



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

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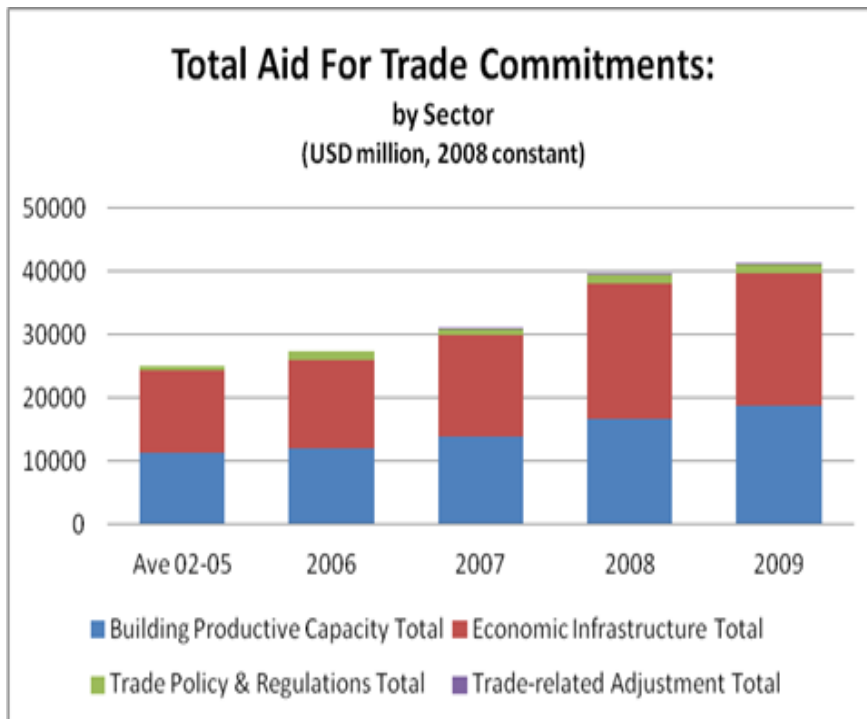
Why focusing on the binding constraints to trade? (1)

Aid for Trade has been successful in:

1) Mobilizing resources

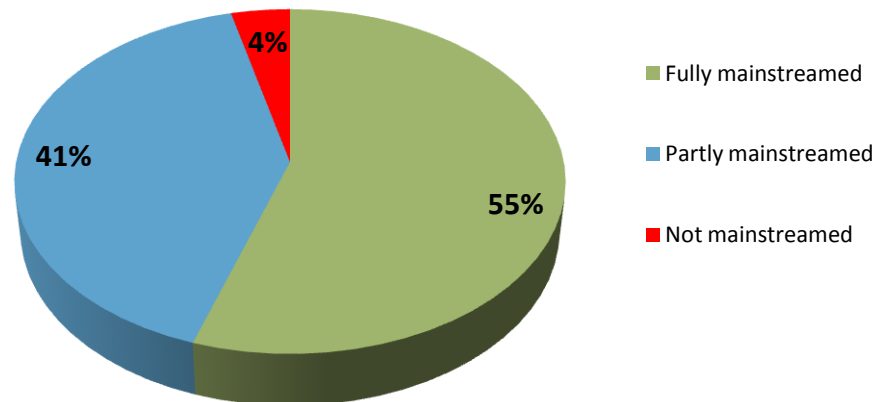
- USD 39.4 billion in 2008
- USD 41.1 billion in 2009 (preliminary)

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



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

Mainstreaming trade in development strategy



Source: Aid for Trade at a Glance 2009.

Why focusing on the binding constraints to trade? (2)

- 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?

