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Trade Capacity Building: Foreign Assistance for Trade and Development

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Trade Capacity Building: Foreign Assistance for Trade and Development

Summary

Trade capacity building (TCB) is a form of development assistance provided by the United States and other donors to help developing countries participate in and benefit from global trade. In addition to helping developing countries negotiate and implement trade agreements, TCB includes development assistance for agricultural development, customs administration, business training, physical infrastructure development, financial sector development, and labor and environmental standards. Some experts believe that TCB is necessary for developing countries to adjust to trade liberalization and achieve trade-led economic growth.

In FY2006, the United States obligated about $1.4 billion in TCB worldwide. The U.S. Agency for International Development (USAID) funds and implements the majority of U.S. TCB programs. In FY2005, the Millennium Challenge Corporation (MCC) began to fund TCB activities, and in FY2006 it overtook USAID as the agency with the highest TCB obligations. Other agencies also provide TCB, including the U.S. Department of Agriculture, the Department of Commerce, the Treasury Department, the Department of Labor, and the U.S. Trade and Development Agency (USTDA). The United States also contributes to multilateral funds for TCB, and it contributes to multilateral development banks such as the World Bank, which also provide TCB programs.

Congress has played a key role in TCB by providing funding through appropriations legislation. In the 109th Congress, the House passed a measure to create a Trade Capacity Enhancement Fund in the 2007 Foreign Operations Appropriations Bill (H.R. 5522), but this measure was not included in the Senate bill. TCB was part of the discussions within Congress in considering implementing legislation for the free trade agreement with Central America and the Dominican Republic (DR-CAFTA). It may become a key part of the 110th Congress' discussions on potential free trade agreements (FTAs) with developing countries, renewal of trade promotion authority (TPA), and U.S. involvement in the Doha round of WTO negotiations. The 110th Congress may also be interested in using TCB to increase the effectiveness of trade preference programs initiated through legislation such as the African Growth and Opportunity Act (AGOA).

In the past, Congress has passed legislation restricting the use of foreign assistance for certain activities promoting trade in developing countries. While TCB generally has trade-promoting motivations, any resulting increased import competition could also raise Congressional concern.

This report describes trade capacity building and discusses the history of TCB in foreign assistance. It also provides an overview of U.S. bilateral TCB assistance, as well as multilateral and bilateral TCB assistance from other donors. There is also a discussion of legislation affecting TCB, including appropriations and legislative restrictions on foreign assistance. Finally, this report highlights some of the policy issues concerning TCB. This report will be updated as events warrant.

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Introduction

Trade capacity building (TCB) can be broadly defined as development assistance aimed at helping countries build the physical, human, and institutional capacity to participate in global trade. It includes assistance to negotiate, implement, and benefit from trade agreements, such as agreements within the World Trade Organization (WTO), and regional and bilateral free trade agreements. Many experts consider TCB to be vital for developing countries to benefit from trade liberalization and to participate actively in the global economy. In turn, trade liberalization and participation in the global economy are considered important factors in promoting economic growth and poverty reduction. This report examines key issues in TCB, provides an overview of U.S. and international TCB programs, and explores Congressional involvement in TCB.

TCB is provided by bilateral donors such as the United States, the European Commission, individual European countries, and Japan, Korea, and Canada. Multilateral institutions such as the World Bank, the Inter-American Development Bank (IDB), the World Trade Organization (WTO), and the United Nations also provide TCB. Direct recipients of TCB include government ministries, customs officials, business owners, local non-governmental organizations (NGOs), and farmers. TCB can take the form of workshops, on-the-job training, data collection, feasibility studies, infrastructure upgrades, and efficiency improvements in procedures. Ideally, developing countries incorporate TCB needs in their national development plans, and TCB programs are planned in partnership between recipient and donor countries.

The U.S. government provides TCB assistance to developing countries worldwide on a bilateral basis, and through contributions to multilateral organizations and established global TCB trust funds. The U.S. Agency for International Development (USAID) has historically provided the bulk of U.S. TCB assistance, but other agencies such as the U.S. Department of Agriculture (USDA), U.S. Department of Commerce, and U.S. Trade and Development Agency (USTDA) also provide such assistance. The Millennium Challenge Corporation (MCC) first provided TCB assistance in FY2005, and in FY2006 its TCB funding obligations surpassed those of USAID. U.S. TCB is not currently a discrete line item with its own budget; it is funded through several different initiatives within USAID and other agencies. The House passed an initiative to create a Trade Capacity Enhancement Fund in the 2007 Foreign Operations Appropriations Bill (H.R. 5522), which would change this situation somewhat. In FY2006, U.S. government agencies reported obligating nearly $1.4 billion to TCB (compared to $20.7 billion in total FY2006 foreign operations appropriations), of which over $1 billion was obligated by the MCC and USAID.[1]

There is currently momentum for increased focus on and funding for TCB in the donor community, both in the United States and abroad. As developing countries become more involved in trade discussions, trade capacity becomes a higher priority issue for them and for donors. Developing countries from every region have entered free trade agreement (FTA) negotiations with the United States or the European Union. They have also been heavily engaged in the Doha round of WTO negotiations. In order to conclude the Doha round and other trade negotiations, developing country needs may require consideration, and that may include additional resources for TCB.

Congress has several policy interests in TCB. First, TCB may be included in several potential free trade agreements (FTAs). The United States is currently in FTA negotiations with several developing countries, and Congress may be asked to consider implementing legislation for these potential FTAs. Congress also appropriates funds for TCB through USAID and other budgets. In H.R. 5522, the FY2007 Foreign Operations Bill, Congress is currently considering the possible creation of a discrete TCB Fund. Congress may play a role in oversight of TCB programs, to ensure effectiveness and adherence to U.S. interests. Finally, TCB is provided to developing countries through their participation in the WTO, and has been a topic of discussion in the Doha Development Agenda (DDA) round of negotiations.[2] Congress may consider implementing legislation for a WTO agreement, and TCB could be important in that discussion.

Defining Trade Capacity Building

There is no set definition of TCB in trade and development public policy discourse. A narrow definition of TCB might include only assistance directly related to trade agreements, such as assistance to negotiate and implement such agreements. However, TCB is usually defined more broadly to include all types of development assistance that directly affect a country's capacity to participate in trade. This broader definition of TCB is assumed for the purpose of this report (see the box on page 4 for elaboration on the various areas of TCB assistance). The assistance contained within the broad definition of TCB includes addressing the regulatory environment for business, trade, and investment, supply-side constraints such as low productive and entrepreneurial capacity, and inadequate physical infrastructure such as transport and storage facilities. The goals of TCB include overcoming adjustment costs from liberalized trade; offsetting high implementation costs of trade agreements; offsetting preference erosion from multilateral liberalization; offsetting lost tariff revenue; improving negotiating capacity; and addressing supply-side

[1] Data was self-reported by U.S. government agencies and can be found on the U.S. Trade Capacity Building Database website, [http://qesdb.cdie.org/tcb/overview.html].

[2] For more information on the Doha round negotiations, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian Fergusson.

constraints that make it difficult for developing countries to compete in world markets.[3]

A risk of defining TCB too broadly is that almost any assistance activity can be loosely defined as TCB. There are many areas of assistance that focus on domestic policy and capacity issues in a developing country, for example, business regulatory regimes, but also have direct consequences for trade. However, there are other areas of assistance, such as providing training to local microenterprises that are not likely to engage in international trade, where the linkage to trade is often not clear. In some cases, two similar projects in different countries can be similarly described on paper, but may be implemented with different objectives in mind. One project may be strongly trade-related, while another may not qualify strongly as TCB. This poses a problem when examining the aggregate TCB data. It is useful to know the total amounts of TCB assistance provided to different countries for summary purposes, but this data should be viewed as an inexact estimate of TCB, rather than as a definitive tool for measuring TCB assistance.

Trade capacity building has some synonyms. It is also referred to as aid for trade or trade-related technical assistance (TRTA), especially within the context of the WTO. Some distinctions can be made between these terms, but since there is no agreement on them they are treated as interchangeable within this report.

Categories of TCB

Most developing countries lack the physical, institutional, or human capacity to participate effectively in world trade. Physical capacity includes infrastructure essential to trade such as ports, roads, and storage facilities. Institutional capacity refers to the business and trade policy environment, in addition to the strength of the financial sector. Institutional capacity relates to the existence of effective administrative and regulatory regimes, including property rights and formal business registration procedures. Human capacity refers to the technical competence of individuals such as government officials, entrepreneurs, and producers to contribute to international trade. The box on the following page breaks down further the different categories of TCB.

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[3] International Lawyers and Economists Against Poverty (ILEAP), "Aid for Trade — Why and How?"

Areas of TCB Assistance:

Trade Facilitation: Improving the efficiency of international trade flows, through reducing the costs and time required for goods to cross borders. Mainly achieved through simplification and harmonization of fees and procedures.

Customs Operation and Administration: Assistance to help countries modernize and improve their customs offices. Part of trade facilitation.

Export Promotion: Includes assistance to increase market opportunities for developing country and transition economy producers.

Business Services and Training: Includes support to improve business sector associations and networks, and to enhance the skills of business people in trade.

