

# The Imperative of Competitiveness in a Multilateral Trading System: What's an LDC to Do?

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National Dialogue on Aid for Trade  
January 17, 2008

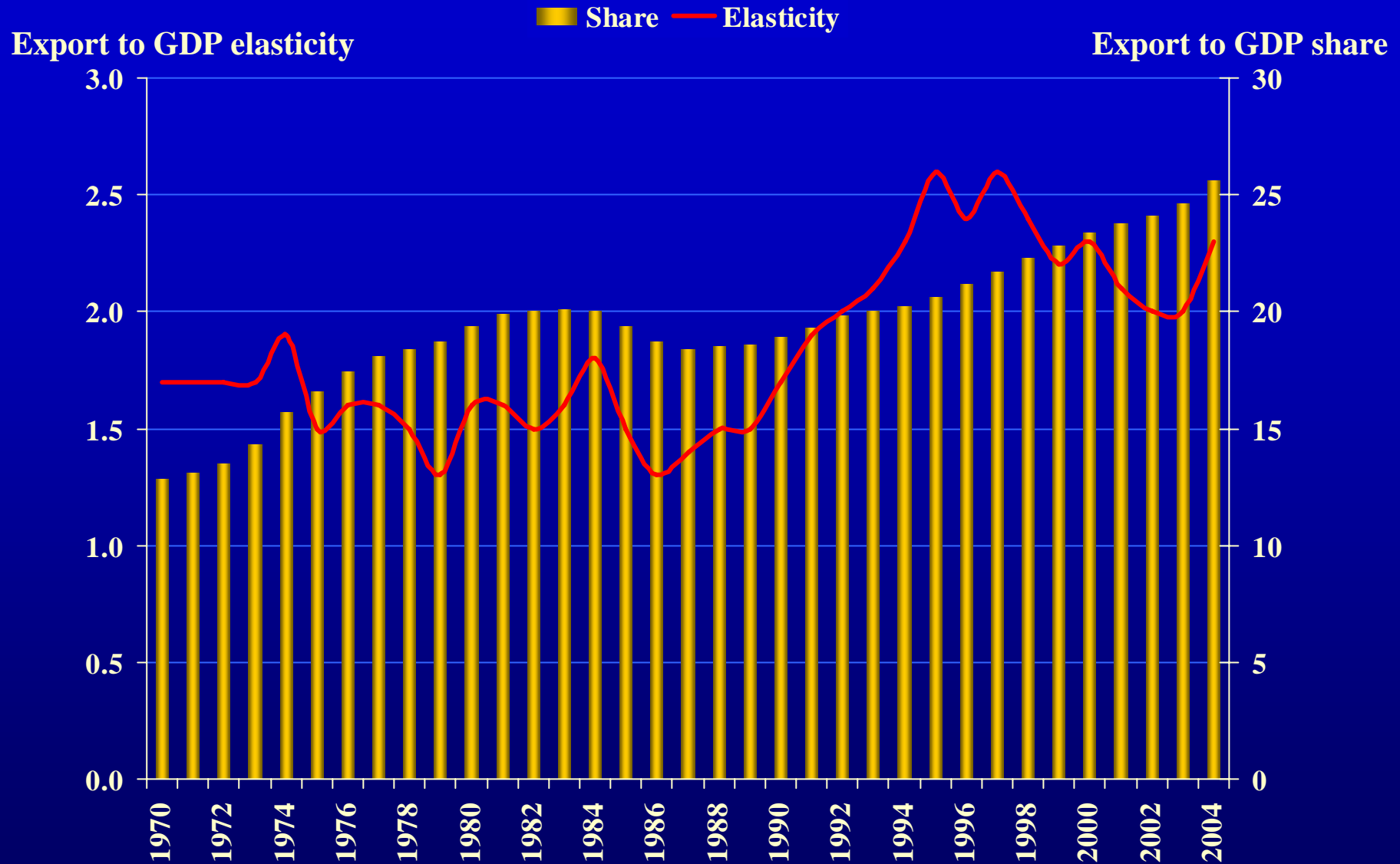
## Main points

- The global economy is changing rapidly – and to take advantage of global opportunities, countries have to improve competitiveness
- A strategy for competitiveness has to be comprehensive – multilateral, regional and unilateral
- World Bank has several instruments to support governments, if they wish to make competitiveness a pillar of their growth strategy

# Global economy – and the opportunities it presents --is changing rapidly...in five ways

1. Increase in importance of globalization as driver of growth...
2. Shift of demand toward Asia away from EU and US
3. Rise of global production chains and services
4. Eroding preferences
5. ...Slowing global economy

