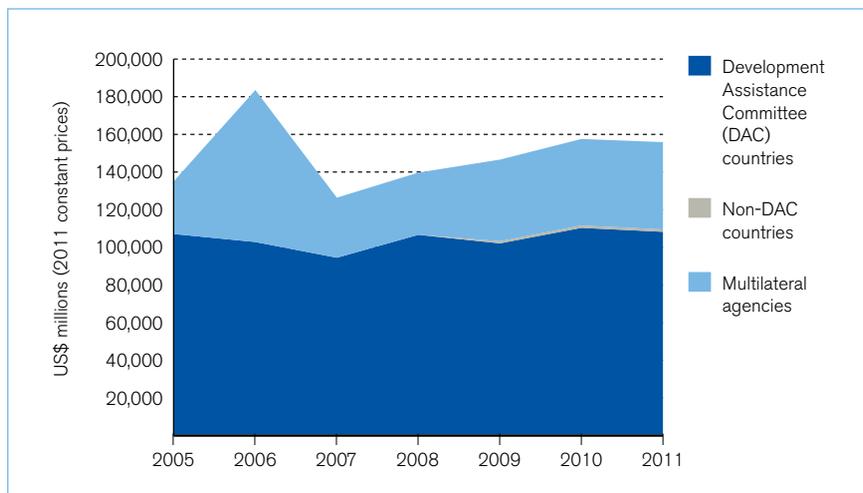
10.2 Aid for Trade: background

Since the launch of AFT in 2005, we have seen a steady increase in the amounts disbursed, with a peak in 2006. Nevertheless, AFT distribution is not homogeneous among recipient countries, reflecting the priority that exists in this programme towards the lower-income countries. In 2011, LDCs and other low-income countries accounted for two-thirds of total aid, while upper-middle-income countries accounted for approximately 15 per cent (see Figure 1). The rest is comprised of regional projects, with the prioritization of Asia and Africa.

Figure 1 Aid for Trade disbursements by recipient income group, 2005-2011



Source: OECD data.

Figure 2 Aid for Trade disbursements by donor income group, 2005-2011

Source: OECD data.

Reviewing the AFT funding sources, it is clear that major donors are members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) and, to a lesser extent, of multilateral agencies, which provide nearly all of the available resources. The first official donation by a non-DAC country was received as late as 2009, and by 2011 this aid did not exceed 1 per cent of the total disbursements. The small size of this percentage can be explained by the limited availability of UMICs' funds, along with their own developing country needs (see Figure 2).

The data presented in Figures 1 and 2 reveal the low involvement of UMICs in the AFT initiative, as both recipients and donors. Financial constraints on UMICs for granting aid to recipient countries sometimes lead to their self-marginalization. The main reasons for this could be their unstable level of development, vulnerability to international economic crises and relative lack of international visibility.

At present there are two ODA formats, the classic model and the cooperative model. In the classic model, the donor is limited to the transfer of funds to the recipient country. In the new, cooperative model, which is embedded within a triangular scheme, countries participating in the flow of funds are considered partners, and the donor cooperates with the recipient (now partner) in the internal implementation of specific programmes. Triangular cooperation normally operates with a donor country (or an international organization) that provides funding and conditions, a country that receives them and a third country (or international organization) that helps in the implementation of the AFT

programmes. This chapter argues that, in the traditional way of understanding this cooperation, the third-country role has not been acknowledged and stimulated and, as a consequence, there is less involvement of UMICs in AFT initiatives.

The cooperative model could be improved by involving UMICs at a deeper level in triangular cooperation through inserting them at an equidistant point between the donor and recipient countries. These countries can play the role of social facilitator without the need to commit funds for aid. This formula should improve the role of UMICs in the development of trade.

