



The World Bank Group

International Trade Strategy Approach Paper:

Background to the Strategy

and Issues for Discussion

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THE WORLD BANK GROUP TRADE STRATEGY APPROACH PAPER

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THE WORLD BANK GROUP TRADE STRATEGY: APPROACH PAPER

I. Background and Rationale: Why a Trade Strategy Paper?

1. This paper outlines issues to be addressed in the forthcoming World Bank Group (WBG) sector strategy paper on international trade, which will be developed through consultations with stakeholders in the coming months. The strategy will focus on helping countries use trade to support economic growth and poverty reduction. The note is intended to provide the basis for discussion with stakeholders on areas of emphasis in the WBG's aid for trade programs. It briefly assesses lessons learned from current and past WBG trade activities, proposes priority areas for the new strategy and mechanisms to enhance the effectiveness of WBG trade assistance, and describes the consultation process for preparing the strategy paper. Based on these consultations, a draft strategy paper will be prepared and circulated for review in summer 2010. The final paper is expected to be released in late 2010.

2. The WBG prepares or revises formal sector strategy papers every 5–10 years to guide its operational work within key sectors. Sector strategy papers review the WBG's past experience in a given sector and set out the organization's strategy for future work in the sector. Sector strategy papers are developed through extensive internal and external consultations. There are direct discussions between WBG Management and the Board of Executive Directors on the content of the strategy throughout its preparation. In addition, all new papers contain results frameworks for monitoring and evaluation of the strategy's implementation.

3. As this will be the WBG's first formal sector strategy paper on trade, it is worth asking why the strategy is needed. First and foremost, international trade integration affects economic growth and poverty reduction, and therefore achieving the Millennium Development Goals. Even for the largest countries, the world market offers more opportunities for finding buyers, sellers, new technologies, workers and investors than do national markets. These in turn provide opportunities for improving livelihoods and increasing incomes. While international economic integration creates new opportunities, it also introduces new sources of vulnerabilities, as has been made evident by the current global economic crisis.

4. Preparation of the strategy offers the opportunity to forge a consensus—across WBG units and with external stakeholders—on priorities for assisting countries in using trade to advance their development objectives. The paper will provide a framework for coordinating activities among WBG institutions—IBRD, IDA, IFC and MIGA—to exploit synergies in each institution's trade activities. A formal results framework will facilitate monitoring and evaluation of WBG activities. Finally, the strategy will give direction to the WBG's collaboration with partners. Consultations with partners will help define the WBG's contribution to the global Aid for Trade initiative. What will be different as a result of preparing this strategy, therefore, is that the WBG's trade programs will be more effectively respond to the needs of developing countries.

5. The remainder of this note discusses the WBG's response to the changing global trade agenda, the proposed scope of the new strategy and issues related to its implementation (including monitoring and evaluation), and plans for internal and external consultations to develop the strategy paper.

II. The World Bank Group's Response to the Changing Trade Agenda

A. The Changing Trade Agenda

6. Now is a good time to take stock of the WBG's trade support programs. The current global economic crisis underscores the value of WBG activities to promote economic diversification, trade facilitation, and international trade cooperation in support of economic growth and poverty reduction. The crisis has led to demands for new types of assistance by the WBG, such as products to help firms in emerging markets access to trade finance. At the same time, the crisis has called into question export-oriented growth strategies. In addition, the consolidation in transport and logistics services markets, potentially higher future higher oil prices, and policies to curb greenhouse gas emissions may lead towards more regionalized trade flows.

7. Prior to the crisis, the world economy had been undergoing profound changes over the past several decades (see Box 1). One notable change is the emergence of production-sharing networks, which are characterized by long-term relationships between buyers and sellers and increased trade in intermediate inputs and services.¹ As a result, low trade transaction costs and favorable business enabling environments have become more important sources of comparative advantage—and contribute to poverty reduction and economic growth.

8. Compared to the 1980s and 1990s, policymakers now confront a larger and more complex trade agenda. Policy is no longer focused solely on eliminating policy barriers imposed on goods as they cross borders, such as tariffs, quantitative restrictions, and foreign exchange controls. Policymakers are also concerned with the challenges of putting in place policies and measures that help increase the competitiveness of firms and firms, ensuring efficient access to backbone infrastructure services, reducing transaction costs both at and behind the border, diversifying into new exports (including services), integrating the poor into global value chains, and improving the business climate as it relates to international trade. These are all areas covered by the Aid for Trade initiative.

Box 1. Trends in International Trade

The volume of world trade increased 27-fold between 1950 and 2006, three times more than the growth in global GDP. Trade has grown twice as fast as GDP since 1990.

The global value of stocks of FDI rose six-fold between 1990 and 2006, substantially faster than the growth in trade, which increased “only” 3.5 times over the same period.

On average across developing countries, both total trade and services trade as shares of GDP has doubled since 1985.

During the 1980s and 1990s, developing countries have diversified into the export of manufactured products, with shares of manufactures in goods exports approaching those of industrial countries.

South-South trade is increasing: the average annual growth rate in South-South trade since 1990 is almost twice that of total world trade; developing countries' trade with each other is now 39 percent of their total trade.

Fragmentation of global production has increased the elasticity of trade with respect to income. External shocks transmitted through trade are now larger than previously.

See appendix for more detailed information.

¹ See Annex II below for details.

B. Evolution of WBG's Trade Priorities

9. Requests for WBG assistance on trade have evolved with changes in the global economy and the trade agenda. During the 1980s and 1990s, trade activities focused on trade liberalization and structural reform to promote economic performance through removal of quotas, export restrictions, and foreign exchange controls, and reductions in tariffs.² After reviewing experiences of structural adjustment lending, a 1989 Board paper endorsed further reforms of trade policies, but called for giving greater emphasis to linkages with inflation stabilization, infrastructure investments, and deregulation.

10. As governments liberalized barriers to trade at their borders, they increasingly turned to so-called behind-the-border policies. A 2001 Development Committee paper reported that “virtually all our client countries are paying increased attention to ‘behind the border’ issues to ensure that producers can take full advantage of the opportunities globalization presents.”³ This paper called for supplementing the “old” agenda of reforming border barriers with the behind-the-border agenda of improving trade-related regulations, trade facilitation systems, investment climate, and trade in services.

11. President Zoellick’s 2007 speech at the first Global Aid for Trade Review in Geneva announced that the WBG would not only remain engaged in trade issues, but that it would intensify its work through expanded country programs on trade and competitiveness, plus increased lending for trade infrastructure, trade finance services, assistance in trade facilitation and logistics, training and technical assistance in strategic areas, provision of benchmarking indicators, and research into globalization and poverty.⁴

12. Country assistance strategies (CASs) reflect the WBG’s increasing emphasis on trade facilitation and the behind-the-border agenda. Every 3–5 years the WBG works governments and stakeholders in borrowing countries to update CASs, which define the scope and priority of lending, technical assistance, and analytical support. Trade components of CASs approved during FY2005–2009 most frequently identify trade facilitation as an important issue, followed closely by export competitiveness, as shown below in Figure 1.⁵

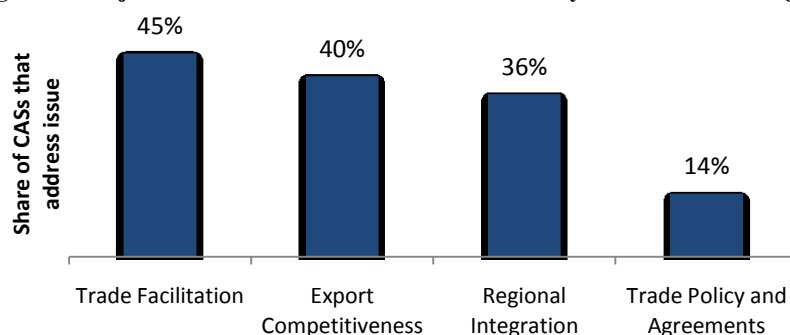
² Objectives of the Bank’s work on trade policy reform and analytical support for this work are presented in World Bank, *World Development Report 1987: Barriers to Adjustment and Growth in the World Economy* (Washington: The World Bank, 1987), and “Strengthening Trade Policy Reform,” SecM89-145, November 1989.

³ World Bank, “Leveraging Trade for Development: World Bank Role,” Development Committee paper DC2001-004/1, April 9, 2001. Progress reports to the Board—initially prepared quarterly—were presented by the trade units in DEC, PREM and WBI. The most recent report was presented in August 2009.