The diagnostic tools

➤ Four diagnostic tools

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

➤ All are valuable approaches

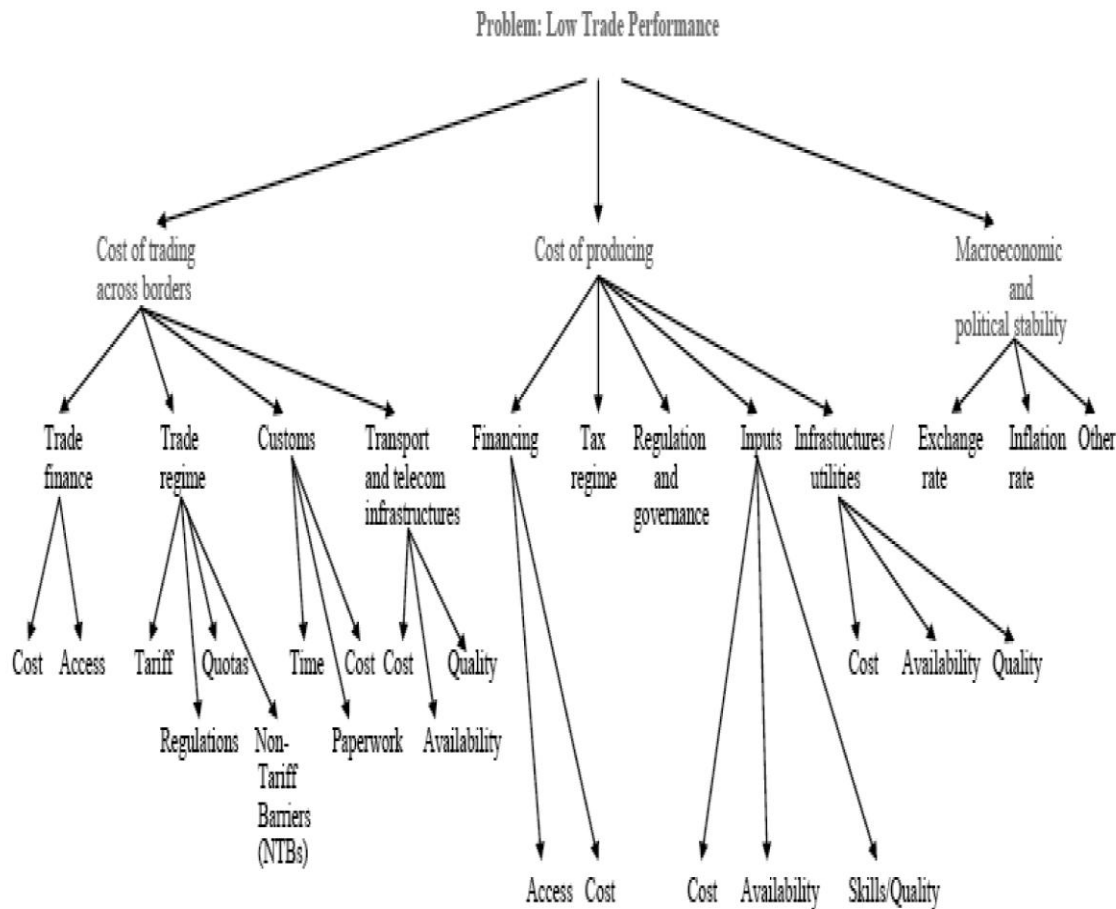
- More suited to identify the needs
- Than prioritizing the reforms

Identifying the most binding constraints to trade expansion (1)

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 Hausman 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.

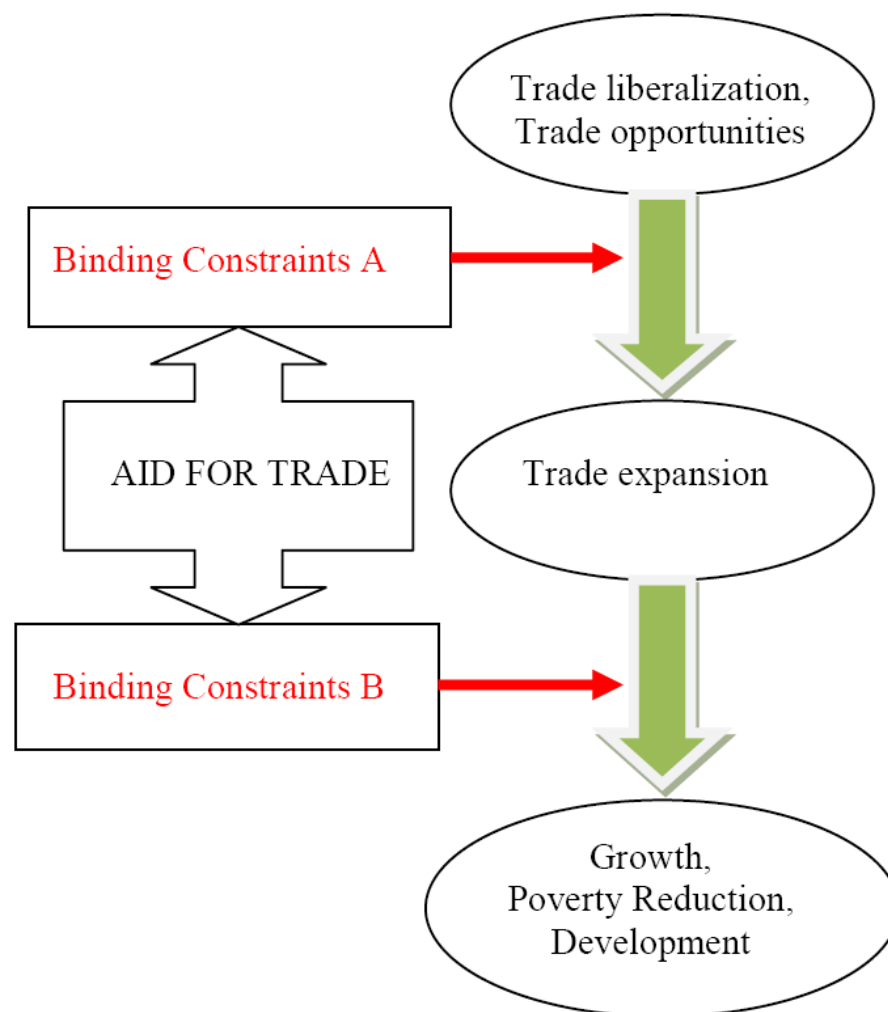
Identifying the most binding constraints to trade expansion (3)