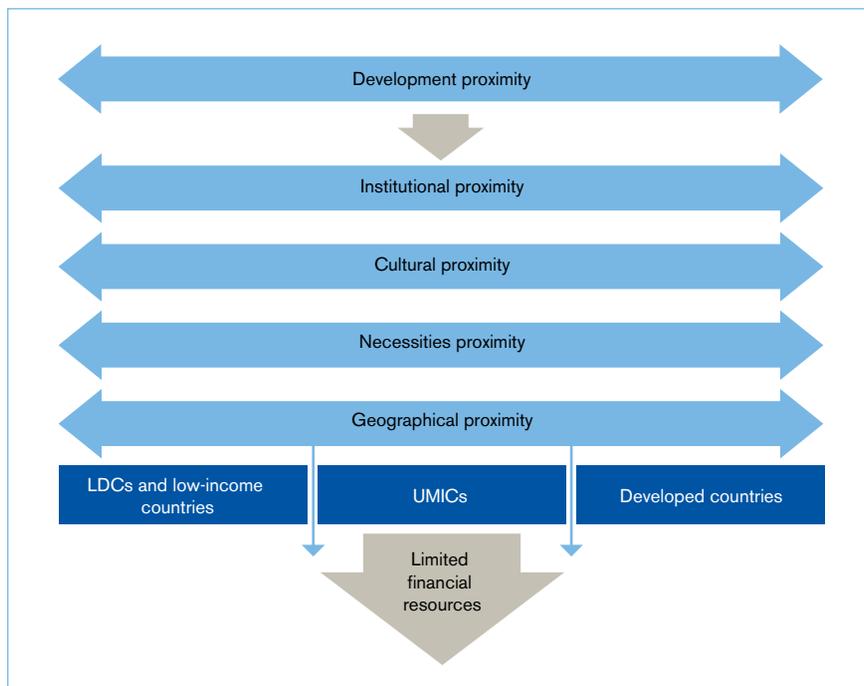
The reasoning behind this idea stems in part from the well-known fact that various support programmes for development – not only AFT – lack the ability to detect the needs of recipient countries. This is because in the formulation, design and, in many cases, implementation of projects and programmes, conditions such as development level, culture or other elements of the recipient country are not always taken into account. This is the result of aid being conceived from a two-sided donor–recipient approach. In contrast, in a triangular cooperation scheme, UMICs can act as facilitators because the proximity between both donor–UMIC and UMIC–recipient is closer than the typical donor–recipient relationship. This closeness allows them to work with donor countries in cooperative actions towards reaching aid development goals.

Among AFT demands, trade-related priority areas identified by recipient countries are mainly trade capacity-building, trade facilitation and infrastructure, particularly in areas related to norms, especially sanitary and phytosanitary (SPS), technical barriers to trade (TBT) and other standards (OECD/WTO, 2011). The self-needs identification may have high costs, and losses could be reduced by triangular cooperation. The UMICs have more recent and similar experiences – in both cultural and commercial processes – with LDCs and low-income countries that could be useful, through a triangular cooperation scheme, in the different steps of AFT initiatives: identification, formulation and implementation of actions.

10.3 Aid for Trade: proximities

Although AFT has been constructed on the basis of national development strategies prepared by developing countries, differences between donors and recipients may reduce the impact of the initiative. The presence of a third actor with closer proximity to both the donor and the recipient country may reduce possible negative impacts of such differences. In Figure 3 we identify a series of characteristics of UMICs which provide them with certain advantages in acting as such a bridge. These are mainly proximities that should create incentives for their inclusion in AFT initiatives through triangular cooperation and collaborative schemes.

Figure 3 Advantages for upper-middle-income countries as facilitator partners



Source: Prepared by the authors.

The idea in Figure 3 is that all the proximities are closely related with the development process and sometimes with other reasons, as follows.

Development proximities

Countries generally tend to build institutional dynamics according to their development processes and strategies. There is a clear relationship between institutions and trade development. It is well known that if institutions such as customs or national standardization authorities are not adequate for trade activity, they will impact on development negatively. The similarities between UMICs and recipient countries, and the closeness in the degree of development between their institutions, foster better opportunities for cooperation between them. This also facilitates the process of implementing this cooperation. For example, it is more likely that AFT for enhancing customs processes should find similar hurdles and challenges in the recipient LDCs to those that were experienced and solved by a UMIC. UMICs' involvement in implementing or coordinating the implementation of AFT can make it easier to overcome such hurdles.

Cultural proximity

Some of the problems in international trade are closely related to deep cultural differences. Factors such as language, training strategies and work culture are determinant for trade development and efficient AFT implementation. The capacity-building programmes for government officials tend to be more effective when they have a regional component or when more similar countries participate.

Proximity in needs

The self-identification of needs can sometimes affect AFT effectiveness negatively. The AFT could sometimes be conceived purely according to contemporary commercial or political priorities, denying the importance of long-term effects and the real problems that need to be solved. Again, a third country can play an important role in effectively allocating funds based on its own trade experience.