# 1. Export markets are growing faster than domestic demand...

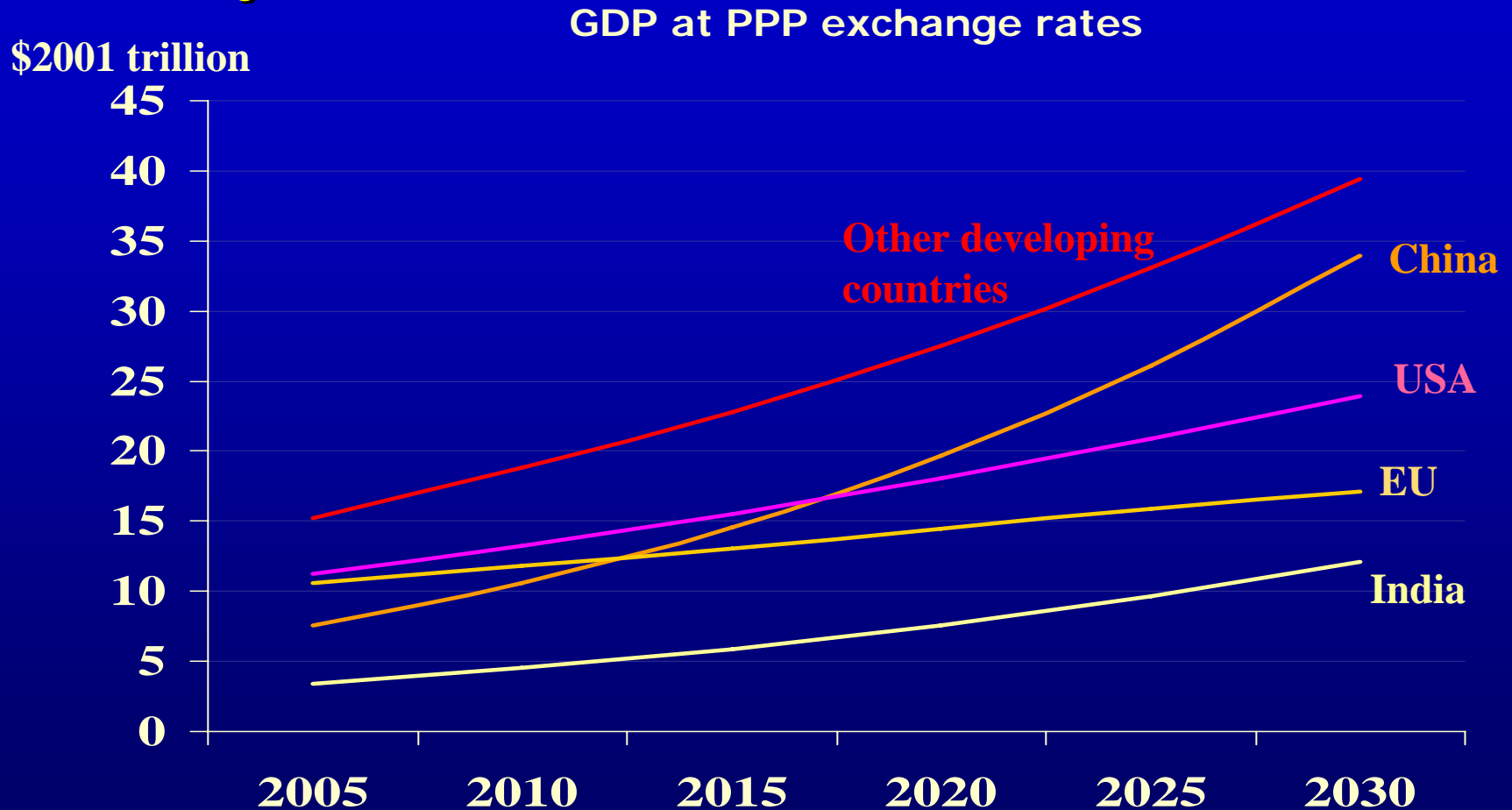


Note: Export to GDP ratio for the world. The elasticity is calculated as the percent change in real exports relative to the percent change in real GDP. The export share is calculated in nominal dollar terms. Data are smoothed using 5-year moving averages. Source: DDP and staff calculations.

# 1. ...so the fastest-growing countries have seized export opportunities



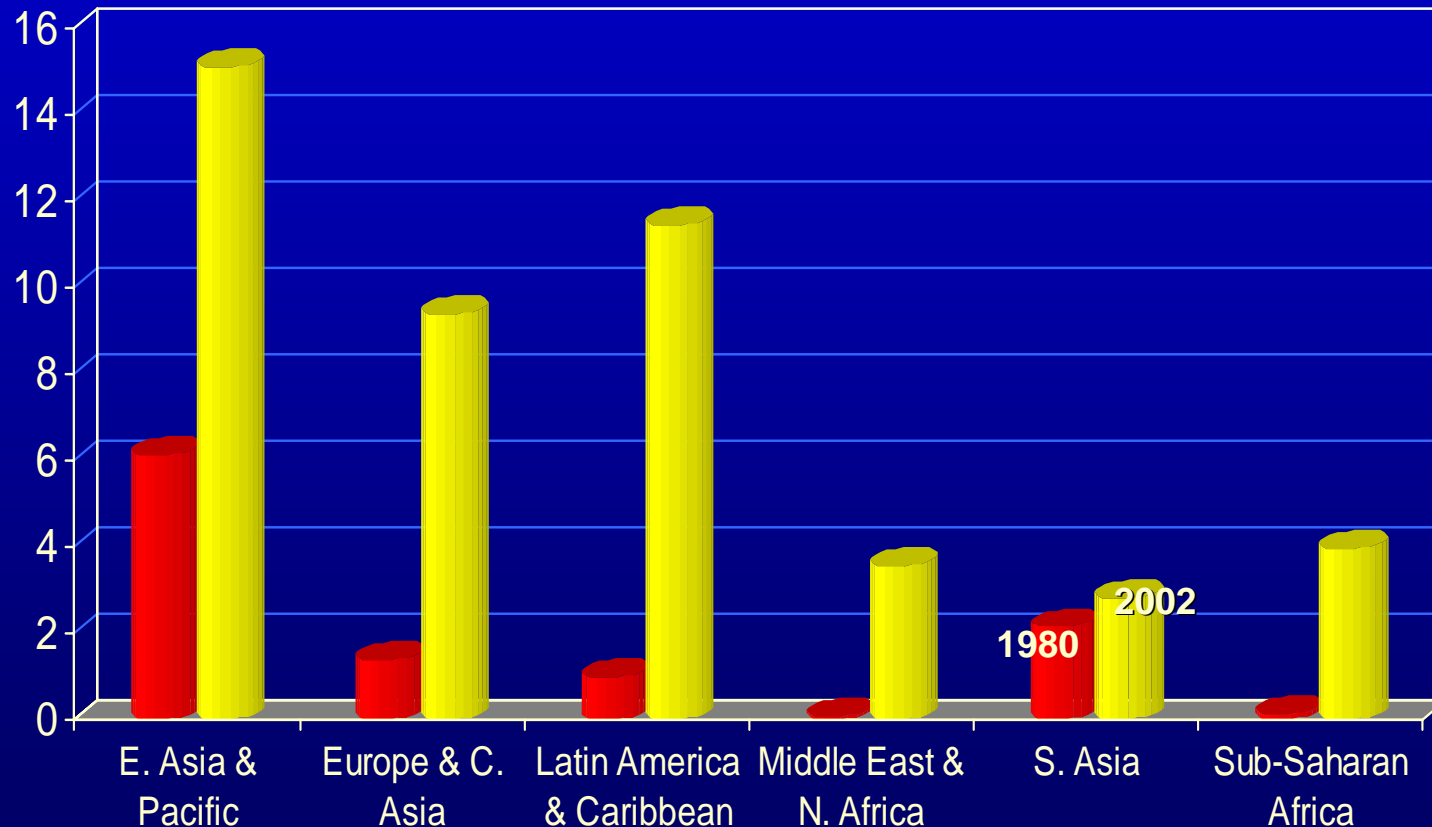
## 2. China, India, and other developing countries will become centers of global demand over the next quarter century



