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BRIEFING

The role of the World Bank in international trade policy

Author: Elina VIILUP[1]

1 Introduction

The World Bank is an international financial institution formed by the International Bank for Reconstruction and Development and the International Development Association.

It provides loans to applicant countries with the aim of boosting local development and fighting poverty.

The origins of the World Bank (WB) are conventionally dated back to the Bretton Woods conference in 1944 which saw the birth of both the WB and the International Monetary Fund (IMF) as UN specialised agencies with the aim of promoting international economic cooperation and development. However, the assumption that the WB was created at the Bretton Woods conference is only partially true. The only body created at that time was the International Bank for Reconstruction and Development (IBRD). The World Bank is an international financial institution formed by the International Bank for Reconstruction and Development and the International Development Association (IDA). It provides, mostly through the IBRD, loans to applicant countries with the aim of boosting local development and fighting poverty. The World Bank is in turn a member of the World Bank Group (WBG). This group is formed by five organisations engaged in the fight against poverty and social inequality, namely the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). The World Bank Group has observer status at the United Nations Development Group.

2 World Bank cooperation with the IMF and the WTO

The WB has a joint agreement with the International Monetary Fund (IMF) and with the World Trade Organisation

In order to enhance the effectiveness of its action, the WB has signed a joint agreement with the International Monetary Fund (IMF) and with the World Trade Organisation (WTO) to deepen cooperation on trade-related issues. This agreement, concluded in 1996, called for

[1] This paper was drafted by Francesco TENUTA (intern) under the guidance of Elina VIILUP.

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(WTO) to deepen cooperation on trade-related issues.

> greater coherence among economic policies contained in the Marrakesh Agreement Establishing the World Trade Organization [...] [and] the Bretton Woods institutions, [...] with a view to achieving greater coherence in global economic policymaking.[2]

The most relevant example of cooperation between these institutions was during the 1998 South-East Asian financial crisis.

The most relevant example of cooperation between these three institutions was during the South-East Asian financial crisis in 1998. Intervention by the three institutions was indispensable as there was a need to

> keep markets open so that crisis-stricken economies could recover by exporting to fast-growing importing countries, mainly in North America and Europe. A protectionist backlash, a credible threat in view of the very large devaluations that the crisis provoked in some of the countries affected, could have prevented such recovery with major implications for world economic stability.[3]

The WTO Doha Round has also offered a new forum for a trialogue to promote development and poverty reduction.

Since the crisis would only be resolved through a joint solution 'combining market access, debt relief, increased foreign aid, and macroeconomic stability', it represented the first real forum for cooperation.[4] The development of the Doha Round within the framework of the WTO also offered a new forum for a trialogue to promote 'development and poverty reduction, either in the form of analytical support and advocacy for ambitious market access results, or through financial resources and technical assistance'.[5]

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Cooperation between the WBG and the IMF has been strengthened further within the framework of the post-2015 financing for development and 2030 agenda in which they present themselves as fully synergistic and complementary sister organisations.

[2] 'The Agreements between the WTO the IMF and the World Bank', World Trade Organisation, retrieved 11 November 2015, https://www.wto.org/english/thewto_e/coher_e/wto_wb_e.htm.
[3] M. Auboin, 'Fulfilling the Marrakesh Mandate on Coherence: Ten Years of Cooperation between the WTO, IMF and World Bank', The World Trade Organisation, p. 1, retrieved 13 November 2015, https://www.wto.org/english/res_e/booksp_e/discussion_papers13_e.pdf.
[4] M. Auboin*, op. cit.,* p. 2.
[5] *Ibid.*

3 EU-World Bank Group relations

EU-WBG cooperation is very fruitful in the area of development cooperation.

EU-WBG cooperation is very fruitful in the area of development cooperation, with the European Union and its Member States counting as the world's largest aid donors. For example, in 2014

> EU collective ODA (EU institutions and Member States) has increased to EUR 58.2 billion (up 2.4% from 2013) – growing for the second year in a row and reaching its highest nominal level to date. EU collective ODA represented 0.42% of EU Gross National Income (GNI)[6] [...] significantly higher than for other OECD donors whose ODA averaged 0.28% of GNI.[7]

The European Commission is the third largest contributor to the WBG's trust funds.

