United States Government Accountability Office

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Report to Congressional Requesters

February 2005

FOREIGN ASSISTANCE

U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to Be Evaluated

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Accountability ★ Integrity ★ Reliability

GAO-05-150

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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-150, a report to congressional requesters

Why GAO Did This Study

Many developing countries have expressed concern about their inability to take advantage of global trading opportunities. The United States considers this ability a key factor in reducing poverty, achieving economic growth, raising income levels, and promoting stability. U.S. trade capacity building assistance is designed to address these concerns. GAO (1) identified the nature and extent of U.S. trade capacity building; (2) described how agencies implement such assistance, including coordination; and (3) assessed whether agencies evaluate its effectiveness.

What GAO Recommends

GAO recommends that the Administrator of USAID and the U.S. Trade Representative (USTR), as co-chairs of the trade capacity building working group, in consultation with other agencies that fund and implement trade capacity building assistance, should develop a strategy to systematically monitor and measure results and evaluate the effectiveness of this assistance. The Administrator of USAID should direct the agency to set milestones for completing its efforts to develop indicators for results measurement and periodic evaluations. USAID agreed with both recommendations. USTR re-iterated trade capacity building and interagency coordination's role in linking trade and development. Treasury highlighted cooperation with USAID on such assistance.

www.gao.gov/cgi-bin/getrpt?GAO-05-150.

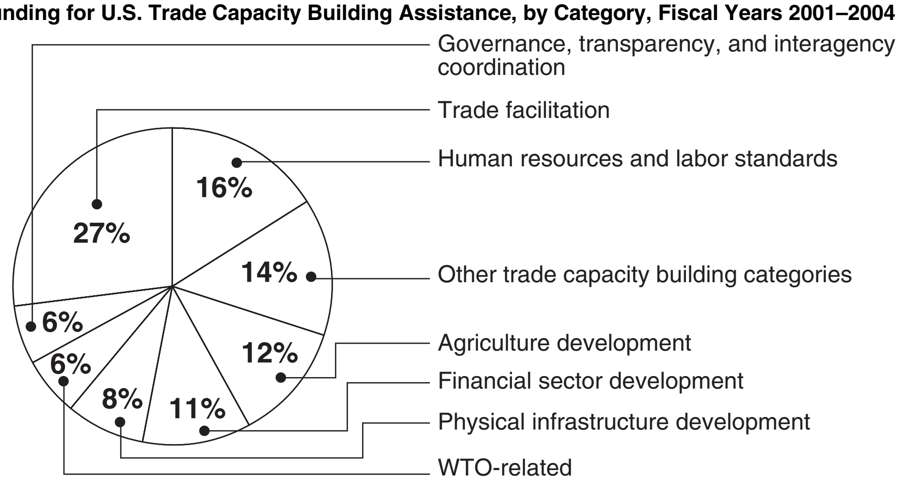
To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne D. Jones at (202) 512-2717 or jonesy@gao.gov.

What GAO Found

U.S. trade capacity building is primarily a collection of existing trade and development activities placed under the umbrella of trade capacity building. The U.S. government initiated an annual governmentwide survey in 2001 to identify U.S. trade capacity building efforts, which it defined as assistance meant to help countries become aware of and accede to the World Trade Organization (WTO); implement WTO agreements; and build the physical, human, and institutional capacity to benefit from trade. U.S. agencies self-reported that they had provided almost $2.9 billion in trade capacity building assistance to over 100 countries from fiscal years 2001 through 2004. The Agency for International Development (USAID) reported providing about 71 percent of the trade capacity building funding. Agencies are coordinating their assistance through the trade capacity building interagency group formed in 2002 to help countries negotiate and implement U.S. free trade agreements.

Most of the U.S. agencies we reviewed are not systematically measuring the results of their trade capacity building assistance or evaluating its effectiveness. Although some agencies have set program goals for building trade capacity, they have not generally developed performance indicators, compiled data, or analyzed the results in terms of building trade capacity. USAID's March 2003 strategy for building trade capacity includes a limited number of performance indicators. USAID officials have stated that developing such indicators is difficult but have begun work independently and with other international donors toward that end. Without a strategy for evaluating the effectiveness of its trade capacity building assistance, the United States cannot identify what works and what does not work to ensure the reasonable use of resources for these efforts.

Funding for U.S. Trade Capacity Building Assistance, by Category, Fiscal Years 2001–2004



Source: GAO analysis of U.S. Government Trade Capacity Building database, fiscal years 2001-2004.

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Abbreviations

CAFTA	Central American Free Trade Agreement
GPRA	Government Performance and Results Act of 1993
OECD	Organization for Economic Cooperation and Development
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USTDA	U.S. Trade and Development Agency
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

February 11, 2005

The Honorable Christopher Shays
Chairman
Subcommittee on National Security, Emerging Threats, and International Relations
Committee on Government Reform
House of Representatives

The Honorable Michael Turner
House of Representatives

Many developing countries have expressed concern about their inability to take advantage of global trading opportunities because they lack the capacity to participate in international trade. In 2001, the least-developed countries called for technical assistance to strengthen their institutions and trade-related infrastructure,[1] and the World Trade Organization Doha Ministerial Declaration stated that technical cooperation and capacity building were important and should be used to help countries benefit from the multilateral trading system. The United States considers the ability to participate in and benefit from the global trading system key factors in reducing poverty, achieving economic growth, raising income levels, and promoting stability. In 2002, the President's Trade Policy Agenda[2] pledged the United States would provide tools and training to countries needing help to benefit from the global trading system. As a result, U.S. government agencies have provided trade capacity building assistance through a variety of programs to help these countries.

In response to your request for information about U.S. trade capacity building assistance, this report (1) identifies the nature and extent of U.S. trade capacity building assistance; (2) describes how agencies implement such assistance, including coordination; and (3) assesses whether agencies evaluate its effectiveness.

[1]Least-developed countries, 50 countries designated as such by the United Nations, expressed this concern in a declaration made at a July 2001 trade ministers' meeting in Zanzibar.

[2]The Trade Policy Agenda and Annual Report of the President of the United States on the Trade Agreements Program are submitted to the Congress pursuant to Section 163 of the Trade Act of 1974, as amended (19 U.S.C. 2213).

To address these objectives, we reviewed relevant agency documents and analyzed available data on trade capacity building. We assessed the U.S. Government Trade Capacity Building database, which reflects annual governmentwide surveys initiated in 2001 about U.S. trade capacity building activities and is administered by the U.S. Agency for International Development (USAID). We determined that the required data elements in the database are sufficiently reliable for the purposes of this review.[3] We focused our review on the six U.S. agencies funding and implementing 96 percent of the trade capacity building assistance, concentrating primarily on USAID, because it provided the bulk of the funding, as well as the Office of the U.S. Trade Representative (USTR).[4] We conducted fieldwork in El Salvador, Ghana, and Egypt, choosing these countries because they were among the 20 countries receiving the most trade capacity building funding, and they represented different regions and income levels (low and middle income). In those countries, we reviewed USAID mission strategy documents, contracts, and cooperative agreements with the host governments. We also interviewed mission officials, contractors, and host country government officials and visited several trade capacity building projects. In addition, we reviewed relevant U.S. congressional documents and legislation. Appendix I contains a full description of our objectives, scope, and methodology. Appendix II elaborates on how USAID created its trade capacity building database. Appendix III provides further details on U.S. funding for trade capacity building assistance. In addition, we have included information on the relationship between trade and economic development in appendix IV.

We performed our work from September 2003 to November 2004 in accordance with generally accepted government auditing standards.

[3]The survey was only administered annually in fiscal years 2001 through 2004 but contains data for fiscal years 1999 through 2004. Based on the survey administrator's data collection efforts for fiscal years 1999 and 2000 data, GAO determined that the data for these two years were not sufficiently reliable for our purposes. For instance, when data were collected in 2001 for fiscal years 1999 and 2000, the survey respondents had to provide data for the previous two years, as well as the current year, and it is possible that they did not provide complete data on the previous years due to the burden imposed on them or a lack of records. The fact that the numbers for those first two years are smaller than for the last four would be consistent with that possibility. See appendix I for a detailed explanation. For the database, see www.qesdb.cdie.org/tcb/index.html.

[4]The six agencies funding and implementing 96 percent of trade capacity building assistance included the Departments of Agriculture, Labor, State, and the Treasury; the U.S. Trade and Development Agency; and USAID.

Results in Brief

U.S. trade capacity building is primarily a collection of existing trade and development activities placed under one umbrella. The U.S. government initiated a survey in 2001 to capture qualitatively and quantitatively the nature and extent of existing trade-related capacity building activities. It defined trade capacity building as assistance meant to help countries become aware of and accede to the World Trade Organization (WTO); implement its agreements; and build the physical, human, and institutional capacity to benefit more broadly from a rules-based trading system. Specific categories included trade facilitation, such as customs modernization and export promotion; human resources and labor standards, such as workforce development and protecting worker rights; agricultural development, such as promoting agribusiness; financial sector development, such as monetary and fiscal policy reforms; and infrastructure development, such as increasing the number of telephone lines. U.S. trade capacity building is not a discrete area with its own budget. However, 18 U.S. agencies self-reported that they had obligated almost $2.9 billion for trade capacity building activities in over 100 countries from fiscal years 2001 through 2004. Overall, the assistance was distributed worldwide, although the focus differed somewhat from region to region. USAID reported providing about 71 percent of trade capacity building assistance funding.

Agencies have traditionally implemented trade and development assistance based on broad criteria such as national security, foreign policy, and country needs, and some agencies have begun to incorporate trade capacity building into how they approach such assistance. For instance, the Departments of Agriculture and State, USAID, and the U.S. Trade and Development Agency (USTDA) are considering trade capacity building in their assistance planning, while USAID is training its staff on trade capacity building concepts, designing trade capacity building funding instruments, and starting to identify trade capacity building activities for budgeting purposes. In addition, several agencies are focusing some assistance on countries participating in trade preference programs and trade agreements with the United States. Agencies are also framing their assistance in terms of building trade capacity through their coordination via the USTR- and USAID-led trade capacity building interagency group formed to facilitate countries' participation in free trade agreement negotiations with the United States. In addition, USTR led special trade capacity building working groups dedicated to specific trade negotiations. For example, El Salvador government officials stated that working group efforts have helped donors better coordinate assistance related to the Central American Free Trade Agreement (CAFTA).

The six agencies we reviewed are not systematically monitoring or measuring the results of their trade capacity building activities or evaluating its effectiveness in terms of building trade capacity. While some agencies have set program goals for building trade capacity, they have not generally developed performance indicators,[5] compiled performance data, or analyzed the results in terms of building trade capacity. As the primary provider, USAID presented goals for building trade capacity in its March 2003 trade capacity building strategy and included a limited number of performance indicators to monitor results and measure performance against those goals as called for under standard government practices.[6] USAID officials have stated that developing trade capacity building performance indicators is difficult, including, for instance, measuring results for activities that focus broadly on economic development whose benefits are harder to quantify. However, USAID is working on its own, and in collaboration with other donors, to develop a common framework for results monitoring and assessing trade capacity building efforts. Agencies have also not conducted program evaluations, a formal assessment of the effects of a program or policy, of their trade capacity building efforts. Without a strategy for systematically monitoring and measuring results and evaluating the effectiveness of trade capacity building efforts, the United States cannot ensure the reasonable use of resources for such assistance or credibly demonstrate its usefulness as a U.S. trade and development policy.

To provide more objective information on the progress of U.S. trade capacity building efforts and allow the United States to assess their effectiveness, we make the following two recommendations:

- The Administrator, USAID, and the U.S. Trade Representative, as co-chairs of the trade capacity building interagency group, in consultation with other agencies that fund and implement trade capacity building assistance, should develop a cost effective strategy to systematically monitor and measure program results and to evaluate the effectiveness of U.S. trade capacity building assistance.

[5]For the purposes of this review, performance measures and indicators are equivalent terms.

[6]The Government Performance and Results Act of 1993 (GPRA) requires that federal agencies set goals and report annually on program performance.

- The Administrator, USAID, should direct the agency to set milestones for completing its efforts to develop trade capacity building performance indicators to be used by (1) its field missions to monitor and measure the results of their trade capacity building efforts and (2) its relevant agency bureaus to conduct periodic program evaluations. USAID should share its findings with other agencies that fund and implement trade capacity building assistance.

We provided a draft report to the Office of the U.S. Trade Representative, the U.S. Agency for International Development, the Departments of Agriculture, Labor, State, and Treasury, and the U.S. Trade and Development Agency. We received technical comments from the Office of the U.S. Trade Representative, the U.S. Agency for International Development, the Departments of Labor and State, and the U.S. Trade and Development Agency. The Department of Agriculture provided no comments. We received written comments from the U.S. Agency for International Development, the Office of the U.S. Trade Representative, and the Department of the Treasury, which are reprinted in appendixes V through VII. The U.S. Agency for International Development agreed with our two recommendations. USAID emphasized the large number of agencies involved, the diversity of trade capacity building programs, the cost-effectiveness of different approaches, and the importance of taking into account the unique needs of each USAID country mission. The Office of the U.S. Trade Representative reiterated the important role of trade capacity building in linking trade and development and of interagency coordination in connecting trade capacity building to trade negotiations. The Department of the Treasury believed that the report provided a good example of cooperation and mutual support between the Department's Office of Technical Assistance and USAID in providing trade capacity building, and emphasized that its role in helping countries to institute financial reform contributed to building trade capacity.