⁴ World Bank, “Unlocking Global Opportunities: The Aid for Trade Program of the World Bank,” July 2009, provides a detailed description of recent developments in the WBG’s trade programs.

⁵ World Bank, “Trade in World Bank Country Assistance Strategies,” Washington: World Bank, August 2009.

Figure 1. Major Trade Themes Addressed in Country Assistance Strategies



Source: World Bank, "Trade in Country Assistance Strategies," August 2009

13. Ensuring access to trade finance has become a higher priority for the WBG during the current crisis. Trade finance was among the first lines of business from which banks retrenched, and the Basel II capital-adequacy rules for trade finance assets in developing countries are making access to finance expensive for institutions located in countries with high sovereign risk. The IFC responded by expanding its Global Trade Finance Program and launching the Global Trade Liquidity Program (endorsed in April 2009 by the leaders of the Group of Twenty).

C. Lessons Learned

14. In 2005 the Independent Evaluation Group (IEG) released "Evaluation of World Bank Support for Trade, 1987–2004," a comprehensive review of the Bank's trade programs.⁶ The evaluation found that trade liberalization often resulted in increased productivity growth, but countries' export supply response and distributional outcomes were mixed. IEG recommended including systematic poverty assessments of projects with trade policy components, formal cross-unit collaboration to address multi-sectoral issues (e.g., poverty, agriculture, and services trade), and strengthened knowledge management.⁷

15. During the past decade the WBG has conducted considerable research into trade and development, including linkages between trade and poverty.⁸ This and other research provides additional lessons for the trade strategy. Export activity and foreign direct investment are generally associated with growth and poverty reduction. Reducing marketing, transport and other intermediary costs in agricultural export supply chains raise the incomes of rural households.⁹ In

⁶ Independent Evaluation Group, Evaluation of World Bank Support for Trade, 1987–2004, CODE2005-0114, December 19, 2005.

⁷ In loans where trade policy reform has figured prominently (e.g., the Mauritius Trade and Competitiveness DPL series and the recently approved Tunisia Integration and Competitiveness DPL), the operations have been accompanied by analytical and advisory work on adjustment and distributional issues. There has been relatively little demand for lending to support trade policy reform in recent years however. There have been several initiatives to promote multi-sectoral collaboration, such as the establishment of the Export Competitiveness Thematic Group and the Trade Facilitation Facility. As will be discussed below in this note, there remains a need for improved coordination across units within the WBG.

⁸ Over 20 papers on these topics were published in the World Bank Policy Research Working Paper series between 2005 and 2009 (and are available from <http://econ.worldbank.org>). See also the volume papers, Bernard Hoekman and Marcelo Olarreaga (eds.), *Global Trade and Poor Nations* (Washington: Brookings Institution, 2007). The strategy paper will include an annex summarizing the main findings of research on trade and poverty.

⁹ See for example, Jorge Balat, Irene Brambilla, Guido Porto, "Realizing the Gains from Trade: Export Crops, Marketing Costs, and Poverty," *Journal of International Economics* 78 (June 2009), and Ndiame Diop, Paul Brenton

contrast, linkages between tariff liberalization and poverty tend to be less direct.¹⁰ Diagnostic trade integration studies (DTISs) conducted in over thirty LDCs find that the primary barriers to their trade integration are typically not trade policies per se (i.e., high import tariffs, export taxes, and quantitative trade restrictions), but rather the high costs of producing goods and services for export and delivering them to buyers in foreign markets.¹¹ The current economic crisis raises concerns that international integration exposes developing countries to excessive external economic shocks, leading to fluctuations in their economic growth. Recent research suggests that the extent of this volatility depends on how diversified countries exports are: developing countries with more diversified export baskets have generally experienced less growth volatility over the past three decades.¹² In general, research findings point to the need for a focus on how developing countries can diversify trade, how to connect remote areas and lagging regions to world markets, which types of trade facilitation are most effective, how best to design regional and multilateral (WTO) trade agreements, and on how to increase formal-sector employment of the poor (and women) in the production of internationally traded goods and services.

16. Initial internal discussions suggest lessons for how the WBG delivers aid for trade. The breadth and complexity of the trade agenda mean that country economists alone cannot carry out the policy dialogue on trade; greater involvement of sectoral expertise is needed, particularly in the area of services trade and transport. Furthermore, WBG trade assistance has not always achieved its potential because policy analysis, technical assistance, and lending tend to be undertaken largely by different units.¹³ Mechanisms to promote multi-sectoral collaboration would help translate upstream analytical findings into downstream operations.

17. We turn next to how the trade strategy will attempt to address these lessons and the broader changes in the world economy

III. Elements of the Proposed Strategy

18. The broad objective of the proposed trade strategy is to help countries use trade integration to support economic growth and poverty reduction. The strategy paper will assess trade needs, identify gaps in WBG assistance, and highlight successful trade projects that the WBG is undertaking that can be replicated. In addition, it will present new internal and external coordination mechanisms to improve the provision of trade assistance. Finally, it will contain a results framework for monitoring and evaluation WBG aid for trade programs.

and Yakup Asarkaya, "Trade Costs, Export Development and Poverty in Rwanda," Policy Research Working Paper No. 3784, World Bank, December 2005.

¹⁰ See, for example, Ann Harrison (ed.), *Globalization and Poverty* (Chicago: University of Chicago Press, 2007), and Neil McCulloch, L. Alan Winters, and Xavier Cirera, *Trade Liberalization and Poverty: A Handbook* (London: Center for Economic Policy Research, 2001).

¹¹ These DTISs were conducted as part of the Integrated Framework for Trade-related Technical Assistance and are posted on the IF website at www.integratedframework.org.

¹² Mona E. Haddad, Jamus Jerome Lim, and Christian Saborowski, "Trade Openness Reduces Volatility When Countries Are Well Diversified," Policy Research Working Paper No. 5222, World Bank, February 2010.

¹³ Staff in the Economic Policy sector conduct most of the trade analytical work at the Bank, while most trade lending operations are managed by the Transport, Finance and Private Sector Development, and Agriculture and Rural Development sectors.

19. **Trade Competitiveness:** Nearly all of the developing country clients of the WBG want to use the global economy as a driver of growth and poverty reduction. Growth in global markets hinges critically on enhancing trade competitiveness. During the past decade, the WBG has expanded its engagement with both private and public sectors on trade competitiveness, as well as stepped up research on sources of competitiveness. This pillar builds on existing activities to address behind-the-border trade constraints with assistance to promote value addition, increase productivity, undertake infrastructure investments that reduce the costs of inputs (notably of inputs of services such as electricity and telecommunications), overcome market failures (e.g., that inhibit innovation and reduce the quality of trade), and remove bottlenecks in trade supply chains that reduce export earnings of producers (particularly the rural poor). It includes work to help exporters meet regulatory and marketing requirements in importing countries, so that they can take advantage of improved market access. This pillar also includes work to improve the incentive frameworks shaped by countries' own tax and tariff policies, such as through special economic zones or reforms to reduce the anti-export bias of the overall incentive framework. In addition to operational work, there is a large research agenda to address gaps in knowledge about the implications of firm heterogeneity, determinants of export diversification into new goods and services, women's participation in export supply chains, and adjustment at firm and industry levels, among other questions. The WBG would continue to collaborate closely with the many development partners that are active in this area. Work in this pillar can help alleviate poverty by encouraging greater participation in the formal sector, expanding the employment of poor households, and increasing their earnings.

20. **Trade Finance:** As the financial crisis unfolded after September 2008, the availability of trade finance decreased and its cost increased. Along with other development institutions, the WBG has contributed to mitigating the crisis and helping to ease access to trade finance, most notably through the IFC's Global Trade Finance and Liquidity Programs (described in the appendix). Demand for trade finance is expected to remain high in the coming years, and there is increasing interest in broader challenges of ensuring exporters and importers' access to credit. This area encompasses IFC's current trade finance programs (described below in the appendix), new products that increase small and medium enterprises' (SMEs) access to credit (e.g., through supplier finance programs or warehouse receipts for agricultural exports), support for export credit agencies, and work by Bank units (e.g., the Finance and Private Sector Development and the Legal departments) and MIGA to help governments implement legislative reforms or provide guarantees to cover political risk. These programs can help reduce poverty by easing credit constraints to international integration faced by traders and producers in poorer countries.