Regional Trade Agreements (RTA): Includes assistance to an RTA, or to an individual country, to help an RTA facilitate trade.

Human Resources and Labor Standards: Supports labor standards and worker rights enforcement; development of trade unions and dispute resolution mechanisms; workforce development; and elimination of child labor.

Physical Infrastructure Development: Assistance to establish trade-related telecommunications, transport, ports, airports, power, water, and industrial zones.

Trade-Related Agriculture Development: Support for trade-related aspects of the agriculture and agribusiness sectors.

Environmental Sector Trade and Standards: Assistance to establish environmental standards or to promote environmental technology.

Financial Sector Development and Good Governance: Support for financial sector work, capital markets, and monetary and fiscal policy.

Competition Policy and Foreign Investment: Support for the design and implementation of antitrust laws, as well as investment laws and investor protections.

Services Trade Development: Includes support to help developing countries and transition economies increase their services trade flows.

WTO Awareness and Accession: Assistance to help countries benefit from membership in the WTO or understand the benefits of WTO membership. Also assistance to help countries in the WTO Accession process meet the requirements of accession.

Specific WTO Agreements: Assistance that enables countries to better participate in, and benefit from, particular WTO Agreements. These agreements include Agreements on Trade in Goods; Agreement on Agriculture; Agreement on Sanitary & Phyto-Sanitary (SPS) Measures; Agreement on Technical Barriers to Trade (TBT); Agreement on Trade-Related Investment Measures (TRIMs); etc.

Source: Adapted from TCB Category Definitions on the USAID TCB Database website.

Why Trade Capacity Building?

Trade capacity building is based on the premise that trade liberalization leads to economic growth for both developed and developing countries, but developing countries do not have the capacity to achieve trade-led economic growth without assistance. Another premise of TCB is that donors can have an impact on trade capacity in developing countries. TCB is often cited as an important complement to market access, which is believed to be necessary but insufficient for developing countries to increase participation in trade. Other reasons given for TCB are to offset preference erosion and the adjustment costs of trade liberalization.

Market Access May Be Insufficient

Increased market access through preferential treatment, trade agreements, and other programs may not be sufficient to increase developing countries' participation in international trade. Beginning with the Generalized System of Preferences (GSP)[4] in the 1970s, the United States and other developed countries have provided increased market access to products from developing countries through trade preference programs. Trade preference programs provide duty-free and/or quota-free access to certain products from certain developing countries, with stated limitations such as rules of origin. Despite the GSP and other trade preference programs such as the African Growth and Opportunity Act (AGOA),[5] most developing countries have not substantially increased their trade globally or with the United States. Perhaps more importantly, many developing countries have not diversified their exports out of primary commodities. Low income developing countries have faired the worst: between 1990 and 2003, low income developing countries only increased their share of the global market for non-oil trade by one half a percentage point and least developed countries (LDC) have only maintained their market share. During the same time period, middle income countries increased their market share by about 14 percentage points.[6] A few exceptions have occurred in countries that have attracted investments in textile and apparel manufacturing.

Some critics blame the lack of trade growth on the preference programs themselves, arguing that the rules of origin are too stringent or that the programs exclude products in which developing countries have a competitive advantage.[7] Also, the temporary nature of preference programs may add greater uncertainty to an already risky business environment, discouraging both foreign and domestic

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[4] See CRS Report 97-389, *Generalized System of Preferences*, by William H. Cooper.

[5] AGOA (PL 106-200) was signed into law in 2000. See CRS Report RL31772, *U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond*, by Danielle Langton.

[6] Richard Newfarmer and Dorota Nowak,"The World Bank in Trade: The New Trade Agenda," in Richard Newfarmer (ed), *Trade, Doha, and Development: A Window into the Issues.* World Bank. November 2005.

[7] Bernard Hoekman and Susan Prowse, "Policy Responses to Preference Erosion: From Aid as Trade to Aid for Trade," Presented at the international symposium *Preference Erosion: Impacts and Policy Responses*, Geneva, June 13-14, 2005.

investment. Other experts believe that trade capacity is a more important factor than any of the above. It is broadly accepted that many developing countries have not benefitted from market access opportunities because of inadequate knowledge of these opportunities, non-competitive production capacity, lack of the necessary exporting infrastructure, inability to meet prevailing standards in high value export markets, and being crowded out of some markets by domestic support and export subsidies of developed countries.[8] This view is not new: a 1980 Congressional Budget Office (CBO) report found that "actual exports depend on the ability of the economy to produce competitively, and preferences of the sort granted by GSP may not be sufficient to compensate for the differences in competitiveness among countries, or between U.S. producers and those in developing countries."[9]

Trade Preference Erosion

Trade preference erosion is a concern in the few countries where preference programs have had a significant impact, such as in Lesotho and Bangladesh, where booming apparel industries have increased incomes and employment. Trade preference erosion may cause a decline in the emerging apparel industries in these and other countries, because as trade liberalization occurs their margin of preference is reduced.[10] The margin of preference is the difference between the cost of the duty and/or quota for most favored nation (MFN) exporters and the developing country exporters receiving preferential treatment. With a reduced margin of preference the developing countries may no longer be competitive with more developed, lower-cost producers (such as China). This prospect has prompted certain developing country WTO members to oppose tariff reductions in certain goods on the basis that it would diminish their preferences. TCB may mitigate the effects of trade preference erosion, by helping developing countries to increase their competitiveness in the industries in question and diversify into other areas. Some observers consider it to be more politically feasible than monetary compensation, which has been proposed by some developing countries as a possible solution.

Adjustment Costs

The United States and other donors may provide TCB to help developing country economies overcome adjustment costs and facilitate a smooth transition to liberalized trade. Adjustment costs occur when certain sectors of the economy are negatively affected by trade liberalization, even though the economy as a whole may benefit through increased growth. Trade may cause decreased production in the least efficient sectors of the economy and increased production in the more efficient sectors. During the transition period, land, labor, and capital resources that had been

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[8] International Lawyers and Economists Against Poverty (ILEAP), "Operational Modalities for the Aid for Trade Initiative," *Background Brief No. 11*, April 2006.

[9] Congressional Budget Office, *Assisting the Developing Countries: Foreign Aid and Trade Policies of the United States*, September 1980.

[10] Bernard Hoekman, Will Martin, and Carlos A. Primo Braga, "Preference Erosion: The Terms of the Debate," in Richard Newfarmer (ed), *Trade, Doha, and Development: A Window into the Issues.* World Bank. November 2005.

employed in the least productive sectors may become idle. This translates to land and capital investments losing value, and workers becoming unemployed. As production increases in the more efficient sectors of the economy throughout the transition, workers may find new jobs, and other resources are expected to regain value as they are put to use in growth sectors. In developing countries, this transition period can be especially slow and difficult. Certain regions, especially in rural areas, may not attract new industries to replace employment opportunities lost from the less efficient sectors. Therefore, TCB aims to help developing countries cope with this dislocation.

The Historical Context for TCB

The development community was skeptical about using trade as a vehicle for economic growth and development in the 1960s and 1970s. At the time, import substitution industrialization (ISI), where developing countries limited imports of manufactured products to foster a domestic manufacturing sector, was the prevailing theory in trade and development. Aid was used to support industrialization, and not to foster trade. In the 1980s, after the apparent failure of ISI policies, there was a shift in mainstream development thinking to the view that removing barriers to trade and other market distortions would foster growth. As the expected gains from trade and economic reforms did not materialize, another shift in development thought took place in the late 1990s. The development agenda changed its focus to strengthening institutions that support markets and trade-led growth. Development experts recognized that liberalized trade was necessary but not sufficient for increased growth and poverty reduction.[11] At the same time, capacity development became a popular term during the 1990s, reflecting the need for demand-driven assistance as opposed to assistance imposed from outside and based primarily on what donors were willing and able to provide.[12] TCB grew from these ideas about trade and development.

Since the beginning of U.S. development assistance in the 1950s, U.S. development programs have had elements of what we now refer to as TCB assistance. The types of TCB assistance provided, from agricultural development to transportation infrastructure, have changed based on the evolving focus of overall U.S. development assistance. The composition and focus of such assistance over the last 60 years have been determined mainly by changes in U.S. foreign policy, prevailing theories of development, and domestic administrative realities.[13]

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[11] Eric Miller, *Achievements and Challenges of Trade Capacity Building: A Practitioner's Analysis of the CAFTA Process and its Lessons for the Multilateral System,* Occasional Paper 32. Inter-American Development Bank. October 2005.

[12] Jan Ubels, Thomas Theisohn, Volker Hauck, Tony Land, *From local empowerment to aid harmonization.* Published by ECDPM, SNV, UNDP, 2005.

[13] For more information about the history of U.S. foreign assistance, see Samuel Hale Butterfield, *U.S. Development Aid — An Historic First: Achievements and Failures in the Twentieth Century.* Praeger: Westport, CT, 2004.