Background

Developing countries expressed reservations about undertaking further trade liberalization at the 1999 Seattle WTO ministerial conference, as they were still experiencing economic difficulties despite previous market reforms. In response to developing country concerns, the 2001 WTO Doha Ministerial Declaration said that technical assistance should be designed to assist developing, least-developed, and low-income countries to meet their WTO obligations and draw on the benefits of an open, rules-based multilateral trading system. To implement the declaration, in December 2001, the WTO created the Doha Development Agenda Global Trust Fund to help developing countries build capacity and establish a reliable basis for funding WTO-related technical assistance (to which the United States has contributed $3 million, to date). In addition, in November 2002, the WTO and the Organization for Economic Cooperation and Development (OECD) created a database to provide comprehensive information on bilateral donor and multilateral/regional agency support for trade capacity building.

The Congress included trade capacity building in the African Growth and Opportunity Act of 2000[7] to help eligible countries meet the act's requirements. The act provides that sustained economic growth in sub-Saharan Africa depends in large measure on the development of a receptive environment for trade and investment. The act instructs the U.S. Customs Service to provide technical assistance to beneficiary countries in developing and implementing visa systems for textile transshipment and for antitransshipment enforcement.[8] In addition, the Congress, in the Bipartisan Trade Promotion Authority Act of 2002,[9] declared that among the principal negotiating objectives of the United States are to strengthen the capacity of the U.S. trading partners to promote respect for core labor standards and to protect the environment. That act calls for the President to seek to establish consultative mechanisms with parties to trade agreements to promote respect for core labor standards and compliance with International Labor Organization conventions on child labor, to develop and implement standards for the protection of the environment and human health, based on sound science. It provides for the President to direct the Secretary of Labor to provide technical assistance to countries wishing to establish trade agreements on its labor laws, if needed.[10]

In providing funding for trade capacity building in the foreign operations appropriations for fiscal years 2003 and 2004, the House appropriators called trade capacity building a critical element of development assistance because it can "be leveraged to generate economic growth, reduce poverty,

[7]Title I, Pub. L. No. 106-200.

[8]See Pub. L. No. 106-200, Section 113.

[9]Title XXI of the Trade Act of 2002, Pub. L. No. 107-210, Section 2102.

[10]Pub. L. No. 107-210, Section 2102 (c) (7).

[and] promote rule of law…."[11] The Congress earmarked funds appropriated in fiscal years 2003 and 2004 for trade capacity building. Specifically, the Congress provided that not less than $452 million in fiscal year 2003 should be made available for trade capacity building. Out of this amount, $159 million and $2.5 million were earmarked for USAID and USTDA, respectively.[12] Similarly, in fiscal year 2004, the Congress provided that not less than $503 million should be made available for trade capacity building with $190 million earmarked specifically for USAID.[13] The appropriations for each of those fiscal years also provided for funding from accounts managed by other agencies, including the Departments of State and Treasury, although amounts were not specified for the individual accounts.[14]

U.S. Trade Capacity Building Is Existing Activities Labeled as Trade Capacity Building, Distributed Worldwide, and Primarily through USAID

U.S. trade capacity building is primarily a collection of existing activities placed under the umbrella of trade capacity building by a U. S. government survey. Initiated in 2001, this survey was to capture, qualitatively and quantitatively, U.S. agencies' existing activities promoting trade-related capacity building in transitioning economies[15] and developing countries. The survey defined trade capacity building and asked agencies to place their assistance into a range of categories and estimate funding obligated for each category. U.S. trade capacity building is not a discrete area with its own budget. However, 18 agencies have self-reported that they obligated almost $2.9 billion for trade capacity building activities in over 100 countries from fiscal years 2001 through 2004. Overall, the assistance was distributed worldwide, although the focus differed somewhat from region

[11]See H. Rpt. No. 108-222, 108th Cong., 1st Sess. 22 (2003). See also, H. Rpt. No. 107-663, 107th Cong., 2nd Sess. 21 (2002).

[12]See Div. E of Pub. L. No. 108-7, Titles I and II.

[13]See Div. D of Pub. L. No. 108-199, Title II.

[14]The appropriations cover accounts overseen by the Departments of State and Treasury, USAID, and USTDA. The accounts include "Trade and Development Agency," "Development Assistance," "Transition Initiatives," "Economic Support Fund," "International Affairs Technical Assistance," and "International Organizations and Programs." In addition, the foreign operations appropriations bill for fiscal year 2005 provides that not less than $507 million should be made available for these same accounts for trade capacity building.

[15]Transitioning economies, such as the former Soviet Union, are those that are converting from economies built on state ownership, central planning, and bureaucratic control into ones relying on private ownership, market relationships, and individual choices.

to region. USAID reported providing 71 percent of the trade capacity building assistance.

United States Categorizes a Range of Assistance as Trade Capacity Building

The U.S. government survey administered by USAID defined trade capacity building as activities meant to help countries become aware of and accede to the WTO; implement WTO agreements; and build the physical, human, and institutional capacity to benefit more broadly from a rules-based trading system.[16] The survey asked agencies to place their assistance into several categories, including WTO awareness, WTO agreements, trade facilitation, human resources and labor standards, physical and economic infrastructure, agriculture development, environmental sector trade and standards, financial sector development, competition policy and foreign investment incentives, and services trade development (table 1 provides further information about these categories).

[16]The U.S. approach to trade capacity building is similar to that of the WTO and the OECD, except that the joint WTO/OECD database created to monitor bilateral donor and multilateral/regional agency support for trade capacity building excludes activities to enhance the infrastructure necessary for trade, such as transport, storage, communications, and energy. The United States, on the other hand, includes in its database physical and economic infrastructure, such as trade-related telecommunications, transport, ports, airports, power, water, and industrial zones.

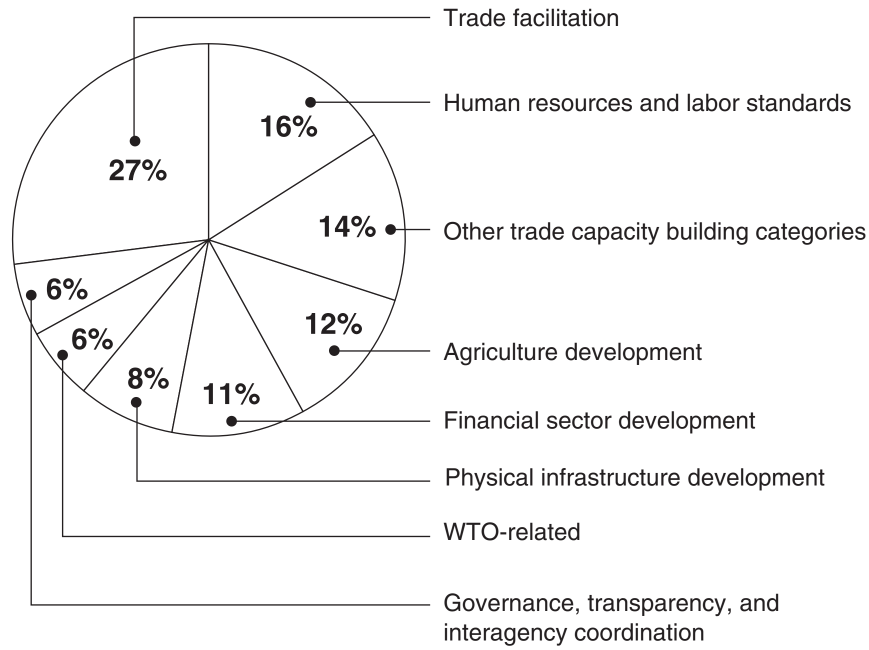
Table 1: U.S. Government Trade Capacity Building Categories and Their Definitions

Categories	Definitions
WTO awareness and accession	To provide a basic understanding of the WTO agreements. To help accession candidates identify changes to laws, regulations, policies, and procedures necessary to complete negotiations on the terms of WTO membership.
WTO agreements	To support countries' efforts toward compliance and implementation, including institution building, so developing and transition countries may reap the benefits of membership.
Trade facilitation	
• Business services and training	To improve associations and networks in the business sector, as well as to enhance the skills of business people engaged in trade.
• Export promotion	To increase market opportunities for developing country producers.
• Customs operation and administration	To help countries modernize and improve their customs offices.
• E-commerce development and information technologies	To help countries acquire and use information technology to promote trade by creating business networks and disseminating market information.
• Regional trade agreement capacity building	To increase the ability of regional trade agreements and individual countries to facilitate trade and help potential regional trade agreement members.
• Other trade facilitation	To facilitate the flow of trade in other ways.
Human resources and labor standards	To support labor standards, worker rights, trade unions, workforce development, business education, and the social aspects of trade.
Physical infrastructure development	To establish trade-related telecommunications, transport, ports, airports, power, water, and industrial zones.
Agriculture development	To support trade-related aspects of agriculture and agribusiness, excluding WTO agreements.
Environmental sector trade and standards	To establish environmental standards or to promote environmental technology.
Governance, transparency, and interagency coordination	To support legal and institutional reforms to improve governance and make policies more transparent and to help government agencies function more effectively in the trade policy arena.
Financial sector development	To support reforms in the financial sector, monetary and fiscal policy, exchange rates, commodity markets, and capital markets.
Competition policy and foreign investment incentives	To help design and implement antitrust laws, as well as laws and regulations related to investment and investor protections.
Services trade development	
• Tourism sector development	To help countries expand their international tourism sectors, including eco-tourism.
• Other services development	To help countries develop trade in services in sectors other than tourism, including financial services, energy, transportation, and education.

Sources: USTR and USAID.

Agencies estimated their obligated funding for each category from 2001 through 2004. The largest obligations were for trade facilitation at 27 percent, followed by human resources and labor standards at 16 percent, agriculture development at 12 percent, financial sector development at 11 percent, and physical infrastructure development at 8 percent. The governance, transparency, and interagency coordination category and the WTO-related category each received an estimated 6 percent of this assistance (see fig. 1).

Figure 1: Funding for U.S. Government Trade Capacity Building Assistance, by Category, Fiscal Years 2001–2004



Source: GAO analysis of U.S. Government Trade Capacity Building database, fiscal years 2001-2004.

Note: Other trade capacity building categories included environmental sector trade and standards, competition policy and foreign investment incentives, and services trade development including tourism.

Trade Facilitation

According to the database, a significant portion of U.S. funding for trade capacity building assistance, or 27 percent, supported trade facilitation activities such as business services and training, export promotion, customs operation and administration, and E-commerce development and information technologies. For instance, to facilitate trade in El Salvador and Ghana, USAID financed matching grants to artisans and small-to-medium-sized firms for business services training, product design, and packaging. U.S. assistance helped several artisans and firms develop ways to increase their capacity to market and export their products by improving product design and packaging and arranging trade fair visits to the United States and Europe (see figs. 2 and 3).

Figure 2: Trade Facilitation—Business Services and Training

Source: GAO.

In El Salvador, USAID funded this local artisan factory to help the company with business services training and product design.

Figure 3: Trade Facilitation—Export Promotion

Source: GAO.

In El Salvador, the United States funded technical assistance to help this medium-sized pasta producer with marketing, upgrading packaging, and labeling.

In another example of trade facilitation, U.S. Customs and Border Protection officials trained Ghana's Customs, Excise, and Preventive Service officials in procedures to comply with the African Growth and Opportunity Act textile visa enforcement system to prevent illegal transshipment and use of counterfeit documents relating to the importation of apparel products into the United States (see fig. 4).

Figure 4: Trade Facilitation—Customs Operation and Administration

Source: GAO.

In Ghana, U.S. technical assistance was provided to the Customs, Excise, and Preventive Service in adopting and maintaining an effective enforcement system to prevent transshipment.

Human Resources and Labor Standards

The U.S. Department of Labor funds a number of programs to strengthen labor systems and improve occupational safety and health. For instance, a project in Central America seeks to improve labor law compliance, while another project in Central America aims to reduce the incidence of workplace injuries. In Ghana, USAID provided technical assistance to a government committee drafting new labor legislation and focused on increasing worker collective bargaining by encouraging workers to work with members of the nonprofit and philanthropic sectors.

Agriculture Development

For agriculture development, assistance is used to extend the benefits of trade to rural sectors and support trade-related aspects of agribusiness. In Ghana and El Salvador, U.S. assistance is supporting Salvadoran and Ghanaian food producers' efforts to meet sanitary and phytosanitary standards through training.[17] In El Salvador, U.S. assistance helped small-to-medium-sized farmers export fruits and vegetables (see fig. 5). U.S. Department of Agriculture officials also helped African nations meet export requirements under the African Growth and Opportunity Act by sponsoring training on quality control, risk analysis, and food safety.

Figure 5: Agriculture Development—Exporting Fruits and Vegetables

Source: GAO.

