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MAINSTREAMING TRADE AT USAID: THE CASE OF EGYPT

On March 14, 2002, in the run-up to the U.N. International Conference on Financing for Development in Monterrey, Mexico, President Bush said, "Trade is the engine of development and by promoting it we will help to meet the needs of the world's poor." Linking trade to development has become a cornerstone of this administration's foreign policy, an important theme being mainstreaming trade into development assistance protocols and helping developing countries understand the benefits of globalization. We have had considerable success with this agenda at USAID/Egypt and, while our mission's size makes the program novel, we have created models other missions can use.

USAID/EGYPT HAS LED THE WAY IN LINKING TRADE TO DEVELOPMENT, CREATING MODELS OTHER MISSIONS CAN USE.

BY DR. J. W. WRIGHT, JR.

Trade Comes On Line

Although pressure from the Bush White House has made USAID realize that trade capacity building is a theme that cannot be allowed to sink into its bureaucracy, the push inside the agency to "mainstream" trade into development strategies had began earlier. During preparations for the 1999 Seattle World Trade Organization Ministerial, Ambassador James Michel, then Counselor, initiated an internal effort that led USAID to increase its participation in interagency processes on trade in Washington and Geneva.

After Seattle, an exchange of letters between Deputy Administrator Harriet Babbitt and Deputy U.S. Trade Representative Susan Esserman accelerated the process. The exchange confirmed that trade training has "strong demand from developing countries and broad international appeal," and that priorities are integrating trade capacity building into country strategies and fostering a "Geneva Dialogue" with key trade multilaterals such as the World Trade Organization, the U.N. Conference on Trade and Development, the International Trade Center (operated by UNCTAD-WTO), and the Common Fund for Commodities. The Africa Bureau and the Europe & Eurasia Bureau subsequently wrote grants to the WTO for accession and compliance programs. In April 2002, Assistant Administrator Robert Randolph signed memoranda of understanding with ITC and CFC, which gave Asia and the Near East missions access to their expertise, as we have done in Egypt.

From January 2001, the focus on trade intensified at USAID, leading to a reorganization that created a pillar Bureau for Economic Growth, Agriculture and Trade and strengthened its Office of Emerging Markets. In late 2001, USAID funded a trade capacity building project with Nathan and Associates to provide field support and trade-related technical assistance. Further, OEM is working with ITC to formalize their relationship and give all missions access to ITC's market analysis services. Several field missions are adding positions for trade officers and/or offering trade and export projects.

Today, according to the agency's own surveys, USAID spends around $250 million on trade capacity building activities annually. Even so, how to coordinate these activities is a key question, as is deciding how to balance a demand-driven dialogue on trade with an entrenched internal bureaucratic process. And, with the impact of trade multilaterals clearly rising, USAID needs to find better ways to work with agencies like the ITC, CFC and UNCTAD, which can provide subsidized technical assistance, expertise and direct links to the WTO (the Common Fund will actually co-fund projects).

On the Ground in Egypt

Work at USAID/Egypt is complicated by several factors, including the mission's size. It has a current annual budget of around $650 million (down from over $1 billion in 1996-1997). As opposed to most missions, where the majority of funds come from the USAID core budget, funding in Egypt is primarily "Economic Support Funds" provided by the Department of State, making State-USAID cooperation necessarily strong. The Economic Growth Directorate controls the most funds, and focuses on four areas: sector policy and privatization, competitiveness and agricultural development, finance and information technology, and the Commodity Import Program. Trade falls within sector policy, where about $65 million in trade policy reform and trade-training activities are coordinated.

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Three USAID-funded projects focus on trade or trade training: Pal-Tech's Management Development Initiative, the International Executive Service Corps' Center for Business Support, and Chemonics' Technical Assistance for Policy Reform. Local partners USAID supports, such as the American Chamber of Commerce, the Alexandria Business Association and the Alexandria Chamber of Commerce, also work on trade issues. The agriculture-led export businesses project and the agriculture technologies utilization and transfer project work on sector-specific trade issues. The participation of firms that work with the mission's Commodity Import Program, many of which also export, heightens our success.

At the high end, the mission has recently funded a $20 million assistance for trade reform project at the Egyptian Ministry of Foreign Trade that promotes policy reform and will help establish a viable WTO unit. Unlike its unpopular predecessor project, which focused on policy and economic analysis, ATR is designed to provide sector-specific training, address services bottlenecks caused by MFT rules, and encourage MFT sectors and other ministries to accept international standards.