TCB emerged as a concept in U.S. development assistance parlance around 1999, even though many of the programs included in TCB had been ongoing for years. Before TCB, the terms used for similar assistance were generally technical assistance or technical cooperation. The development of TCB as a concept brought some changes to the planning and implementation of TCB programs. In the past, these programs were conceived as general economic development programs, and not necessarily formed with a wider trade agenda in mind. More importantly, capacity building relies on a partnership with beneficiaries, involving a variety of actors, including government, private sector, and non-governmental organizations (NGOs).[14] TCB programs are also meant to be planned in coordination with trade policy. With TCB on the agenda, trade officials, both in the United States and in developing countries, have a greater influence on development policy than they did previously.

Overview of U.S. Bilateral Trade Capacity Building

According to the USAID Trade Capacity Building Database,[15] U.S. government agencies obligated $1.4 billion in TCB assistance worldwide in FY2006. TCB is funded through a variety of U.S. agencies and budgets, and includes a variety of programs, from agricultural development to WTO accession. The United States began tracking its TCB assistance in 1999, and according to the TCB database it has climbed steadily every year since, from $370 million in 1999 to $1.4 billion in 2006. It is possible that this apparent four-fold increase over seven years is partly due to greater reporting of TCB assistance by the responsible agencies, as well as an inclination to include more activities within the definition of TCB. However, there has also been increased interest in TCB which may have led to greater funding for more programs.

From FY1999 to FY2005, USAID funded the majority of TCB assistance. In 2005, it funded 52% of total U.S. government TCB assistance, about 66% in 2004, and around 70% in previous years. In FY2006, the MCC became the largest U.S. government funder of TCB, with $610.3 million or 44% of total U.S. TCB (as compared to $473.1 million from USAID). The MCC first obligated funds for TCB in 2005.

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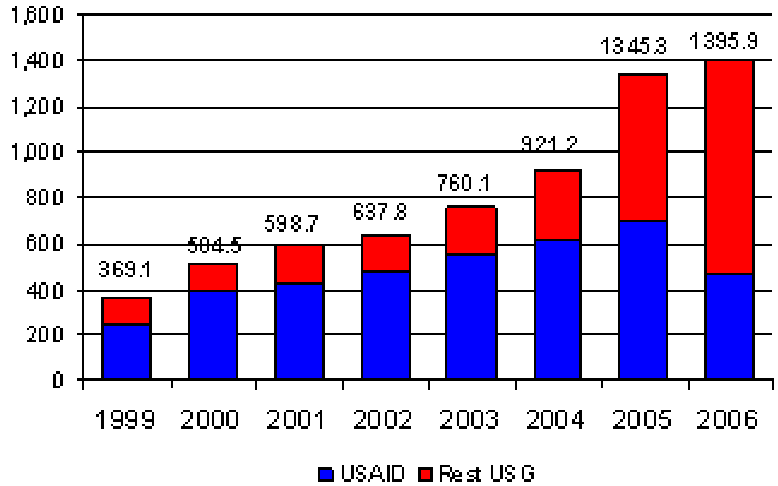
[14] Michel Kostecki, *Technical Assistance Services in Trade-Policy: A contribution to the discussion on capacity-building in the WTO*. International Center for Trade and Sustainable Development (ICTSD). 2001.

[15] Unless otherwise noted, all figures and data in this section are compiled and calculated from the USAID Trade Capacity Building Database. This database provides self-reported data from U.S. agencies on their TCB activities. Agency officials include particular activities in the database at their own discretion. Therefore, the database may understate U.S. TCB assistance, but it probably does not overstate such assistance. Available online at [http://qesdb.cdie.org/tcb/index.html].

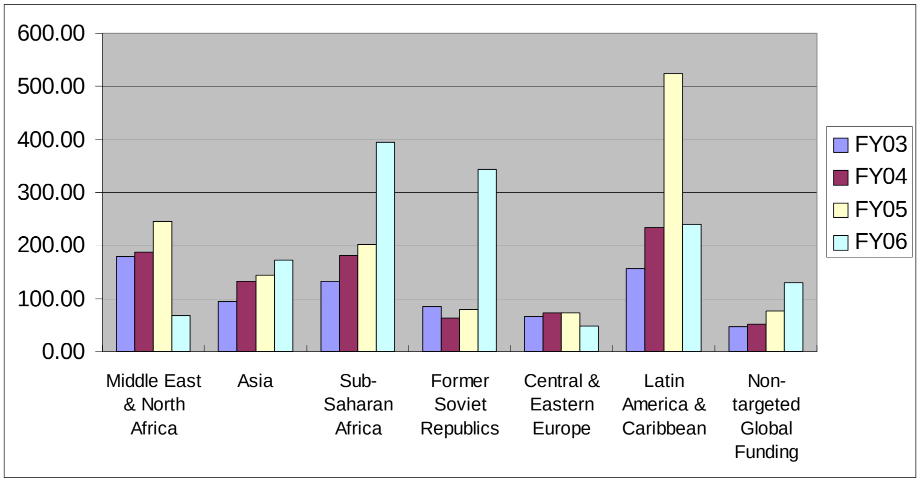
Figure 1. U.S. Trade Capacity Building Assistance (in millions of U.S. dollars)



Source: USAID TCB Database. [http://qesdb.cdie.org/tcb/index.html]

The United States provides TCB to a range of developing countries around the world, including potential FTA partners. In developing countries where the United States is negotiating an FTA, the Office of the United States Trade Representative (USTR) coordinates TCB assistance through TCB working groups, consisting of U.S. government interagency representatives and partner country government representatives. The CAFTA-DR TCB working group was the first such working group, and it met concurrently with the FTA negotiations. The working group was institutionalized as a committee in the text of the negotiated agreement. Since the passage of the agreement, the CAFTA-DR TCB committee will reportedly focus its work on coordinating TCB programs for implementing the agreement and addressing concerns regarding the transition to free trade. Other TCB working groups exist for the FTA negotiations with Panama, the Andean countries, and Thailand.

Figure 2. U.S. Trade Capacity Building Assistance by Region (in millions of U.S. dollars)



Source: U.S. trade capacity building database. All figures in this report are based on data from this source.

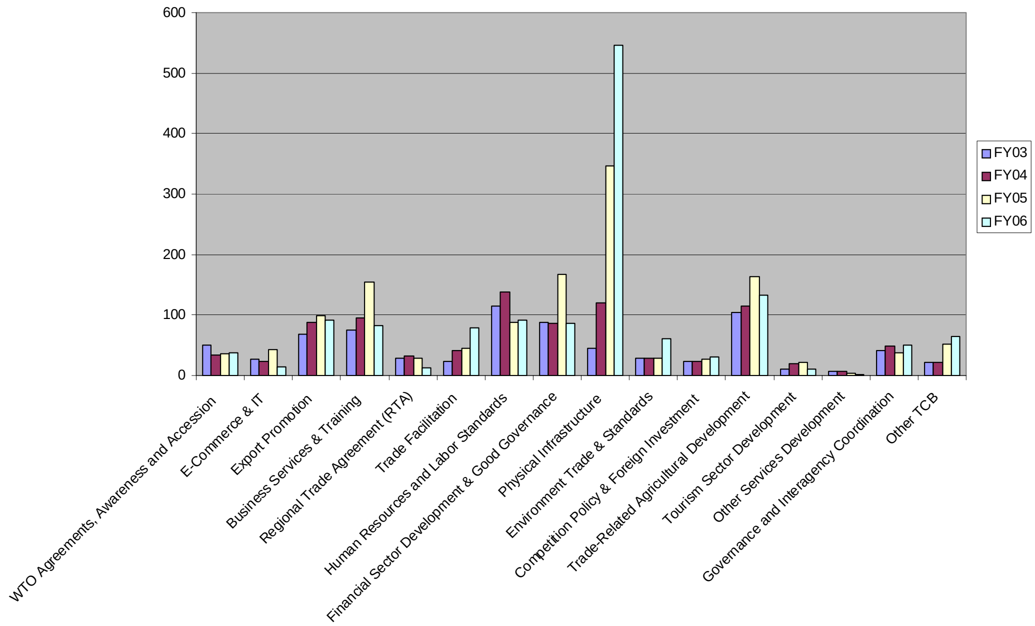
As shown in **Figure 2**, most regions have seen increased U.S. TCB assistance levels since 2003. The Middle East and North Africa region received much less TCB assistance in 2006 than in previous years because of a decline in TCB assistance in 2006 to Iraq (from $101 million in 2005 to $9 million in 2006), Egypt (from $69 million in 2005 to $30 million in 2006), and the West Bank/Gaza (from $35 million in 2005 to $0 in 2006). The regions of Sub-Saharan Africa and the former Soviet Republics both saw a surge in TCB assistance in 2006 because of MCC-funded TCB activities: $276 million to Cape Verde and Benin in Sub-Saharan Africa; and $280 million to Armenia and Georgia in the former Soviet Republics. The Latin America and Caribbean region had a similarly high level of TCB assistance in 2005, as a result of MCC funded assistance. No MCC funds for TCB were obligated to the Latin America and Caribbean region in 2006.

TCB assistance is often provided on a regional level to improve efficiency and encourage regional economic integration. Some projects are also provided on a global level, or they may be recorded as global projects in the database but they focus on individual countries in different regions.