In El Salvador, under a cost-sharing program, the United States provided production technical assistance to greenhouse farmers.

Financial Sector Development

Under the category of financial sector development, U.S. assistance supports reforms in banking and securities markets and implementation of laws and regulations that promote trade-related investment to provide an enabling environment for international trade. For instance, several U.S. Treasury officials have worked to reform Ghana's banking and tax systems.

[17]The WTO Agreement on Sanitary and Phytosanitary Measures sets out rules on how governments should apply food safety and animal and plant health measures to ensure that their consumers are being supplied with food that is safe to eat.

Specifically, these U.S. officials have helped the government of Ghana to restructure the funding relationship between the Ministry of Finance and the Central Bank, improve tax collection procedures, and strengthen the financial sector.

Physical Infrastructure Development

U.S. assistance for physical infrastructure development helps establish trade-related telecommunications, transport, ports, airports, power, water, and industrial zones. For instance, according to USAID, U.S. assistance to improve the telecommunications sector helps Egypt's ability to increase trade and investment (see fig. 6). U.S. telecommunications infrastructure projects have led to the installation of hundreds of thousands of telephone lines, serving more than 4 million Egyptians. Joint U.S.-Egyptian investments in the sector have supported the institutional strengthening of Egypt Telecom and the improvement and expansion of telecommunications networks throughout Egypt. Under a current telecommunications project, a state-of-the-art network operations center is being constructed, and several initiatives to strengthen the telecommunications infrastructure system are being carried out.

Figure 6: Physical Infrastructure—Telecommunications

Source: USAID/Egypt.

In Egypt, U.S. assistance supported network operation centers.

WTO-Related

U.S. trade capacity building supports an array of activities to help developing countries participate fully in the WTO and the global trading system generally and to implement their current and future trade commitments. For example, U.S. assistance helped create a WTO unit within the Egyptian Ministry of Foreign Trade to enable the ministry to participate in international trade negotiations and implement trade agreements. Moreover, this assistance provided training to unit officials on trade policy formulation and equipment to allow these officials to develop statistics and databases related to trade.

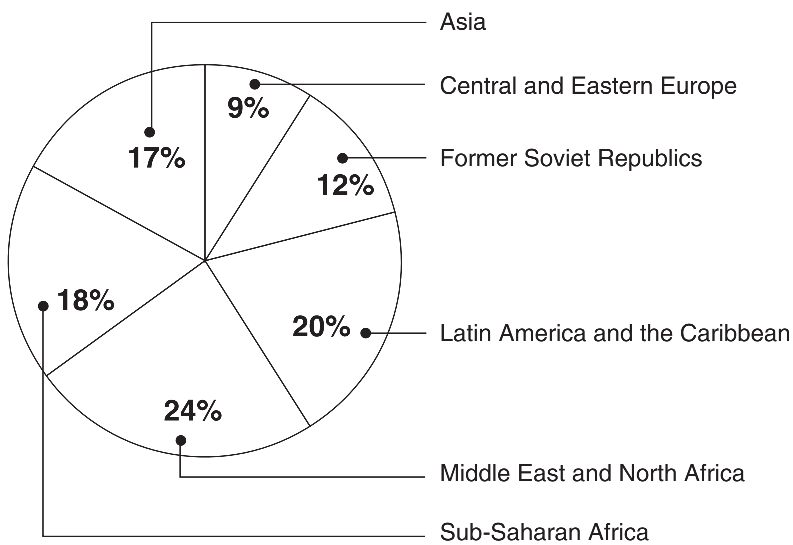
Governance, Transparency, and Interagency Coordination

This assistance supports institutional reform to improve governance and make policies more transparent. It also helps different ministries function more effectively in the trade policy arena. For example, in Ghana, U.S. assistance has supported workshops for the government, the private sector, and civil society to discuss and develop Ghana's trade policy.

U.S. Trade Capacity Building Distributed Globally

The United States supports trade capacity building assistance globally, covering six regions including Asia, Central and Eastern Europe, the former Soviet Republics, Latin America and the Caribbean, the Middle East and North Africa, and sub-Saharan Africa. The Middle East and North Africa received the most funding, or 24 percent (see fig. 7).

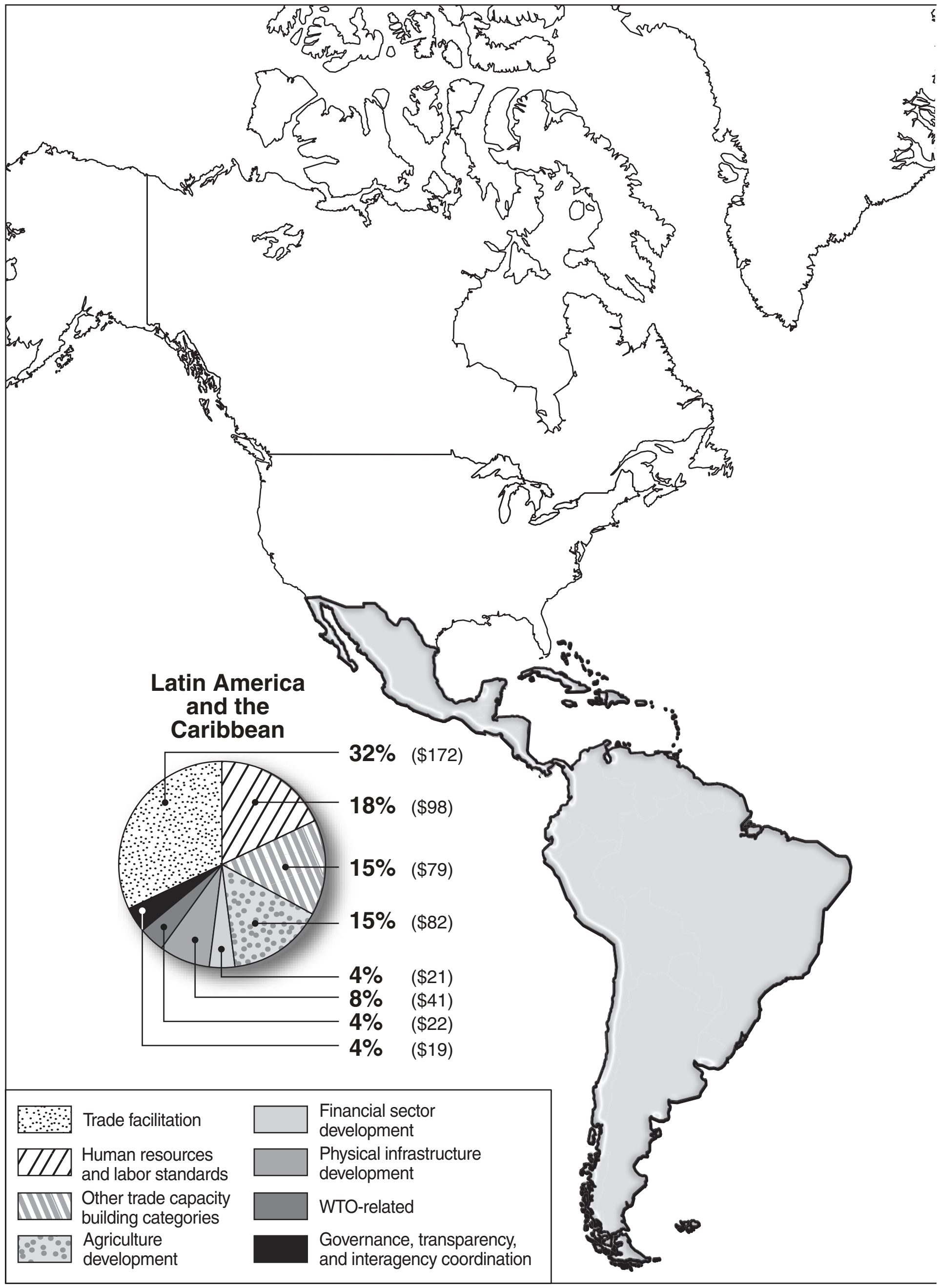
Figure 7: U.S. Trade Capacity Building Funding by Region, Fiscal Years 2001–2004

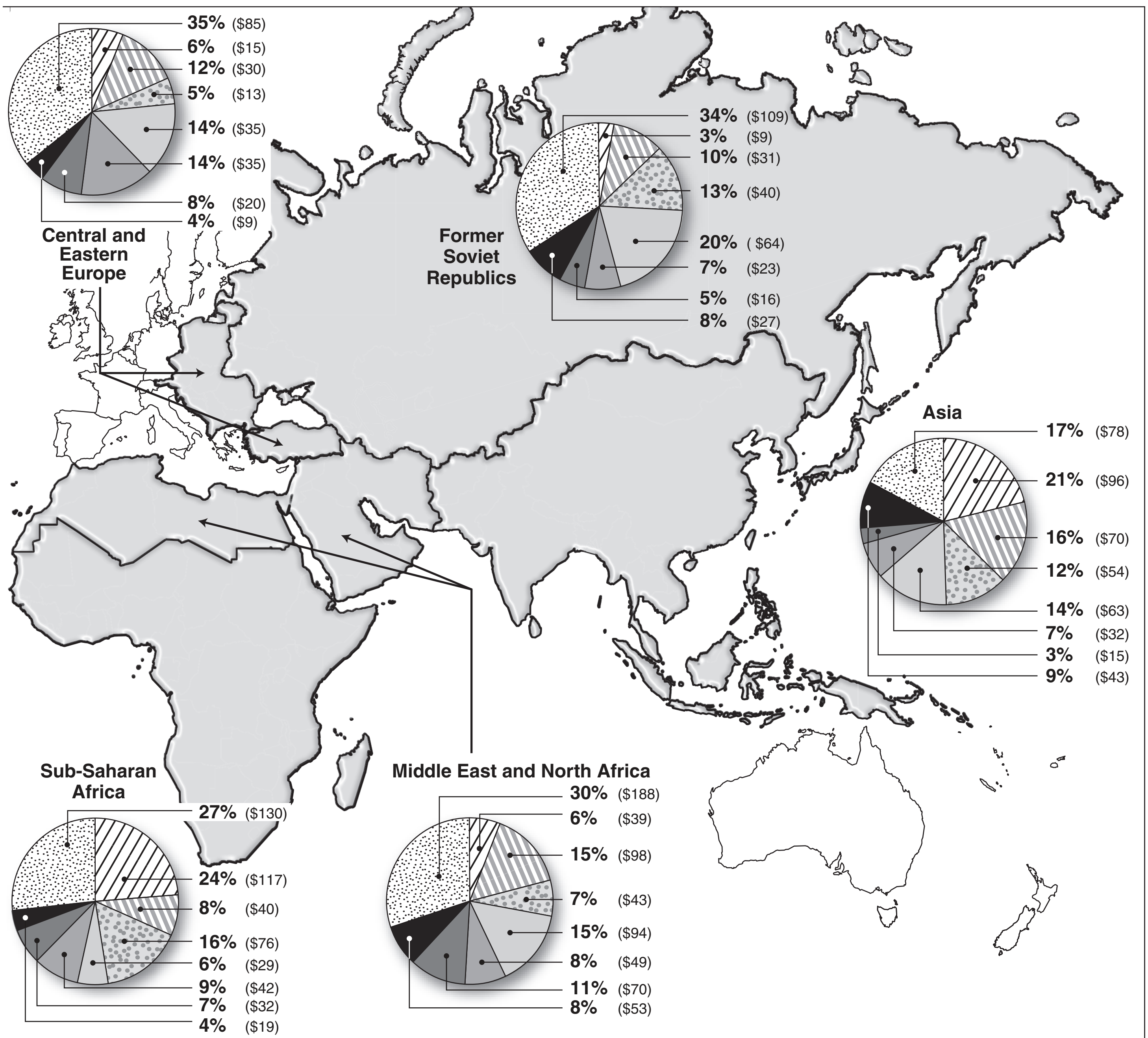


Source: GAO analysis of U.S. Government Trade Capacity Building database, fiscal years 2001-2004.

Funding per category of trade capacity building varied by region (see fig. 8). Overall, the trade facilitation category dominated with about a third of the funding in each region except for sub-Saharan Africa (about 27 percent) and Asia (about 17 percent). In Asia, the human resources and labor standards category received the most trade capacity building funding. In the former Soviet Republics, assistance for financial sector development received 20 percent of the funding.

Figure 8: Total Trade Capacity Building Funding by Region and Category, Fiscal Years 2001–2004 (millions of dollars)





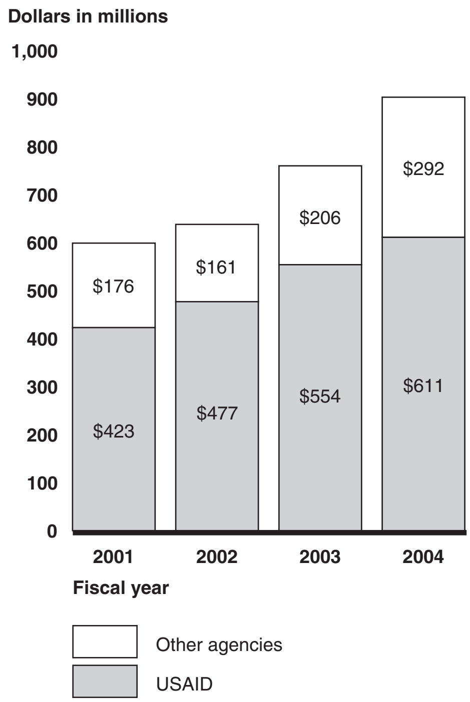
Sources: GAO analysis of U.S. Government Trade Capacity Building database, fiscal years 2001-2004; Map Resources (map).