The European Commission, which participates as an observer in the IMF/World Bank's development committee, is also the 3rd largest contributor to the WBG's trust funds. Indeed, over the period 2011-2015 the European Commission gave USD 2,165 million in contributions to the WBG[8]. In addition, the Commission

> is the largest contributor to its Governance Global Practice TF portfolio, to the Global Facility for Disaster Risk Reduction (GFDRR), to the ASEM Asian Financial Crisis Multi-Donor Trust Fund for the post-tsunami reconstruction in Aceh and Nias; to the World Bank Iraq Trust Fund; and to Highly Indebted Poor Countries (debt relief). The Commission is also a major donor to the Consultative Group on International Agricultural Research (CGIAR), the Afghanistan Reconstruction Trust Fund, and to the Global Fund to Fight Aids, Tuberculosis and Malaria.[9]

Since the EU is not a member of the WB and does not even have observer status, it is represented by its Member States through ad hoc and informal coordination meetings.

The European Union (EU) is not a member of the WB and not even an observer. Its Member States try to represent it through ad hoc and informal coordination meetings but face the objective difficulty of being dispersed across different constituencies which fragments their capacity to get together. All the 28 EU Member States as a group are in fact major shareholders and partners of both the WB institutions (accounting for nearly one-third of shares in the IBRD and half of the contributions to the IDA)[10] and the other organisations that form the World Bank Group (with the exception of the ICSID, of which Poland is not a member).[11]

[6] However, this is still short of the 0.7% pledged by the EU Member States in 2005. More information available at: http://europa.eu/rapid/press-release_IP-15-4747_en.htm.
[7] 'European Commission calls for renewed commitments to reach targets on official development assistance', European Commission, Brussels, 8 April 2015, retrieved 30 November 2015, http://europa.eu/rapid/press-release_IP-15-4747_en.htm.
[8] 'Development Finance Portfolio at-a-glance: European Commission', The World Bank, 30 June 2015.
[9] 'International cooperation and development: building partnership for change in developing countries', European Commission, retrieved 30 November 2015, https://ec.europa.eu/europeaid/international-organisations_en.
[10] 'The EU and the World Bank Group', *op. cit.*

Despite its lack of direct representation in WB bodies, the EU has developed a strong and wide-ranging relationship with the WB.

Despite lacking direct representation in WB bodies, the European Union has developed a strong and wide-ranging partnership with the World Bank Group mostly focused on the field of development cooperation. Indeed, the WBG 'cooperates closely with the EU institutions to promote shared goals such as reducing global poverty and shifting economies onto environmentally sustainable growth paths'.[12]

Bilateral relations are governed by a framework agreement.

Their bilateral relations are regulated by the 'Trust Funds and Co-Financing Framework Agreement' signed in **2**009 by the former Presidents Barroso (EU Commission) and Zoellick (World Bank) for a period of 10 years[13], followed by a new Framework Agreement signed on 15 August 2014[14] that was required with the introduction of the new EC financial regulations.

Cooperation with the EU is based on four pillars: aid coordination; financing relationship; policy dialogue; global public goods.

According to the WBG, cooperation with the EU is based on four pillars:

- **Aid coordination**: The WBG and the European Commission are in constant dialogue to guarantee the greater effectiveness of their development cooperation policies.
- **Financing relationship**: Even though the EU Member States contribute individually to the WBG budget through their national budgets, part of the EU budget – over USD 1.6 billion in recent years – is channelled into the WBG-administered 'Trust Funds'.[15]
- **Policy dialogue**: The WBG and the EU have conducted permanent dialogues in the areas of EU shared and exclusive competence, with a major focus on the area of trade and agriculture.
- **Global public goods**: The EU and the WBG cooperate in guaranteeing global public goods, especially in the areas of 'environmental protection; control of communicable diseases such as HIV/AIDS; and preventing or mitigating crises in the international financial system'.[16] That said, the focus will now shift to the role played by the World Bank Group in shaping international trade policy along with other international organisations.