21. **Trade Facilitation and Logistics:** With the lowering of traditional market access barriers, high trade transaction costs have become one of the most important obstacles that developing countries face in benefiting from globalization. WBG programs on trade facilitation and logistics have grown substantially in recent years, and include work with both private and public sectors, with active engagement at country, regional, and global levels. Through this pillar, the WBG will support improved capacity and coordination of government agencies at the border, international transit arrangements, investments in trade transport infrastructure, regional and multilateral (WTO) trade facilitation measures, as well as policy reforms that ensure more competitive markets for international transport, logistics, and other services that facilitate trade transactions. As noted earlier, there a large research agenda into identifying which types of trade facilitation measures are most effective at reducing trade costs. Work in this pillar helps alleviate poverty by

reducing the costs faced by the poor—especially those living in landlocked or remote areas—in connecting to world markets.

22. **Trade Cooperation:** The WBG will remain engaged at global and regional levels in support of development-friendly trade agreements and regional integration arrangements. During the past decade, the WBG has supported both regional and multilateral (WTO) trade negotiations through research in areas such as agricultural subsidies, rules of origin, market access, preference erosion, distributional effects of agreements and negotiating modalities, and implementation of commitments to undertake regulatory reforms. These efforts have been complemented by programs to increase developing countries' participation in trade negotiations, e.g., through training and other capacity building programs. This pillar would encompass trade policy measures to address climate change, food security, and ways to reduce barriers to South-South trade and increase regional integration, which can be an important contributor to trade competitiveness, both for small, very poor, landlocked countries and for less regionally-integrated or diversified middle-income countries (e.g., in the Middle East and North Africa). Promising areas for WBG operational work include regional regulatory harmonization and building the capacity of customs unions and other regional trade institutions.

23. Within each of the priority areas listed above, the strategy paper will:

- identify specific policy problems, knowledge gaps, and challenges for WBG delivery of aid for trade
- present the main services the WBG offers (e.g., lending, TA, research, advisory services, advocacy etc.), providing examples of good practice deliverables or past successes
- highlight industries or sectors of particular importance (e.g., business services, horticulture, light manufacturing, etc.)
- show how these activities contribute to the overall objectives of poverty reduction and sustainable economic growth
- discuss how to address cross-cutting development priorities (e.g., gender equality and climate change)

24. **Trade Data, Indicators, and Information Systems:** Knowledge and access to information are two ingredients to good policy and two prerequisites for successful, enduring negotiated agreements. Absence of data impairs policy makers' ability to provide policy insight and recommendations. In addition to the four thematic focus areas of WBG assistance, the WBG proposes a fifth area that encompasses trade data, indicators, and information systems. Global monitoring and dissemination of trade data and trade-related measures is vital to enterprises, policy makers, civil society, and researchers. These are also a prerequisite for effective monitoring and evaluation of aid for trade. Data, indicators and benchmarks on trade policy and performance help governments make the case for reforms and investments. They also enable governments to assess distributional implications of trade and trade policies. Effective research both depends on and contributes to the development of data. Finally, high-quality, cross-country data are a key input into the analysis of and WBG support for trade measures and international initiatives that would benefit developing countries. The WBG is working closely with ITC, UNCTAD, the WTO and other organizations on several trade data initiatives. Work proposed under this pillar of the strategy would proceed along two tracks:

- building trade statistical capacity at national and regional levels, and mainstreaming trade into government results monitoring and evaluation systems

- expanding existing trade data information systems so that they can be used to assess regulatory and other non-tariff barriers to trade (including services trade), as well as enhancing their overall usability

D. Differentiation by Country and Region

25. The strategy paper will provide a customizable menu of options so that the WBG's aid for trade activities can be tailored to specific country or regional characteristics and incorporated into CASs. Landlocked countries, natural resource exporters, low-income countries, middle-income countries, fragile states, etc., each have different needs and capacities. Although successful countries provide important lessons for other countries, policies cannot be simply transplanted from one country to another. The strategy paper will also lay out strategic priorities developed by the six WBG Regional vice presidencies that will guide their aid for trade activities. During consultations, the team will discuss whether and how new elements of the strategy could be piloted in specific regions or countries.

E. Linkages to other Strategies

26. The international trade agenda overlaps many other issues. International trade integration influences countries' ability to achieve success in gender equality, food security, social protection and other issues. Since trade is inherently multi-sectoral, other WBG sector strategy papers often include components that address trade issues, as shown in Box 2.

27. In addition to establishing priorities for the WBG's trade programs, a goal of the strategy consultations will be to identify how best to address areas where the trade strategy overlaps with other WBG strategies. The trade strategy paper will strive to delineate the boundaries between "trade" and other issue areas, indicating where the trade strategy should be held accountable for achieving results on shared priorities versus where trade should be mainstreamed into other strategies.

Box 2. Trade in other Sector Strategies

The Transport Business Strategy calls for work on the institutional infrastructure for "transport for trade."

The Agriculture Action Plan includes a focus on linking farmers to markets and strengthening value chains. Food security is linked closely to trade integration.

The Energy Strategy approach paper highlights the role of energy trade in meeting demand, addressing energy security, and mitigating climate change.

The Environment Strategy consultations (currently underway) are exploring tax and regulatory measures that have implications for trade flows and trade agreements.

The IFC Trade Finance Strategy is being prepared alongside the trade finance pillar of the WBG trade strategy.

F. Internal Organization and External Partnerships

28. The strategy will propose priorities for overcoming a number of challenges the WBG faces in how it works, both internally and externally, to deliver trade assistance.

29. **Internal coordination:** Better coordination across sectors and units will help translate policy analysis into TA and lending. To increase the flow of information across sectors and Regions and to enhance coordination of the units throughout the WBG that are most involved in delivering trade activities, the consultations will seek to develop new institutional mechanisms. Staff are exploring options to introduce elements of the forthcoming Knowledge Strategy, such

as global practice groups and expert teams, as instruments to connect staff working on key trade and competitiveness issues.¹⁴ Creating a WBG-wide coordination council has also been proposed. A key challenge will be to develop mechanisms that complement the WBG's existing management structures and provide incentives for effective collaboration, rather than simply creating new layers of bureaucracy.

30. **Global partnerships:** Partnerships are central to implementation of the Paris Declaration's principles of donor harmonization and an essential feature of how the WBG provides aid for trade. The strategy paper will map out where there are gaps in aid for trade, where the WBG has a comparative advantage, and where other partners are better placed to take the lead. The strategy will guide participation in global partnerships to ensure close linkages between partnership activities and country-level operations.

31. The WBG plays a number of roles in a wide range of global partnerships. Examples include the following:

- *agenda setting:* formal and informal partnerships working on the Doha Round, the Global Facilitation Partnership for Transportation and Trade, Almaty Programme on landlocked countries
- *providing regional global public goods:* with UN agencies on trade data, the Global Trade Analysis Project consortium, and support for regional research networks
- *delivering aid for trade:* the Enhanced Integrated Framework, collaborations with regional development banks, WBI partnerships for delivering training, close coordination with the IMF and World Customs Organization on customs modernization projects
- *mobilizing resources:* Global Trade Liquidity Program, the Trade Facilitation Facility

32. Perhaps the most significant partnership on trade issues is the Enhanced Integrated Framework, which is widely viewed as the primary vehicle for coordinating aid for trade to LDCs. The WBG is a founding partner in this partnership, and the DTISs the Bank has conducted as part of the IF represent a large share of trade-focused country analytical work the Bank has delivered in recent years. The WBG's continued commitment to the partnership has been expressed in Board papers and Presidential speeches. The trade strategy paper will discuss how best to organize the WBG's engagement with EIF partners, especially at the country level.

33. **Use of trust funds:** Finally, the trade strategy paper will assess trust funds can be used most effectively to support WBG trade activities. Some trust funds are managed at the country level; others are managed centrally to support Bank- or IFC-wide trade activities.¹⁵ The WBG relies heavily on donor trust funds to fund research, analytical and technical assistance activities. Much of the pioneering research on the Doha Round negotiations, trade and adjustment, agricultural policy distortions, and trade costs would likely not have taken place without these external resources, for example. Based on internal and external consultations, the trade strategy will

¹⁴ A WBG-wide customs and border management practice was launched in January 2010.

¹⁵ Examples at the country level are multi-donor trust funds to implement Integrated Framework DTIS recommendations in Cambodia and Lao PDR. The Bank-Netherlands Partnership Program trade window, the MDTF for Trade and Development, and the Trade Facilitation Facility are principal examples of Bank-wide programmatic trust funds devoted to trade issues.