Note: Numbers and percentages are rounded. Thus, the percentage columns may not total to 100 percent.

USAID Provides the Bulk of Trade Capacity Building

USAID provides most of the funding for trade capacity building assistance, with $423 million (71 percent), $477 million (75 percent), $554 million (73 percent), and $611 million (68 percent) in each of fiscal years 2001, 2002, 2003, and 2004, respectively (see fig. 9).

Figure 9: U.S. Government Agency Distribution of Trade Capacity Building, Fiscal Years 2001–2004



Source: GAO analysis of U.S. Government Trade Capacity Building database, fiscal years 2001-2004.

Other key funding agencies, in decreasing order of funding during the 4-year period, were the U.S. Departments of Labor and State at approximately 15 percent and 4 percent, respectively, and the Overseas Private Investment Corporation and USTDA, both with about 2 percent. The other main providers of trade capacity building over the past 4 years include the U.S. Departments of Agriculture, Energy, and the Treasury (see table 2).

Table 2: Total Trade Capacity Building Funding for U.S. Government Agencies, Fiscal Years 2001–2004

Dollars in millions

U.S. government agencies	Total TCB funding, FY 2001–2004	Percentage total funding, FY 2001–2004
USAID	$2,064	71.2
Department of Labor	424	14.6
Department of State	128	4.4
Overseas Private Investment Corporation	69	2.4
USTDA	64	2.2
Department of Energy	37	1.3
Export-Import Bank	31	1.1
Department of the Treasury	29	1.0
Department of Agriculture	26	0.9

Source: GAO analysis of U.S. Government Trade Capacity Building database, fiscal years 2001–2004.

Note: Percentages do not add up to 100 percent because agencies providing lesser funding are not included.

Agencies Implement Assistance Based on Broad Criteria and Are Beginning to Incorporate Trade Capacity Building into Their Approach to Assistance

Agencies have traditionally implemented trade and development assistance based on broad criteria such as national security and foreign policy considerations. Some agencies are beginning to incorporate trade capacity building into their approach to trade and development assistance. For instance, the Departments of State and Agriculture, USAID, and USTDA are taking into account trade capacity building in their planning. USAID is training its staff on trade capacity building concepts, designing funding instruments for trade capacity building, and starting to identify trade capacity building activities for budgeting purposes. Several agencies are focusing assistance on countries participating in trade preference programs and trade agreements with the United States. Agencies are also recasting some of their assistance to focus on trade capacity building through coordination via the trade capacity building interagency group formed in June 2002 to facilitate countries' participation in free trade agreement negotiations with the United States.

Agencies Implement Trade and Development Assistance Based on Broad Criteria

U.S. agencies are providing assistance to recipients based on broad criteria. Agency officials cited national security and foreign policy considerations, which are often driven by the Department of State, regional factors, and the countries' expressed needs, as important factors in determining how to match assistance to recipients.

Following are examples of how some agencies have applied broad criteria in choosing recipients and types of trade and development activities:

- *National security:* Agency officials cited the prevention of terrorism as driving assistance to certain areas. For example, the Department of State asked the U.S. Department of Agriculture (USDA) to provide assistance for rural development in Afghanistan. In addition, USTDA officials stated that national security has gained prominence in their work since September 11, 2001, particularly in the area of air and sea transportation.

- *Foreign policy:* Agency officials said foreign policy was an important factor in directing assistance to certain countries. For example, USDA is helping Colombia develop alternative crops to reduce illicit drug production. In addition, USTDA considers foreign policy when it responds to requests from U.S. ambassadors and other Department of State officials.

- *Regional considerations:* Agency officials sometimes tailor their assistance to particular regions. For example, USTDA officials said that they try to create geographic balance in their portfolio and work with regional clusters when it makes sense to share information among nearby countries, such as working with India and Pakistan on a telecommunications conference. In addition, USAID officials stated that they have worked on regional economic growth in Central America, for example, by taking stock of each government's capabilities through diagnostic tools.

- *Country needs:* Agency officials said that countries' expressed needs are an important factor (in conjunction with other factors) in selecting trade capacity building activities and recipients. USDA officials stated that they have used responses from a WTO questionnaire to develop a benchmark for developing country needs regarding plant, animal, and human health requirements. USTDA officials said that they have specialized in translating country needs into projects by conducting feasibility studies and arranging for the appropriate technical assistance. Department of Labor officials considered country needs by working directly with labor ministries. For example, Labor officials said that they respond to requests from Central American countries for help in identifying inspection systems, expediting dispute resolution outside the courts, and informing the public about Central American countries' labor laws. Finally, according to USAID officials, their agency's strength lies in having resident country missions, which allow staff to gain insight into countries' motivations and needs regarding trade. Generally, USAID field missions have the lead in devising program-planning requirements for USAID assistance.

Some Agencies Are Beginning to Incorporate Trade Capacity Building into Their Approach to Assistance

Some agencies, USAID in particular, are beginning to focus on trade capacity building in managing their assistance. For instance, the Department of State, USAID, USDA, and USTDA are incorporating trade capacity building into their planning. USAID is training its staff on trade capacity building concepts, designing trade capacity building-specific funding instruments, and beginning to identify trade capacity building activities for budgeting purposes. Several agencies have also provided assistance to support trade agreements and trade preference programs.

USAID and USDA have incorporated trade capacity building in their fiscal year 2005 congressional budget justifications. For example, USAID included as a key initiative for fiscal year 2005 trade capacity building in support of WTO and bilateral U.S. government trade objectives. In addition, in their joint strategic plan for fiscal years 2004 through 2009, the Department of State and USAID stated that they "will strengthen the capacity of developing and transitional economies to participate in, and benefit from, trade by enhancing their ability to respond positively to global opportunities…." USAID also called trade capacity building a key result of its economic growth strategic goal in its fiscal year 2003 annual performance and accountability report. USDA included a strategic objective to "support international economic development and trade capacity building" under its strategic goal of enhancing economic opportunities for agricultural producers. Furthermore, USTDA included a performance goal in its 2004 performance plan to provide capacity building activities to support USTR in trade negotiations.[18]

In addition, both USAID and USDA have issued formal strategies for providing trade capacity building.[19] USAID's 2003 strategy, *Building Trade Capacity in the Developing World*, emphasizes that while ongoing activities address a variety of trade capacity building needs, USAID will focus new activities on helping countries participate in and implement trade agreements and take advantage of trade opportunities. Ways to increase trade opportunities include strengthening economic policies; removing trade barriers; and building well-functioning economic, political, and legal institutions. USDA's strategy targets its trade capacity building initiatives on promoting science and rules-based regulatory frameworks for agricultural trade and supporting improved understanding of agricultural biotechnology and expanded trade in safe food products developed by biotechnology.

USAID is training its headquarters and field staff on trade issues, including the WTO framework and principles, the current multilateral negotiating agenda, and trade capacity building best practices. USAID has also conducted seminars for its economic officers in the field missions on its approach to trade capacity building.

USAID is also using specialized contract mechanisms to fund trade capacity building assistance quickly. For instance, its "trade capacity building support mechanisms" provide quick funding (new requests for technical assistance can be addressed "in as little as" 3 weeks) to help USAID missions help countries assess their trade constraints and prioritize their trade-related technical assistance needs. The project also provides short-term technical assistance to assist missions in designing, implementing, monitoring, and evaluating trade-related technical assistance, such as technical training for trade officials and trade workshops for public and private sector leaders. USAID reports that these

[18]GPRA requires executive agencies to complete strategic plans in which they define their missions, establish results-oriented goals, and identify the strategies they will need to achieve those goals. The act also requires that executive agencies prepare annual performance plans that articulate goals for the upcoming fiscal year that are aligned with their long-term strategic goals.

[19]The other agencies we reviewed did not have trade capacity building-specific strategies.

assessments have focused on integrating trade into poverty reduction strategies and negotiating and implementing free trade agreements.

USAID officials are beginning to attribute, or identify, funding for trade capacity building activities for budgeting purposes. For example, in budgeting for each of their strategic objectives, USAID is identifying amounts to be attributed to activities that are considered trade capacity building. The purpose is to ensure that funding reflects the priorities of the agency and the Congress. However, one USAID official said that this was particularly difficult for trade capacity building because it was relevant to multiple strategic objectives, and funding was programmed in more than one office.

Several agencies considered supporting countries participating in trade preference programs and trade agreements with the United States to be an increasingly important factor driving their trade and development assistance. For instance, a USDA official stated that there has been a change in thinking regarding the role of the Foreign Agricultural Service in developing countries. Traditionally, the mission of the Foreign Agricultural Service has been to promote U.S. agricultural exports. Officials said that the African Growth and Opportunity Act of 2000 has made the Service more aware of the limitations that developing countries have in exporting their agricultural products and that helping them to do so will “win friends” in multilateral trade negotiations. For instance, the Foreign Agricultural Service worked with the Animal and Plant Health Inspection Service to help the act’s recipients set up animal and plant inspection systems for exporting their products. The Department of Labor has provided trade capacity building assistance to improve countries’ enforcement of their labor laws, in response to requests from USTR consistent with authority in the Bipartisan Trade Promotion Authority Act of 2002. For example, it has allocated funds to strengthen the capacity of labor ministries in Central American countries to enforce their national labor laws. A USAID official said that USAID’s work to help Central American countries has become more market-oriented, and improved social and economic conditions have laid the foundation for negotiating and implementing CAFTA.

Trade Capacity Building Interagency Group Coordinates Assistance on Free Trade Agreement Negotiations

Another new trade capacity building initiative was the formation, shortly after the November 2001 Doha ministerial, of the trade capacity building interagency group dedicated to coordinating trade capacity building in support of free trade agreements, which USTR co-chairs with USAID.[20] The Assistant U.S. Trade Representative for Trade Capacity Building said that U.S. success at the negotiating table depends upon the meshing of trade and aid. In fact, the trade capacity building interagency group has spun off special working groups to facilitate specific trade negotiations such as CAFTA, bilateral agreements with Morocco and the Dominican Republic, and the free trade agreement negotiations with the Andean region. The CAFTA working group met in tandem with CAFTA negotiating groups to help CAFTA countries develop national strategies for implementing the agreement. These trade agreement-specific working groups are led by USTR.

The Trade Capacity Building Interagency Group

Agency officials told us that they meet as frequently as once a month to coordinate trade capacity building at the policy level and that the meetings are informal and have no written guidelines or minutes. A USTR official said that the U.S. Trade Representative places primary importance on coordinating trade and development policy and that this has been critical to the successful negotiation of free trade agreements with Morocco, Central America, and Chile. According to one interagency group participant, USTR informs the group about progress in ongoing free trade agreement negotiations and any trade capacity building needs emerging from the negotiations. Agency attendees then exchange information about their trade capacity building activities to determine whether any might meet negotiating countries' needs. Although USTR might suggest possible trade capacity building initiatives, specific trade capacity building projects do not typically emerge from the meetings but are worked out later. One official said that USTR likes to go into negotiations with information on what trade capacity building assistance agencies are already providing countries. The meetings are mostly informational, ensuring that all U.S. agencies "speak with one voice" on trade capacity building, according to this official. Another official said that USTR's role was to persuade the other agencies to provide funding for trade capacity building to support the free trade agreements and that the agencies then provide what they can.

[20]USTR also created the Office for Trade Capacity Building in April 2002 to coordinate trade capacity building efforts associated with trade negotiations, now headed by the Assistant U.S. Trade Representative for Trade Capacity Building.

The Working Group Dedicated to CAFTA

A CAFTA-dedicated trade capacity building working group met in tandem with the six CAFTA negotiating groups[21] during each of the nine rounds of CAFTA negotiations. Each CAFTA country prepared a national strategy to define and prioritize its trade capacity building needs. U.S. agencies, five international institutions,[22] corporations, and nongovernmental organizations were to provide trade capacity building assistance. According to a USAID official, the CAFTA trade capacity building working group had no direct role in the negotiations and did not influence the outcome of the negotiations. Rather, it strove to ensure that countries were made aware of the trade capacity building assistance available or already provided to them. The trade capacity building assistance that emerged from the CAFTA trade capacity building working group included both reorienting existing activities and creating new ones. For example, USAID funds in Honduras were redirected to establish a trade unit in one of the Honduran ministries, helping it determine staffing needs and providing some office equipment. An example of a new initiative coming out of the working group was a commercial law diagnostic tool and a new regional program to help countries meet the customs reforms called for in a CAFTA chapter.