...so getting access to these markets will be more important

### 3. Global production chains and services offer new hooks into the world market

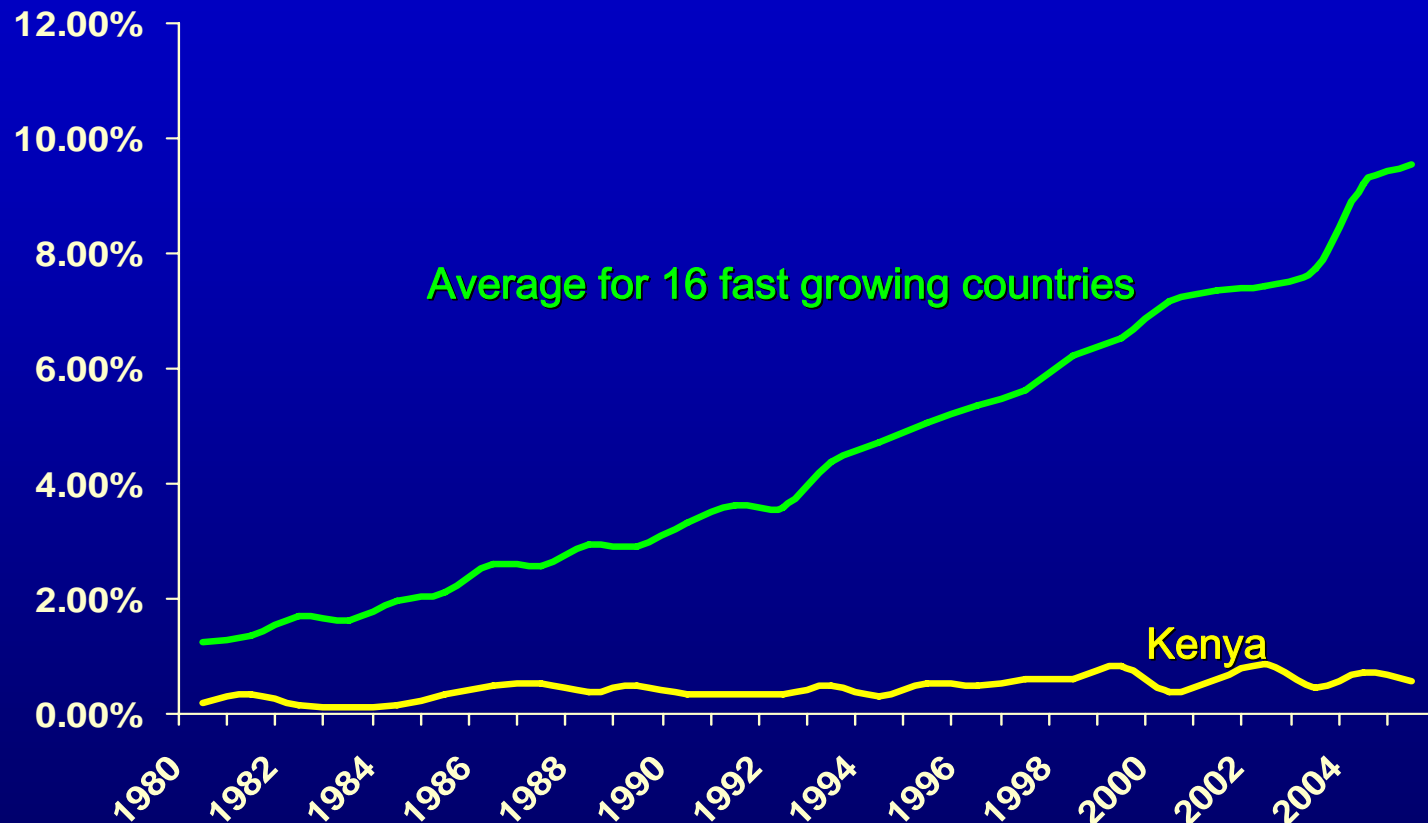
Exports of parts and components as a share of total exports (%)



Source: World Bank Global Economic Prospects, 2003

### 3. Fast-growing countries are using global production chains to drive exports, but LDCs have lagged

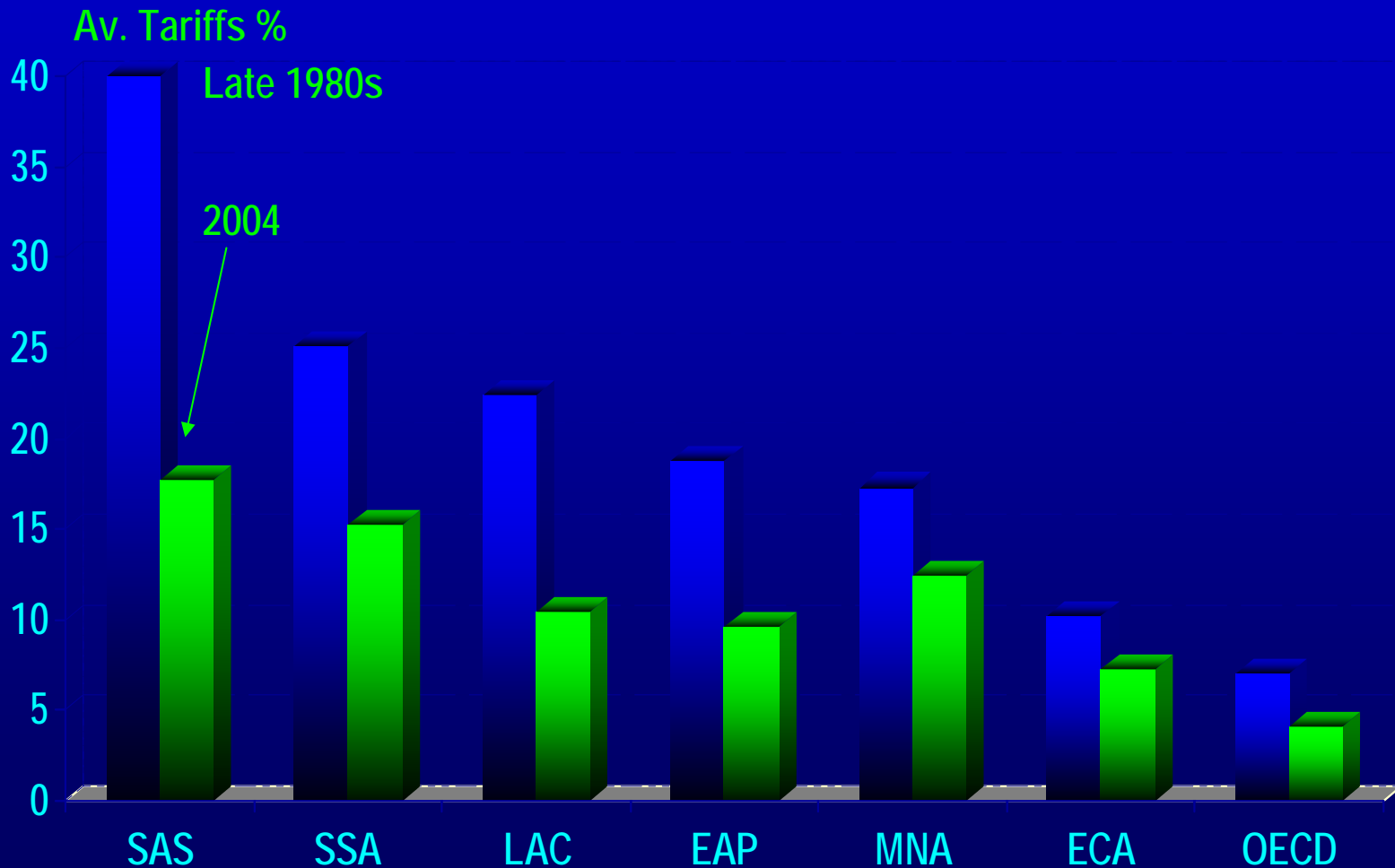
Share of parts and components in total exports of goods and services