In addition, a customs reform and trade facilitation project is being designed that should set a new model. While improving tariff rates and valuation methods, this project will focus much more broadly on the impact poorly operated customs regimes have on services and will address issues like ports, transport and reporting efficiency.

In the mission's Human Development Division, a $20 million Management Development Initiative II project has recently been funded that will provide training to the private sector on a range of management topics. It will also help Egypt establish a technical university focused on building information and communications technologies.

Immediate Measures Needed for Doha

By 2000, the increased volume of trade-related requests from Egyptian organizations indicated that the mission needed a trade advisor. Creating a new position was difficult, so a specialist was hired through the American Association for the Advancement of Science Diplomacy Fellowship program.

Initial consultations made it obvious that a sizable amount of trade-related activity was taking place, but serious contractor coordination was needed. There was little interaction among agencies within the government of Egypt on trade, and partially because of this, immediate measures were needed if the country was going to properly prepare for the WTO's Fourth Ministerial Conference at Doha, Qatar. Further, there was inadequate contact between the MFT and international trade support agencies, like ITC and CFC, and that resulted in an urgent need for trade flows analysis. Indeed, the MFT's foreign trade sector was not basing its negotiating strategies on real market analysis.

To respond to this situation, an informal team of project 'chiefs-of-party,' whose projects could work on overcoming

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barriers to trade, was formed and discussions about how to offer more trade training were initiated. Two projects took the lead: MDI (I) for training and studies aimed at increasing Egypt's global competitiveness, and TAPR for policy-reform-oriented training for the government.

We began by organizing market analysis and awareness building activity in Geneva. MDI funded a series of ITC-generated studies on opportunities for Egyptian exporters in the Maghreb, Gulf Arab, and Common Market for Eastern and Southern Africa states, and organized a four-day workshop on "WTO Compliance and Competitiveness." The workshop was held in February 2001, just as negotiations over Doha were beginning. Workshop participants spent most of their time at ITC, but also visited the WTO and UNCTAD and heard presentations from CFC, and met with the U.S. and Egyptian missions to the WTO. Egypt's ministries of finance, foreign affairs, foreign trade, and international cooperation each sent several representatives. The group also included a team of executives from five Egyptian import and export firms. Several senior staff from USAID/Egypt, including the mission director, and embassy staff also attended, which helped to build consensus within the mission for trade training in general and cooperation with ITC in particular.

Evaluations following this exercise indicated that the participants better understood the negotiating positions being taken in advance of Doha, and the linkages between WTO compliance and export competitiveness. At home, the participants formed the "Geneva Group," which

TRADE IS KEY: A MULTILATERAL CONSENSUS

Participants discussed in Seattle but demanded in Doha that the WTO recognize that undeveloped trade capacities, generally, and weak services sectors, specifically, are the broken links in the developing countries' benefit chain with global trade. The multilateral dialogue concurs that trade growth is dependent on liberalizing services and building firm-level awareness among producers that meeting core standards and beating market prices lead to profitability and greater global market participation.

The Doha Declaration made trade capacities a core issue for the next round of negotiations that will take place over the next two years, and recognizes that assistance must go beyond policy reform and address real bottlenecks to competitiveness — usually deficient capacities in services and standards. Sometimes this means identifying market opportunities for currently produced products and services and helping raise quality and standards that will allow developing country entrepreneurs to expand into other markets. In other cases, it means developing service industries that can lower overall import and export costs and allow a particular country to exploit geographical advantages.

More specifically, with Hong Kong, Singapore and Dubai serving as models, leaders on both sides of the industrial and digital divides are keenly aware that services sector liberalization creates cost efficiencies and raises employment most rapidly. They are also aware that areas without substantial production bases, like Djibouti or Palestine, must necessarily focus on building services-led economies if they want to benefit from trade.

The evidence is compelling that those countries that see services and international standards compliance as competitive factors win, while those who see them only as political factors lose. Generally, economies that used their development plans to address services and standards issues have far outpaced countries that did not in global growth participation. For instance, Egypt has not followed a services and standards approach, while countries in East Asia with comparable demographics have. Had Egypt followed Thailand and South Korea's models (not to mention Hong Kong, Singapore or Dubai), exports would have been 10 to 20 times higher. It is also true that nations in East Asia trade with each other, which does not happen in the Middle East. This must change.