According to participants, the CAFTA country national strategies and the process for creating them were important tools for prioritizing and focusing CAFTA countries' trade capacity building needs. One USAID official explained that, at first, CAFTA countries created "wish lists" that were somewhat unrealistic, asking for projects beyond the scope of donor resources. An official in the USAID mission to El Salvador stated that the mission and other donors have worked with the El Salvador Ministry of Economics to develop trade capacity building project profiles, a common template to prioritize trade capacity building needs. Ultimately, the profiles reflected the needs and priorities of both sides. The National Action Plan for Trade Capacity Building issued in July 2003 by the government of El Salvador emerged in part from this exercise. The plan lays out what trade capacity building is needed to help El Salvador prepare for, participate in, and implement CAFTA and transition to free trade. According to USAID

[21]The six CAFTA negotiating groups covered market access, investment and services, labor, environment, institutional provisions such as dispute settlement, and government procurement.

[22]The five international institutions included the Inter-American Development Bank, the Central American Bank for Economic Integration, the Economic Commission for Latin America and the Caribbean, the Organization of American States, and the World Bank.

officials, the Ministry of Economics used the plan in its strategic planning. One USAID official stated that the national plans are meant to be flexible as needs change but should impose discipline on donors and recipients to stay within agreed-upon priorities. Government of El Salvador officials stated that the CAFTA trade capacity building process helped donors to better coordinate their assistance and will encourage the enforcement of environmental laws.

Benefits of Interagency Group and Working Groups Cited by Participants

A USDA official said that the trade capacity building interagency group meetings have given agencies insight into U.S. views on free trade agreements and have sometimes alerted USDA to agriculture policy issues about which it was unaware. A USTDA official stated that the interagency meetings have improved coordination among agencies and helped USTDA focus on trade capacity building activities with the most value to recipients and donors. They also said that USTR and other agencies have become more aware of what each is doing to provide trade capacity building. In addition, the meetings have helped agency officials form relationships and contacts to better provide trade capacity building.

U.S. agency officials in Washington had positive comments about the CAFTA trade capacity building coordination process. One USDA official called the process an agile mechanism to provide assistance quickly and pull the right people together to provide it. A USTDA official said that the process had helped negotiators "sell" CAFTA to CAFTA countries because countries are getting concrete help on specific projects such as port modernization that have tangible benefits. An official from the Department of State called it a rapid response mechanism. Officials from the Departments of Labor and the Treasury and USAID stated that the system allowed donors to identify country needs and avoid duplication. For example, USAID was able to plan its customs work appropriately when the Inter-American Development Bank informed the CAFTA trade capacity building working group that it was providing a regional customs program.

Most Agencies Are Not Systematically Monitoring, Measuring, or Evaluating Their Assistance in Terms of Building Trade Capacity

For the most part, the six agencies we reviewed are neither systematically monitoring nor measuring program performance against program goals in terms of building trade capacity, neither are they evaluating the effectiveness of their trade capacity building activities. While some of the agencies we reviewed have set program goals for building trade capacity, generally, most have neither developed performance indicators related to trade capacity building, nor have they compiled performance data and analyzed the results in terms of building trade capacity. USAID presented goals for building trade capacity in its March 2003 strategy, *Building Trade Capacity in the Developing World*, with a limited number of performance indicators to monitor or measure results and measure performance against those goals. USDA's trade capacity building strategy does not include performance indicators. Although USAID officials have called developing trade capacity building performance indicators difficult, they are working toward that end independently and with other donors.

Among the six agencies we reviewed, only USAID and USDA have strategies for trade capacity building other than what is contained in strategic plans and annual performance plans. As shown in table 3, USAID's 2003 strategy lays out goals with a limited number of trade capacity building performance indicators to measure performance against goals. USDA's trade capacity building strategy, which focuses on promoting a rules-based regulatory framework for agricultural trade and on supporting better understanding of agricultural biotechnology, contains no performance indicators.[23] A performance indicator is a specific value or characteristic to measure output or outcome. An "output measure" records the actual level of activity or whether the effort was realized and can assess how well a program is being carried out. An "outcome measure" assesses the actual results, effects, or impact of an activity compared with its intended purpose.

[23]GPRA requires executive agencies to include results-oriented goals linked to indicators that the agency will use to measure performance against the results-oriented goals.

Table 3: USAID 2003 Trade Capacity Building Strategy

USAID trade capacity building strategy	Trade capacity building goals	Trade capacity building performance indicators
Participation in trade negotiations	• Support WTO accessions • Help negotiators analyze benefits of trade • Train negotiators on procedures	• New WTO accessions • None • None
Trade agreement implementation	• Help countries implement WTO requirements • Help countries satisfy trade preference requirement	• Number WTO obligations implemented • None
Economic responsiveness for trade	• Improve quality of trade • Improve quality of investment • Improve customs administration • Increase competition in service sector • Strengthen commercial law • Develop financial sector • Strengthen competition and antitrust • Develop business services • Improve agricultural capacity • Remove barriers to small and medium enterprises	• Increased exports of processed commodities[a] • Foreign direct investment flows • Customs clearance times • None • None • None • None • None • None • None

Source: GAO analysis of USAID's 2003 strategy, *Building Trade Capacity in the Developing World.*

[a]In some sectors, developing country producers are not processing their raw commodities and thus do not benefit from the value-added portion of production. The value-added is the amount by which the value of an article is increased at each stage of its production, exclusive of initial costs.

USAID has acknowledged the difficulty of developing a set of trade capacity building performance indicators for missions to use in their performance monitoring plans. A USAID official stated that the agency had not, to date, developed a set of trade capacity building indicators because most of the agency's trade capacity building activities focus broadly on economic development, whose benefits are difficult to quantify. Although currently many missions use increased exports as an indicator, one USAID official pointed out that exports can increase for reasons unrelated to trade capacity building. The USAID official also said that coming up with indicators is sometimes less of a problem than collecting the data, which can be hard to come by in many developing countries. For instance, USAID contractors may have to rely on a country's private sector to obtain data on value-added products since the local government would not collect such data. On a small project, with individual firms, this would be feasible, but it would be costly for a whole sector, the official said. Furthermore, another USAID official stated that USAID has struggled to help missions understand the distinction between economic development projects and trade capacity building projects. For instance, the official said that, although USAID had undertaken many agricultural projects in the past, many project activities were not linked to markets and trade. One USDA official said, however, that he considered the development of new institutions, laws, and regulations to be good performance indicators for trade capacity building efforts.

Despite the challenges of monitoring and measuring the results of trade capacity building assistance, USAID is working on its own and through the international community to develop trade capacity building performance indicators for missions to use in their performance monitoring plans. USAID has contracted for a consultant's study and expects to have a draft report on trade capacity building indicators in the near future. Furthermore, USAID is not alone in dealing with the difficulties of evaluating trade capacity building efforts, as other countries face the same issues. USAID has been collaborating with other country donors through the OECD's Development Assistance Committee to develop a common framework for results monitoring and assessment of trade capacity building efforts. To date, the OECD committee members have discussed a flexible "tool kit" of trade capacity building indicators, in recognition that the wide range of trade capacity building projects would argue against using the same indicators for all trade capacity building activities.

Based on our interviews, U.S. agencies have not specifically conducted program evaluations to assess the effectiveness of their trade capacity building efforts. Program evaluation is an assessment of the effects of a program or policy that can measure unintended results, both good and bad, and can be used to validate or find error in a program's basic purposes and premises. GPRA called for agencies to improve congressional decision making by providing more objective information on the relative effectiveness and efficiency of their programs and spending.[24]

According to agency officials with whom we spoke, some agencies have evaluated their activities but not in relation to trade capacity building. For instance, Department of Labor officials stated that Labor evaluates its projects against project-specific objectives that are not trade capacity building objectives. USTDA officials stated that they have a set of measures for the development effectiveness of each of their activities. USTDA

[24]GAO has reported that GPRA recognizes and encourages both performance measurement and program evaluation. *Performance Measurement and Evaluation: Definitions and Relationships*, GAO/GGD-98-26 (Washington, D.C.: April 1, 1997). In addition, the OECD has stated that performance measurement and program evaluation complement each other and allow for examination of results and impact. *The DAC Guidelines: Strengthening Trade Capacity for Development* (Paris: OECD, 2001), 63-64.

officials stated further that, while they have recently developed a system for evaluating the development impact of their activities over the next 6 years, the system is not meant to measure trade capacity per se. USTDA officials do believe, however, that their development impact measures will in most cases ultimately serve as a good proxy for measuring trade capacity building impact. Examples of effectiveness in the USTDA system would include the percentage of activities that lead to the adoption of market-oriented reforms or result in the transfer of advanced technology to increase productivity. Finally, USTDA officials emphasized that few of their trade capacity building activities are mature enough to be evaluated. The Department of State evaluates the effectiveness of its International Visitor Leadership Program[25] with general anecdotal feedback from participants. One USDA official said that the agency has not done any assessments specifically of the effectiveness of its trade capacity building efforts, but that USDA did do program evaluations. For example, one USDA evaluation concluded that a refrigeration project resulted in improved refrigeration management and a reduction in perishable losses of one company of 60 percent.

USAID reported in May 2004 that it has conducted fewer program evaluations overall since instituting its performance measurement system under GPRA, replacing them with annual reports “that measure progress toward specific goals on a country by country basis” rather than evaluating the effectiveness of the program as a whole. In addition, one USAID official said that USAID moved away from using formal evaluations about 10 years ago because of lack of personnel. In October 2004, USAID issued the report, *USAID Trade Capacity Building Programs: Issues and Findings*, which examined issues related to USAID’s trade capacity building assistance programs.[26] The report concluded that USAID should collect and analyze more trade capacity building data to monitor results and use those results to conduct program evaluations. It also said that USAID should

[25]The Department of State’s International Visitor Leadership Program annually brings foreign nationals to the United States to meet and confer with their professional counterparts and learn about the United States. The visitors are current or potential leaders in government, politics, the media, education, labor relations, the arts, business, and other fields.

[26]The analytical research for this report is contained in the following published USAID documents: *An Evaluation of Trade Capacity Building: Overview*; *USAID Support for WTO/FTA Accession and Implementation*; *USAID Behind-the-Border Trade Capacity Building*; and *Regional Trade Agreements: A Tool for Development?*

conduct more and better evaluations of its trade capacity building projects to know what approaches work best and under what conditions.

While several of the agencies we reviewed emphasized trade capacity building in their strategic plans or annual performance plans, and two agencies have produced trade capacity building specific strategies, the lack of performance data linked to trade capacity building limits their ability to monitor and measure current results. In addition, without evaluations identifying what trade capacity building activities are effective, the agencies will have difficulty determining whether their efforts are achieving their overall trade capacity building goals. Finally, as we discuss in appendix IV, greater openness to international trade can have a variety of effects, both positive and negative, on different aspects of developing countries' domestic economies. Therefore, evaluating the effectiveness of trade capacity building efforts is important to identify those that build trade capacity and those that do not and to determine if any negative effects should be mitigated.

Conclusion

The executive branch and the Congress have elevated trade capacity building as a crucial tool for U.S. trade and development policy. This warrants a comprehensive, coordinated approach to its delivery, based on solid evidence of its effectiveness in generating economic development and growth through trade. The challenge is that the estimated $2.9 billion in U.S. trade capacity building assistance covers multiple categories of assistance across numerous types of trade and development programs that have many goals and are implemented by multiple agencies. The cross-cutting nature of this assistance argues for a coordinated approach to its implementation. The trade capacity building interagency group has demonstrated that a coordinated approach is possible under the right circumstances by bringing agencies together to deliver relevant, focused, and timely technical assistance to countries participating in free trade agreements. The cross-cutting nature of trade capacity building also makes it difficult to evaluate. While agencies track the results of individual activities, they do not consistently do so in terms of building trade capacity, in part, due to the relative newness of the concept and the lack of a common framework for evaluation. USAID is working independently and in conjunction with other country donors to develop a common set of indicators to monitor and measure performance and to assess trade capacity building effectiveness. Without evaluating the effectiveness of its trade capacity building assistance, the United States cannot ensure the reasonable use of resources devoted to such assistance, determine whether the assistance is helping countries participate in and benefit from trade, and credibly demonstrate that trade capacity building is a useful U.S. trade and development policy.

Recommendations for Executive Action

To provide more objective information on the progress of U.S. trade capacity building efforts and allow the United States to assess their effectiveness, we make the following two recommendations:

- The Administrator, U.S. Agency for International Development, and the U.S. Trade Representative, as co-chairs of the trade capacity building interagency group, in consultation with other agencies that fund and implement trade capacity building assistance, should develop a cost-effective strategy to systematically monitor and measure program results and to evaluate the effectiveness of U.S. trade capacity building assistance.

- The Administrator, U.S. Agency for International Development, should direct the agency to set milestones for completing its efforts to develop trade capacity building performance indicators to be used by (1) its field missions to monitor and measure the results of their trade capacity building efforts and (2) its relevant agency bureaus to conduct periodic program evaluations. The U.S. Agency for International Development should share its findings with other agencies that fund and implement trade capacity building assistance.