...so countries have to look for new ways to get into these dynamic markets

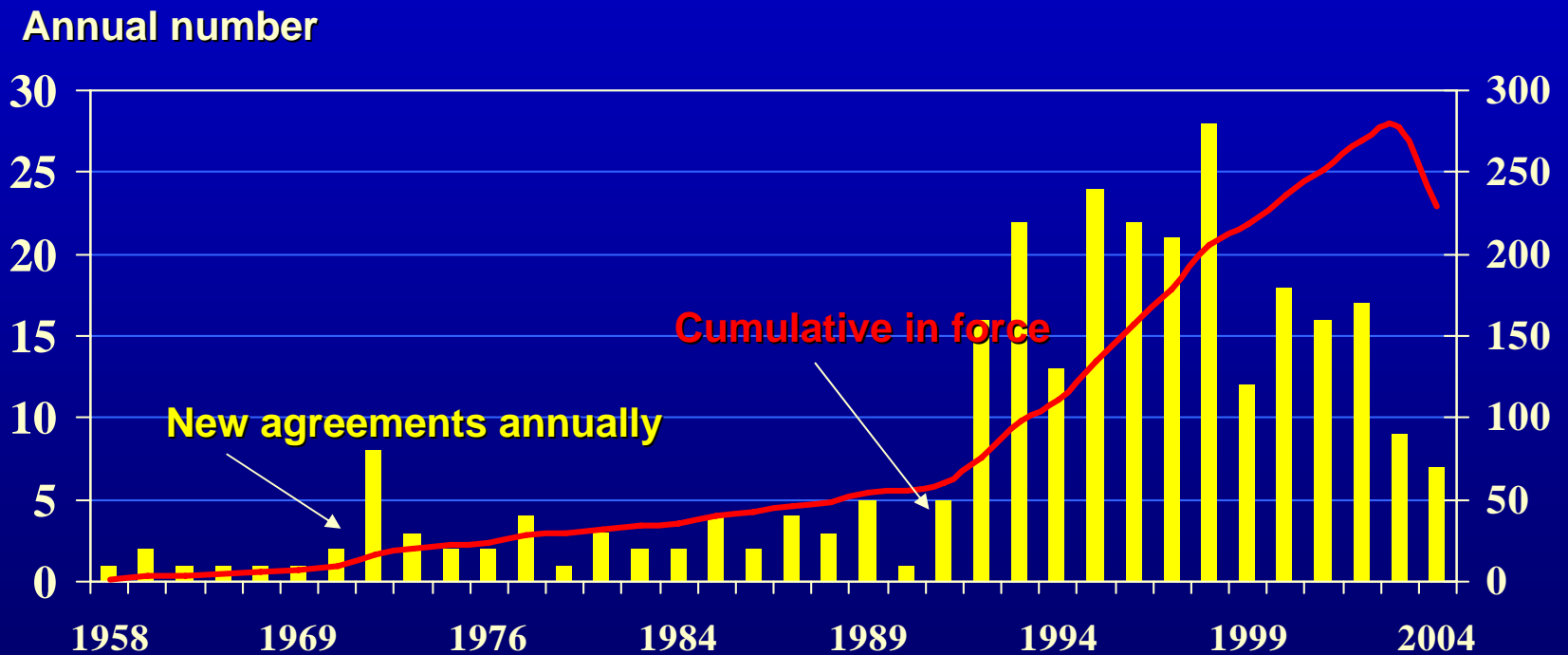
## 4. Preferences for LDCs are eroding...

- Because unilateral reforms have brought down tariffs compressing preferences



## 4. Preferences for LDCs are eroding...

- Because unilateral reforms have brought down tariffs compressing preferences
- And because regional trade agreement are eroding preferences



...so preference-dependent countries will increasingly face global competition

## 5. A global slowdown has begun...emanating from the US

- The global economy is beginning to slow.
- The World Bank predicts global growth to slow, if only to a moderate pace... with growth this year [...] compared to last year's [...]
- But growth in the US is slowing very sharply, and will be a [...] of last year's growth.
- This means countries that are sell to the US will feel a direct hit, and underscores the importance of looking for new markets

## Trade policy in this rapidly changing environment has to have three elements...to have three uncertain

- A multilateral strategy to use the Doha round to get more market access and resources.
- A regional strategy to take advantages of opportunities
- ...And a unilateral strategy based on a program to improve competitiveness...

# Multilateral strategy: Should LDCs support completion of DDA?

## ■ DDA may provide provide:

- Some increased market access
  - Caps of 8-9% in rich countries and 19-23% in developing countries could be important to many LDCs, especially textile and clothing exporters
  - Agriculture will provide some market opening
  - Bindings at new and lower levels
  - DFQF access
- Services ... mode 4 gains likely to be negligible
- Trade facilitation could be important insofar as it spurs reductions in costs of transport – abroad and at home.
- Opportunity for domestic reforms in all these areas
- Indirect benefits from a Doha deal:
  - Boost to long-term growth of global economy
  - Strengthen rule-based system that grants political standing to small and poorer countries

# Multilateral strategy: Should LDCs support completion of DDA?

- These gains have to be balanced against:
  - Possible erosion of preferences
  - Possible eventual higher-than-other wise world prices for food – this is likely to be imperceptible
- Though on average LDCs are likely to gain in the same proportion or greater to rich countries, each country has to evaluate its own costs and benefits
- Weigh the counterfactual -- If Doha doesn't succeed will protectionism become resurgent and eroding preferences undercut its benefits?

## Regional trade strategies

- EPAs are opportunity:
  - ...to loosen restrictive rules of origin
  - ...tap into increased development assistance
  - ...to leverage regional integration (including within SACU)

**Brenton memorial ROO slide  
showing Clothing to US -EU**

# Regional trade strategies

- Realizing the potential of SACU and SADC is important:
  - Harmonizing tax, licensing and regulations can create local market opportunities
  - Lobby SACU to reduce tariff peaks that impose high costs on members – and reduce contingent protection
  - Review rules of origin requirement in SACU to facilitate production chains

# Unilateral policies hold the promise of the biggest pay-offs...and require coordinated action in three policy domains

- **Macro-incentives:** Policies (tariffs, taxes, investment) that shape profit incentives through the price system, so firms invest in internationally competitive activities. For Lesotho, e.g.,
  - Investment policies to facilitate greater FDI (investment code, 99 year leases, one-stop shop)
  - Tax reforms to remove distortions, expand non-trade base, and improve compliance
  - Revise visa procedures to provide greater influx of foreign skills
  
- **Policies to improve infrastructure and cut input costs**
  - Improve trade-related infrastructure: make phones compatible with S. Africa's, improve Lesotho Electricity Commission, expand private contracting for road construction, improve railway transport
  
- **Pro-active policies to solve problems the market cannot**
  - Export promotion
  - Improve standards by allowing use of S. Africa's conformity assessment and testing
  - Reduce transactions delays in customs through broad reform

**Key: Program of competitiveness has to be comprehensive, have inter-ministerial implementation, and regular cabinet oversight**