Geographic proximity

In some cases, particularly in Latin America, geographic proximity can represent an opportunity in the establishment of networks creating value chains or programmes to continue South–South cooperation strategies. However, these advantages are not always present or not necessarily virtuous. They should, therefore, be analysed on a case-by-case basis.

The above indicates that UMICs have a number of characteristics that place them in an excellent position to act as facilitators within AFT cooperation schemes. The obvious closeness between them and the final recipients of AFT should lead to better results. For example, there are coincidental institutional structures, such as similar trade-related institutions, particularly in Latin America; trade aspects are in the Foreign Affairs Ministry in some countries and the Trade Ministry in others. Customs problems and limitations are more similar when the trade has similar characteristics. Common culture such as language or history makes the way that things are done in each country more understandable. Trade agreements could enhance value chain creation as a result of AFT cooperation. This means that proximities have to be analysed in order to maximize their benefits.

Finally, but no less importantly, the UMICs receive a large number of positive externalities for participating in these initiatives, such as the improvement of their own trade processes, continuity in their self-analysis, the permanent creation of networks and value chain possibilities.

10.4 Aid for Trade and triangular cooperation: the case of Chile

In Chile, the International Cooperation Agency (AGCI, using its Spanish acronym) is the office in charge of Official Development Aid and Cooperation, in which AFT is included. This agency was created in 1991 under the aegis of the Ministry of Planning and Cooperation (since 2011, the Ministry of Social Development) to act as the conduit for ODA that Chile received from traditional donor countries. With Chile becoming a UMIC and no longer being a net recipient of cooperation, AGCI – now under the jurisdiction of the Ministry of Foreign Affairs – is the body that articulates Chile's cooperation with Latin America and Caribbean countries, both bilateral and triangular. Chilean cooperation is mainly oriented towards technical assistance, transferring and installing best practices, and human capital formation, for example granting master's scholarships to professionals in the region.²

Since 2005, Chilean policy towards international cooperation has been mainly cooperative. From 2008, due to the international financial crisis, donor countries have reduced their contributions to Latin America, redirecting them to other regions with more urgent needs, taking into account their lower levels of development. In consequence, and in line with its foreign policy, Chile has played an active role in the maintenance of aid to the region, particularly Central America and the Caribbean, unlike traditional donor countries which direct their aid to countries in Africa and Asia. In giving this support, Chile emphasizes the new formats of cooperation: South–South and triangular.

Technical assistance is the general format of AFT seen in Chile. By virtue of its capabilities and limitations, the country cannot generate support in other sub-groups of AFT identified by the WTO and the OECD (2005), such as economic infrastructure and productive capacity-building. In the case of Chile, we have identified seven initiatives (see Table 1). Three of them were reported to the WTO in 2011.³ Although they were not reported by Chile as AFT, other initiatives⁴ have been considered as part of a global support programme. The emphasis in these initiatives is on strengthening public institutions.

Two programmes were implemented in Chile as part of loans the Chilean Government requested from the Inter-American Development Bank (IDB) (see Table 1). These programmes were developed within the framework of the implementation of Chile's main free trade agreements (with China, the European Union, Japan, the Republic of Korea and the United States) towards maximizing the advantages of preferential access to these markets for small and medium-sized enterprises (SMEs). Two other programmes (Central America and the Caribbean) are part of the Chilean cooperation

strategy within the region, which is mainly concerned with capacity-building. In these programmes, Chile acts as a donor country, but it is important to note that the main component of them is manpower (through capacity-building or formal training for recipients) and not financial disbursements. And three initiatives in Table 1 are part of triangular cooperation with developed (Japan and United States) countries and international agencies (IDB/UN) to implement AFT collaborative schemes in Latin American countries. In these programmes, Chile collaborates mainly through the provision of institutional expertise and manpower, while traditional donors contribute financial resources to achieve the programme objectives. Therefore, it is possible to identify some successful triangular cooperation cases with the participation of a UMIC as a facilitator partner, a scheme that should be encouraged in future activities.