A simple comparison of Ireland to Italy reveals that the situation is no different in Europe. Having followed a services-led economic strategy, Ireland grew at a 7.1 percent rate in 2001, and maintained similarly high growth rates throughout the 1990s. However, Italy, which continues to rely on subsidies to producers and bureaucratic trade barriers, grew at only 1.6 percent in 2001, and has had a struggling economy for at least a decade.

requested follow-on activities and consistently supported these activities, staying involved in the seminar series we held before and after Doha.

Moving to In-Country Activities

Government participants were the most strident in their requests for in-country activities. In response, TAPR provided support for ITC specialists in trade information, executive development, and supply chain management to visit Egypt in April 2001, to present seminars and assess options for longer-term activities. The team met with various public and private sector players, and presented seminars in both Cairo and Alexandria.

Demand was clearly high. For the Cairo seminar members of the Geneva Group were each asked to invite five guests; over 120 people attended, 50 percent from the private sector. In Alexandria, about 25 people came, with 80 percent from the private sector. In May 2001, a team from UNCTAD held another trade information workshop in Cairo and approximately 100 people attended.

Summers in Egypt are poor times for conducting programs, but good times for planning. Both the outgoing and incoming ambassadors (Daniel Kurtzer and David Welch, respectively) felt the upcoming Doha WTO ministerial presented a window of opportunity to promote trade liberalization and generate positive publicity on U.S. programs; and U.S. Trade Representative Robert B. Zoellick wanted all the support we could give. Richard Albright, the embassy's economic counselor, assembled an informal interagency team to work on Doha-related issues, such as simultaneous requests for commercial diplomacy support in advance of Doha at both the MFT and the Ministry of Foreign Affairs. Direct funding from the USAID mission was constrained by the time frame, so we again turned to our lead contractors.

What developed was a trade training and WTO awareness campaign presented by former high-level government officials and staff from international organizations who were actively working on the Doha ministerial:

- Simultaneous commercial diplomacy courses at

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MFT and MFA, led by Geza Feketekuty, president of the International Commercial Diplomacy Project and a former senior assistant U.S. trade representative, were funded via TAPR and the Development Training II project.

• A "Trade Diplomats Discussion Series" was initiated by IESC to build public awareness of WTO issues and discuss the benefits of trade with the private sector. Eight retired ambassadors and senior speakers participated. (Although the Sept. 11 attacks occurred just as the series began, eight of the nine scheduled speakers came and showed great commitment.)

• A journalists' training and roundtable series was supported by IESC, with help from ICDP staff and a critical role played by Embassy Cairo's press office. Economic editors were given access to the trade diplomats through open-forum roundtables, but only if they attended training sessions on "Reporting on Trade Issues."

The day after each session, private sector focus groups were held in the morning and roundtables with USAID staff in the afternoon (FSN staff were especially targeted).

In addition, a tour for ITC's Executive Director Ambassador Denis Belilse was organized by MDI. The tour included a "Global Economy Series" lecture to an audience of over 300 people, a television interview with the Minister of Foreign Trade and private sector meetings. The tour also included a donors lunch with representatives from six embassies that support business development activities.

A panel of experts, who discussed the Doha Declaration agreed to the night before, concluded the campaign on Nov. 14. Over 50 (almost all positive) newspaper and magazine articles and a flurry of requests for a spring series materialized.

Responding to Doha

Our success indicated the need for renewed programming in early 2002, and we used the Doha Declaration's focus on export capacity building to set the agenda. The mission's human development strategic objective funded a training grant of $275,000 to ITC that would be managed under the economic growth strategic objective. ITC prepared new market studies and designed an intensive "Tools for Trade" export assistance series, delivered in collaboration directly with the MFT, MDI, TAPR, IESC, the American Chamber of Commerce and the Alexandria Business Association. The Alexandria Chamber of Commerce agreed to provide local support. IESC also collaborated with CFC (which contributed $50,000) to co-host a food exports conference, and MDI agreed to end the series with a seminar on Egypt's competitiveness, led by Peter Cornelius of the World Economic Forum.

The specific topics addressed grew out of priorities identified by the focus groups held during the pre-Doha series: regional market opportunities, trade and information technologies, export trade finance, trade and tourism, trade and services, supply chain management, overcoming technical barriers to trade and quality management. Dr. Yousef Boutrous Ghali, Minister of Foreign Trade, asked that linkages to small and medium enterprises be explored, and declared March 2002 "SME Export Assistance Month."