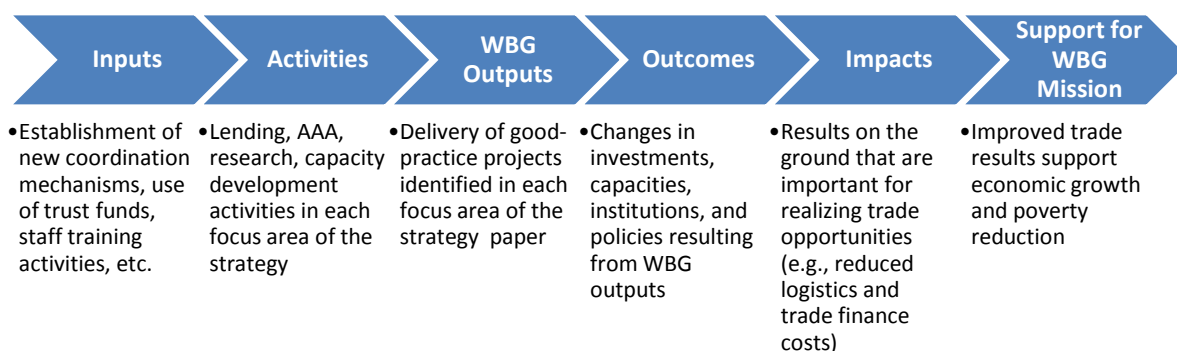
propose priorities to guide how trade trust funds should be allocated across thematic areas, types of activities, and beneficiaries so that they support the WBG's efforts to respond to client demand.

G. Monitoring and Evaluation

34. The trade strategy paper will include a formal results framework and a plan for monitoring implementation of the strategy. Figure 2 below shows the logical flow from inputs into activities to support for broader corporate priorities. This stylized framework will serve as the starting point for WBG-wide discussions with the task managers of trade projects, OPCS, the Research Department, and external specialists to identify key results at each stage of the framework and objective indicators for measuring progress in implementing the strategy. Of particular importance will be to develop benchmarking indicators that are consistent with development partners' systems for monitoring aid for trade. Staff will work with the OECD and other interested partners in the development of these indicators.

35. The final results framework will present WBG outputs and indicators (with baseline and target values) for monitoring performance at different levels (inputs, deliveries, outcomes, etc.). One key output of the strategy paper will be a uniform set of core outcome indicators for trade lending operations.¹⁶ These core indicators will be incorporated into project results frameworks, and data will be collected during appraisal and implementation of projects. The FIAS Investment Climate Advisory Service has been developing methods for evaluating the impact of its advisory services that show promise as a model for this effort.

Figure 2. Proposed Trade Strategy Results Framework



36. A second element of the results framework will be the introduction of rigorous evaluation of the impact of aid for trade projects, drawing on macro datasets of aid deliveries and micro-data from project datasets at the WBG and other sources. The research and trade departments are currently investigating potential methodologies that can be applied to export development and trade facilitation projects. This work would build on and contribute to the Development Impact Evaluation Initiative (DIME) program at the Bank.

¹⁶ Since 2009 the Bank has been introducing the collection and aggregation of standardized data from IDA projects. Core indicators have been piloted for seven sectors: education, health, roads, water supply, micro and small and medium enterprise, urban development, and information and communication technology. For more information, see <http://www.worldbank.org/results>.

37. Finally, the strategy paper's results framework will also contain a global dimension of results that are important for countries' trade outcomes (e.g., reductions in trade logistics costs) and the strategy will propose a set of standardized indicators that can be easily monitored over time and across countries. This dimension would provide a means for assessing the overall effectiveness of policy reforms, investments, and donor assistance on trade.

IV. Consultations, Timeline, and Proposed Outline

H. Internal Consultations

38. The International Trade Department (PRMTR) is managing the preparation of the strategy paper in close consultations with the IFC, MIGA, Regional departments, Network anchors, and other units (notably the trade units in DEC, FIAS and WBI). Initial consultations on the strategy approach began in July 2009. A multi-sectoral team, including Regional trade coordinators and trade specialists working across the WBG, is guiding development of the strategy paper.

39. The consultations process will focus developing a broad consensus around these solutions to challenges identified in the preceding sections of this note, and drafting proposals that can be incorporated into business plans. A staff retreat is tentatively planned to discuss solutions to challenges, forge a consensus around these solutions, and begin drafting proposals that can be incorporated into business plans. Meetings to discuss and refine the draft strategy will subsequently be held with Regional and Network management teams, sector boards with significant trade portfolios, country directors, and other key groups within the WBG.

I. External Consultations

40. To help to develop a trade strategy that best meets the needs of developing countries, the WBG is consulting with external stakeholders, including governments, international organizations, the private sector, and civil society on the design of the strategy paper. A series of face-to-face consultative meetings will be held in developing countries, with at least one meeting taking place in each Region. A wide range of stakeholders—country authorities, citizens, civil society organizations, business, academia, multilateral organizations including the major regional development banks and regional economic communities, donor agencies, media—will be invited to participate in these

Box 3. Proposed Discussion Questions for Consultations

1. The proposed areas of focus in the World Bank Group trade strategy are: trade competitiveness, trade finance, trade facilitation and logistics, trade cooperation, and the development of data, indicators, and information systems. How well do these address and balance the needs of developing countries in using trade to promote economic growth and poverty reduction?
2. How should the World Bank Group allocate its activities between work at the global level and work at the country level?
3. At the country level, the World Bank Group supports developing countries through several means: financing; technical assistance and capacity building; and research and policy analysis. Which mix of activities would be most effective in helping countries use trade to promote economic growth and poverty reduction?
4. Compared to other providers of Aid for Trade, where does the World Bank Group have the greatest strengths in supporting countries on trade issues?
5. In which areas of the World Bank Group's current trade program should other partners – such as regional development banks, bilateral donors, and international agencies – take the lead?
6. How can the World Bank Group help address regional challenges?

meetings. In addition, a series of videoconferences will bring together various stakeholder groups within and across Regions. These will be complemented by video-conferences and a web platform through which public comments can be submitted.

41. Existing global partnerships provide a foundation for external consultations on the trade strategy. These include partnerships oriented around the general delivery of aid for trade, such as the Enhanced Integrated Framework. It also includes partnerships focused on specific trade issues (e.g., the Global Facilitation Partnership for Trade and Transportation) or types of activities (e.g., regional research networks).

42. The strategy will be developed through consultations with government counterparts and also with counterparts in regional economic commissions. In addition to facilitating simultaneous discussions with larger groups of developing countries, this consultation approach will help to develop how the strategy can best address the challenges of regional externalities and spillovers.

J. Tentative Timeline

Table 1. Tentative Timeline for Preparation and Dissemination

Milestones	
Internal consultations to develop and revise the approach	July 2009–January 2010
OVP review of the approach	December, 2009
Committee on Development Effectiveness (CODE) review of the approach	March 10, 2009
Consultations with external stakeholders	April–early June 2010
Internal review of feedback from consultations and draft of trade strategy	July 2010
Public comment on the draft strategy	July–early September 2010
CODE review meeting	Fall 2010
Circulation of the strategy paper to the Board	Late 2010
Dissemination at international meetings and other events	Late 2010–Spring 2011

K. Proposed Outline of the Trade Strategy Paper

A. Introduction: Purpose of the Strategy Paper

- *The WBG does not have a sector strategy paper on international trade. Why does it need one now?*
- *Purpose of the paper: develop a consensus on priority issues and activities; facilitate monitoring and evaluation of results; provide framework for internal and external coordination*

B. Global Context and WBG Response

1. Changes in the world economy

- *Growing importance of trade and changes in trade flows (e.g., global production sharing)*
- *Growing complexity of policy agenda*
- *The crisis and its implications*

2. Challenges for growth and poverty reduction in developing countries

- *What are the implications of global economic changes for developing countries?*
- *What are the key problems for which developing countries seek WBG assistance?*

3. How is the WBG responding?

- *Summarize existing programs, showing the evolution away from the focus during the 1980s on structural reform and trade liberalization.*
- *What have we learned—from IEG evaluations, consultations, and research—that will help guide the WBG trade strategy?*
- *Where does the WBG have a comparative advantage?*

4. Objectives of the trade strategy and relationship to higher-level WBG strategies

- *Introduce the strategic objectives of the trade strategy*
- *Show their connection to broader corporate strategies: Inclusive and Sustainable Globalization, Six Strategic Themes, etc.*

C. Priority Areas/Strategic Pillars

Each section will:

- *identify the pillar's specific policy problems/development objectives and gaps in development assistance*
- *present the main services the WBG offers (e.g., infrastructure investments, lending, TA, research, advisory services, advocacy, etc.), providing examples of good practice deliverables or past successes, and showing how these contribute to overall strategic objectives of economic growth and poverty reduction*
- *highlight economic sectors of particular importance (agriculture, services, etc.) and discuss connections to cross-cutting priorities (gender, climate change, fragility, social protection)*

1. Trade competitiveness

2. Trade finance

3. Trade facilitation and logistics

4. Trade cooperation: regional integration and multilateral/WTO agreements

5. Trade public goods: data, indicators, and information systems

D. Linkages to other Strategies

- *Where does the trade strategy support objectives of other WBG strategies (e.g., transport, agriculture, environment, private sector development) and vice versa?*
- *How will duplication be avoided?*

E. Implementation of the Strategy

1. Differentiation by country type

- *How are the WBG's services tailored to meet the needs of different types of countries, e.g., LICs, MICs, landlocked, natural resource exporters, fragile/post-conflict?*
- *The section will include overviews of strategic priorities in each Region.*

2. Internal organization, staffing, and training

- *What institutional mechanisms are needed to ensure coordination across WBG units in implementing the strategy?*
- *How will the WBG use elements of the new knowledge strategy (e.g., global practice groups, global expert teams) to implement the trade strategy?*
- *What changes to staff composition or training are needed?*

3. External partnerships

- *What are the key partnerships for implementing the strategy?*
- *How will trust funds be used?*
- *How does the WBG trade strategy fit into the broader Aid for Trade initiative?*
- *Return to the issue of comparative advantage to identify areas of the trade agenda where the WBG plays a supporting role, with partners taking the lead.*

4. Risks

- *What risks will affect successful implementation of the strategy?*

5. Budget implications

F. Monitoring and Evaluation of Implementation

1. Results framework

- *Global dimension: simple indicators for benchmarking countries' policies and performance*
- *WBG contribution: outputs, indicators, and baseline and target values for measuring how well the WBG implements the strategy*

2. Institutional arrangements for monitoring and gathering information

- *Which units will be responsible for monitoring in a multi-sectoral setting?*
- *How can corporate systems (SAP/BW, Operations Portal, iDesk) be used; what changes are needed to make them more useful? (e.g., introduction of core thematic indicators for operations, revised sector/theme codes)*
- *What new data will be needed?*

3. Reporting and updating

G. Annexes

1. Data on trends in policies and trade outcomes
2. Detailed information on the WBG trade portfolio

- *Trends in deliveries/commitments over time, by Region, by type of deliverable, by sector, by thematic focus, etc.*
 - *This annex will include data on IFC and MIGA activities as well as IDA/IBRD.*
3. Implementation timetable with milestones for assessing WBG performance
 4. Summary of research on linkages between trade and poverty
 5. Table showing the division of labor across WBG units in conducting trade activities
 6. Staffing: data on trade staff and staff training programs
 7. Table showing the division of labor between the WBG and key external partners in delivering trade assistance (especially regional development banks, Geneva-based trade agencies, the IMF, etc.)
 8. Summary of external consultations

Annex I. World Bank Group Trade Operations in Detail

L. Financing for Trade

43. **IFC:** The IFC lending has focused on building competitiveness through investments in productive capacity of firms, economic infrastructure, and support for trade financing. In 2008, the IFC made equity and lending investments of around \$8.5 billion to enhance developing countries' trade competitiveness: \$5.7 billion to increase firms' productive capacity (e.g., in agro-food processing and manufactures) and \$2.8 billion to build economic infrastructure (e.g., telecommunications sector).¹⁷

44. The IFC's Global Trade Finance Program (GTFP) and Global Trade Liquidity Program (GTLP) contribute to trade competitiveness by reducing international trade transactions costs. The current risk-driven capital adequacy rules (Basel II) on trade finance assets in the developing world are making access to finance prohibitively costly (or impossible) for institutions that do not have strong credit ratings or are located in countries with high sovereign risk. In the recent crisis, trade finance was among the first lines of business from which banks retrenched due to its shorter-term nature, which makes it possible to quickly rein in exposure. Therefore, a trade finance platform such as GTFP continues to respond to market gaps on an as-needed, per-transaction basis providing a measure of stability in times of credit or liquidity constraints. Endorsed by the G-20, the GTLP is a collaborative crisis response initiative among development finance institutions, bilateral, multilateral organizations, and governments to mobilize funding targeted to support trade finance in the developing world on a temporary basis. Total trade supported through the GTFP reached \$6.5 billion by the end of FY2009. One-third of trade supported by the program has been South-South, over fifty percent has supported IDA countries, approximately one-quarter has been related to agricultural goods and eighty percent has benefited SME trade under \$1 million. Thus far, GTLP Phase 1 has successfully mobilized over US\$4 billion from Program Partners, including IFC, Canada, Japan, UK, Netherlands, Africa, Sweden and Saudi Arabia.

45. The IFC is developing two new products designed to assist SME exporters/suppliers in developing countries. In the Global Trade Supplier Finance program (GTSF), IFC's financing benefits emerging markets exporters/SMEs by providing self-liquidating, short-term financing by discounting buyer-approved invoices. The product will enhance access to finance for developing country SMEs, promoting employment and growth and export/supply chain linkages with buyers that are identified as leaders in sustainability. A further tool to assist in access to finance for emerging markets exporters is being explored through the development of IFC's Warehouse Receipts program for agricultural SMEs.

46. **MIGA:** MIGA's support to trade has focused on building competitiveness through providing political risk insurance coverage for private sector investments in productive capacity of firms, economic infrastructure, and support to bank investment and lending (much of this has supported foreign exchange financing used for import and export financing for investment projects and working capital) and thus indirectly trade financing. For example, in 2008, MIGA covered with political risks insurance a number of equity and loan investments exceeding \$1 billion to enhance developing countries' trade competitiveness: \$30 million to increase SMEs

¹⁷ Data from the IFC's project database, as reported in World Bank, "Unlocking World Opportunities: The Aid for Trade Program of the World Bank," July 2009.

firms' productive capacity (e.g., in agro-food processing and manufactures) and \$710 million to build economic infrastructure (e.g., ports, roads, and telecommunications sectors), and \$15 million related customs efficiency. A portion of the bank-to-bank lending for Eastern Europe and Turkey provided coverage supports investment for trade and import/exports financing (above \$500 million).

47. Notable MIGA projects that support trade efficiency and competitiveness are linked to efficient custom systems and inventory management (through projects like SGS Nigeria and Algeria, Cotecna Nigeria and Senegal, Intertec Sierra Leone, etc.), the majority of them have been in Sub-Saharan Africa and Middle East and North Africa.

48. MIGA has also helped with trade-related infrastructure development:

- telecommunications services in many countries throughout Africa (Benin, Burundi, Central African Republic, Ghana, Mauritania, Nigeria, Guinea, and Sierra Leone) and in other Regions (Afghanistan, Pakistan and Syria)
- ports (Djibouti) and airports (Peru, Ecuador, etc.)
- energy infrastructure

49. In addition, MIGA has provided coverage for investments to help increase firms' productive capacity (e.g., agro-food processing and manufactures like pulp and paper for exports, cotton projects in Mozambique and Côte d'Ivoire, etc.).

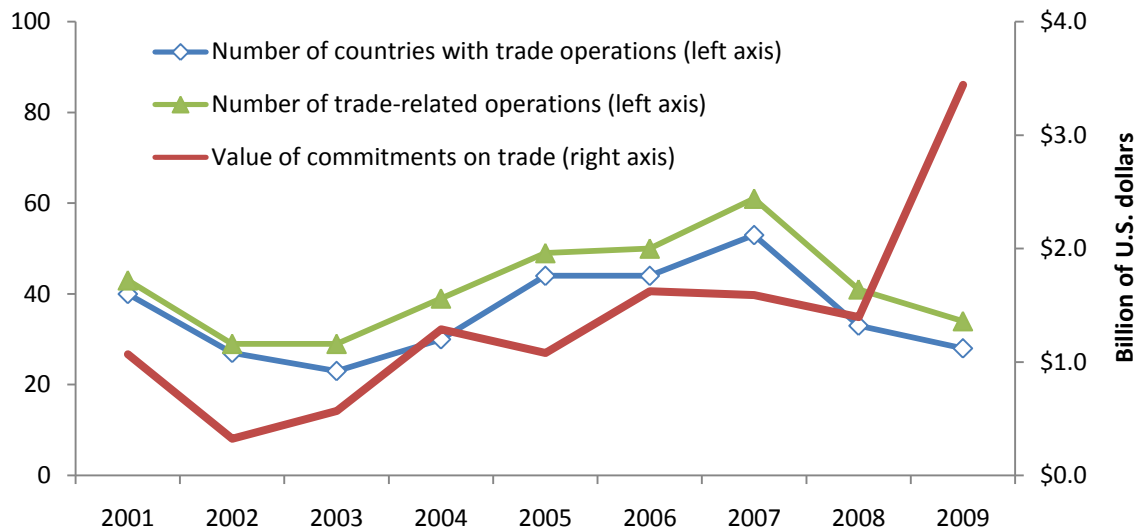
50. **World Bank lending:** Since 2001, the Bank has approved 322 trade-related lending operations in 90 countries and 53 trade-related lending operations in 10 regional groups.¹⁸ (See Figure 3.) The Africa and ECA Regions account for the majority of operations (Figure 4).