Agency Comments and Our Evaluation

We provided a draft report to the Office of the U.S. Trade Representative, the U.S. Agency for International Development, the Departments of Agriculture, Labor, State, and the Treasury, and the U.S. Trade and Development Agency. We received technical comments from the Office of the U.S. Trade Representative, the U.S. Agency for International Development, the Departments of Labor and State, and the U.S. Trade and Development Agency. The Department of Agriculture provided no comments. We received written comments from the U.S. Agency for International Development, the Office of the U.S. Trade Representative, and the Department of the Treasury, which are reprinted in appendixes V through VII.

The U.S. Agency for International Development agreed with our two recommendations. Regarding our first recommendation, USAID emphasized the importance of considering the large number of agencies involved, the diversity of trade capacity building programs, and the cost-effectiveness of different approaches to monitoring and evaluating trade capacity building activities. In addition, USAID believed that developing a monitoring and evaluation system should be done selectively, starting with programs with the clearest links to building trade capacity. Regarding our second recommendation, USAID noted that the Administrator had directed the agency to reinstate its overall project evaluation efforts, and that USAID had several ongoing efforts to support the recommendation. USAID noted, however, that standard indicators designed to report on agencywide trade capacity building program performance will not be sufficient to monitor the effectiveness of all aspects of every trade capacity building project. USAID country missions will need to continue to develop specialized indicators that are tailored to local goals, opportunities, constraints, and needs.

The Office of the U.S. Trade Representative reiterated the important role of trade capacity building in linking trade and development by providing developing countries with the tools to maximize trade opportunities offered by multilateral and bilateral trade agreements and trade preference programs. In addition, USTR believed that the discussion in the report about interagency coordination demonstrated the importance of linking trade capacity building needs with the needs generated by trade negotiations.

The Department of the Treasury complimented our assessment, stating that the report provided a good example of cooperation and mutual support between the Department's Office of Technical Assistance and USAID in providing trade capacity building. Treasury also emphasized that its role in helping countries to institute financial reforms contributed to building trade capacity.

We will send copies of this report to appropriate congressional committees and to the U.S. Trade Representative; the Administrator, USAID; the Secretaries of the Departments of Agriculture, Labor, State, and the Treasury; and the Director, U.S. Trade and Development Agency. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-2717 or at jonesy@gao.gov. Another GAO contact and staff acknowledgments are listed in appendix V.

Yvonne D. Jones
Acting Director, International Affairs and Trade

Objectives, Scope, and Methodology

The Chairman and Vice Chairman of the House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform, asked us to provide information about U.S. trade capacity building assistance. This report (1) identifies the nature and extent of U.S. trade capacity building; (2) describes how agencies implement such assistance, including coordination; and (3) assesses whether agencies evaluate its effectiveness. To address these objectives, we reviewed agency information on trade capacity building programs. We visited overseas missions in Egypt, El Salvador, and Ghana; we chose these countries because they were among the 20 countries receiving the most trade capacity building funding, and they represented different regions and income levels (low and middle income). We initially interviewed officials from 12 U.S. agencies responsible for trade capacity building activities. We then narrowed this down to the six agencies that funded and implemented 96 percent of trade capacity building assistance. These agencies were the Departments of Agriculture, Labor, State, and the Treasury, the U.S. Agency for International Development (USAID), and the U.S. Trade and Development Agency. We also interviewed officials from the Office of the U.S. Trade Representative, an agency with a coordination role. We concentrated our review on USAID as it provided the bulk of the funding.

To describe the nature and extent of trade capacity building, we reviewed documents from the World Trade Organization regarding the Doha ministerial conference in 2001 and subsequent international work on the Doha Development Agenda. We also reviewed documents from the Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development. To determine the U.S. definition of trade capacity building, we examined congressional documents providing guidance on funding and implementation, as well as relevant U.S. legislation, and relevant agency documents. We also examined the guidance and definitions specified in the U.S. government trade capacity building survey administered by USAID. We surveyed economic literature on the relationships among trade, economic growth, and development in developing countries. We examined U.S. government reports on trade capacity building assistance, annual agency reports, and agency trade capacity building planning and project documents. Because USAID—as the primary funder of trade capacity building—administers foreign aid through a decentralized organizational structure, we visited USAID missions in Egypt, El Salvador, and Ghana to observe a range of trade capacity building activities. At the missions overseas, we examined program documents and interviewed USAID officials to understand the types of trade capacity building programs the missions manage. In addition, in conjunction with our work at the missions, we held meetings with other key U.S. government officials, USAID contractors, host government ministry officials, and various trade capacity building recipients. We analyzed data from the U.S. Government Trade Capacity Building database to identify the major funding categories, agencies, and recipients of trade capacity building assistance. To assess the reliability of the U.S. Trade Capacity Building database, we reviewed the survey instruments used to collect the data, examining country activity sheets and survey forms, and performed our own data reliability tests. We also interviewed the USAID contractor that manages the data collection and analyzed the steps the contractor took to ensure data reliability. For example, we asked the contractor how the survey data were collected, what quality checks were performed, and what other internal controls were in place. In Washington, D.C., we asked U.S. officials at the Departments of Agriculture and Labor and the U.S. Trade and Development Agency a standard set of data reliability questions. In El Salvador and Ghana, we conducted data reliability interviews with officials at the USAID missions. We determined that the data in the database were sufficiently reliable for the purposes of identifying the major categories of trade capacity building funding, the agencies funding the trade capacity building programs, and the regions and countries receiving trade capacity building funding.

To examine how agencies implement trade capacity building assistance, we examined agency documents on trade capacity building activities, strategic plans, and other relevant documents. We asked agency officials about factors affecting agency decisions concerning the type of assistance provided, the countries selected as recipients, and the amount of funding. We focused our interviews on officials at USAID, the U.S. Trade and Development Agency, and the Departments of Agriculture, Labor, State, and the Treasury at this stage because these agencies reported implementing and funding 96 percent of the trade capacity building assistance in fiscal years 2001 to 2003 (we obtained 2004 data at the end of the review). To assess how U.S. agencies coordinate the allocation of trade capacity building assistance, we reviewed published reports on trade capacity building activities, agency strategies, and program documents. In Egypt, El Salvador, and Ghana, we interviewed U.S. officials responsible for implementing trade capacity building activities, as well as host government officials in Egypt, El Salvador, and Ghana. We observed one meeting of the interagency group on trade capacity building.

To assess whether agencies evaluate the effectiveness of their trade capacity building efforts, we analyzed U.S. agency project documents, annual reports, performance and accountability reports, and reports on trade capacity building. Using interview responses and analyses of the reports and documents related to trade capacity building, we examined these agency efforts against the Government Performance and Results Act of 1993 criteria for performance monitoring and program evaluation. We also examined performance and monitoring principles used by multilateral donors and international organizations that we identified by reviewing a GAO analysis of relevant U.S. legislation and Organization for Economic Cooperation and Development documents.

We conducted our work between September 2003 and November 2004 in accordance with generally accepted government auditing standards.

U.S. Government Trade Capacity Building Database

The U.S. government has conducted an annual survey of U.S. agencies' trade capacity building assistance efforts since 2001. The survey collects funding data for an entire agency or U.S. Agency for International Development (USAID) mission in the given fiscal year.

U.S. agency officials complete the survey by providing financial information on funds obligated for various projects and activities in a given year. Actual expenditures of funds for these activities may not occur until a year or two after the survey. For example, the fiscal year 2002 database accounts for obligations in fiscal year 2002. However, activities may not occur and thus may not be expended until fiscal year 2003, or 2004, or even later.

To answer the survey, an agency official typically goes through all of the agency's projects for a given fiscal year and reviews the survey guidance, including the trade capacity building categories (see table 1 for complete list of categories), to determine which projects are related to trade capacity building. The officials then assign a percentage amount of the total funded project to a trade capacity building category. An "other" category is provided for activities that do not fit the given trade capacity building categories in the survey. In addition, activities in the database are often not discrete projects but parts of larger programs. For instance, the USAID/Egypt mission has a $200 million Commodity Import Program, but only $50 million of the project is counted as trade capacity building and included in the database.

The database, created by a USAID contractor from the surveys, is available online at http://qesdb.cdie.org/tcb/index.html. It provides information by type of activity, by recipient country, and by U.S. government agency. Agencies are grouped in three ways: those that fund, those that implement, and those that both fund and implement trade capacity building activities. The database provides financial information for the period of fiscal years 1999–2004.

According to the survey administrator, the technical team reviewed completed survey forms, checking for accuracy and consistency in the reporting and allocation of funding to various trade capacity building categories. In addition, the survey administrator told us that, whenever a report was ambiguous or incomplete, the technical team worked with the reporting U.S. government agency, department, or field mission to amend the data.

Total U.S. Funding for Trade Capacity Building, by Region and Country, Fiscal Years 2001–2004

Sub-Saharan Africa			
Ghana	$29,927,888	Sudan	$1,510,000
Uganda	27,743,099	Chad	1,268,075
Mali	27,607,881	Botswana	1,241,214
Mozambique	25,213,673	Cameroon	943,671
Nigeria	23,939,886	Zimbabwe	917,183
Tanzania	15,430,805	Sao Tome and Principe	842,000
South Africa	13,692,349	Sierra Leone	680,744
Zambia	13,393,999	Guinea-Bissau	456,451
Kenya	12,972,366	Somalia	341,763
Malawi	11,792,899	Eritrea	286,065
Madagascar	11,529,257	Democratic Republic of the Congo	230,744
Rwanda	9,231,315	Mauritius	221,881
Guinea	7,064,200	Gabon	204,000
Senegal	6,459,699	Cote d'Ivoire	143,243
Djibouti	4,055,393	Liberia	135,007
Ethiopia	3,856,120	Equatorial Guinea	60,243
Namibia	3,769,406	Swaziland	51,673
Burkina Faso	3,235,739	Republic of the Congo	42,000
Cape Verde	2,691,582	Seychelles	29,673
Togo	2,382,931	Lesotho	29,671
Angola	2,329,613	Burundi	18,243
Benin	2,135,007	Comoros	18,243
Niger	2,018,243		
The Middle East and North Africa			
Egypt	$368,681,820	Algeria	$20,522,312
Jordan	89,044,521	Lebanon	7,617,685
West Bank/Gaza	53,887,443	Tunisia	2,585,799
Morocco	31,246,244	Yemen	1,629,800
Iraq	30,937,093		
Asia			
Philippines	$83,151,774	Bangladesh	$11,143,378
Afghanistan	74,164,544	Sri Lanka	10,921,899
India	52,112,068	Thailand	10,882,524
Indonesia	42,814,171	Pakistan	10,805,050
Vietnam	27,907,332	Mongolia	7,671,651

(Continued From Previous Page)			
East Timor	17,811,672	Nepal	7,306,111
Cambodia	13,084,108	Malaysia	1,275,940
China	11,950,869	South Korea	107,570
Central and Eastern Europe			
Croatia	$52,611,706	Albania	$8,337,351
Serbia and Montenegro	40,927,481	Bosnia and Herzegovina	5,043,617
Romania	29,847,580	Poland	3,251,685
Kosovo	22,085,000	Hungary	823,031
Macedonia	18,050,785	Czech Republic	794,000
Turkey	13,557,051	Lithuania	182,964
Bulgaria	9,618,365		
Latin America and the Caribbean			
Colombia	$57,130,219	Panama	$4,095,311
El Salvador	50,897,447	Chile	2,074,119
Peru	32,772,265	Costa Rica	927,996
Honduras	30,999,529	Argentina	533,840
Bolivia	29,982,491	Venezuela	195,160
Nicaragua	28,665,994	St. Kitts and Nevis	124,000
Mexico	26,445,300	Belize	60,000
Haiti	24,827,060	Uruguay	57,920
Brazil	24,653,613	Barbados	7,690
Ecuador	20,523,601	Bahamas	6,300
Dominican Republic	17,886,126	Trinidad and Tobago	6,300
Jamaica	16,550,835	Dominica	6,290
Guatemala	9,030,579	St. Lucia	6,290
Paraguay	4,359,903	St. Vincent and the Grenadines	6,290
Guyana	4,212,111		
Former Soviet Republics			
Russia	$71,551,713	Azerbaijan	$17,965,498
Kazakhstan	44,751,387	Uzbekistan	11,997,984
Georgia	43,502,461	Tajikistan	6,882,771
Ukraine	39,040,826	Moldova	2,499,569
Armenia	36,422,648	Turkmenistan	1,512,500
Kyrgyzstan	25,857,573		

Source: GAO analysis of U.S. Government Trade Capacity Building database.

The Linkages between Trade and Development

Assistance to developing countries for trade capacity building is based on the premise that international trade can positively benefit a country's overall growth and development. Economists postulate that these potential benefits come as trade increases competition and specialization, provides greater access to technology for domestic producers, expands export markets and earnings, and fosters new foreign investment and institutional reforms. However, economists have also argued that international trade can create significant challenges for developing countries, such as greater instability due to volatile export markets, increased reliance on international debt to finance trade deficits, and exacerbated income inequality and unemployment. Following the rapid growth of certain East Asian countries, and more recently China, the role of international trade in fostering growth and development has become more widely accepted. Some empirical studies have confirmed a positive relationship between trade liberalization and growth; however, others question the robustness of these results and stress that greater openness does not uniformly lead to development.

