OECD Policy Dialogue on Aid for Trade

Keynote Address by Minister
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Good morning.

Thanks to OECD and to all of you for allowing me the opportunity to share my views on this very important topic of Aid for Trade.

Let me start at the outset by saying that we need more robust trade growth and we need more trade for all countries. The fact that developing countries account today for about one half of aggregate trade flows is unambiguously good news. Still, the distribution of that growth, welcome as it otherwise is, remains a source of concern, concentrated as it has been in too few countries.

The task of integrating into the world economy is challenging. While openness to cross-border trade and investment brings about exciting new opportunities, high trade costs and supply-side constraints may durably hamper the ability of firms to take advantage of them, bringing with it frustration and disenchantment in many countries.

This is, of course, where Aid for Trade comes in, with its potential to enhance countries' capabilities to maximize the benefits from trade liberalization, in particular when working in tandem with initiatives aimed at facilitating trade.

The Aid for Trade Initiative has come a long way. First, the concept is now firmly rooted in the development assistance communities, from the perspective of both donors and recipients. Second, commitments and disbursements have increased since the beginning of the initiative, back in 2005. Third, effectiveness of the assistance has also improved, promoted in part by mainstreaming of trade and support from recipient governments and stakeholders, as well as by enhanced coordination and coherence among donors, and stronger monitoring and surveillance mechanisms. And, fourth, this has been key in maximizing resources and, fundamentally, in producing results on the ground, the ultimate goal of this initiative.

As important as this is, we want more; we need more if we are going to continue delivering on our common aspiration of integrating more individuals, more small and medium-size enterprises, and more developing countries into world trade.

To be able to deliver more, we need to anchor the Aid for Trade Initiative in some of the monumental changes taking place in the world economy today, in particular, in those changes which lend themselves particularly well for opening new, rapid and dynamic opportunities for developing countries: the global fragmentation of international production, the increase in South-South trade, and the rise of international trade in services. In light of time restrictions let me focus today on global value chains (GVCs).

GVCs are a very powerful instrument for fostering developing countries' participation in world trade. Absence of raw materials or the lack of a manufacturing tradition -which in the past conditioned the viability of developing countries' industrialization- do not limit a country's participation in international production networks. A country may insert itself into global or regional value chains by performing specific tasks, which may be quite basic in early stages but which have the potential of evolving over time, through participation in new processes, enhanced products, changing the mix of activities or moving to new and richer value chains.

If I may, I would like to take a few minutes to share with you the experience of Costa Rica in integrating into global and regional high tech value chains -without being located in East or South East Asia-. Each country's circumstances are different, of course, but, if anything, Costa Rica's case shows the power of GVCs as an integration mechanism into the world economy.

The starting point of Costa Rica is not that different from that of many other countries. Originally an exporter of coffee and bananas and a few other products, Costa Rica began to open its economy and attract investment in the areas of agroindustry and textiles and apparel in the mid 1980's in response to the country's most severe economic crisis ever. We soon came to understand, however, that it would not take long for other countries to enter these productive activities, and that we needed to move upwards in the productive scale.

A major breakthrough came in 1997 when Intel decided to establish a microchip test and assembly plant in Costa Rica. This was not only the most important investment in the country at the time, but it also put Costa Rica on the map as a great investment site. Intel opened the door for other investors and Costa Rica organized itself to take advantage of this. The following decade saw a significant increase in foreign direct investment inflows. While continuing to attract companies in the electronics areas, Costa Rica moved into new sectors in manufacturing and services.

The results are quite impressive. About 40% of Costa Rica's exports of goods are associated with participation in GVCs in the sectors of electronics and electrical components, medical devices, automotive, and aeronautic and avionics. According to the World Bank, Costa Rica is the country in Latin America with the highest participation of high-tech exports in manufacturing exports. In the services sector, exports of finance, procurement, human resources, data processing, customer service, IT development and support, research and engineering, entertainment and media have become increasingly important. In 2011, for the first time, exports of IT and corporate services surpassed agricultural exports. This has had, in turn, many positive impacts, including, of course, new jobs. I always like to highlight that this has been particularly relevant for women as it has provided opportunities for entering into jobs where abilities other than physical strength are key determinants.

Costa Rica's challenges are now associated with diversifying, strengthening and upgrading our participation in these supply chains, as well as maximizing spillovers to the national economy. This, in turn, is closely linked with the implementation of a domestic agenda that aims at developing better framework conditions and enabling business environment, strengthening location advantages, reducing investment costs, overcoming geographical distance and border effects, reducing set up costs and the costs of implementing transactions, supporting internationalization of firms, and most importantly, strengthening competitiveness.

In addressing some of these challenges, Costa Rica has counted on the support of the international community to foster its participation in value chains. Three concrete initiatives are interesting examples to share. First, Japan's IDE-JETRO has lent its wonderful research capabilities to provide for a more robust understanding of Costa Rica's current standing in value chains and policy initiatives to enhance it. The WTO played a key role in connecting us to our Japanese friends. The United Nation's Statistics Division is supporting Costa Rica's Statistics Board to produce a dataset at the firm level which combines trade with other variables, again, to enhance our analytical capacity in this area. And, third, the Inter-American Development Bank, in collaboration with Wal-Mart and WEConnect, have just recently launched an initiative to finance the integration of female entrepreneurs in global trade chains in Costa Rica, as well as in Chile and Peru.

We are not only on the receiving line. Last year we hosted a delegation from the Kingdom of Lesotho, to learn about Costa Rica' institutions, programs and measures to integrate into the global economy, with a particular emphasis on developing capabilities in the area of investment attraction. Costa Rican experts are now on the ground in Maseru, assisting Lesotho's authorities in developing their own plan for bringing more investment into their country.

Based on the Costa Rican experience, I would like to draw three lessons which may be useful in guiding the Aid for Trade Initiative in the future:

- Global value chains and other changes in trade patterns can and should be used as vehicles for fostering integration of developing countries in world trade.
- Aid for Trade should stand ready to support initiatives aimed at enhancing the possibilities of developing countries joining these production networks, with a particular focus on improving competitiveness and the business climate, eliminating choking points that negatively impact trade and investment flows, and developing skills and infrastructure.
- The private sector is an essential component of this equation. More direct involvement of the private sector is required in designing, implementing, contributing and benefiting from projects that aim at inserting producers and firms from developing countries in value chains. GVCs may provide a strong motivation for moving into Investment for Trade.

I look forward to the Fourth Global Review of Aid for Trade in July as a great opportunity to put some of these ideas into action.

Thank you.