51. About one-third of lending operations take place in low-income countries (Figure 5). Of concessional lending to the public sector in low-income countries, more than half is destined for Africa. The large portion of concessional aid for trade for Africa goes to infrastructure—about half in recent years. The rest is about evenly divided between trade facilitation, budget support, and trade policy and regulation.

52. Most non-concessional trade-related resources in middle-income countries go to advanced regions of East Asia, Latin America, and Eastern Europe. Here too, infrastructure accounts for about half of overall lending.

¹⁸ The multi-country projects are almost entirely in Africa (37 Africa-wide, 2 each in central, eastern and western Africa). Lending operations are identified as "trade-related" if they are flagged in the Bank's project database with an international trade thematic code. Projects can be flagged with up to five thematic codes, which represent the purpose or objective of a project. Thematic codes are distinguished from sector codes, which identify the part of the economy being supported or the type of good or service being produced. For example, project with a trade facilitation thematic code might have one of several transportation sector codes (sea, air, rail, etc.). Lending for infrastructure—especially transportation, energy, telecommunications—accounts for a large share of lending in value terms. Sector codes do not allow one to distinguish internationally-traded from non-traded goods and services. Both thematic and sector codes are mutually exclusive and exhaustive: Where projects have both trade and non-trade thematic codes, for example, only a share of the project's value is included in tabulations of the value of trade lending to avoid over- or under-counting.

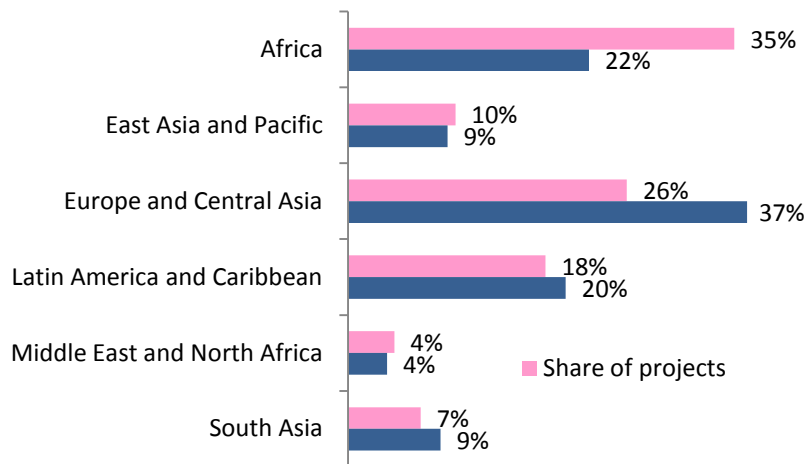
Figure 3. Trends in World Bank Trade Lending, 2001–2009



Source: SAP/Business Warehouse

Notes: Trade components are defined by thematic codes assigned in SAP to IDA and IBRD projects. The increase in value of lending in 2009 comes from the approval of the \$2.125 billion Western Europe-Western China International Transit Corridor Project.

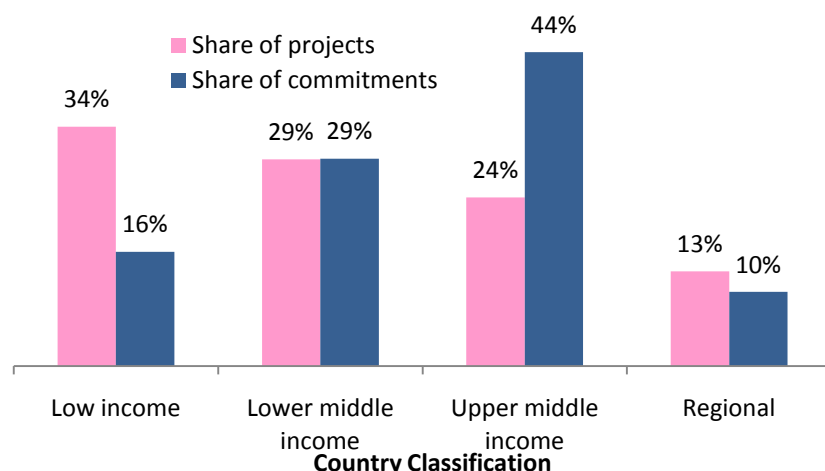
Figure 4. Cumulative World Bank Trade Lending by Region



Source: SAP/Business Warehouse

Notes: Cumulative approvals, FY2001–2009.

Figure 5. Cumulative World Bank Trade Lending by Country Income Level



Source: SAP/Business Warehouse

Notes: Countries are classified by their income status in the WBG's 2009 country classification. Cumulative approvals, FY2001–2009.

M. Analytical and Advisory Activities (AAA)

53. The WBG provides services to help countries design comprehensive trade strategies through programs of policy analysis and technical assistance.

54. **IFC/FIAS advisory services:** FIAS launched its Trade Logistics Advisory Service in 2007 with a mission to reduce the total time and cost to trade in developing countries by helping them build efficient trade logistics systems and services. This service employs a standardized, scalable, modular business model that helps governments and the private sector improve the policy, regulatory and administrative environment underlying their trade logistics systems and services. Projects are relatively short term (1 to 4 years) and cost effective, yet they help clients obtain low-cost, high impact reforms that are essential to fully realize the potential of other initiatives such as infrastructure investments and agribusiness development. The Trade Logistics Advisory Service has pioneered new impact measurement methodologies that demonstrate significant direct cost savings to firms from reduced time to trade. For example, a typical medium-sized Rwandan firm with annual revenue of \$25 million saves as much as 14 percent of its net revenue because the time to import decreased to 42 days in 2008 from 69 days in 2007.

55. Other FIAS advisory and technical assistance activities address both industry-specific and cross-cutting issues central to trade competitiveness by:

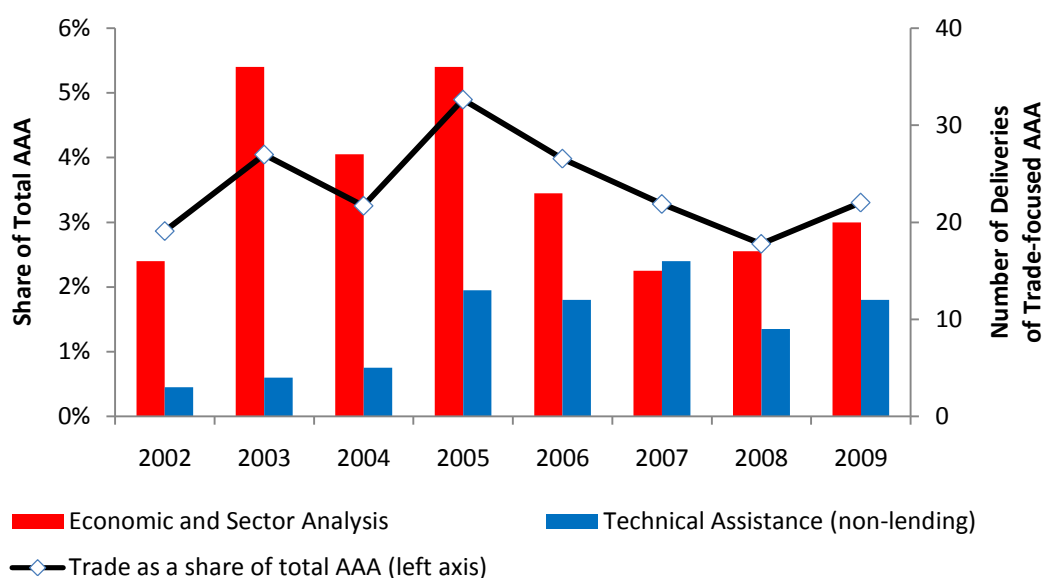
- promoting access to information and communications technologies by working with governments, regulatory bodies, and service providers on sector policies, pro-competitive regulations, and trade negotiations,
- promoting competitiveness through special economic zones and improving the investment climate in specific tradables sectors, with a focus on agribusiness and tourism

56. A critical component IFC's GTFP is the Technical Assistance Program, which focuses specifically on increasing the trade finance expertise of our client and non-client banks through in country seminars, and in selective cases through the use of embedded consultants.