Table 1. Largest Recipients of U.S. TCB Assistance in FY2005 and FY2006
(in millions of U.S. dollars)

Country	FY2006	FY2005
Georgia	199.42	5.0
Benin	188.6	0
Armenia	99.09	5.06
Cape Verde	87.3	0
Central America ns	60.32	34.35
Afghanistan	59.34	50.43
Colombia	58.11	50.60
Vanuatu	54.0	0
Peru	32.43	10.87
Egypt	29.68	68.79
Ukraine	13.39	27.68
Western Africa ns	12.35	23.40
Ethiopia	11.92	21.75
Nicaragua	10.87	132.67
Iraq	9.48	101.3
Honduras	7.06	202.12
Romania	3.9	27.86
Madagascar	0.9	58.31
West Bank/Gaza	0	35.43

Figure 3. U.S. Trade Capacity Building Assistance by Category (in millions of U.S. dollars)



U.S. Agencies in Trade Capacity Building

A variety of U.S. agencies have a role in providing TCB assistance. All U.S. government TCB assistance is coordinated by a TCB Interagency Group, which is co-chaired by USTR and USAID. The Interagency Group meets monthly to coordinate on general TCB issues including free trade negotiations, WTO issues, the Integrated Framework (IF), preference programs, and performance measures.

Figure 4 below shows a breakdown of the different agencies' shares of TCB funding in 2005. Some agencies implement TCB funded by other agencies, so **Figure 5**, which illustrates TCB assistance implementation rather than funding, shows a slightly wider distribution of TCB implementation across agencies. For example, the Department of Labor and the Department of Agriculture both fund their own programs and implement TCB activities funded by other agencies such as USAID and the State Department. This interagency cooperation is an example of agencies coordinating their activities through the Interagency Group. The "other" category represents a greater share of TCB program implementation, because many agencies with relatively small TCB programs are funded by other agencies. A low level of TCB funding by a particular agency may not be indicative of inconsequential involvement in TCB; some important TCB programs require less funding than others. Infrastructure development is inherently more expensive, and workshops are less expensive. One U.S. government office with a significant role in TCB is not included in the U.S. TCB database — that is USTR, which has an Office for Trade Capacity Building, but does not implement or fund any TCB programs. USTR exclusively plays a role in coordinating TCB. Negotiating offices within USTR occasionally advise TCB implementors when they are providing assistance related to a particular agreement or negotiation.

Figure 4. Share of TCB Funding

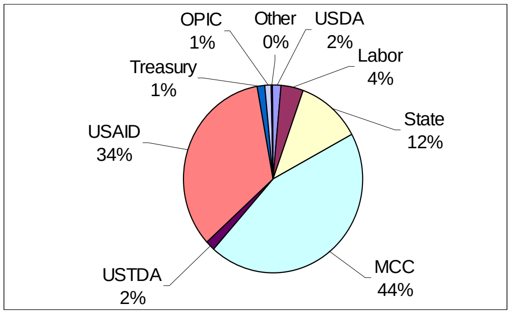
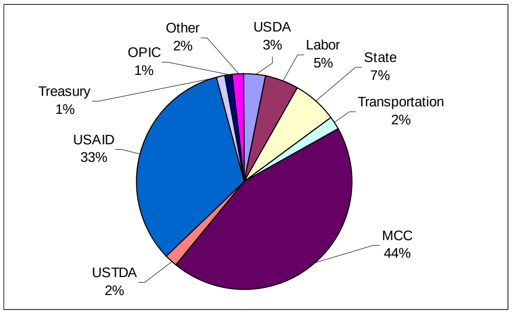


Figure 5. Share of TCB Implementation



The fact that TCB is provided by many different U.S. government agencies has been cited as both a benefit and a source of concern. On the benefit side, more agency involvement means greater support from a wider pool of expertise and funding options. In some cases expertise is at least as important as funding, and it can be helpful to have U.S. regulatory agencies understand TCB objectives. One example of this benefit is the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS). APHIS is primarily a regulatory agency with the responsibility of protecting U.S. agriculture from foreign pests and diseases. Obtaining clearance from APHIS has been notoriously difficult for agricultural producers from developing countries. Some have argued that bringing APHIS into TCB has not only benefitted developing countries by providing additional expertise, but has raised awareness of this problem within APHIS.

The issue of regulatory agencies providing TCB has raised some concerns. Some observers caution that the mission of regulatory trade agencies, generally to protect the United States from potentially harmful imports, conflicts with that of TCB, generally to encourage imports from developing countries. This conflict of interest may result in either ineffective TCB or protection, or both. The other major concern about the variety of U.S. government agencies in TCB is that it can be difficult to coordinate activities across the agencies.

Table 2. Selected U.S. Agencies with TCB Programs, FY2005 and FY2006

Agency	TCB Implementation (in millions)		Areas of TCB Assistance
	2006	2005	
Millennium Challenge Corporation (MCC)	$610.15	$369.0	transportation infrastructure, financial sector, trade facilitation, agribusiness, private sector capacity
U.S. Agency for International Development (USAID)	$461.1	$687.7	trade negotiations, implementation of trade agreements, legal reform, governance, private sector capacity, trade facilitation, financial sector, market standards, market information, agriculture, environment, labor, governance, competition policy, infrastructure, tourism, services
Department of State	$92.4	$62.4	training on trade-related topics, private sector development, governance, contributions to multilateral TCB funds, trade facilitation, labor, environment, regional trade agreements
Department of Labor	$71.89	$79.6	reform and enforcement of labor laws
Department of Agriculture	$45.1	$26.2	agriculture, private sector capacity, WTO agreement on SPS
Trade and Development Agency (USTDA)	$23.6	$29.1	infrastructure, private sector capacity, trade facilitation, environment
Department of the Treasury	$20.0	$7.9	financial sector, governance
Overseas Private Investment Corporation (OPIC)	$15.7	$9.7	infrastructure, private sector capacity, financial sector
Department of Commerce	$5.9	$7.4	WTO accession and agreements, trade facilitation, legal reform, governance, competition policy
Peace Corps	$2.3	$3.8	private sector capacity, tourism
Export-Import Bank	$0.9	$49.6	infrastructure, financial sector

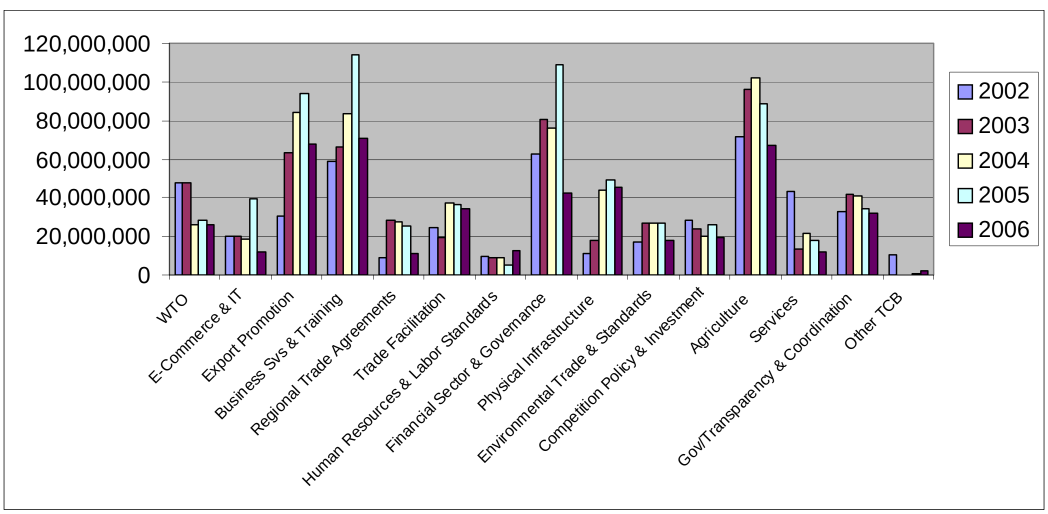
The U.S. Agency for International Development (USAID)

TCB is one of the core strategies of USAID. The USAID strategy for TCB is laid out in its March 2003 document, "Building Trade Capacity in the Developing World." According to this strategy document, the agency's goal is to "increase the number of developing and transition countries that are harnessing global economic forces to accelerate growth and increase incomes.” USAID aims to achieve this goal by supporting participation in trade negotiations, implementation of trade agreements, and economic responsiveness to trade liberalization. The majority of USAID TCB programs focus on improving economic responsiveness to trade liberalization. Projects in this area include strengthening commercial laws and trade-related services in the public sector, as well as working with businesses and industries in the private sector to overcome supply-side constraints, such as access to finance, meeting international market standards, and obtaining market information. As the United States enters into more FTA negotiations with developing countries, USAID will likely respond to greater demand for assistance with participation in trade negotiations and implementation of trade agreements.

USAID plans, funds, and implements TCB activities at both the agency and country levels. At the agency level, USAID targets TCB assistance toward countries where governments are committed to reform and openness, or where such governments are emerging, especially LDCs. When targeted in this way, projects are expected to have the greatest impact on incomes. At the country level, individual country needs vary greatly, and USAID field missions reportedly have the flexibility to respond to these individual TCB needs. In planning their TCB assistance, USAID field missions aim to consider a wide range of local trade and investment factors and take advantage of opportunities presented by initiatives such as FTA negotiations and the Integrated Framework for Technical Assistance to LDCs (IF).