[11] 'Study on the implications of international economic and financial governance agenda for EU trade and investment policy', European Parliament, Brussels, 2015, p. 44.
[12] 'The EU and the World Bank Group', The World Bank, retrieved 11 November 2015, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/PARTNERS/WBEU/0,,contentMDK:22924761~menuPK:7952425~pagePK:64137114~piPK:64136911~theSitePK:380823,00.html.
[13] 'Framework Agreement with the World Bank', European Commission, retrieved 3 December 2015, https://ec.europa.eu/europeaid/funding/procedures-beneficiary-countries-and-partners/fafa-world-bank_en.
[14] Framework Agreement between the European Commission and the World Bank signed on 15 August 2014. Retrieved 16 December 2015, Ares Document, Ref. Ares(2014)2974808 - 11/09/2014, https://myintracomm.ec.europa.eu/dg/devco/eu-development-policy/relations-with/Documents/EU-World%20Bank%20Framework%20Agreement.pdf.
[15] '2013 Trust Fund Annual Report', The World Bank, 2013, retrieved 11 November 2015, http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/CFP_TFAR_AR13_High.pdf.
[16] 'The EU and the World Bank Group', *op. cit.*

3.1 The World Bank Group's influence on EU trade policy

EU-WGB cooperation in the area of international trade does not yet match the level of ambition achieved for development cooperation.

The WBG's impact on EU trade policy is limited to specific issues and can be seen as marginal.

Whilst EU-WBG cooperation in the field of development cooperation has so far been highly effective, cooperation in the area of international trade has not reached a comparable level of ambition. Despite both the EU and the WBG supporting the concept of trade liberalisation (see next chapter for more information on the WBG trade strategy), the impact of the World Bank Group on EU trade policy has been relevant but **limited to specific issues**. Indeed, the WBG has only had a marginal influence on EU trade policy. For example, WBG advocacy played an important role in the liberalisation of EU rules of origin under its Generalised System of Preferences (GSP) and Everything But Arms (EBA), in particular for the textile sector[17]. In addition, the WBG played an important but limited role in complementing EU trade policy by supporting the business environment in countries in which the EU has shown strategic interest.[18] This was the case for Georgia, where WBG lending has supported the EU-Georgia DCFTA by creating a favourable climate to foster EU trade relations with the country.[19] The World Bank Group has, moreover, provided technical assistance for the implementation of the Central European Free Trade Agreement (CEFTA). It is easy to understand the key importance of CEFTA implementation for the EU when one considers that trade relations are an important component of the EU-Western Balkans association process and that the various Stabilisation and Association Agreements (SAAs) that the EU has signed with countries in the Western Balkans in Title 3 (Regional Cooperation) oblige them to fully implement the CEFTA.[20] There are many other cases in which the WBG has played an important role in complementing EU trade policy, such as supporting trade logistics reform in Greece and through discussions on reforming the EU-Turkey customs union, on which the WBG has released several recommendations.[21]

However, the WBG's influence has so far been limited to specific aspects and has not had a broader impact on EU trade policy as such.

[17] Interview with a WB official, Brussels, 19 November 2015.
[18] Interview with a WB official, Brussels, 19 November 2015.
[19] *Ibid.*
[20] A. Mostetschnig, 'CEFTA and the European Single Market: an appropriate preparatory exercise?', College of Europe, Natolin, 2011, pp. 17 & 27, retrieved 3 December 2015, https://www.coleurope.eu/system/files_force/research-paper/mostetschnig.pdf?download=1.
[21] Interview with a WB official, Brussels, 19 November 2015.

4 How the World Bank Group deals with trade issues

4.1 The World Bank trade strategy 2011- 2021

Four priority themes govern the 2011 WBG trade strategy: trade competitiveness and diversification; trade facilitation, transport logistics and trade finance; support for market access and international trade cooperation; and managing shocks and promoting greater inclusion.

In June 2011 the World Bank Group launched its latest trade strategy, named 'Leveraging Trade For Development and Inclusive Growth'[22], and identified four priority themes for support activities: trade competitiveness and diversification; trade facilitation, transport logistics and trade finance; support for market access and international trade cooperation; and managing shocks and promoting greater inclusion. In this strategy, the World Bank

> lays out priorities that, in the last decade, have moved away from programs anchored in trade liberalization towards supporting diversification, lowering transport and other trade-related costs, improving access to trade finance, and assessing the poverty-related impacts of trade and trade policies.[23]

The WB strongly supports the creation of a sound multilateral trade system and its purpose is to offer expertise and support to Least Developed Countries and developing countries.

