

OECD POLICY DIALOGUE ON AID FOR TRADE: FROM POLICY TO PRACTICE

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RAPPORTEUR'S REPORT

Capturing the Benefits of Trade--How can Aid help?

This session addressed two recurring challenges facing developing countries: how to create the appropriate policy environment to maximise the benefits from open trade regimes and the steps that can be taken to eliminate bottlenecks to private sector development. Three speakers addressed each challenge.

Eliminating Bottlenecks to Private Sector Development

The chairman began this discussion by asking whether there were any particular lessons for the implementation of Aid for Trade initiatives from the case studies on African experiences commissioned by the OECD Development Centre. He also wondered whether it would be better for such initiatives to foster a pro-business environment in developing countries or to nurture active business associations there. More generally, the optimal division of labour between the public and private sectors needs to be clarified and he hoped that the presenters would shed light on these matters.

The first presentation in this session was by a researcher at a development research institute located in an industrialised country. This speaker began by noting that modern supply chains, which offered the potential for firms in developing countries to tap industrialised countries' markets, differed from the vertically-integrated multinationals of old and from clusters of firms (which tend to concentrate in a geographically compact area). It was not clear, this speaker contended, that developing country firms would always benefit from participating in global supply chains. This was because lead firms are growing in clout and can drive harder bargains with suppliers, smaller firms cannot reap the economies of scale necessary to gain considerably, and that suppliers in such chains often had standards imposed on them and little role in their design.

Donors, it was argued, faced dilemmas if they attempted to influence supply chains. For example, their aid projects may well result in greater outsourcing from their own countries, with the attendant job losses. The unwillingness of lead firms in supply chains to transfer technology could act as a constraint too. Informal suppliers may be unable to benefit from participating in supply chains. Nevertheless, donors can profitably undertake value chain analyses to better understand the trade-offs and opportunities involved. In particular, donors should identify the lead firms in the global value chain, understand the chain's governance structure and involve them in the design of the private sector development programmes. Steps could also be taken to match potential suppliers and buyers through information exchanges and to develop innovative financing instruments for value chains.

The circumstances faced by agricultural producers in Mali and Senegal and the role that Aid for Trade initiatives could play were the subject of the second presentation, made by a representative of a non-governmental organisation in Africa. Based on his study prepared for the Development Centre, the speaker started by characterising the agricultural sector in these two economies. In Senegal this sector

accounted for 17 percent of the Gross Domestic Product and 70 percent of total employment. The comparable percentages for Mali were 35 and 75, respectively. The labour-intensive production techniques, heavy dependence on rainfall, deterioration in land quality, and lack of an appropriate financing system for farmers were said to be constraints on the development of this sector. Moreover, it was argued that the national authorities do not regard small farmers as entrepreneurs and the latter play no role in trade policy formation. These considerations were particularly important given the dependence of both economies on a small number of products for most of their export earnings. This was the context in which aid projects and policies have to be designed.

A number of observations were then offered concerning the implementation of aid programmes in Senegal and Mali. The very capacity to absorb aid was a matter of concern in Senegal, and the speaker endorsed the enhanced provision of budgetary support. Too often aid programmes were formulated in London and Paris when in fact much more attention should be paid to circumstances on the ground, as he put it. Calls for country ownership of national development plans and associated aid projects were endorsed, and not just ownership by governments--by civil society as well. An important consideration was the capacities of states to implement aid programmes and reforms. Many governments in the poorer countries simply do not have the human resources to monitor and implement aid programmes. Finally, the attention given to agriculture by donors and farmers should be commensurate with that sector's contribution to the poorest developing countries' economies.

An Asian perspective was presented next by an official from a regional development bank. This speaker described the lessons, as he saw them, from the successful outward-oriented growth strategies pursued by some East Asian nations and the measures that can be taken to bolster the performance of economies, which he referred to as second-movers and latecomers. With respect to the former, there were three lessons for policy makers. First, implementing incentive-based reform programmes, like trade reform, on their own does not work. Measures to strengthen supply side capacities are needed and here coordination between ministries is important. Policies favouring clusters should be used sparingly was the second recommendation, especially by latecomers. Any such measures should be time-limited and targeted to known comparative advantages. Third, the private sector should play a significant role in the formulation of government strategy and can augment the capabilities and expertise of the official sector as well.

As far as second-movers are concerned, it is important to appreciate that many have weak private sectors and this must be addressed. Aid programmes can improve cross-border and regional infrastructure, trade facilitation, and promote exports and the diversification into new export lines. The Greater Mekong Sub-region Flagship Programme, implemented by the Asian Development Bank, was given as an example of an initiative that directly and indirectly promotes private sector development. So-called physical connectivity, transport infrastructure, and transit times were improved. Competition between small and medium-sized enterprises was fostered and steps taken to enhance the analytical capacities for policymaking. Diagnosing the impediments faced by the private sector and measures to close the gap with international best practices motivated the design of this programme, and others could be structured in a similar fashion.

In the discussion among participants that followed a number of points were made. One speaker from North America emphasised the importance of ensuring that the benefits of Aid for Trade initiatives were not diminished by the effects of certain trade policies of industrial countries. In a similar vein, a European academic feared that successful Aid for Trade initiatives that led to greater exports to industrialised countries, such as Europe, would become the targets of anti-dumping investigations. In addition, this participant emphasised the central role that the business community would play in determining whether the Aid for Trade initiative was a success and implied that more business representatives should have attended this OECD Policy Dialogue. A speaker from a multilateral development bank endorsed the fears that

increased aid flows may lead to adverse movements in exchange rates and so reduce, rather than increase, exports (the so-called Dutch disease).

Two Ambassadors from LDCs offered their thoughts on these matters. The first argued that opening their economy's markets and providing a business-friendly regulatory environment did not always lead to additional foreign direct investment inflows. (It is worth noting in passing that other participants from developing countries endorsed this position.) Aid for Trade measures were therefore needed to develop the supply sides of national economies, as little or no boost would come from foreign corporate investments. Such aid was also needed to adjust to external shocks, such as the phase out of the MFA. Diversification of exports was a problem that required creative aid-based responses too. The second Ambassador dwelt on the need for coherence by aid donors. Measures to support Aid for Trade are undermined by the sale of subsidised agricultural products on world markets. This participant also emphasised the need to diversify exports. Finally, he argued that unless opportunities for the young were created in LDCs they would continue to try to emigrate to industrialised countries, as highlighted in extensive recent television coverage of attempts by people to migrate from Northern Africa to European territories. Another participant from a LDC argued that the biggest challenge facing Aid for Trade projects concerned the sustainability of such projects after their formal completion.

In his concluding remarks the chairman sought to put these discussions in their appropriate perspective. Noting that the funds available in the international capital markets were substantial, he argued that developing countries would receive much more resources from the private sector, indeed multiples of those funds available for aid, if they took the following three steps: institute and implement transparent and fast state decision-making, offer guarantees against appropriation, and commit not to revoke contracts. Taking these measures required political will and a willingness to accept foreign commercial presence.