The initial session on "Trade and Information Technologies" was held in February and attracted over 160 attendees in Cairo and 70 in Alexandria, including people from the Egyptian government, USTR Geneva, and representatives from the Canadian, Danish, E.U. and Japanese embassies in Cairo. Between February and April, an average of about 100 people attended each of the 12 seminars in Cairo and an average of about 50 attended eight seminars in Alexandria. The CFC/IESC food exports conference in mid-June was attended by 92 people. The World Economic Forum finale at the end of June attracted well over 100 people in Cairo and 50 in Alexandria, the most sustained interest being generated by the Geneva Group.

What Next?

The obvious question is: Will Egypt's interest and activity on trade matters continue to broaden and deepen? For the government, the level of continued interest is high. The Information Decision Support Center, the secretariat and main support center for parliamentarians and members of the president's cabinet, now has access to ITC's market analysis program and is providing it to both public and private Information Decision Support Center sector groups. And ITC received letters from the Minister of Foreign Trade, the Minister of Supply, the president of the Egyptian Organization for Standards, and the Alexandria Chamber of Commerce (under the Ministry of Supply) asking for more training in commercial diplomacy, trade information and market analysis, supply chain management and quality management. In the private sector, the Alexandria Business Association has asked ITC to help it establish a regional export services training center

and support project. As a result of the CFC/IESC seminar, several agriculture groups are requesting assistance on enhancing commodity exports.

Of course, many organizations will accept any training USAID will finance, but in this case the core Geneva Group has loyally participated for almost two years, which indicates a deeper commitment (and also confirms that this was a good way to jump-start a trade training series). That their requests have reached ministerial levels also indicates commitment. The sustained participation from the private sector shows that more and more firms see the value of export services and meeting international standards.

Movement among contractors is one of the most significant things that has happened. As a direct result of the Doha series, two organizations — MDI/Pal-Tech and IESC — are adding trade and export training to their strategies and are both working directly with trade multilaterals. Through ATR, Nathan and Associates are institutionalizing ITC's market analysis service and commercial diplomacy training at the MFT. PricewaterhouseCoopers is also committing new resources to trade capacity building. Including these firms has helped significantly to increase the sustainability of the trade training and awareness programs, and to link them to trade multilaterals.

However, the most far-reaching changes may have been within USAID/Egypt itself. As indicated above, the new ATR project focuses on services and standards, and the winning bid specifically states they will work directly with ITC. MDI II was specifically designed to build competitiveness in services sectors and help to bridge the digital divide that so inhibits Egypt's trade. The new customs reform project's dual focus on tariff reform and trade facilitation is pioneering. This cross-sector style of programming is relatively new to USAID, but it represents a decisive shift in thinking within USAID/Egypt.

In the end, contractors may carry these agendas forward more quickly than anyone else: because local governments are demanding trade training and export assistance, field missions will increasingly emphasize these priorities in requests for proposals and contractors. ■

Creating A Better Market: What We Learned in Egypt

Our approach has helped to create a better market in Egypt by breaking the traditional policy reform mode with the addition of commercial diplomacy, coordination with international organizations, and a focus on services and standards as tools for competitiveness. The work has not been easy, but it has been satisfying, and now that the model is set it will certainly be easier for other missions. Our experience shows us that:

- Starting with industry reviews, product maps and market analysis is critical. Most Egyptian firms and/or bureaucrats are left out of global markets because they do not know their real market opportunities and priorities.
- Including commercial diplomacy training early on is also crucial because if key political constituencies do not understand either the benefits of increased trade or the aims/limits of the WTO, trade liberalization will not take place.
- Broad awareness campaigns are necessary so that both government and the private sector it should serve understand that meeting WTO/international standards is a competitiveness issue and can lead to greater profitability.
- Coordination with specialized trade agencies can be extremely effective for delivering trade training (although United Nations agencies in particular must readjust their bureaucracies in ways that make work with donors feasible).
- Contractor coordination across sectors is critical and, while time-consuming, can yield extraordinary results and enable missions to address a broader range of stakeholder and firm-level assistance needs in shorter periods of time.
- In addition, under certain circumstances, such as those we found in Egypt, it is necessary to find creative ways to respond to specific political needs, help influence policy across sectors and support reform-minded, inner-circle staff. Unlike elsewhere, in Egypt we have an open and impressive Minister of Foreign Trade who, even though he is restrained by a huge bureaucracy (in the 2002 World Competitiveness Report, Egypt ranks highest out of 75 countries studied in government red tape), realizes that open markets matter. In such situations, additional imaginative activity is called for. While this does curry political favors, it more importantly builds core institutional capacities.