The World Bank strongly supports the creation of a sound multilateral trade system. Therefore, the purpose of its strategy is to provide support and expertise to allow Least Developed Countries (LDCs) and developing countries to promote trade-related reforms in order to benefit fully from global trade flows and promote national development.[24] This is done through the implementation of 'Aid For Trade' programmes.[25] These programmes aim 'to help governments reap the gains from openness to trade and regional integration, and also to manage risks of economic changes, such as adjustment costs and external shocks'.[26] Using trade more effectively to expand sources of sustainable income is essential to achieving the WBG's twin goals of ending extreme poverty and boosting shared prosperity. Economic integration through trade and improved competitiveness is central to any development strategy. The challenges for developing countries are to grow their economies, improve productivity, boost real incomes and create more and better jobs. To meet these challenges, countries need to be better integrated with the world economy, and policymakers, private firms and international partners are actively seeking support from the WBG to find effective ways of achieving this. The creation of the Trade and Competitiveness Global Practice (T&C) was an

[22] Full text available at http://siteresources.worldbank.org/TRADE/Resources/WBGTradeStrategyJune10.pdf.
[23] Interview with a WB official, Brussels, 19 November 2015.
[24] *Ibid.*
[25] *Ibid.*
[26] Interview with a WB official, Brussels, 19 November 2015.

The creation of the Trade and Competitiveness Global Practice was an important milestone towards improving the integration of these countries in the world economy.

important milestone towards the achievement of this goal as it brought together most of the different parts of the WBG that work on trade.[27]

Looking in more detail at the principal areas of the World Bank Group's work in trade, these are[28]:

- Trade Policy and Integration: Analysis and policy advice to help countries eliminate unnecessary non-tariff measures, or NTMs, modernise services regulations and trade, address the poverty and labour impacts of trade policies and shocks, and support global and regional integration, including free trade agreement negotiations and World Trade Organization accession and participation.
- Trade Performance: Help for governments in designing and implementing policies to maximise their trade competitiveness in both goods and services; assistance in creating comprehensive policy frameworks that shape individual firms' capacities and incentives to import and export; and helping governments to reap the benefits of openness to trade and to manage both adjustment costs and external shocks.
- Competition Policies: Eliminating anti-competitive market regulations; strengthening antitrust rules; promoting pro-competition sector policies to discourage monopolies of state-owned enterprises.
- Trade Facilitation and Logistics: Strengthening trade corridors, supply chains and trade logistics; modernising border management; enhancing connectivity between firms, markets and consumers.

The WBG funds much of its work on trade through five trust funds, two of which receive financial contributions from the EU.

To fund much of this work, the World Bank Group has five main trade-related trust funds, two of which receive financial contributions from the EU:

- The Multi-Donor Trust Fund for Trade and Development 2 (MDTF-TD2) is the largest source of donor funds supporting analytical trade work across the WBG. The WBG has received USD 34.5 million in pledges to the MDTF-TD2 over three years.[29]
- The Trade Facilitation Support Programme (TFSP), supported by the European Commission, is a multi-donor platform launched in June 2014 that provides developing countries with rapid-response technical assistance to help them align with the World Trade Organization's December 2013 Trade Facilitation Agreement. To date,

[27] As a fully joint IFC-IBRD Global Practice, T&C combines the traditional public policy focus of the IBRD with the private sector investment focus of the IFC in all of its operational work to support the design and implementation of trade-related reforms, to finance investments and capacity building efforts and to promote knowledge exchange.
[28] *Ibid.*
[29] 'Trade Trust Fund', The World Bank, 30 April 2014, retrieved 30 November 2015, http://www.worldbank.org/en/topic/trade/brief/trade-trust-funds.