# The World Bank supports government programs to improve competitiveness...

- Country studies
- Regional studies

Comprehensive  
Trade  
Diagnostics

- Policy
- Sector loans
- Project loans

Programmatic &  
Infrastructure  
Lending

Goal: Helping  
governments  
leverage trade to  
faster growth

- Small projects
- Technical assistance

Trust Fund  
Activity

**World Bank is the largest provider of aid for trade to LICs, providing \$4.2 b.**

# The Imperative of Competitiveness in a Multilateral Trading System: What's an LDC to Do?

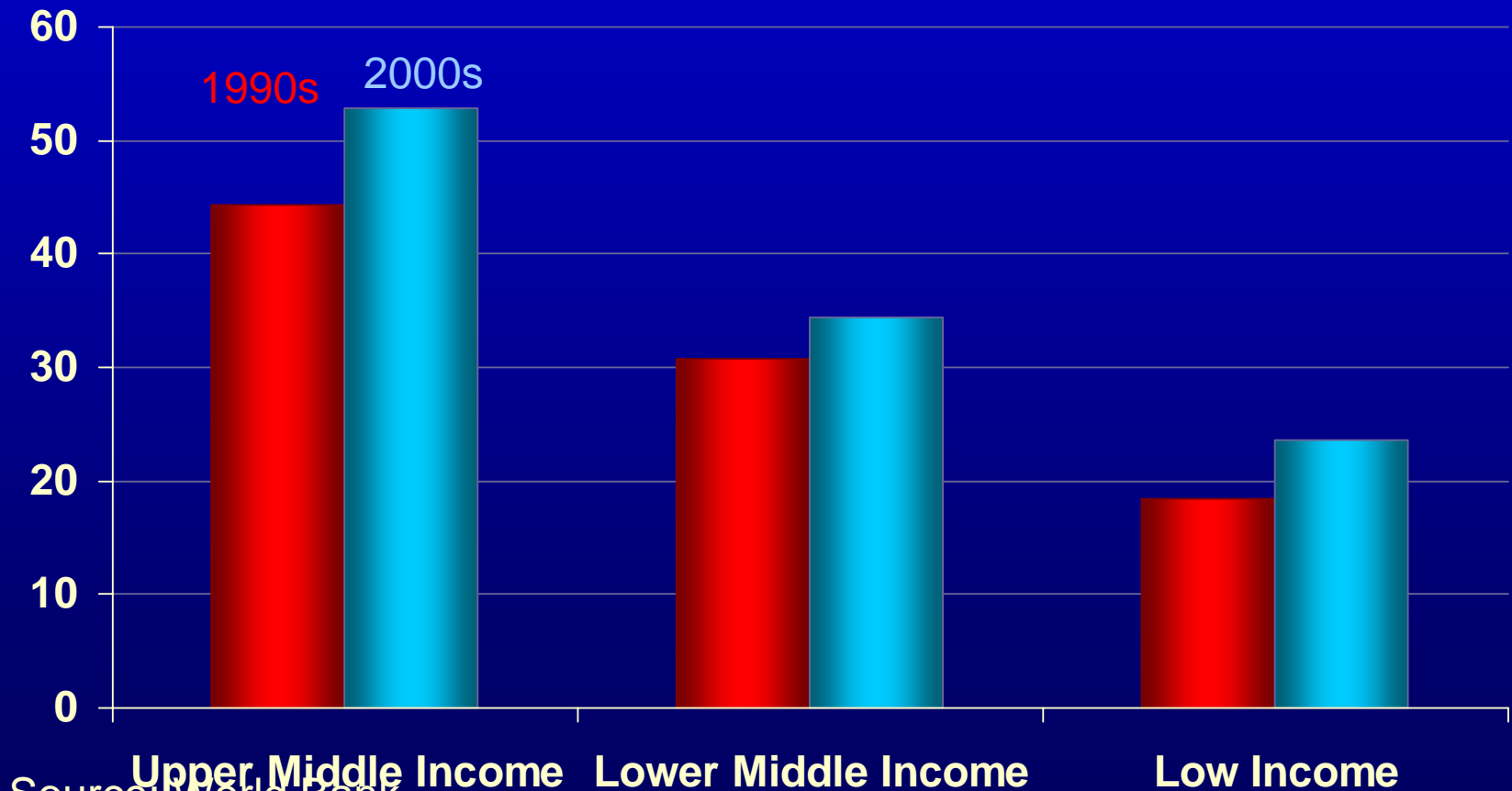
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# Technology gap: narrowing but still wide