Most USAID TCB programs are funded through the agency’s Development Assistance (DA) account. Certain country missions may also fund TCB projects through the Economic Support Fund (ESF).

Figure 6. USAID TCB Funding by Category, FY2002-2006 (in millions of U.S. dollars)



The Millennium Challenge Corporation (MCC)

In 2006, the MCC committed the largest amount of TCB assistance of any U.S. government agency.[16] The MCC first offered TCB in FY2005, when it signed its initial compacts with recipient countries. The MCC operates differently than USAID and other agencies, in that it only provides assistance to a select group of developing countries based on criteria involving governance and economic reform measures. MCC-eligible countries must define their own development priorities and submit a proposal for projects, which may include trade-related projects that are considered TCB. These proposals form the basis for compacts, which are five-year funding obligations negotiated between the MCC and the eligible country government. The MCC will only disburse funds once the compact is approved and signed. The compact development process occurs outside the U.S. TCB interagency process, but there is some level of coordination since USTR sits on the MCC Board of Directors.

In FY2005, the MCC committed TCB assistance to Honduras, Nicaragua, and Madagascar totaling about $369 million (as reported on the USAID TCB database). MCC TCB commitments in FY2006 totaled about $610 million and were made to more countries, including Armenia, Benin, Cape Verde, Georgia, and Vanuatu. About 80% of these commitments were for physical infrastructure development. Future MCC TCB assistance levels may increase as more eligible countries sign compacts, but the actual levels will depend on whether eligible countries include TCB as a key component in their proposals.

[16] For more information about the MCC, see CRS Report RL32427, *Millennium Challenge Account*, by Curt Tarnoff.

Table 3. MCC Compacts and Elements of TCB

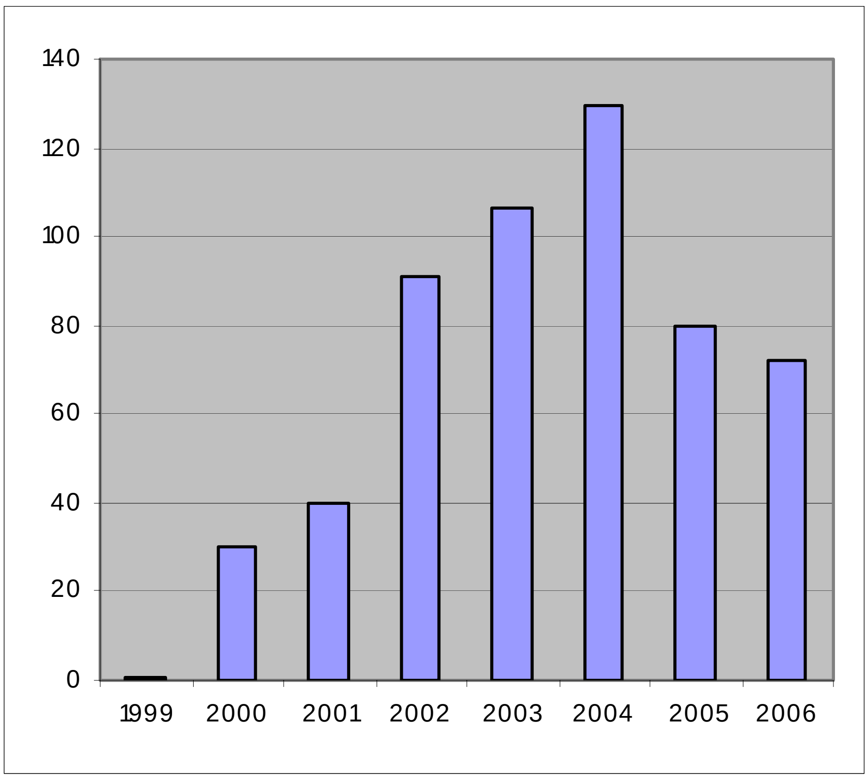
Country	Date of Compact	Total Compact	TCB in millions (Year)	TCB Elements
Madagascar	April 2005	$109.8 million	$52.5 (FY2005)	agribusiness, financial sector, small and medium enterprises (SME)
Honduras	June 2005	$215 million	$122.4 (FY2005)	agribusiness, financial sector, infrastructure, legal reform
Nicaragua	July 2005	$175 million	$123.4 (FY2005)	agribusiness, legal reform, rural development, transport infrastructure
Cape Verde	July 2005	$110.1 million	$87.3 (FY2006)	agribusiness, financial sector, infrastructure, transport infrastructure
Georgia	September 2005	$295.3 million	$189.5 (FY2006)	agribusiness, energy infrastructure, SME, transport infrastructure
Benin	February 2006	$307 million	$188.6 (FY2006)	financial sector, infrastructure, legal reform, port operations
Armenia	March 2006	$235 million	$90.1 (FY2006)	agriculture, transport infrastructure
Vanatu	March 2006	$65.7 million	$54.0 (FY2006)	transport infrastructure
Ghana	August 2006	$547 million	Not yet reported.	agribusiness, financial sector, legal reform, rural development, transport infrastructure
El Salvador	November 2006	$460.9 million	Not yet reported.	business services, agribusiness, investment support, financial services, transportation infrastructure
Mali	November 2006	$460.8 million	Not yet reported.	transportation infrastructure, agribusiness, business infrastructure

U.S. Department of Labor

The Bureau of International Labor Affairs (ILAB) of the U.S. Department of Labor (DOL) funds and implements programs to help developing countries adhere to international labor standards, especially with regard to child labor. ILAB partners with the International Labor Organization's International Program on the Elimination of Child Labor (ILO/IPEC) to implement these programs in Africa, Asia, Europe, Latin America and the Caribbean. In FY2006, ILAB funded about $54 million in projects worldwide. In addition to ILAB-funded projects, in FY2006 ILAB implemented $17.1 million in projects funded by the State Department, providing labor technical assistance for the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). ILAB also implemented additional labor technical assistance projects in the Middle East and North Africa region which were funded by the State Department, with a total cost of less than $1 million.

Meeting international labor standards is an important aspect of eligibility for trade preferences and FTAs with the United States and other developed countries. However, some observers argue that it does not directly help countries benefit from increased trade, and therefore they question the inclusion of labor activities in TCB.

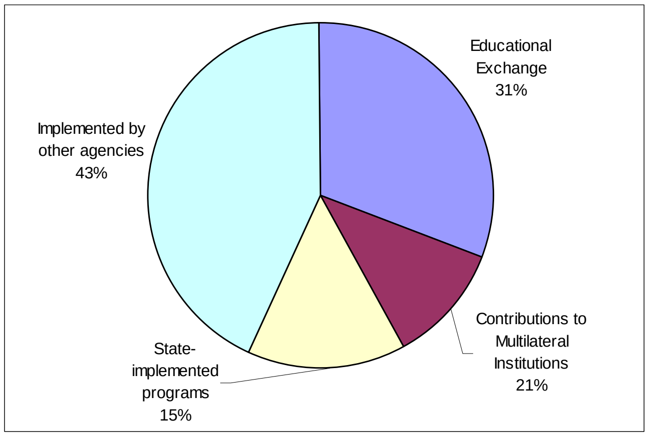
Figure 7. U.S. Department of Labor: Value of TCB Project Implementation by Year (in millions of U.S. dollars)



The U.S. Department of State

The State Department has funded and implemented programs in a variety of TCB areas. In FY2006, the State Department funded $161 million and implemented $92 million in TCB projects globally. More than half ($50 million) of the funding for State Department-implemented projects went to two educational exchange programs, comprised of the $32 million Academic Exchange Program, and the $18 million International Visitors Program. Both of these exchange programs focused on trade-related topics such as international economics, trade law, financial markets, intellectual property rights, business development, and other trade topics. Another $18 million consisted of contributions to multilateral TCB programs, such as the WTO Global Trust Fund ($1 million); the United Nations Conference on Trade and Development (UNCTAD; $12 million); and the International Trade Center ($5 million). The remaining $24 million was distributed among global, regional, and bilateral TCB programs, of which about $19 million was committed to programs on customs operation and administration. The State Department funded $70 million in TCB assistance implemented by other U.S. agencies.

Figure 8. Distribution of U.S. Department of State TCB Funding, FY2006



The Export-Import Bank

The mission of the Export-Import Bank (Ex-Im Bank) is to assist in financing the export of U.S. goods and services to international markets. The Ex-Im Bank aims to accomplish its mission through providing pre-export financing, export credit insurance, loan guarantees, and direct loans. In 2006, the Ex-Im Bank reported providing about $900 thousand in funding for TCB programs, mainly in infrastructure and tourism development. In FY2005 the Ex-Im Bank committed nearly $50 million to TCB, of which $42 million went toward physical infrastructure development, primarily in the form of loans and other types of financing arrangements to help developing countries purchase infrastructure equipment from the United States. For example, the Ex-Im Bank provided about $15 million in financing to help Ethiopian Airlines purchase aircraft equipment from the United States.