45 countries have sought support from the USD 36 million trust fund.[30]

- The Trade Facilitation Facility (TFF), which closed in July 2015, supported improvements in customs and other trade facilitation systems that help developing countries reduce trade costs and improve competitiveness. As of March 2015, 76 projects with an allocation of USD 49.8 million had been approved. Eighty percent of these benefit African countries.[31]

- The Enhanced Integrated Framework (EIF) trust fund, also supported by the European Commission, supports WBG work as part of the global EIF partnership's efforts to help LDCs tackle constraints to trade. It funds capacity-building in LDCs, diagnostics that identify key trade constraints, and the implementation of technical assistance projects. The trust fund has received USD 4.3 million and currently provides trade-related support to 16 LDCs.[32]

- The Transparency in Trade (TNT) trust fund, which is an ongoing partnership between the ITC (Geneva), UNCTAD and the WBG, with active support from the AfDB. Its goal is to collect and make available data on non-tariff measures and services trade policies.[33]

4.2 The Word Bank Group's other instruments to shape trade policy

The WGB strongly advocates trade liberalisation as a way of achieving higher economic growth and sustainable development.

According to the World Bank Group 'in the long run, increased international trade is associated on average with higher economic growth. Indeed, no country has ever developed sustainably without trading extensively with others'. Therefore, the WBG strongly advocates trade liberalisation which, by reducing tariffs and lowering trade barriers, would provide access to 'cheaper imported consumables and/or access to cheaper or higher quality inputs to household production, both of which raise household welfare'.[34]

It has created a range of analytical instruments aimed at identifying major restraints on free trade.

In order to promote trade liberalisation, the WBG has also created a range of analytical instruments aimed at identifying major restraints on free trade in each member state's market. Of these, the four most important are:

- Regulatory Assessment on Services Trade and Investment (RASTI), which helps 'policy makers assess regulations consistently, streamline

[30] 'Trade Facilitation Support Programme', The World Bank, retrieved 30 November 2015, http://www.worldbank.org/content/dam/Worldbank/Highlights%20&%20Features/WesternEurope/Geneva/2014/06/TFSP_Factsheet_FINAL.pdf.
[31] 'Trade Trust Fund', *op. cit.*
[32] *Ibid.*
[33] ' Transparency in Trade', retrieved 30 November 2015, http://www.tntdata.org/about_tnt.html.
[34] 'Trade Policy', The World Bank, retrieved 13 November 2015, http://www.worldbank.org/en/topic/trade/brief/trade-policy.

the regulatory framework in services to improve efficiency, and set up a process for introducing new regulations'.[35]

- Streamlining Non-Tariff Measures: A Toolkit for Policy Makers, which helps 'policy makers in in reviewing and improving 'non-tariff measures' (NTMs), that is, policies other than tariffs that affect international trade'.[36]
- Trade competitiveness diagnostic toolkit, which aims at assessing the competitiveness of a country's exports through a range of tools and indicators that 'analyse trade performance in terms of growth, orientation, diversification, quality, and survival, as well as quantitative and qualitative approaches to analyse the market and supply-side factors that determine competitiveness'.[37]
- Toolkit for the analysis of current account imbalances, which 'explores current account determinants, external sustainability, cyclical versus structural factors, and the role of the financial account' in international trade.[38]

These instruments provide developing countries with the tools to reform their markets.

These instruments provide developing countries with the appropriate tools to reform their markets in order to become proactive actors in international trade and to raise the interest of foreign investors.

[35] M. Molinuevo & S. Sáez, 'Regulatory Assessment Toolkit', The World Bank, Washington D.C., 2014, p. 3, retrieved 13 November 2015, https://openknowledge.worldbank.org/bitstream/handle/10986/17255/9781464800573.pdf?sequence=1.
[36] C. Olivier, M. Malouche, S. Sáez, 'Streamlining Non-Tariff Measures: A Toolkit for Policy Makers', The World Bank, Washington D.C., 2012, p. 1, https://openknowledge.worldbank.org/handle/10986/6019 License: CC BY 3.0 IGO.
[37] J. Reis, T. Farole, 'Trade competitiveness diagnostic toolkit', The World Bank, Washington D.C., p. 1, retrieved 13 November 2015, http://documents.worldbank.org/curated/en/2012/01/15908683/trade-competitiveness-diagnostic-toolkit
[38] A. P. Cusolito, M. Nedeljkovic, 'Toolkit for the analysis of current account imbalances', The World Bank Washington D.C., 2013, p. 11, retrieved 13 November 2015, http://documents.worldbank.org/curated/en/2013/11/18626877/toolkit-analysis-current-account-imbalances