POLICY DIALOGUE ON AID FOR TRADE

CONNECTING LOCAL PRODUCERS IN DEVELOPING COUNTRIES TO REGIONAL AND GLOBAL VALUE CHAINS

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TRADE AND AGRICULTURE DIRECTORATE
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PROPOSAL FOR A PROJECT FUNDED BY A VOLUNTARY CONTRIBUTION - CONNECTING LOCAL PRODUCERS IN DEVELOPING COUNTRIES TO REGIONAL AND GLOBAL VALUE CHAINS

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This proposal is submitted to the Trade Committee for discussion and approval. It would be subject to the availability of voluntary contributions.

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English - Or. English

PROPOSAL FOR A PROJECT FUNDED BY A VOLUNTARY CONTRIBUTION - CONNECTING LOCAL PRODUCERS IN DEVELOPING COUNTRIES TO REGIONAL AND GLOBAL VALUE CHAINS

1. The emergence of regional and global value chains changes both potential benefits and costs of trade related policies and adds significantly to the urgency of appropriate reforms. Getting to and from the border, efficiently, takes on an added importance for growth and development, as is having in place well functioning markets and a strong domestic supply capacity. Unnecessary or unpredictable border procedures and trade regulations impose additional costs and time delays and can stifle firm productivity growth and competitiveness. In a world characterized by global value chains, where goods and services cross borders multiple times, these costs are also multiplied. Reduction of import and export costs and enhanced connectivity with regional and global markets offer significant opportunities to improve firm productivity.

2. This paradigm change has important implications not only for economic growth and development but also for how aid is (or should be) viewed and delivered; specifically, the impact of aid allocations on trade flows and subsequent economic performance cannot be measured in isolation from the relevant policy environment. Aid funding, domestic public and private investments and the policy environment need to be examined in a holistic manner. For instance, modern ports cannot realize their potential for lowering trade costs without sufficient competition in the trade logistics chain; efficient customs officials will not succeed in reducing time at the border when products fail to satisfy standards or SPS regulations; and an otherwise open foreign investment regime will not attract private capital without reliable public institutions and well defined property rights. GVCs amplify the need to select, design and deliver aid and investment programmes that address all stages of the productive process to maximise trade and development outcomes.

3. The proposed project would seek to better understand the factors that have inhibited developing countries' capacity to participate in GVCs, so as to identify and analyze the types of aid for trade interventions that respond to the reality of today's more integrated global markets. Earlier work at OECD on indicators for trade facilitation revealed that more penetrating and comprehensive indicators of performance could help policymakers target their own national and donor-lead reform efforts. Furthermore, on-going joint DAC-TAD work on managing aid for trade and development results has developed frameworks to better assess the outcomes and impacts of aid for trade inputs. This work could be expanded to encompass the whole chain before, at, and behind the border, with a particular focus on selected low-income countries and regions.

4. Specifically, the project would clarify the implications of the emergence of GVCs for trade and trade policy for low income countries. Recognizing that empirical data of the detail required is not generally available for these countries[1], it is proposed to seek instead private sector experiences about the most binding constraints that prevent or delay full and easy integration of developing countries into GVCs. The forthcoming joint OECD/WTO publication *Aid for Trade at a Glance: Linking to Value Chains* which

[1] The OECD Inter-Country Input-Output model covers 56 countries, including all OECD, major emerging economies and some Asian countries, representing more than 95% of world output (see TAD/TC/WP (2012)6, Mapping Global Value Chains).

draws, inter alia on private sector assessment will provide a first mapping of these constraints. Further analysis of the weakest links in the chain would allow to shape and direct policy reforms and target aid and investment interventions with the highest impact.

5. Engaging the private sector operating in non-Member countries at various stages of development may make it possible to map the relative costs of various categories of impediments to accessing GVCs in specific countries. Although the collection of information on all countries and sectors that are not covered by available empirical data would be an extremely lengthy and costly endeavour, it should be possible to obtain solid indications about obstacles to GVC integration through a series of pilot studies. The research in the pilot studies would focus on the full length of selected global or regional value chains in three major sectors, namely manufactures, agriculture and services. The information solicited for each sector would cover several countries demonstrating different characteristics in terms of geography, endowments, trade patterns, income and level of development.

6. The project team will work with private companies to identify and quantify obstacles in specific supply chains. Information collection could be undertaken in cooperation with regional partners such as the regional economic commissions, donor agencies present in the field and in coordination with ongoing data collection endeavours undertaken by the World Bank and the World Economic Forum. The work would be preceded by a careful review of past and ongoing work in this area to ensure that there is no duplication and that the proposed studies contribute real value-added in terms of understanding of the issues and appropriate policy responses.

7. Information from the three pilot studies would then be synthesized to highlight effective paths for policy interventions and aid for trade programmes.