The Department of Transportation

In FY2006, the Department of Transportation (DOT) implemented about $26 million in TCB assistance, which was almost entirely in the form of assistance to Afghanistan funded by USAID. This assistance includes a $25 million project to improve the Kabul International Airport, and a $1 million project to rebuild the Afghanistan Civil Aviation System. In previous years (FY2003 to FY2005), the DOT implemented projects totaling between $1 million and $14 million per year in different regions of the world, funded by itself and other agencies including USAID, State, and USTDA.

The U.S. Trade and Development Agency

The mission of the U.S. Trade and Development Agency (USTDA) is to advance economic development and U.S. commercial interests in developing and middle income countries. In pursuit of this mission, USTDA funds technical assistance, feasibility studies, orientation visits, and business workshops that support the development of a modern infrastructure and a fair and open trading environment. In 2006, USTDA reported funding and implementing about $24 million in TCB. About half of this TCB was in support of physical infrastructure development in the form of feasibility studies, training workshops, and technical assistance. The largest recipients of TCB assistance from USTDA in 2006 were Mexico ($2.2 million), China ($2.1 million), Vietnam ($2 million), India ($1.3 million), Indonesia ($1.2 million), and Azerbaijan ($1 million).

The U.S. Department of Agriculture

The U.S. Department of Agriculture (USDA) provides most of its TCB through the Foreign Agriculture Service (FAS). In 2006, the USDA funded around $25 million and implemented around $45 million in TCB assistance. USAID funded about $11 million in projects that were implemented by USDA, and the Department of State funded another $9 million. About $30 million of the USDA-implemented activities were in the area of "trade-related agriculture," which includes activities such as strengthening agricultural markets, support for agriculture technology development, improving environmental standards, biotechnology risk assessment, and technical assistance directly to producers. The next highest level of USDA-implemented activities was in technical assistance for developing countries to comply with WTO Sanitary and Phytosanitary (SPS) agreement, at nearly $6 million.

Other U.S. Agencies Providing TCB Assistance

Other U.S. government agencies provided smaller amounts of TCB Assistance, but were active in the TCB process. In FY2006, the U.S. **Treasury Department** provided advisors to various developing country governments in the areas of budget management, debt management, tax administration, and financial law enforcement in 2006, implementing $20 million in TCB assistance. The **Overseas Private Investment Corporation** (OPIC) helps U.S. businesses invest in developing countries through financial instruments such as loans and political risk insurance. OPIC programs support profitable investments with development aims. In FY2006 OPIC implemented $15.6 million in TCB programs, mainly in the areas of physical infrastructure development and export promotion. The **Department of Commerce** implemented about $6 million in TCB programs, including many by its Commercial Law Development Program (CLDP) in various areas of commercial legal development. The **Department of Homeland Security** implemented $5.86 million in TCB, mainly in the area of border security training for customs officials, funded by the State Department. The **Peace Corps** funded and implemented about $2 million in TCB assistance in 2006, mainly in e-commerce, business development, and tourism development. The **Department of Energy** funded and implemented about $1 million in TCB assistance, as part of a nonproliferation project in the former Soviet Union republics. Most of Commerce's TCB programs are funded by other agencies. Other agencies have implemented programs totaling $3.7 million, including the **Environmental Protection Agency** ($1.07 million), the **Federal Trade Commission** ($0.75 million), **Health and Human Services** ($0.76 million), the **Department of the Interior** ($0.35 million), and the **Department of Justice** ($0.77 million).

Trade Capacity Building by Non-U.S. Donors

Multilateral Trade Capacity Building

TCB is provided by multilateral development banks such as the World Bank and the Inter-American Development Bank (IDB), and through multilateral funds managed by the WTO. TCB is also discussed in WTO negotiations. The WTO and the Organization for Economic Cooperation and Development (OECD) maintain a database of worldwide TCB activities, including multilateral and bilateral efforts.

The World Trade Organization. Trade Capacity Building is commonly referred to as 'Aid for Trade' and 'Trade-Related Technical Assistance' (TRTA) within the WTO. Technical assistance is an important aspect of the WTO, because many developing country members need assistance in understanding, negotiating, and implementing WTO agreements. Developed countries have an incentive to provide such assistance, because it helps ensure that developing country members understand the negotiated agreements, and that they are able and willing to implement them. It may also encourage developing countries to reach agreement in multilateral trade negotiations such as the Doha round.

The WTO provides TCB funded through its member-supported Doha Development Agenda (DDA) Global Trust Fund and through the separate Integrated Framework (IF), which the WTO participates in along with five other multilateral institutions. The annual budget of the DDA Global Trust Fund is about $5.63 million, and total contributions to it were around $19.3 million in 2004. Since the launch of the Doha round, the United States has contributed nearly $6 million to this fund; its most recent contribution was $1 million in April 2006.

The United States and other member donor countries submit reports of bilateral TCB assistance to the WTO, which are then compiled and presented in a joint WTO/OECD Doha Development Agenda Trade Capacity Building Database.[17] Technical assistance is also discussed as part of the WTO negotiations. Technical assistance specifically related to the various negotiating areas, such as trade facilitation, is discussed in the individual negotiating groups. In some cases, developing countries are not held responsible for upholding agreements that they do not have the capacity to implement, unless they are provided with adequate technical

[17] Available at [http://tcbdb.wto.org/index.asp?lang=ENG].

assistance. Discussions of cross-cutting issues related to technical assistance (such as whether to create a new fund for TRTA) take place in the Committee on Trade and Development, and within the newly formed Aid for Trade Task Force.

The key objectives of the WTO's Technical Cooperation and Training include enhancing beneficiary countries' capacity to (1) address trade policy issues; (2) incorporate trade into national development and poverty reduction plans; (3) participate more fully in the multilateral trade system; (4) adjust to WTO rules and disciplines and implement obligations; and (5) exercise the rights of WTO membership.[18] In 2005, the WTO delivered TRTA in the form of courses, seminars, workshops, and conferences. According to the WTO's Technical Cooperation Audit, it carried out 462 TRTA activities in 2005, providing training to more than twelve thousand individual participants.[19] The WTO provided $18.9 million in TRTA/TCB assistance in 2004, and the top five recipients of its aid were global programs, Burkina Faso, Malawi, Kenya, and Mauritania.[20] Some critics have commented that the WTO provides too many short-term TRTA activities, and that much of the training is too superficial. They assert that it would be beneficial for the WTO to conduct longer-term training to provide more in-depth coverage of issues for fewer individuals. The WTO counters that its technical assistance is structured as it is because it aims to respond to as many training requests as possible, which can lead to a great number of short-term individual training activities.

Aid for Trade Initiative. The WTO Aid for Trade Task Force was established at the December 2005 Hong Kong ministerial conference. It was tasked with making recommendations to the WTO General Council on how to "operationalize" aid for trade, and how it might contribute most effectively to the DDA. The Task Force released its recommendations at a meeting of the WTO General Council on July 27, 2006, the same meeting where the General Council agreed to suspend the Doha round of negotiations. Despite the suspension of WTO negotiations, the Task Force recommended that countries continue to provide aid for trade, and that its recommendations still be implemented. They made this recommendation with the caveat that aid for trade "cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access."[21] At the October 2006 General Council meeting, WTO members reportedly agreed to endorse the recommendations of the Task Force.[22]

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[18] *2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building*, December 2005.

[19] World Trade Organization Committee on Trade and Development, *Technical Cooperation Audit Report for 2005*, Note by the Secretariat. WT/COMTD/W/148, May 1, 2006.

[20] *2005 Joint WTO/OECD Report.*

[21] World Trade Organization Aid for Trade Task Force, *Recommendations of the Task Force on Aid for Trade*. WT/AFT/1. July 27, 2006.

[22] "GC: Members Endorse Recommendations on Aid for Trade, SVEs," *Bridges Weekly Trade News Digest.* Vol. 10, No. 33. October 11, 2006.

The recommendations of the Task Force include guidance on financing, defining, and overcoming some of the challenges associated with aid for trade. The Task Force recommends that aid for trade should be guided by the Paris Declaration on Aid Effectiveness, which focuses on key principles of country ownership, donor coordination, aligning aid to national development strategies, and monitoring and evaluation. The Task Force also recommends improving on the Integrated Framework (see next sub-section) and extending its needs-assessment process to developing countries that are not LDCs.[23]

The Integrated Framework. The Integrated Framework (IF) is a process that assists Least Developed Countries (LDCs) to integrate trade issues into their national development strategies. Six international institutions collaborate on the IF, including the World Bank, the WTO, the International Monetary Fund (IMF), the International Trade Center (ITC), the United Nations Conference on Trade and Development (UNCTAD), and the United Nations Development Program (UNDP). The IF is funded by an IF Trust Fund, composed of voluntary contributions from multilateral and bilateral donors. Total contributions to this trust fund equaled $34.8 million as of March 2006, of which the United States contributed $600,000.