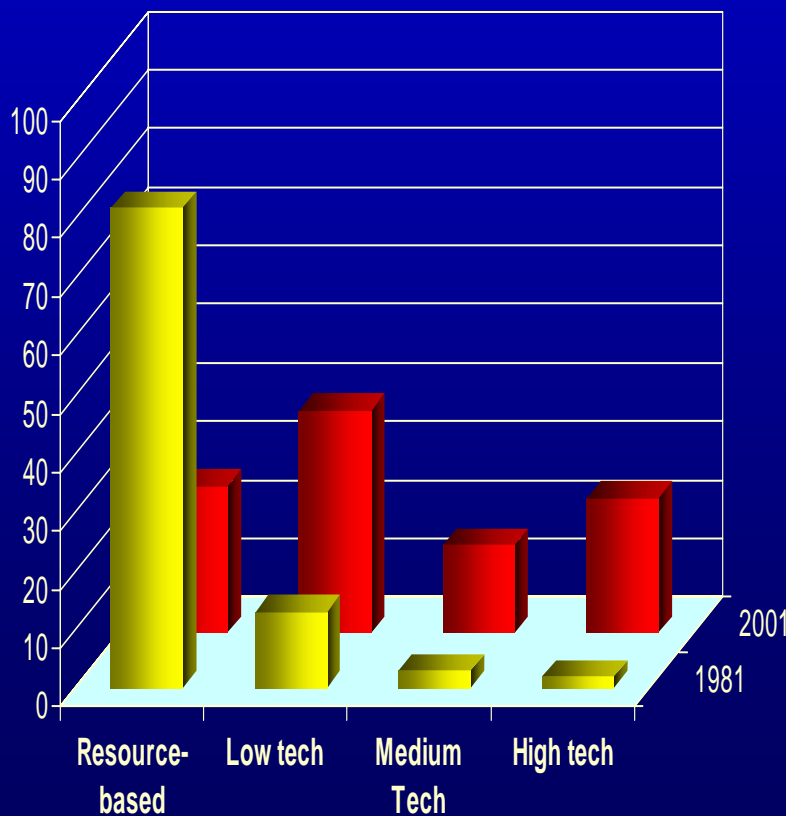
Index of technological achievement



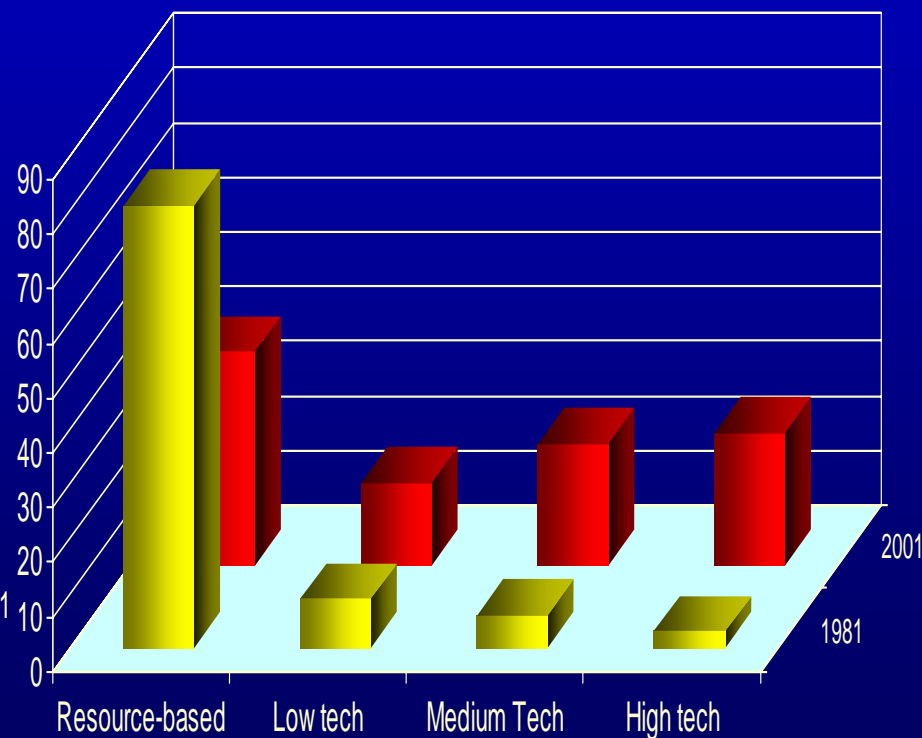
Source: World Bank

# Developing countries are moving up the technology ladder...

Low income countries: Share of exports, 1981-2001 (percent)

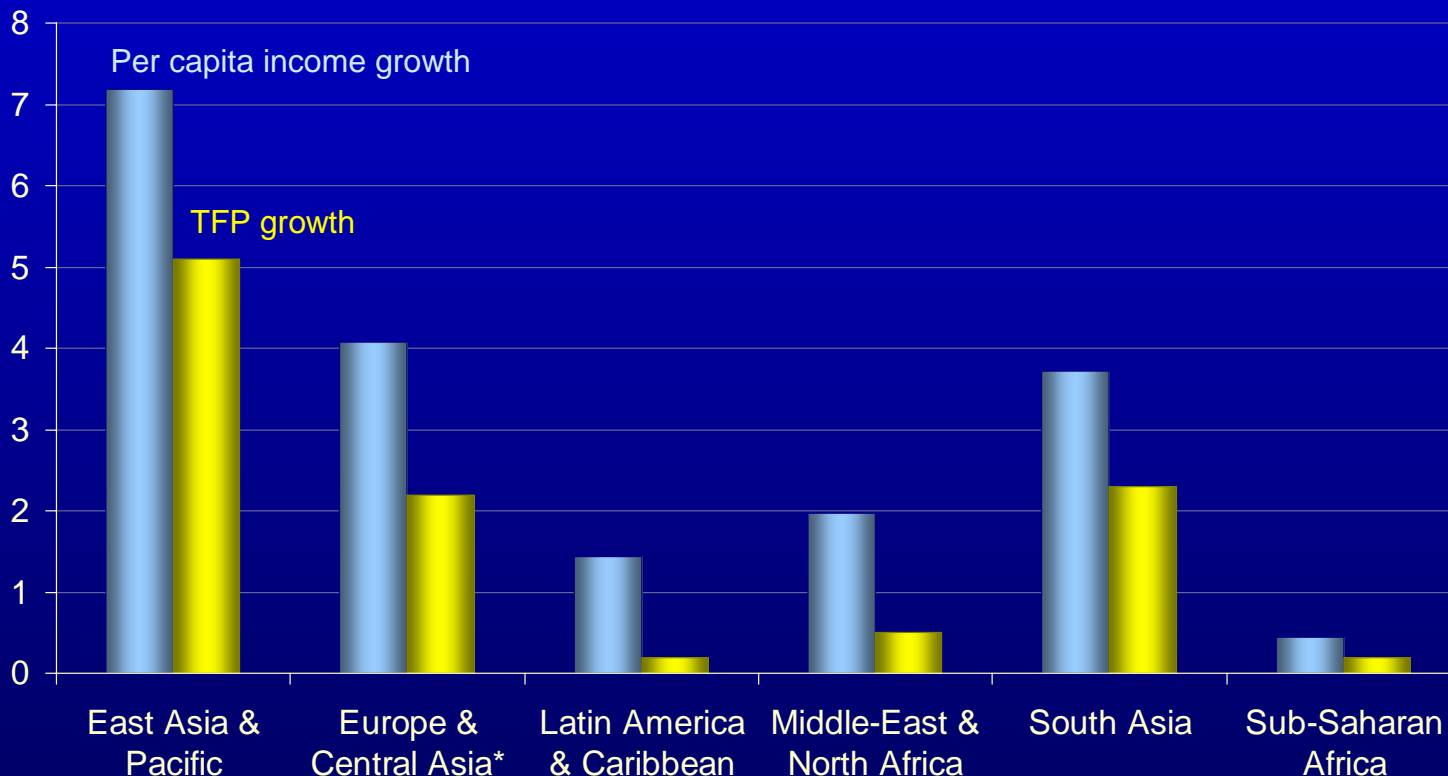


Middle income countries: Share of exports, 1981-2001 (percent)



