The OECD Work on Binding Constraints to Trade and the Rationale of the Workshop

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Aid for Trade has been successful in:

1) Mobilizing resources
   - USD 39.4 billion in 2008
   - USD 41.1 billion in 2009 (preliminary)

2) Raising awareness on the positive role trade can play in development.

Source: OECD/CRS (constant 2008 USD, millions).

Source: Aid for Trade at a Glance 2009.
Now the challenges are to:

1. Implement **effectively** Aid for Trade; and

2. Demonstrate that the substantial amount of aid mobilized has been well spent and had an impact.

Current (fiscal) crisis adds to the urgency.

The OECD work on the binding constraints is undertaken to meet these challenges.
Identifying the Needs

- In-depth studies pinpoints developing countries trade-related needs
  - The DTIS conducted by the Enhanced Integrated Framework for LDCs
  - The Needs Assessment conducted by UNDP for non-LDCs.

- A « problem »:
  - Needs are numerous, multi-faceted, and country-specific.
    => No blue-print.
  - The size of the action matrixes is impressive.
    => Which needs should we tackle first?
Prioritizing the Needs

- It is usually unrealistic to
  - address all needs, and
  - implement all required reforms/projects simultaneously.

- Both for political and financial reasons.
  - Political capital and resources (including Aid for Trade) are scarce.
  - Resources are available only over time.

- So prioritization is crucial
  - to guide the sequencing of reforms and
  - of aid-for-trade interventions.

- But How?
  - It is easy to say that reforms should start with the most binding constraints to trade expansion to obtain “the biggest bang for the reform buck.”
  - But, in practice, how do we identify the most binding constraints?
Four diagnostic tools

1. Stakeholder Consultation
2. Benchmarking
3. The Diagnostic Trade Integration Studies Method
4. The Value Chain Analysis

All are valuable approaches

- More suited to identify the needs
- Than prioritizing the reforms
In the report “Binding constraints to trade expansion” (OECD Trade Policy Working Paper #94, 2009) we suggest to combine the various diagnostics tools in an appropriate framework.

1. One possible framework: adapt the growth diagnostics procedure developed by Haussman et al. (2005) to trade expansion.

2. By shifting the focus from growth to trade, this framework can be readily adapted by local authorities and development practitioners.

3. The framework employs a decision tree in order to prioritize reforms.
Identifying the most binding constraints to trade expansion (2)

- At each node of the decision tree, stakeholder consultation, benchmarking, and value chain approach can be used in order to rank the constraints.

- When the most binding constraint (bottom) is identified, the DTIS action matrix can be used to
  - identify the actions needed,
  - the sources of potential external support and assistance.
Session 1 of the workshop: “Identifying the Supply-Side Constraints to Trade”

- The World Bank had adjusted the diagnostics procedure in another way.
- And has the capacity to operationalize it.
- José Guilherme Reis will share with us this experience.
Aid-for-trade community focuses on turning trade opportunities into trade.

It targets the “supply-side” constraints that limit developing countries to benefit from trade opportunities.

In other terms the focus is on “binding constraints (A).”

This is crucial to use trade as an engine for Growth and Poverty reduction.

There is ample evidence that the 4 most common objectives if achieve will lead to higher growth

- Increasing Trade;
- Diversifying exports;
- Maximizing the linkages with the local economy;
- Increasing adjustment capacity.

From turning trade opportunities in trade flows …
But that may not be enough

Some binding constraints can choke the impact of Trade on Growth (Binding constraints B)

In the report “Increasing the Impact of Trade Expansion on Growth” (OECD, Trade Policy Working Paper #100, 2010) we document that:

- Trade leads to Growth on average
- But not in all cases…

… to turning trade in growth engine
Lessons of experience for the design of Aid for Trade

- This has implications for the design and the sequencing of aid-for-trade.
- Lessons from past experience with trade reforms:
  Make sure that the trade reforms are
  - Sustainable (compatible policies, policy coherence)
  - Supported complementary reforms that will increase its impact on economic growth.
- The paper shows that Aid for Trade has the means to support (and does support) compatible and complementary policies.

THUS:

Session 2 of this workshop: “Prioritizing Reforms and the Role of Complementary Policies”.

Session 3 of this workshop: “Evaluation and Assessment of the Trade Impact of Aid for Trade”.
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