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.

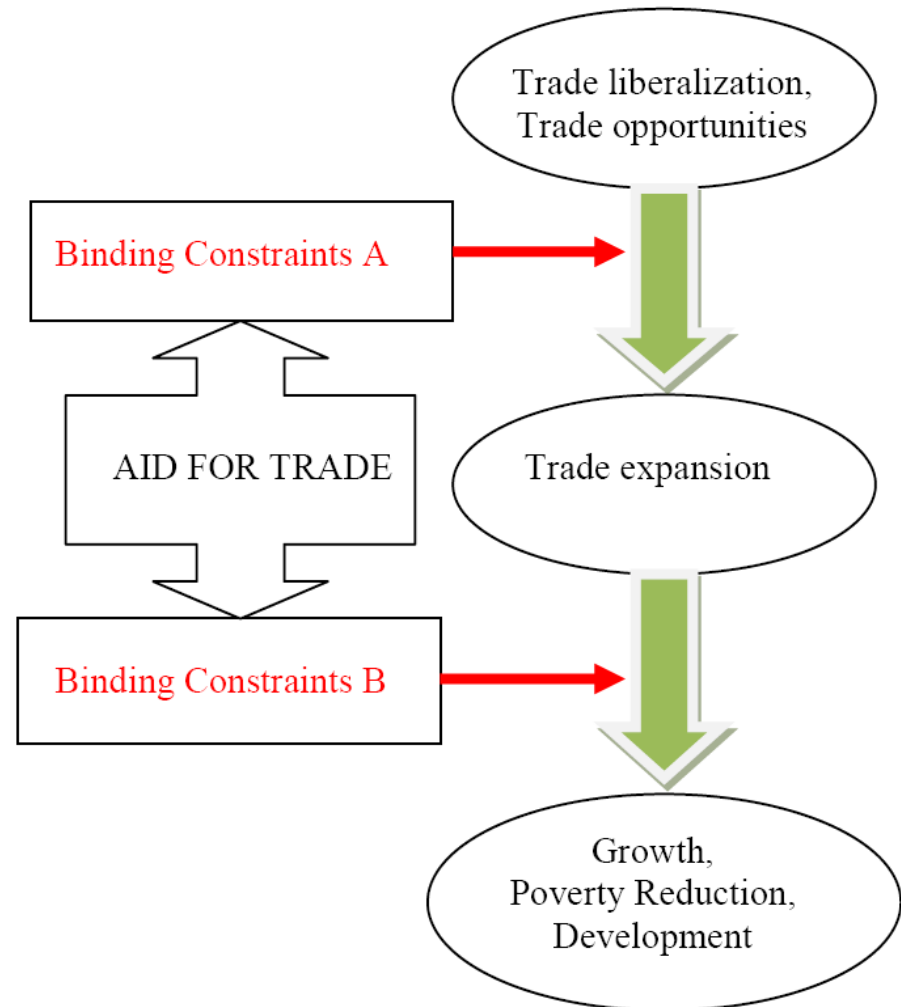
From turning trade opportunities in trade flows ...

- **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.**



... to turning trade in growth engine

- 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...



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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