# Technological progress is at the heart of income growth and poverty reduction

Average annual per capita income and total factor productivity growth, 1990-2005

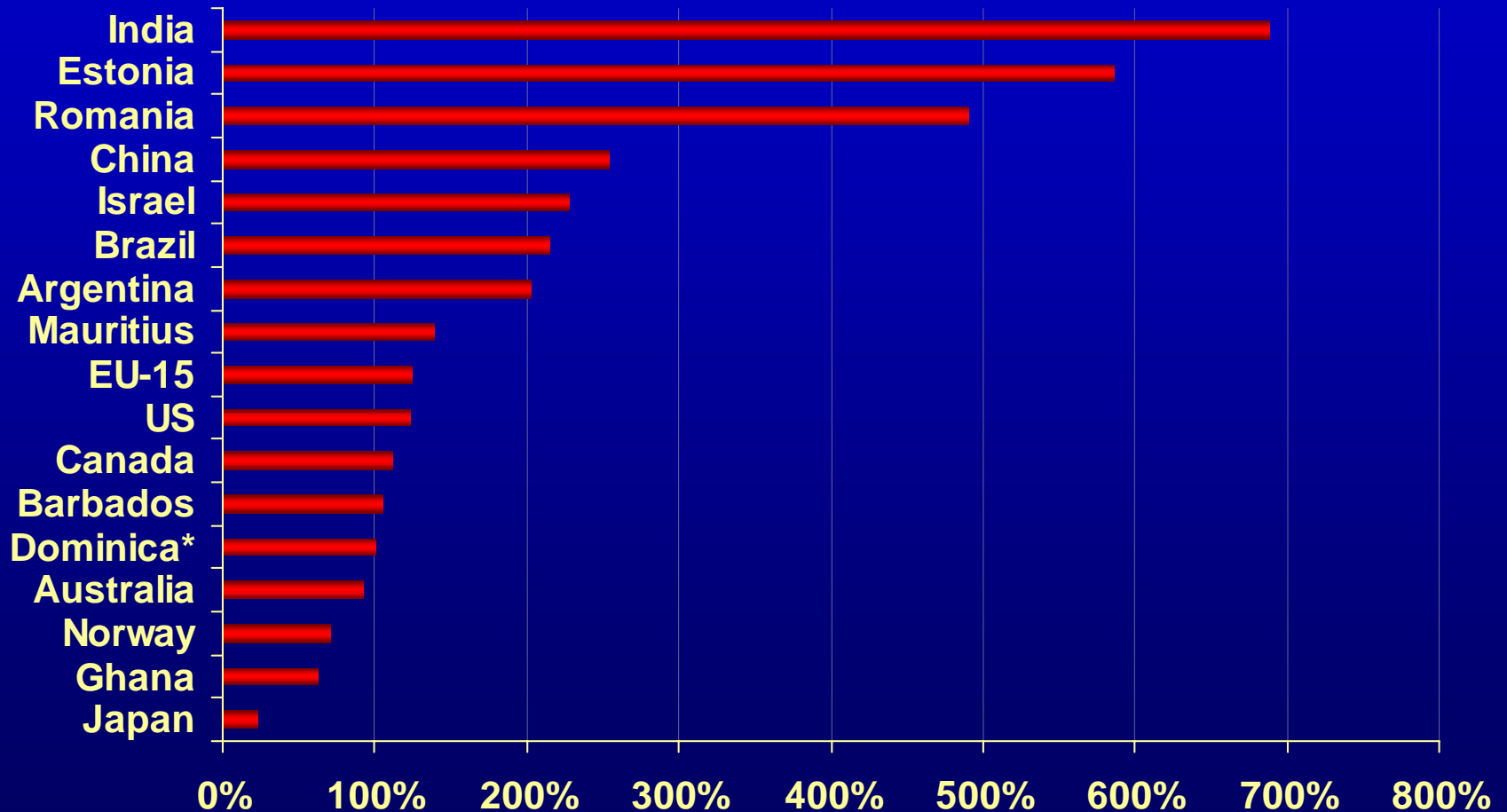


\* Data for Europe & Central Asia cover period 2005/1995

Source: World Bank, Poncet 2006

# Services trade is a dynamic new area of future growth

Growth rate of exports of business services 1994-2003



Source: Data from IMF Balance of Payment Statistics: Business services are defined as Total services minus Transportation, Travel, and Government Services.

# Coordination of tariff strategy under EPA maybe difficult...

**Overlap of high-tariff sectors is very low, making co-ordination difficult**

Region	% of exclusions common to half	% of exclusions with no overlap	Marginal tariff (%)
Caribbean	1	58	20
Central Africa	12	51	30
ESA	2	43	25
SADC	2	64	5
West Africa	0.2	92	20

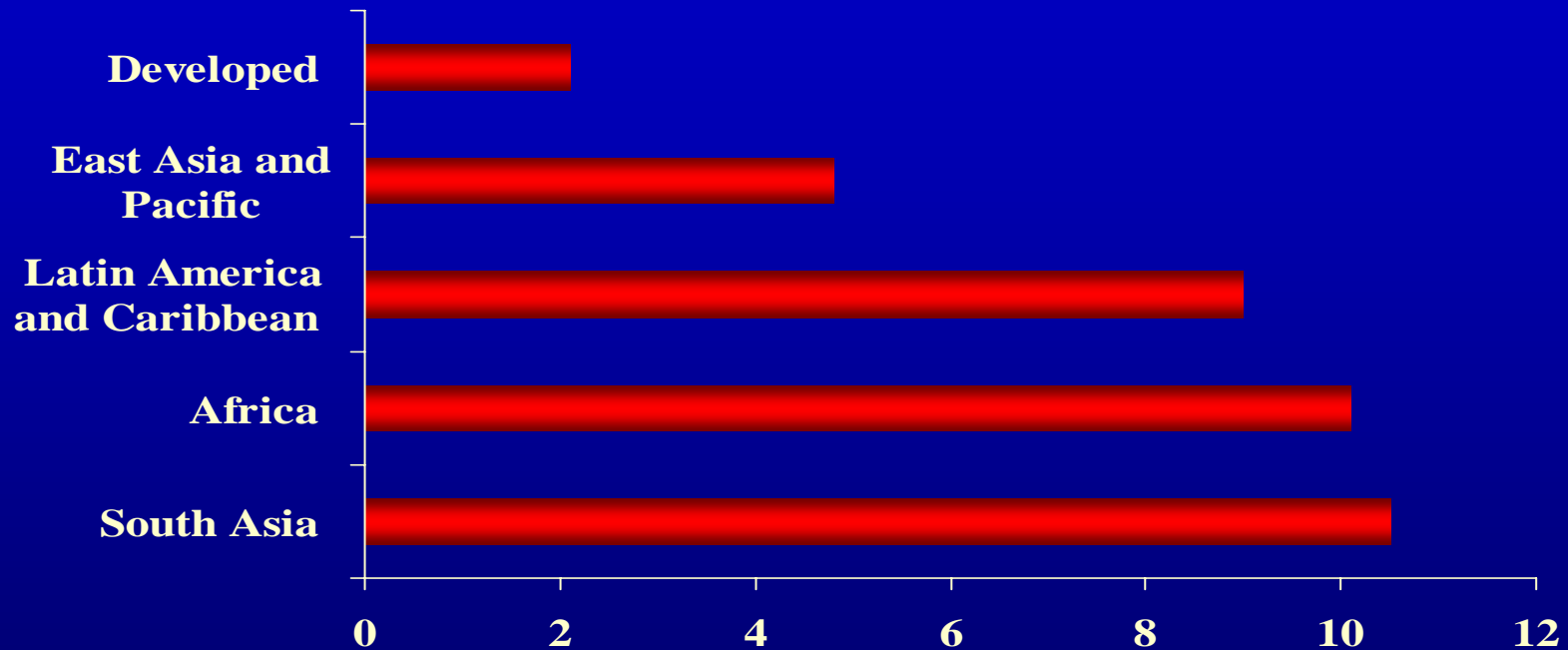
Source: Stevens (2005)

Table assumes ACP countries can exclude 20% of their imports from the EU and will exclude those lines (at 6digit level) with the highest tariffs first. Overlap of these “sensitive” tariff lines is very low.

The last column shows, by region, the minimum tariff that can remain in place if 80% of imports are to be liberalised.