The first stage of the IF process is the development of a Diagnostic for a Trade Integration Study (DTIS), which is a lengthy study on an individual country identifying constraints to trade, sectors with the greatest export potential, and an action plan for integrating the country into the global trading system. The DTIS is produced collaboratively by beneficiary country government officials, economists from international institutions, and experts from bilateral donor countries including the United States. The DTIS includes an action plan, which is integrated into the country's national development strategy as part of the IF process. The national development strategy is usually the country's Poverty Reduction Strategy Paper (PRSP), which is developed in partnership with the World Bank and IMF. Bilateral donors are expected to provide TCB to implement each country's action plan, but small activities may be initially funded by the IF trust fund. Critics of the IF say that it could be more effective if it included funding to implement more of the action plan, rather than leave the bulk of implementation funding up to bilateral donors. Some critics have also questioned whether developing country officials and citizens are as involved in preparing the studies as they could be. Also, some observers believe that the IF program should be extended to all developing country WTO members, and not just LDCs.

As of early August 2006, forty-two LDCs were at different stages of the IF process: twenty LDCs (17 from Sub-Saharan Africa) had completed their DTIS and national workshop to implement the action plan; eleven LDCs were in the process of developing a DTIS; six had initial technical reviews under consideration; and 5 had submitted a request to begin the IF process.[24]

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[23] International Monetary Fund and the World Bank, *Doha Development Agenda and Aid for Trade,* August 9, 2006.

[24] For more detailed information, see [http://www.integratedframework.org].

The World Bank. The World Bank works on trade at both the global and country level. At the global level, the Bank conducts research and is involved in discussions on making the global trading system more supportive of development. At the country level, the Bank aims to build capacity in its member countries to (1) formulate and implement sound trade policy; (2) manage the adjustment costs of trade reform and external trade shocks; (3) participate effectively in international trade negotiations; and (4) develop appropriate regional trade policies. In 2004, the World Bank made global TCB commitments of about $868 million, including grants and concessional loans. This amount is in addition to about $1.7 billion in infrastructure for transport, energy, and telecommunications. Most of the Bank's TCB projects address export development, trade facilitation, and standards such as Technical Barriers to Trade (TBT) and SPS.[25] The World Bank has been criticized by members of the non-governmental agency (NGO) and academic community for not defining clear TCB goals and policies, and not integrating TCB throughout its operations. The Bank is one of the six international institutions involved in the Integrated Framework.

Other Donor Bilateral Trade Capacity Building

Many individual countries provide TCB through their own foreign assistance programs, and report such assistance to the OECD for inclusion in the joint OECD/WTO TCB database. **Table 4** provides a summary of TCB assistance according to the OECD/WTO database. Data for the United States is included for the sake of comparison, as compiled by the OECD/WTO and not from the USAID database (therefore the numbers may not correspond exactly).

Table 4. 2004 Commitments of TRTA/TCB by Donor

(in millions of U.S. dollars)

	Trade Policy and Regulations	Trade Development[a]	Trust Fund Contributions	Infrastructure[b]	Total
Australia	11.8	1.2	0.3	26.3	39.6
Austria	0.4	3	0.2	8.1	11.7
Belgium	0.5	47.5	0.3	37.6	85.9
Canada	21.4	31.1	3.2	44.8	100.5
Denmark	1	3	2.7	115.7	122.4
European Commission	296	883	0.2	1137	2316.2
Finland[c]	2	8.6	0.9	6.7	18.2
France	14.5	55.5	1.3	230.2	301.5

[25] *2005 Joint WTO/OECD Report.*

	Trade Policy and Regula-tions	Trade Develop-ment[a]	Trust Fund Con-tributions	Infrastruc-ture[b]	Total
Germany	16.8	66.1	3.4	379.9	466.2
Italy	0.7	7.8	0.5	163.6	172.6
Japan	8	31	0.9	3303	3342.9
Korea	1	1.3	0.2	—	2.5
The Netherlands	18.6	60.7	3.5	32	114.8
New Zealand	1.5	11.2	0.2	2.4	15.3
Norway	6.1	30.2	6.8	75.1	118.2
Portugal	0.18	1.58	0	3.5	5.26
Spain[d]	2.8	2.8	0.4	193.9	199.9
Sweden	4.7	6.4	2.6	133.3	147
Switzerland	11.5	82.3	6.3	42.2	142.3
Thailand	0.2	0.2	—	—	0.4
United Kingdom	19	29	3	348	399
United States	199	596	3.2	554	1352.2[e]

Source: *2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building*

a. Some donors isolated the trade component of each activity, whereas others reported the whole activity marking it trade-related. The total amounts of TRTA/TCB in this category should therefore be treated with caution. (From the 2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building.)

b. 2003 data. Infrastructure includes all commitments to transport, energy and telecommunications, as such investments may have the potential to facilitate international trade.

c. 2003 data used for Finland — 2004 data is incomplete.

d. 2003 data used for Spain — 2004 data is incomplete.

e. Does not correspond to total for 2004 from the USAID TCB database because the data was calculated differently.

Legislation on Trade Capacity Building

Congress has passed appropriations legislation providing funds and guidance for trade capacity building. Other legislation passed by Congress may restrict the provision of TCB, either by limiting which countries can receive certain types of funding or by limiting the types of activities in which foreign assistance may be provided.

TCB Appropriations

Funds are appropriated for TCB within the Foreign Operations, Export Financing, and Related Programs Appropriations Act. In 2006, the act (P.L. 109-102) recommended that at least $522 million should be made available for TCB assistance from the total of the following six accounts: (1) Trade and Development Agency; (2) Development Assistance (DA); (3) Transition Initiatives; (4) Economic Support Fund (ESF); (5) International Affairs Technical Assistance; and, (6) International Organizations and Programs. Congress further recommended $214 million of the DA account to be allocated for TCB assistance, which may be considered toward the total $522 million. Of the amounts allocated to TCB, Congress directed that $20 million of ESF and $20 million of DA be used for labor and capacity building activities relating to DR-CAFTA.

The House Appropriations Committee Report (H.Rept. 109-152) provided some guidance for how TCB appropriations should be used. The Committee requested that USAID prioritize building developing country capacity to implement and benefit from special trading arrangements with the United States, such as free trade agreements and trade preference programs. In order to help developing countries benefit from these trading arrangements, the Committee placed emphasis on particular TCB activities, such as: trade facilitation through improvements in customs, sanitary and phytosanitary (SPS) measures; improvements in governance and transparency regarding government procurement; and related regulatory reforms. The Report also emphasized the importance of interagency coordination, development effectiveness, monitoring and evaluation, responding to developing country proposals, and the flexibility of long-term assistance plans to respond to changes in trade policy and global trade dynamics. The Committee directed USAID to consult with the Office of Trade Capacity Building at USTR in resource allocation and programming decisions, as well as to solicit expertise from relevant federal agencies. The Committee also encouraged USAID to implement a budget planning process that identifies TCB activities as a component of the President's budget request, which has not yet been done.

In previous years, Congress has earmarked slightly fewer funds for TCB assistance than in FY2006. TCB was first included in Foreign Operations Appropriations in the FY2003 appropriations, with a total allocation of not less than $452 million, $159 million from DA, and $2.5 million from the U.S. Trade and Development Agency (TDA). In FY2004, the total allocation was not less than $503 million, of which $190 million from DA; and in FY2005 the total was $507 million, of which $194 million from DA. In FY2005 there was also an earmark of $20 million from ESF to support TCB activities regarding labor and environment in the CAFTA-DR countries.

In the 109th Congress, the FY2007 Foreign Operations, Export Financing, and Related Programs Appropriations Bill (H.R. 5522) was passed in the House and placed on the calendar in the Senate. The House version of this bill would include the creation of a Trade Capacity Enhancement Fund in the amount of $522 million, and an Office of the Director of Trade Capacity Enhancement within USAID. This new office would be responsible for USAID's TCB programs, as well as coordinating government-wide TCB programs of all U.S. agencies. It would also be responsible to ensure that country strategic plans include a TCB goal, and to monitor the achievement of that goal. These potential changes in the funding and management of TCB represent an initiative to make TCB a higher priority. They also prompted concerns about restricting the administration's flexibility and draining resources from other foreign assistance priorities. The Senate version of the bill, which has not yet passed, does not include this new fund or office. The Senate committee report (S.Rept. 109-277) recommends at least $283 million for TCB and other economic growth activities.

Legislative Limitations on TCB

In the mid-1980s, Congress passed legislation restricting the use of foreign development assistance programs in response to problems in the U.S. farm economy. Some maintain that USAID developed policies that were more restrictive than necessary, as a result of the agency's sensitivity to congressional criticism.[26] One widely cited legislative restriction on USAID's trade-related activities is known as the Bumpers Amendment, which was first introduced in the Urgent Supplemental Appropriations Act of 1986, (Section 209 of P.L. 99-349). The Bumpers Amendment states that no U.S. development assistance funds may be used for agricultural development activities that would compete with a similar commodity grown or produced in the United States. There are two exceptions to the Bumpers Amendment: (1) where the activity is designed to increase food security in developing countries and it would not have a significant impact in the export of agricultural commodities to the United States; and (2) in the case of a research activity intended primarily to benefit American producers. USAID officials have cited the Bumpers Amendment as restricting TCB assistance in agriculture, for example in the provision of assistance to West African cotton farmers.