Table 1 Technical assistance is the general format of AFT: a review of specific initiatives

Initiative/programme	Donor	Recipient	Description
PYMEXPORTA 2005–2009	IDB	Chile	Focused on exporter SMEs; seeks to help them overcome obstacles in the use of preferential trade agreements signed by Chile.
Exporter coaching 2007–	IDB	Chile	To develop, implement and acquire institutional capabilities in working methodologies to promote exports and give effective tools for SME internationalization processes.
Strengthening EXPORTA's trade and institutional management 2006–2009	Japan	El Salvador	To give technical assistance to El Salvador's export promotion agency (EXPORTA), transferring ProChile's experience in the management of international markets and export supply development.
Strengthening Paraguay's customs regime 2011	United States	Paraguay	To strengthen internal control procedures of the National Customs Office of Paraguay, by enhancing the capabilities and competences of internal audit systems and physical inspection through technical assistance.
Technical assistance to strengthen action on food safety in Guatemala 2010–2014	IDB and United Nations	Guatemala	To strengthen the technical capabilities of professionals at the Public Health and Social Assistance Ministry (MSPAS) and the National Secretariat of Food Safety (SESAN) on food programmes, food and nutritional vigilance, through technical assistance and capacity-building. Courses on SPS measures were conducted. One of the main objectives was to strengthen the institutional and technical conditions for the control of production and commercialization of food according to CODEX Alimentarius and domestic legislation.

Table 1 Technical assistance is the general format of AFT: a review of specific initiatives (continued)

Initiative/programme	Donor	Recipient	Description
Diplomatic capacity-building and Diplomacy for Globalization course	Chile	Central America and the Caribbean	To strengthen knowledge and capacity-building among Central American and Caribbean diplomats on economics, international relations and public administration.
Agro-ecological development and food safety	Chile	Haiti	Capacity-building of professionals, technicians and farmer families in the production and commercialization of organic vegetables according to agro-ecological procedures for food and environmental safety.

Source: Prepared by the authors.

10.5 Conclusions

In a cooperation scheme based on the donor–recipient relationship, UMICs seem to have fewer incentives and a less-defined role for participation in AFT programmes. Their development position is such that they do not qualify as a priority when it comes to receiving aid and are not in a position to fully act as donors. They are restricted in their ability to adequately perform the role of donor, as they face narrow budgets that impose limitations regarding the availability of financial resources for AFT initiatives. This implies that, in general, governments are reluctant to engage in such schemes. On the other hand, donor countries consider UMICs a lower priority as aid recipients, precisely because of their relatively higher development level. Moreover, in some cases, UMICs which are members of the OECD, such as Chile, Mexico or Turkey, have fewer possibilities to be considered as aid recipients since they became members.

This chapter argues that a cooperative approach can give UMICs a more defined role in cooperation processes such as AFT, especially through collaborative partnerships. In particular, we argue that UMICs are well positioned to play the role of facilitator in such partnerships.

Delivering AFT through this enhanced scheme – allowing the involvement of UMICs – could be beneficial for all the countries involved in this initiative. Among the potential benefits are those related to adding value to exports and becoming part of value chains, which must be part of the objectives pursued in triangular cooperation and represent an important issue for countries like those of Latin America.

Triangular cooperation schemes have already begun to develop, as we have identified in the case of Chile, and they are an alternative that should be considered in the design of larger scale cooperation programmes. In addition, inserting UMICs within such processes is an indication for LDCs and low-income countries that a potential increase in their development levels may not necessarily result in marginalization from aid schemes.

Endnotes

1. Eligibility for IDA support depends on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (in fiscal year 2014, US\$ 1,205). IDA also supports some countries which are above the operational cut-off but lack the creditworthiness needed to borrow from the International Bank for Reconstruction and Development (IBRD). Some countries are IDA-eligible based on per capita income levels and are also creditworthy for some IBRD borrowing. They are referred to as "blend" countries (World Bank, 2013).
2. See: Ministerio de Relaciones Exteriores de Chile (MINREL) (<http://www.minrel.gob.cl/>)
3. PYMEXPORTA, strengthening of EXPORTA's trade and institutional management, and exporter coaching.
4. Strengthening EXPORTA's trade and institutional management 2006–2009, Technical assistance to strengthen action on food safety in Guatemala 2010–2014, Diplomatic capacity-building and Diplomacy for Globalization course, and Agro-ecological development and food safety.

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ISBN 978-92-870-3931-6

WTO Publications

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WTO Online Bookshop: <http://onlinebookshop.wto.org>

Publication designed by Triptik
Printed by World Trade Organization, Switzerland, 2014.

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