57. **World Bank country analytical work and technical assistance:** To improve national competitiveness and diversification, the Bank has undertaken numerous targeted trade-related analytical economic and sector work (ESW) and technical assistance (TA) programs. Efforts have been made to diversify exports and promote international integration of services markets—encompassing cross-border trade in business and transport services; consumption by foreigners of tourism, health, and education services; foreign direct investment in banking, communication, and distribution; and temporary migration of doctors, teachers, and construction workers.

58. Since FY2002, the Bank has delivered close to 900 pieces of ESW and TA that include work on trade issues; over 250 of these focused primarily on trade, representing 3.6 percent of all AAA deliveries.¹⁹ Half of the trade-focused AAA addresses trade facilitation and market access issues; just over one-third address export development (see Figure 7). Figure 6 below shows that deliveries of these trade-focused AAA peaked in FY2005, both in absolute terms and relative to total Bank AAA deliveries. This can be attributed in part to a substantial work program of conducting comprehensive country trade diagnostic studies (DTISs) in LDCs and low-income countries: DTISs accounted for 30 percent of ESW deliveries during the peak years of FY2003–2006.²⁰ This work has largely been completed.

Figure 6. Deliveries of Trade-Focused ESW and TA, 2002–2009

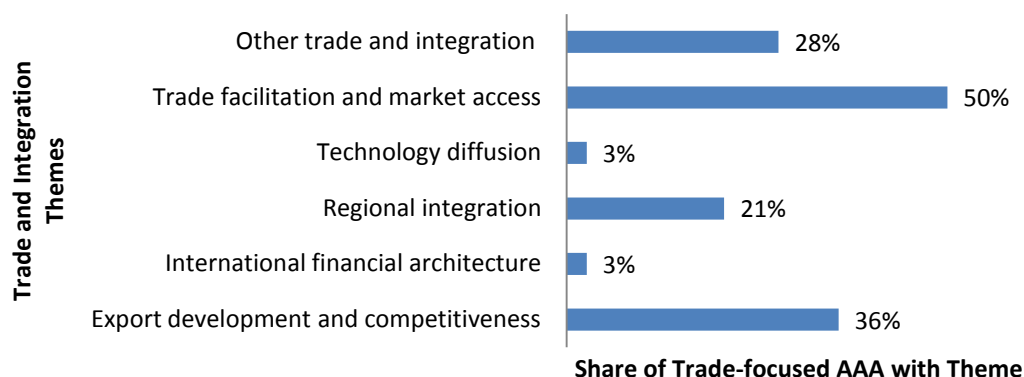


Source: SAP/Business Warehouse

¹⁹ Data from SAP/Business Warehouse. Deliveries based on the delivery-to-client date recorded in SAP. “Trade-related” activities include at least one of the six trade thematic codes that express the objective of an activity: export development and competitiveness, international financial architecture, regional integration, technology diffusion, trade facilitation and market access, and other trade and integration.

²⁰ The DTISs in LDCs have been conducted part of the Bank’s participation in the Integrated Framework for Trade-Related Technical Assistance global partnership.

Figure 7. Thematic Coverage of Trade-Focused AAA



Source: SAP/Business Warehouse

Notes: Shares of cumulative AAA deliveries. Many activities are coded with more than one trade theme.

59. Trade-focused AAA has been concentrated in the sub-Saharan Africa (Table 2). The Africa Region delivered 38 percent of trade-focused AAA in FY2002–2009. Trade accounts for a larger share of the Africa Region’s AAA program than of other Regions: 6 percent of the Africa Region’s AAA focuses primarily on trade, versus 1–2 percent in other Regions.

Table 2. AAA Deliveries by Region, FY2002–2009

	AFR	EAP	ECA	LCR	MNA	SAR	World
Regions’ share of total Bank AAA deliveries	22%	17%	20%	11%	13%	10%	6%
Region’s share of trade-focused AAA deliveries	38%	11%	14%	7%	11%	12%	6%
Trade-focused AAA as a share of Region’s total AAA	6.1%	1.7%	2.3%	1.1%	1.7%	1.9%	1.0%

Source: SAP/Business Warehouse

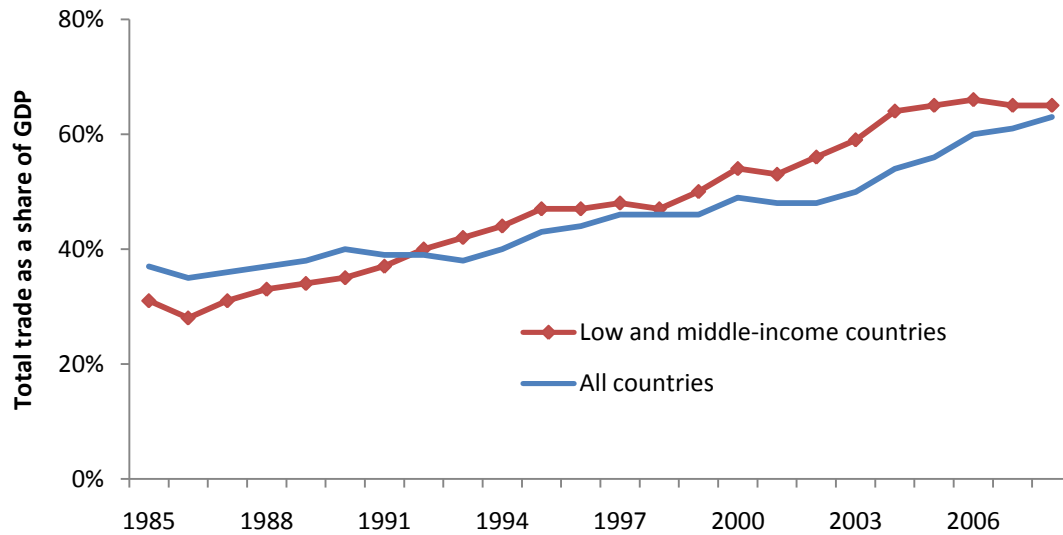
Table 3. Allocation of AAA Deliveries and Spending by Country Type

Type of AAA	Allocation of Deliverables			Allocation of Total Spending		
	Low-income	Lower-middle Income	Upper-middle Income	Low-income	Lower-middle Income	Upper-middle Income
All AAA	32%	43%	20%	30%	46%	19%
Trade-focused AAA	50%	37%	11%	55%	32%	12%