In addition to restrictions on agricultural assistance, there are other restrictions on U.S. foreign assistance that affect TCB assistance generally and TCB assistance in sectors other than agriculture. One such restriction, originating in the FY1993 Foreign Operations Appropriations (Section 599 of P.L. 102-391), prohibits funds to be used as a financial incentive for a U.S. firm to relocate outside of the United States, to establish or develop an export processing zone (EPZ) in a foreign country, or for any project that would contribute to the violation of internationally recognized workers' rights.[27] Other restrictions affect aid to particular countries, such as in the Nethercutt Amendment (P.L. 109-102 Section 574), which restricts ESF assistance

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[26] "Trade Associations and Foreign Aid: U.S. Commodity and Industry Interests and A.I.D. Trade Development Activities," Agricultural Policy Analysis Project, Phase II, January 1991. Abt Associates, sponsored by the U.S. Agency for International Development.

[27] This legislation developed out of a controversy where USAID had allegedly funded EPZs and other incentives for U.S. businesses to relocate overseas. See CRS Report 92-931 F, *Foreign Aid's Role in Private Sector Promotion in Developing Countries: The Controversy Over the U.S. Agency for International Development,* by Erin Day (archived; available from the author).

to countries that are a party to the International Criminal Court (ICC) and have not signed an Article 98 agreement.[28] These statutory restrictions are catalogued and summarized by USAID.[29]

Policy Issues

Motivations for Trade Capacity Building

Trade capacity building is generally regarded as an activity taken on by the United States and others for altruistic purposes: to help developing countries benefit from trade and achieve poverty reduction. There are other possible motivations for TCB that are not as altruistic, although that does not mean they should be judged as negative or positive. One possible motivation is to create markets for U.S. exports. TCB can achieve this objective indirectly by increasing developing countries' incomes, which would in turn would allow developing countries to import more goods from the United States. TCB can more directly create markets for U.S. exports by influencing developing countries' trade policies to be more open to U.S. goods, and by promoting development in sectors that would likely require imports of intermediate products and capital goods from the United States. The U.S. Export-Import Bank facilitates this process, by providing loans to businesses in developing countries to import American capital goods such as factory equipment.

Another possible motivation for providing TCB is to gain the cooperation of developing countries in trade negotiations, both bilateral and multilateral. By helping trade officials in developing countries understand the technical aspects of an agreement, they are more likely to complete negotiations and implement the agreement. Developing countries are also more likely to be agreeable in negotiations if they expect to receive assistance in implementing the agreement. An example of this can be found in the trade facilitation negotiations of the WTO Doha Round. At first, developing countries did not want trade facilitation to be part of the round at all. However, once they started receiving technical assistance in trade facilitation and technical assistance became part of the trade facilitation negotiations, the negotiations moved along more easily than other negotiating areas. Also, technical assistance in trade facilitation caused some countries to make unilateral trade facilitation reforms without being obliged to as part of a WTO agreement.

Critics of U.S. trade policy contend that TCB may be used to deflect attention from a failure of the United States and other donor countries to adopt pro-poor trade reform. They point to high U.S. tariffs on imports produced by developing countries and trade-distorting agricultural subsidies. Other critics believe that U.S. TCB is influenced more by political objectives than development goals. They note that Iraq

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[28] An Article 98 agreement prevents the ICC from proceeding against U.S. personnel present in that country. See CRS Report RL31495, *U.S. Policy Regarding the International Criminal Court*, by Jennifer K. Elsea.

[29] See "FY2006 Statutory Checklists: An Additional Help for ADS Chapter 202," USAID. Revision Date: 3/20/2006, Responsible Office: GC, File Name: 202sac_032006_cd43.

was the third-largest recipient of U.S. TCB funds in 2005, after Honduras and Nicaragua, which both received the majority of their TCB assistance from the Millennium Challenge Corporation. Some observers have also questioned whether the administration uses TCB as a way to influence developing country trade policies without going through the process of negotiating a free trade agreement.

Conflicting Interests

Trade capacity building may conflict with some perceived U.S. interests. Building the negotiating capacity of developing countries may make reaching agreement easier, but it might also help them to negotiate more aggressively against U.S. positions. Also, assisting developing countries to be more competitive in world markets may help them to compete against U.S. businesses. However, the same argument can be made for the benefits of increased competition through TCB as through trade liberalization. Increased competition tends to increase firm productivity and may benefit both consumers and workers through decreased consumer prices and increased wages. As in trade liberalization, however, the benefits and losses associated with increased competition can be unevenly distributed in the economy, causing some regions and industries to suffer losses of jobs and incomes disproportionately. Although, one major difference with general trade liberalization is that most TCB recipients are poor countries that are not likely to provide major competition to U.S. business. Exceptions to this difference may be found in a few major agricultural and textile producers who receive TCB assistance.

Challenges for Trade Capacity Building

One major challenge for TCB as an area of foreign assistance is to coordinate assistance with the trade policy agenda, and to effectively integrate TCB assistance and trade into developing countries' national development strategies. Changing trade policies, such as reducing trade barriers through a free trade agreement (FTA), may require new assistance to help developing countries benefit from trade. In this way, trade is not seen as an end in itself but as a tool for development. To fully utilize trade as a tool for development, it also needs to be considered in all aspects of development planning. Economic and social policies that have been considered separate from trade in the past may have an effect on a country's competitiveness and ability to benefit from trade, therefore policymakers should have an appreciation for possible trade implications when they are making development plans. One possible challenge in integrating trade with development planning is that national development strategies are typically planned on a relatively long time-frame through processes such as the Poverty Reduction Strategy Paper (PRSP),[30] while trade policies can change more quickly. As a result, there may be tension between responding to the needs of changing trade policies and long term development planning.

Another major challenge for TCB is international donor coordination. TCB assistance is provided by a wide range of donors in a multitude of sectors. There has

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[30] The PRSP is a national development strategy designed in partnership with the beneficiary country, the World Bank, and the International Monetary Fund (IMF).

been some overlap and duplication among donors. Demand-driven TCB assistance, where donors provide assistance based on the strategies and requests of recipient governments, may facilitate donor coordination. For TCB assistance to be demand-driven, recipients need to be proactive in assessing and communicating their needs, and donors need to actually orient their assistance around those stated needs. One example of this has been in the TCB provided alongside the CAFTA-DR negotiations, where there was close communication between USAID, USTR, and the recipient governments in the context of the negotiations.[31] There is concern that some TCB recipient countries may lack the capacity to assess and prioritize their needs.

TCB recipients have complained that they lack the capacity to coordinate the assistance they receive from various donors. It is especially difficult when the assistance comes in the form of multiple short-term projects rather than a long term strategy that is coordinated with national development plans. Some steps toward international donor coordination have reportedly been taken, notably through the OECD and the WTO. Donor coordination has been hampered because donor countries and organizations generally prefer to take credit for their efforts, and they tend to have different strategies and mechanisms for planning and implementing foreign assistance. This leads to assistance being supply-driven, that is, driven by what donor countries are able and willing to provide. According to experts, assistance must be driven by the partner country's own needs, goals and strategies to be effective, rather than being driven by the donor country's administrative priorities.[32]

Evaluating the effectiveness of TCB is another challenge. The U.S. Government Accountability Office (GAO) issued a report in February 2005 which determined that the United States government does not effectively monitor and evaluate the effectiveness of TCB programs. It recommended that USAID and USTR work together to develop a strategy, in consultation with other U.S. agencies that provide TCB, for evaluating TCB effectiveness.[33] USTR and USAID have responded to this recommendation, and are reportedly in the process of developing evaluation mechanisms.

Measuring the effectiveness of TCB can be difficult, because meaningful indicators are not readily available. Changes in trade volumes and other high level indicators are not necessarily attributable to TCB. Trade volumes respond to many factors, of which TCB is just one and not as significant in the short term as economic factors such as commodity price fluctuations. Lower level indicators, such as the

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[31] For more information about TCB in the CAFTA-DR negotiations, see Eric Miller, *Achievements and Challenges of Trade Capacity Building: A Practitioner's Analysis of the CAFTA Process and its Lessons for the Multilateral System,* Occasional Paper 32. Inter-American Development Bank. October 2005.

[32] Organization for Economic Cooperation and Development, *The Development Dimension: Aid For Trade: Making it Effective.* July 2006.

[33] U.S. Government Accountability Office, *Foreign Assistance: U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to be Evaluated.* Report to Congressional Requesters. GAO-05-150. February 2005.

number of people trained in WTO negotiations, may be entirely attributable to TCB, but they do not say much about the effects of such training. According to the OECD, the most measurable and positive outcome of TCB has been in the awareness of WTO issues, participation in the Doha round negotiations, and the development of a national policy dialogue on trade among various stakeholders such as business, government, and civil society. The OECD finds that where this dialogue has been most robust, TCB has been most effective.[34] This finding may be key in developing a framework for evaluating TCB.

TCB is just one area in which the United States provides development assistance, and it must compete with other priorities for limited resources. Some of these other development priorities involve responding to emergencies where lives are at stake, such as aid in response to natural disasters, conflict situations, and severe health concerns. It may be difficult to argue for funding for TCB when other areas of assistance are needed to help people survive. TCB does not directly involve saving lives, but it could in the long term enable countries to prevent some types of emergencies and respond effectively to others.

[34] Organization for Economic Cooperation and Development, *The Development Dimension: Aid For Trade: Making it Effective.* July 2006.