International Trade May Benefit Growth and Development through a Variety of Channels

Economic theory predicts a variety of ways in which international trade can positively affect a country's growth and development.[1] First, greater openness to imports from other countries increases competition in the country's domestic market. This can lead to greater efficiency as less competitive producers are driven out of the market. In addition, resources will shift to more competitive producers and industries enabling them to expand.[2] Second, these expanding domestic producers may now be able to export their products to a worldwide market, rather than sell them only in the local economy. With a larger market, some producers also may benefit

[1]For additional discussion of the relationship between trade and development, see, for example, *Handbook of Development Economics*, vol. II, H. Chenery and T. N. Srinivasan, eds. (New York, NY: Elsevier Science Publishers, 1989) and vol. III, J. Behrman and T. N. Srinivasan, eds. (New York, NY: Elsevier Science Publishers, 1995); Michael Todaro and Stephen Smith, *Economic Development*, 8th ed. (Boston, MA: Addison-Wesley, 2003); and Gerald Meier and James Rauch, *Leading Issues in Economic Development*, 7th ed. (New York, NY: Oxford University, 2000).

[2]However, as changes occur in the domestic economy due to increased import competition, some individuals, companies, and industries may face greater costs than benefits. For example, even if the overall economy grows from trade liberalization, industries facing greater competition from imports may contract, leaving workers unemployed. For some of these workers, gaining employment in industries that are expanding may be difficult even over a long period of adjustment (see discussion in next section for challenges that may arise from trade liberalization).

from economies of scale in production; that is, they are able to reduce their costs per unit of output by producing on a larger scale. Third, overall productivity in the economy can increase due to greater competition and specialization. Competition increases the number of efficient producers and reduces the number of less efficient producers. Fourth, imports also may provide access to machinery and equipment that the domestic economy does not produce but are needed so domestic firms can expand. These imports may embody technology and innovations that the domestic economy lacks but which help improve labor productivity and benefit industries that use them.

Increased openness to trade may also create incentives for foreign direct investment and institutional reforms, both of which may facilitate growth. For example, a more liberal trading regime that reduces costs on both imported manufacturing inputs and exported final products may create incentives for foreign producers to invest in new production in the domestic market since the cost of foreign-produced components used domestically is lower and producers can export more competitively.[3] Lower tariffs mean the domestic industry can import components used in their final products more cheaply, while lower export taxes enable the final products to be sold at a lower price internationally. Increased foreign investment expands developing countries' stock of capital, technology, and managerial expertise, which may expand production directly through new subsidiaries and have positive spillover effects on other companies and industries in the economy. Trade liberalization also may positively affect institutional development and reform. For example, some economists argue that greater competition from imports may encourage institutional reforms and reduce corruption by reducing the monopoly power of domestic interests that benefited from the protected market. At the same time, export industries that are expanding to take advantage of opportunities in the world market have an incentive to lobby for further reforms that increase the competitiveness of the domestic economy.

[3]However, economics literature also points out that high trade barriers may encourage foreign investment because businesses cannot access a country's consumers if they do not have a local presence. This type of investment is designed to replicate the company's operations in other countries and depends on the size of the developing country's market (smaller markets may not attract such investment).

Greater Dependence on Trade May Also Create Significant Challenges for Developing Countries

Economists have also pointed to a variety of significant challenges that international trade raises for developing countries. For example, many developing countries have significant exports of primary products, such as agriculture and raw materials. Dependence on these types of exports, particularly for countries that generate their export earnings from a few products (such as coffee, cocoa, or bananas), creates large economic fluctuations since primary product prices tend to be relatively unstable. In addition, many developing country exporters also have faced deterioration in their terms of trade, as the prices of their export products fell relative to the prices they paid for their imports. This can create a situation in which trade barrier reductions in the domestic market increase demand for imports and displace domestic production, but export sectors do not expand to capture these resources because prices in world markets are declining. Consequently, the gap between export earnings and import payments may lead developing countries to maintain current account deficits. This means that more foreign currency for imports is paid for imports than received from selling exports. To acquire foreign currency to cover this deficit, countries need an inflow of foreign financial assistance, either through private investment or public assistance (such as loans and aid). Persistent current account deficits were partly responsible for the accumulation of debt among developing countries in the 1980s and 1990s.

Some economists point out that, although trade may benefit a country's growth and overall wealth, distributional problems such as wage inequality, unemployment, and poverty may accompany this growth and be contrary to a country's development goals. For example, trade liberalization may worsen a country's income distribution and reduce the wages of low-skilled workers if it encourages (as a result of increased foreign competition) the adoption of technologies that favor more skilled workers. In addition, the economic changes induced by greater competition may affect workers, industries, and communities disproportionately.

Greater Acceptance of Important Role for International Trade in Development

The potentially positive role of international trade on economic growth and development is not a new concept. Eighteenth-century economists such as Adam Smith and David Ricardo argued for the benefits of international trade for economic growth. In the twentieth century, the rise of trade barriers among the major trading nations and the resulting decline of international trade has been cited as one of the reasons for the depth and duration of the worldwide recession in the 1930s.[4] Following World War II, the reduction of trade barriers among trade partners was seen as an important component of the world economic system. The General Agreement on Tariffs and Trade was inaugurated in 1947 and then followed by successive rounds of negotiations, which resulted in the formation of the World Trade Organization in 1995. Similarly, the United Nations Conference on Trade and Development was formed in 1964 because of a general understanding that trade and development were interrelated.

Despite these developments, economists and developing countries from the 1950s through the 1970s held divergent views about the best policies for growth and development. These views involved engaging the world market versus sheltering certain industries from competition until they were better able to compete. Ultimately, the divergent experiences of developing countries over this period led to a broader acceptance of the role of openness to international trade in fostering economic growth and development. Many countries, such as Argentina, El Salvador, Ghana, and Nigeria, pursued an inwardly focused development strategy known as import substitution. This strategy focused on restrictive trade policies that sought to protect certain domestic industries in order to foster a diverse industrial base.[5] On the other hand, certain East Asian economies, including Hong Kong, Korea, Singapore, and Taiwan, pursued a more outwardly focused development strategy known as export promotion, which sought to encourage industrial development by tapping into larger export markets rather than relying on protected domestic markets.[6] Although the debate between these two broad approaches has swung back and forth, export promotion, and trade liberalization in general, was more broadly accepted by the 1980s as the dominant development strategy. This was due in large part to the rapid growth of the East Asian economies, as well as China more recently, and the relatively stagnant growth of many

[4]See, for example, Charles Kindleberger, *The World in Depression, 1929-39* (Berkeley: University of California Press, 1973), 291-308.

[5]Import substitution as a development policy tool does involve international trade—both through the initial importation of capital goods for industrialization, as well as the eventual exportation of industries once they are able to compete in world markets.

[6]Some have pointed to these countries' industrial policies and selective use of trade restrictions, particularly those that provided support for certain industries, as key components of their development strategies. Also, others have pointed out that if all developing countries pursue export promotion strategies with similar products, then the world prices of these products will fall, affecting the terms of trade and limiting the effectiveness of this development strategy.

countries that pursued more restrictive policies. Openness to trade, sound fiscal and monetary policy, security of property rights, and privatization were key policy prescriptions in what became known as the "Washington Consensus." This consensus generally characterized the advice of the World Bank and International Monetary Fund (both based in Washington, D.C.) to developing countries.[7]

As a result, since the 1980s, a variety of countries have liberalized their trade regimes by reducing trade barriers through unilateral, bilateral, regional, and multilateral trade negotiations. The range of policies that affect the trade openness of particular countries makes it difficult to measure levels of openness over time and across countries. However, a wide variety of evidence shows that developing countries have liberalized their trade regimes extensively over the past two decades. For example, average tariffs of developing countries have fallen from around 36 percent in the early 1980s to around 16 percent currently, based on World Bank and International Monetary Fund statistics. However, the trend to greater openness varied among regions and countries, with Latin America tending to move the most rapidly and comprehensively, while South Asian countries made little progress until the 1990s. For Ghana and Egypt—countries we visited in our work—average tariffs were similar in the early 1980s at 43 percent and 47 percent, respectively. However, Ghana reduced its average tariff much more rapidly than Egypt, so that currently Ghana's average tariff is about half that of Egypt (16 percent compared to 30 percent).

Some Empirical Studies Confirm a Positive Relationship between Trade and Growth, but Critics Raise Caution

A large economics literature exists on the relationship between trade and growth. Many studies have attempted to empirically measure (and confirm) the relationship between a country's level of openness to trade and per capita income, or the relationship between changes in trade flows and changes in gross domestic product (growth). For example, regularly cited research by economists David Dollar, Aart Kraay, Jeffrey Sachs, Andrew Warner, Dan Ben-David, and Sebastian Edwards generally finds an important relationship between changes in trade flows or liberalization and

[7]The effectiveness of strategies connected to the Washington Consensus has been debated. See for example, Joseph Stiglitz, *Globalization and Its Discontents* (New York, NY: W. W. Norton & Company, 2002) and Jagdish Bagwhati, *In Defense of Globalization* (New York, NY: Oxford University Press, 2004).

growth rates across countries.[8] The studies construct measures of openness to trade and econometrically estimate the relationship to growth, controlling for causality (e.g., growth may also spur increased trade) and other factors that affect growth. Similarly, research over the past 15 years by economists Robert Hall, Charles Jones, Andrew Rose, Jeffrey Frankel, and others have found that large differences across countries in the level or the growth rate of real GDP per capita may be systematically related to the *level* (or degree) of openness of those countries.[9] However, these studies have also found that institutional quality, such as the effectiveness of government, is also an important factor affecting growth and difficult to separate from the effects of openness.

Although there is a general acceptance that trade *can* play an important role in economic development, some economists have criticized the methodologies used to study the relationship between openness and growth. For example, Francisco Rodriguez and Dani Rodrik argue that methodological problems in this literature leave the results open to diverse interpretations.[10] They find little convincing evidence that changes in trade policy (i.e., reductions in government-imposed trade barriers) are significantly associated with economic growth. One challenge that affects the robustness of studies trying to estimate the impact of trade liberalization on economic growth is constructing reliable and reasonable measures of "openness." The few measures that are relatively widely available, such as tariff rates, do not fully capture the wide range of policies that governments may put into place to affect trade. Data are not readily available on barriers other than tariffs (e.g., nontariff barriers such as

[8]For example, see David Dollar and Aart Kraay, "Trade, Growth, and Poverty," World Bank Working Paper (Washington, D.C.: World Bank, June 2001); David Dollar, "Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976-85," *Economic Development and Cultural Change*, vol. 40, no. 3 (1992); Jeffrey Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity*, vol. 1995, no. 1; Dan Ben-David, "Equalizing Exchange: Trade Liberalization and Income Convergence," *Quarterly Journal of Economics*, vol. 108, no. 3 (1993); and Sebastian Edwards, "Openness, Productivity and Growth: What Do We Really Know?" *Economic Journal*, vol. 108, no. 447 (1998).

[9]For a review of this literature as well as a discussion of some of its criticisms, see Andrew Berg and Anne Krueger, "Trade, Growth, and Poverty: A Selective Survey," IMF Working Paper WP/03/30 (Washington, D.C.: International Monetary Fund, February 2003).

[10]See Francisco Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," in *NBER Macroeconomic Annual*, Ben S. Bernanke and Kenneth Rogoff, eds. (Cambridge, MA: MIT Press, 2000).

quotas) for many developing countries. Furthermore, for those countries for which some data are available, generally only information on whether or not nontariff barriers are in force is available, rather than precise information on their relative restrictiveness or actual effect on trade.

In addition, less is known about the relationship between trade capacity building and other factors affecting economic growth and development (such as institutions and human capital). Although increased trade appears to be potentially beneficial to growth and development, countries that have liberalized over time have had mixed experiences. As mentioned above, institutional factors also appear important, as do geographical factors (proximity to trade partners), in the extent to which countries benefit from greater connectedness to the world economy. Countries in sub-Saharan Africa have remained relatively less developed and marginalized compared to developing countries elsewhere, despite undergoing some degree of trade liberalization. Trade liberalization alone does not appear to be a sufficient criterion for development but is one of several important factors. Also, the speed at which the global economy evolves may initially benefit a developing country but later pose difficulties as labor tries to adjust to new conditions. For example, the removal of textile and apparel trade restrictions on January 1, 2005, by developed economies such as the United States and European Union will allow China and other large clothing producers to compete against other developing countries for their market share previously protected by the quotas.[11] Some economies may have difficulties adjusting to rapid changes in their export markets after having built up significant industries under the quota system.

[11]Under the World Trade Organization's Agreement on Textile and Clothing, quotas on textile and apparel products were allowed to remain in place until 2005. The agreement committed countries to remove quotas between 1995 and 2005 in four steps. The final step on January 1, 2005, removed all remaining quotas. The United States provided relatively generous quota access to Mexico and certain countries in the Caribbean Basin and Africa.

Comments from the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Agency for International Development

JAN 18 2005

Yvonne Jones
Acting Director
International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Jones:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled Foreign Assistance: U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to Be Evaluated (GAO-05-150).

