

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

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RAPPORTEUR'S REPORT

Further reflections on Capturing the Benefits of Trade--How can Aid help?

Aid for Trade Facilitation and Export Capacity Building

The chairman of this session, a trade negotiator from a developing country, noted that poorer countries faced budget constraints that undermined their capacity to undertake the necessary trade facilitation initiatives which, in turn, could reduce impediments to international trade. He further noted that these impediments were often larger, sometimes much larger, than the tariffs faced by developing country exporters.

Drawing upon his study prepared for the Development Centre, the first speaker, an academic from East Africa, recounted the limited role that aid had played in promoting agribusiness in his country. Despite the size of the agricultural sector in the national economy, a feature in common with other LDCs such as Senegal and Mali (that were mentioned in the previous session), very little attention was given by national governments and donors to agribusiness. This happens despite the fact that the agricultural sector often provides the bulk of export earnings and has done so since colonial times. Moreover, agricultural production tends to remain highly specialised and measures to promote diversification were needed.

The implications of these circumstances for national policymaking and for Aid for Trade programmes were then explored. There was a need to incorporate agribusiness into national policy formation processes and into the diagnostic evaluations that guide such strategy making. An emphasis on developing regional markets and connections to those markets was appropriate given the small size of most national economies. It was particularly important to focus attention on new potential markets and economic activities. Existing infrastructure, for example, has often been inherited from colonial times and is designed to service traditional commodities export. Exploiting new markets requires improving transportation infrastructure, enhancing quality assurance, taking steps to meet sanitary and phyto-sanitary (SPS) standards in importing countries, and better logistics. Donors can play a role supporting all of these improvements. Meanwhile, donors must shift aid flows from social infrastructure into support for agribusiness development, while retaining their commitment to the aid effectiveness principles.

A worldwide assessment of the costs and benefits of previous Aid for Trade-like projects was offered by the next speaker, who is an official at a research organisation in the Gulf Region. He referred extensively to a study that he had recently completed with two co-authors. This study used OECD data on aid flows to calculate the total value of Aid for Trade-like outlays, bearing in mind that such spending could be on trade-related infrastructure, "trade development", and trade policy formation. Since 1988, the level of Aid for Trade outlays has fluctuated around USD 30 billion annually, with most support directed towards countries with *per capita* incomes around USD 500. It was reported that countries with *per capita* incomes below USD 100 received proportionately less Aid for Trade. Using data on aid outlays and trade

costs, he reported statistical estimates which implied that spending on trade policy and regulations had the largest impact on reducing trade costs, whereas spending on infrastructure and trade development had more modest effects.

The speaker then explained that these estimates were then fed into a computable general equilibrium model to generate, region by region, predictions for the USD value of the welfare gains produced by prior Aid for Trade-related spending. East Asia and the Pacific was said to have gained USD 15-17 billion, sub-Saharan Africa a total of USD 6.1 billion, and the developing countries in Europe and Central Asia saw benefits of USD 10.7 billion. Once the outlays on Aid for Trade were netted out, the industrial countries were found to have lost USD 33.2 billion. Worldwide, however, the overall gain was approximately USD 18.5 billion. Investments in infrastructure yielded the lowest return, even so they still accounted for USD 5.8 billion of the net gain to the world economy. This presenter concluded that there were welfare gains from prior Aid for Trade-like projects, that aid outlays had reduced trading costs (at a rate he observed that was ten times the average annual reduction in tariffs), but there were important inter-regional variations that should be taken account of.

The third speaker, a senior official from a South Asian delegation to the WTO, described the successful computerisation of the Pakistan Customs Service. This reform saw customs administration move from a so-called paper environment to a virtual one. Moreover, instead of taking 11 days on average for half of cargo shipments to clear customs, the delay has fallen to five days with the implementation of this project. Now, 70 percent of customs approvals take less than five minutes and only seven percent of shipments have approval times in excess of 24 hours. The speaker argued that, as a result of this reform, one multinational corporation now held only four days of inventory instead of 11 days worth. Transparency and predictability had improved and what he referred to as integrity issues had disappeared.

The most important lesson in implementing this project, the speaker argued, was to recognise that any legal changes should follow, not precede, business practice. A holistic approach to implementation was required; one which recognised that reforms amounted to more than putting a personal computer on a desk. Moreover, reforms took time and a phased implementation made sense. Consultations with customs officials as well as with other stakeholders could ease matters and provide interesting ideas. Where appropriate, he argued, best practices should be adopted.

The chairman closed this session by affirming that the trade facilitation agenda was very important for donors and for policy makers in developing countries. Even though this agenda does not have the same profile as negotiations on non-agricultural market access, he argued, the links between the former and the latter were not lost on many.