Source: SAP/Business Warehouse

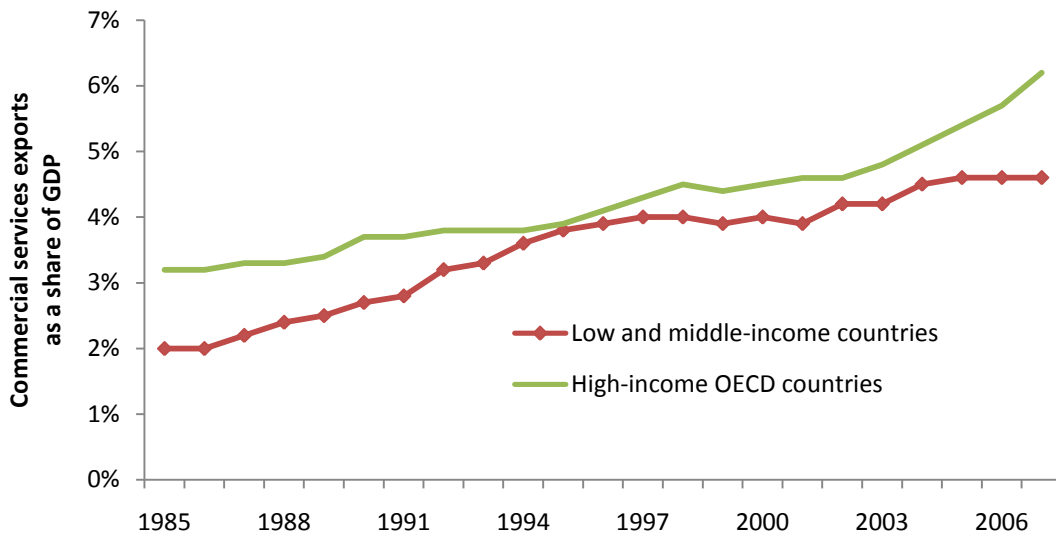
Annex II. Trends in World Trade

Figure 8. Trade Integration is Increasing



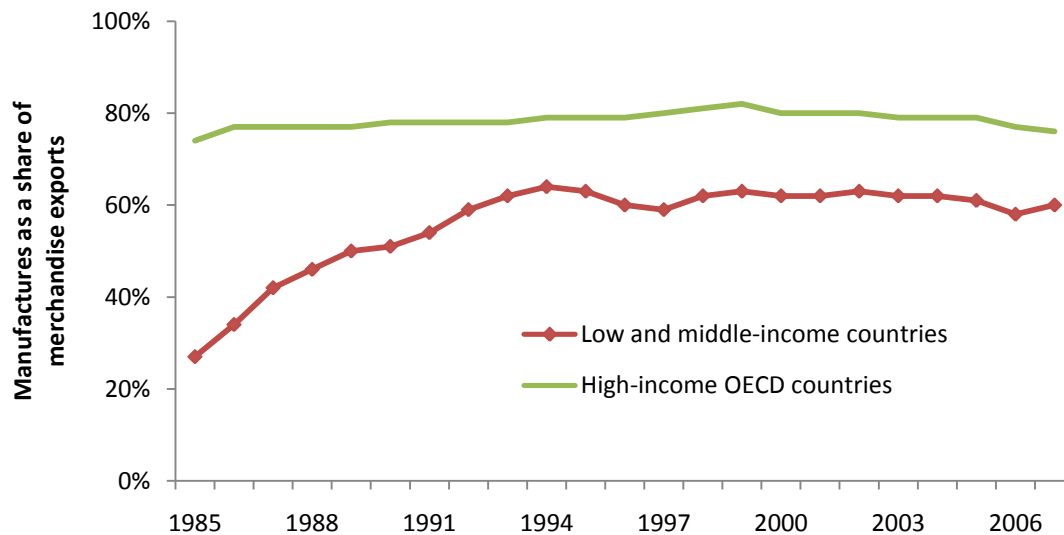
Source: World Development Indicators

Figure 9. Developing Countries are Increasing Exports of Services



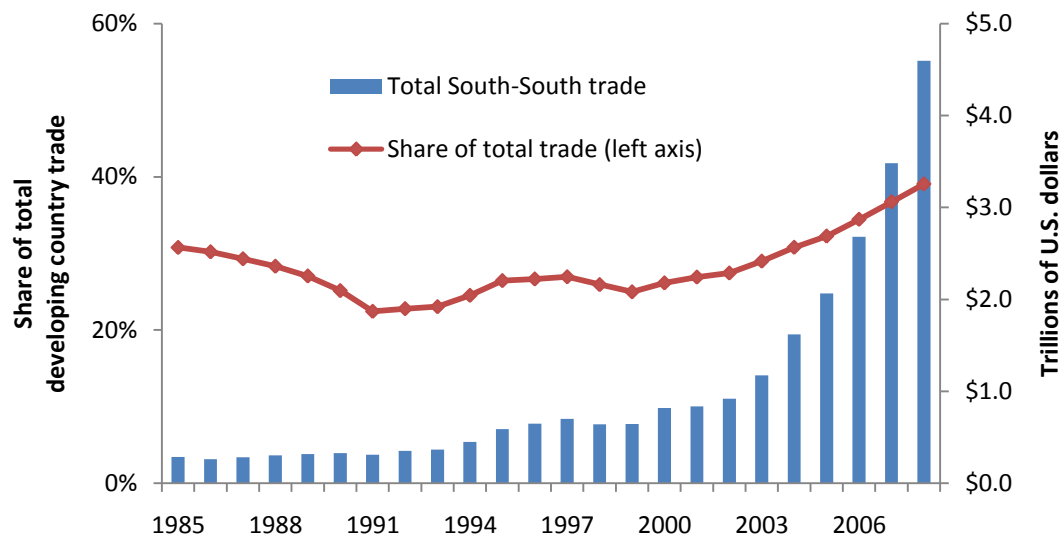
Source: World Development Indicators

Figure 10. Developing Countries' Growing Specialization in Manufactures



Source: World Development Indicators

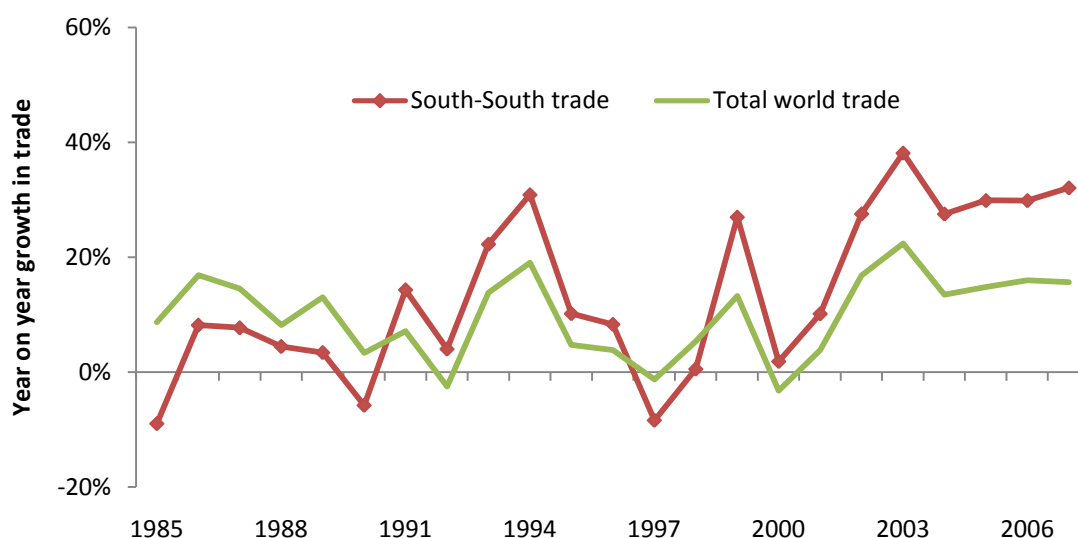
Figure 11. South-South Trade is Growing



Source: IMF Direction of Trade Statistics

Notes: Trade flows are in nominal U.S. dollars

Figure 12. South-South Trade is Growing Faster than World Trade



Source: IMF Direction of Trade Statistics

Notes: Growth rates are based on values in nominal U.S. dollars

60. **Global production sharing and intra-firm trade:** Manufacturing processes are increasingly spread out across many countries, with different firms performing different tasks along a global value chain. Economic output is consequently more trade-intensive: the elasticity of trade to income has increased.²¹ Trade in intermediate products and services often occurs within production-sharing networks, in which buyers and sellers are connected through long-term relationships, if not common ownership structures.²² International trade within MNCs is estimated to account for around one-third of all international transactions, and in 2000, over 46 percent of U.S. imports were intra-firm.²³ In addition, the data on intra-firm trade reveal substantial variation by product, firm type, and trade partner. Intra-firm imports into the U.S. are more prevalent in purchases from other industrial countries than from developing countries (76 of imports from Ireland are intra-firm versus two percent from Bangladesh, for example). Intra-firm imports make up 10–15 percent of total imports in textile, apparel, livestock and leather products, versus 60–75 percent in chemicals, computers and electronics, and transportation equipment. Intra-firm trade offers a solution to problems associated with incomplete contracts and contract enforcement that otherwise discourage trade between unrelated parties in differentiated and skill-intensive products. Consequently, trade transaction costs, the quality of the business environment, and the presence of market-supporting institutions (e.g., contract enforcement) now play larger roles in shaping comparative advantage.

²¹ A one percent change in real income led to around a two percent change in real trade flows during the 1960s and 1970s; in recent years the change is estimated at over 3.5 percent. Douglas Irwin “Long-Run Trends in World Trade and Income” *World Trade Review* 1 (2002): 89–100. Caroline Freund, “Demystifying the collapse in trade,” July 2009.

²² See Appendix 0 for a discussion of intra-firm trade.

²³ Gregory Corcos, Delphine M. Irac, Giordano Mion, and Thierry Verdier, “The Determinants of Intra-Firm Trade,” April 2009). Andrew B. Bernard, J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott, “Intra-Firm Trade and Product Contractibility,” February 2008.