We have reviewed the draft report and appreciate the time and effort of your team. There are, however, several points raised in the report concerning USAID's progress on which we have provided comments in the enclosed document.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

Steven Wisecarver
Acting Assistant Administrator
Bureau for Management

Enclosure: a/s

1300 Pennsylvania Avenue, N.W.
Washington, D.C. 20523

See comment 1.

USAID Comments on GAO Draft Report Entitled: FOREIGN ASSISTANCE: U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to be Evaluated (January, 28, 2005)

This report calls attention to an important element of the President's strategy, set out in the September 2002 National Security Strategy of the United States, to "ignite a new era of global economic growth through free markets and free trade." As the report notes, U.S. Trade Capacity Building (TCB) also responds to developing countries' own aspirations to take full advantage of the opportunities created by participation in the rules-based global trading system.

The report provides a timely review of the progress we have made in this area to date. I am pleased that the GAO finds the data collected by USAID in the Administration's annual surveys of TCB efforts to be sufficiently reliable for the purpose of the review. I also appreciate the GAO's recognition of the benefits of close coordination among the many involved U.S. agencies through the inter-agency working group.

The United States commitment to TCB is well substantiated by the statistics cited in the draft report. Between Fiscal Year 2001 and Fiscal Year 2004, U.S. funding for TCB assistance increased by over 50%. This has been one of my own top priorities at USAID, which accounted for over 70% of all TCB projects funded during this period. I am pleased that the Congress has provided strong and consistent support for these efforts.

I would like to clarify one point relating to the draft report's general characterization of U.S. TCB efforts. The draft report states in several places that those efforts are a "collection of existing trade and development activities, placed under one umbrella." In recent years, however, we have designed and implemented a wide variety of significant new TCB assistance activities and tools. For example, in response to the U.S.-Morocco Free Trade Area, USAID developed new methods for providing training on the complex issues relating to trade in services. In response to the Central American Free Trade Area (CAFTA), we provided "quick response" assistance to help the Central American countries improve civil society outreach and consultative procedures on trade policy issues. In support of Mozambique's efforts under the Integrated Framework for Trade-Related Assistance to Least Developed Countries, USAID was the first bilateral donor to provide assistance for a "Diagnostic Trade Integration Study" that

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integrates trade into a country's national poverty reduction strategy. There are many other examples.

Further, many of USAID's field programs have been significantly modified to focus more specifically on trade capacity building, taking advantage of U.S. bilateral and multilateral trade initiatives and many developing country governments' increasing commitment to trade-led development strategies. This is reflected, for example, in USAID's new Agriculture Strategy, with its strong focus on the contribution that trade can make to rural development. It is important to note that a coordinated TCB strategy, which focuses a broad range of assistance activities on the central goal of improving a country's participation in the global trading system, is much greater than the sum of its parts. I am convinced that this strategy continues to significantly improve the overall effectiveness and impact of U.S. assistance efforts in many developing countries.

USAID is committed to working closely with the other U.S. agencies that implement TCB assistance, as well as with the Office of the U.S. Trade Representative and the U.S. trade policy community, to maximize the benefits of these trade and development synergies. As the report recognizes, the various inter-agency coordination mechanisms this Administration has established in support of the Doha Development agenda, the Central America Free Trade Area, and other trade initiatives have made invaluable contributions to this work.

We appreciate and fully support the GAO's recommendation, on page 47 of the draft report, that USAID "set milestones for completing its efforts to develop trade capacity building performance indicators … and share its findings with other agencies that fund and implement trade capacity building assistance." A number of ongoing USAID efforts will contribute to this objective. Most notably, Administrator Natsios has directed the Bureau for Policy and Program Coordination (PPC) to re-energize USAID's overall project evaluation capacity and efforts. As part of that effort, PPC is now working with USAID field missions and other bureaus to develop a standard set of program components and corresponding indicators that will be used to report on and guide all our assistance projects worldwide, including in the area of trade capacity building.

Administrator Natsios has instructed PPC to develop standard program performance indicators for this and USAID's other program components by June 2005, for sharing with our field missions, so that by September 30, 2005, they will be ready for inclusion in our Annual Report. It is important to note that these standard indicators, designed to report on Agency-level TCB program

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performance, will not, by themselves, provide a sufficiently detailed basis for monitoring the effectiveness and impact of all aspects of every individual TCB project in the field. Different levels of development and region- and country-specific variations in other circumstances will continue to require that USAID missions also develop specialized indicators that are carefully tailored to local goals, opportunities, constraints, and needs.

The development of both global and local TCB indicators will build on a number of sector-specific "best practice" evaluations and reports produced by the Bureau for Economic Growth Agriculture and Trade (EGAT), including:

- "Improving Trade Policy Coordination and Dialogue in Developing Countries: A Resource Guide"
- "Poverty Reduction and Agricultural Trade in Sub-Saharan Africa: Recommendations for USAID Interventions"
- "Trade Capacity Building in the Services Sector: A Resource Guide"
- "Customs-Related Technical Assistance for Trade Capacity Building: A Resource Guide"
- "Enterprise Growth Initiatives: Strategic Directions and Options"

Our development of indicators will also build, as the GAO's draft report notes, on a detailed EGAT study of TCB performance indicators by a contractor with extensive experience in implementing these projects around the world. The contractor is currently evaluating dozens of indicators previously developed by USAID, the World Bank, the OECD, the World Economic Forum, UNCTAD, and other international donors and centers of technical expertise on the subject. This analysis will be completed in the first quarter of 2005. We expect it to make an important contribution both to the development of the standard TCB indicators that are to be completed by June 2005, and to the more detailed indicators that our field missions will continue to develop for individual project monitoring plans.

We fully support the objective of the GAO's other recommendation – improved impact monitoring of all U.S. TCB efforts. It will be important to pursue that objective taking into careful account the large number of agencies involved, the diversity of TCB programs, and the cost-effectiveness of different monitoring approaches. We believe a starting point can be the USAID's work (see second GAO recommendation) which will cover more than 70% of the total U.S. TCB portfolio. Impact monitoring of other programs will need to be approached selectively, focusing on programs with the clearest links to trade capacity and for which monitoring can be undertaken at a reasonable cost.

See comment 2.

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Given the technical nature of this work, we also believe it would be more appropriate for this recommendation to be directed to the agencies as a whole, rather than to senior officials. These considerations suggest amending the draft recommendation as follows:

> The U.S. Agency for International Development and the Office of the U.S. Trade Representative, as co-chairs of the trade capacity building interagency working group, in consultation with other agencies that fund and implement trade capacity building assistance, should develop a cost-effective strategy to monitor and measure program results and evaluate the effectiveness of U.S. trade capacity building assistance.

In recent years, the United States has provided strong leadership in strengthening the international commitment to trade capacity building and in developing the technical skills, tools and resources to making that commitment effective. The results have been impressive and widespread. USAID welcomes GAO's support for these efforts.

The following are GAO's comments on the U.S. Agency for International Development's letter dated January 18, 2005.

GAO Comments

1. We have made changes in the report language to recognize that, while many U.S. trade capacity building efforts are existing activities, some trade capacity building activities are new.

2. To ensure accountability, it is GAO policy to address recommendations to agency officials, rather than to the agency as a whole. However, we have added the term "cost-effective" to the recommendation as suggested in the letter.

Comments from the Office of the U.S. Trade Representative

EXECUTIVE OFFICE OF THE PRESIDENT
DEPUTY UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

JAN 10 2005

Ms. Yvonne D. Jones
Acting Director
International Affairs and Trade
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Jones:

Thank you for giving our agency the opportunity to comment on your very important report on Trade Capacity Building (TCB). As your report notes, TCB is a critical part of the U.S. Government's strategy of enabling developing countries to negotiate and implement market-opening and reform-oriented trade agreements. Good trade agreements can drive positive internal reforms that (a) challenge the frequently protected and failed domestic status quo with a breath of competition from abroad; and (b) result in better use of current developing country resources and movement onto a path of more rapid economic growth.

The evidence for this proposition is clear. For example, World Bank research shows income per capita in globalizing developing countries grew more than 3 times faster than in non-globalizers in the 1990s. Absolute poverty rates for globalizers have also fallen sharply over the last 20 years. The World Bank also finds that trade barrier elimination in conjunction with related development policies would accelerate the decline in the number of people in poverty in 2015 by an additional 300 million -- more than the whole population of the United States. Thus, developing countries that generate growth through trade will be less dependent on official aid over time.

TCB is of particular importance to the current U.S. Trade Representative, Ambassador Robert B. Zoellick, who recognizes the importance of linking trade and development by providing developing countries with the tools to maximize trade opportunities provided by multilateral/bilateral trade agreements and preference programs. In response to the increase of developing countries as WTO members and new FTA partners, Ambassador Zoellick established USTR's Office for Trade Capacity Building in April 2002. The mission of this office has been to work with the U.S. Agency for International Development, other U.S. agencies, international institutions, non-government organizations and private sector representatives to better coordinate TCB efforts to maximize their effect.

I appreciate your recognition that our emphasis on the critical linkage between better interagency coordination and more effective TCB has been a factor in changing the culture within the USG with regard to TCB. While U.S. development agencies had provided hundreds of millions of dollars of technical assistance relating to trade in the past, this assistance ran the risk of not being coordinated with TCB needs generated by trade negotiations. We have encouraged development agencies like USAID to be more cognizant of trade and trade agreements in their programs.

We have helped establish a brand new interagency process to facilitate this cooperation. USTR and USAID now co-chair the TCB Interagency Group, comprised of over 10 agencies that meet monthly to coordinate on overall TCB -- free trade negotiations, WTO issues, the Integrated Framework, preference programs, etc. This group has been valuable in making sure that assistance not only substantively supports various trade objectives, but does so in a timely fashion.

Another innovation has been the creation of TCB Working/Cooperative Groups in free trade negotiations that operate in parallel to the negotiating groups. These groups are comprised of the United States -- with USTR leading the interagency team -- and its free trade partners. They discuss assistance at each round of negotiations, such as in our Andean and SACU negotiations. These groups also invite the participation of non-governmental organizations, representatives from the private sector, and international institutions such as the Inter-American Development Bank and the World Bank. Our efforts have attracted the participation of organizations as diverse as Humane Society International and the Business Coalition for Capacity Building.

We have asked our partners to develop an assessment -- a "national strategy" -- that defines their TCB needs. The national strategy provides U.S. agencies and other donors with a guide to target their programs while disciplining the developing country as it prioritizes its needs and coordinates internally amongst its own agencies.

We believe that these innovations are a major reason why funding for TCB continues to exist in a time of major budget pressure on U.S. foreign assistance. The new structures we have in place provide Congress with a tangible mechanism to support. Further, the interagency process has sensitized agencies to what TCB is, which makes them more aware of how their ongoing programs relate and how their future programs can be designed to be supportive of trade agreements. This is probably a reason why agencies have conducted more TCB activities in the last couple of years according to the USG survey administered by USAID.

I thank you for giving us the opportunity to comment on your report. I commend you for a job well done. USTR will continue to be committed to improving the quality of TCB and building on our successes to date.

Sincerely,

Josette Shiner

Ambassador Josette Sheeran Shiner

Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

January 3, 2005

Dear Mr. Friberg,

Thank you for the letter sent from Ms. Yvonne Jones, Acting Director from the Government Accountability Office (GAO), to Secretary Snow on December 13, and for the opportunity to review and comment on the draft GAO report entitled "Foreign Assistance: U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to be Evaluated".

Treasury Department staff from the Office of Technical Assistance (OTA) appreciated the opportunity to meet you and your staff in recent weeks as you prepared this report. These discussions improved our understanding of the objectives the GAO had in writing this report. The discussions also provided assurances to us that the portions of the draft report were accurate concerning financial resources coming from OTA and contributing to trade capacity building.

I wish to compliment you and your staff for preparing this assessment of funding devoted to trade capacity building as defined by the World Trade Organization. While the total amount of funding from OTA and identified as contributing to trade capacity building is relatively small in comparison to total funding from all USG agencies, Treasury appreciates the favorable recognition given us in the draft report. We particularly appreciate your reporting of the favorable comments made by officials from the U.S. Agency for International Development concerning contributions made by OTA's financial advisors in Ghana. I believe these comments demonstrate the cooperation and mutual support our two agencies have achieved in recent years as we work side by side in supporting reform in key countries around the world.

Treasury's technical assistance program is now active in more than fifty countries in support of financial reform. As reforms are implemented with a strong and enduring commitment from political leaders, a clear, albeit at times indirect, contribution is also made to trade capacity building. Treasury is proud to play a role in this effort.

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If you have additional questions on which Treasury might be helpful, please feel free to call or contact James H. Fall, III, Deputy Assistant Secretary for Technical Assistance Policy. His telephone number is: 202-622-0667 and e-mail address is: james.fall@do.treas.gov.

Sincerely,

Randal K. Quarles
Assistant Secretary for International Affairs

Mr. Emil Friberg
Assistant Director
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U.S. Government Accountability Office
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Staff Acknowledgments

In addition to the individual named above, Nina Pfeiffer, Rhonda Horried, Ann Baker, and Tim Wedding made key contributions to this report. Martin De Alteriis, Lynn Cothern, Etana Finkler, Curtis L. Groves, and Ernie Jackson also provided assistance.

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