# Improving trade logistics can be as important as cutting tariffs...ports, customs, transport

Average number of days to clear customs for sea cargo

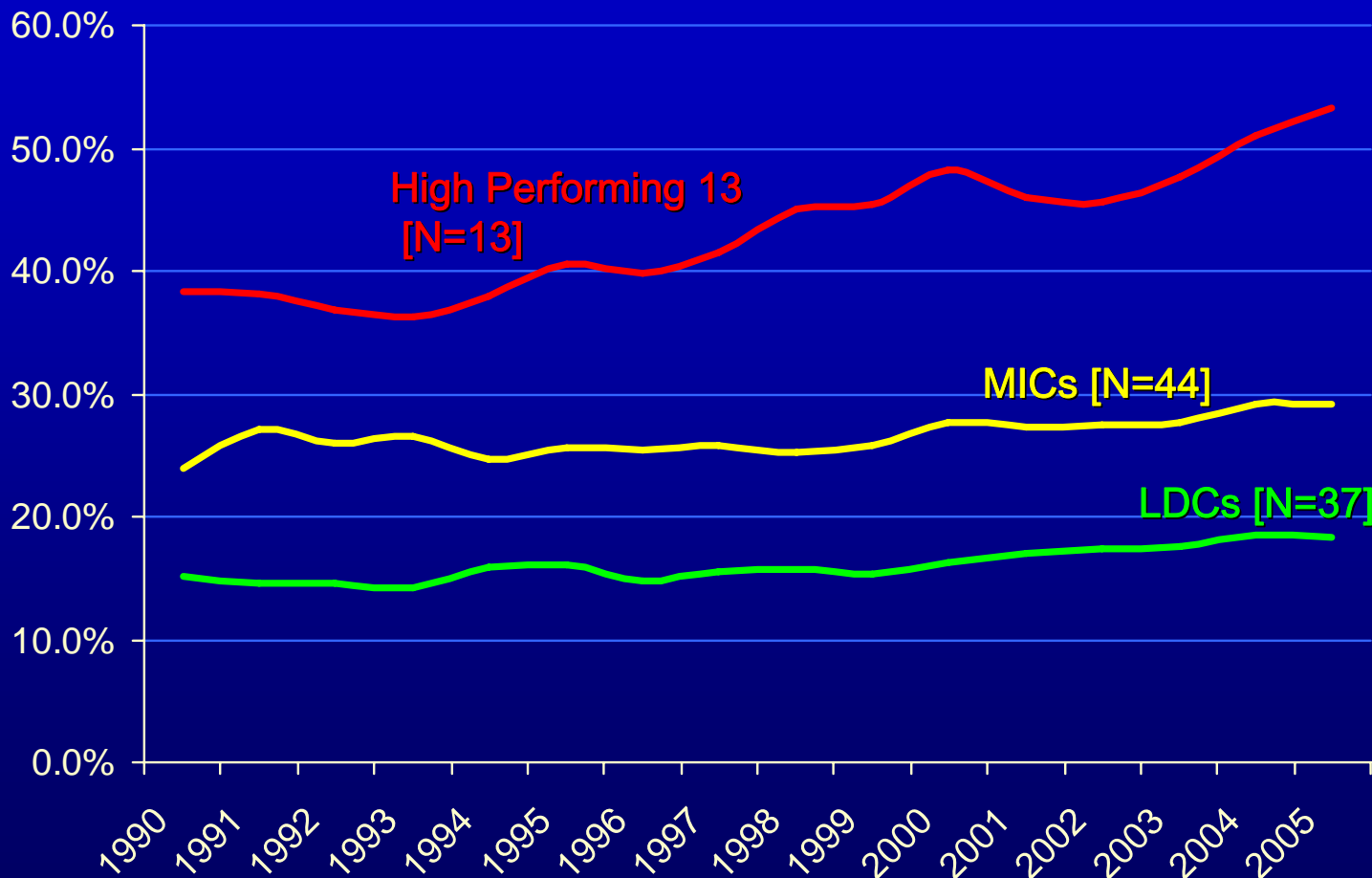


**Development assistance is key to improving ports, customs and trade infrastructure**

*Source:* International Exhibition Logistics Associates, based on a sample of countries in each region (<http://www.icla.org>)

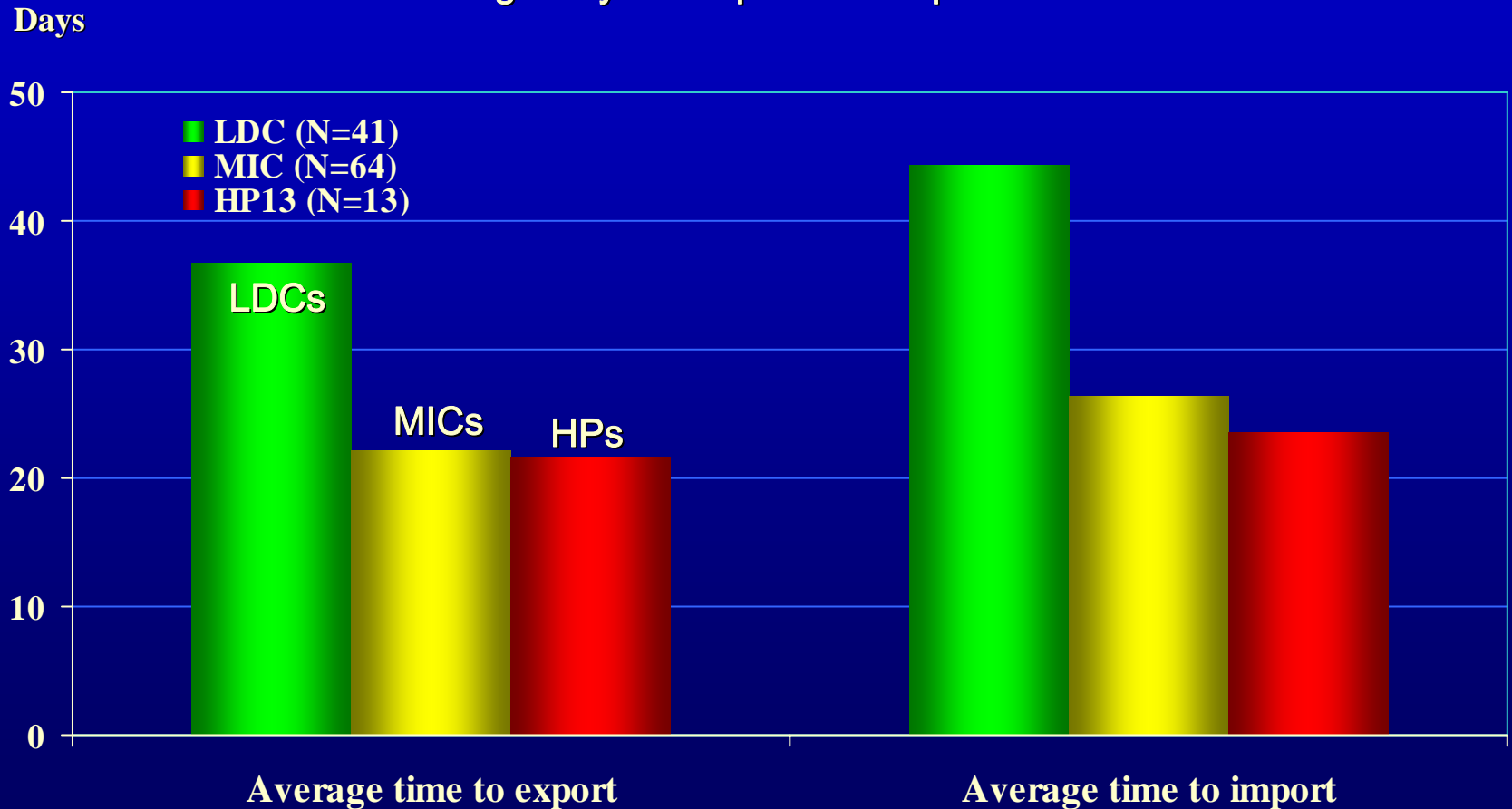
# LDCs have only started to make use of the potential of international trade...

Average ratio of exports / GDP



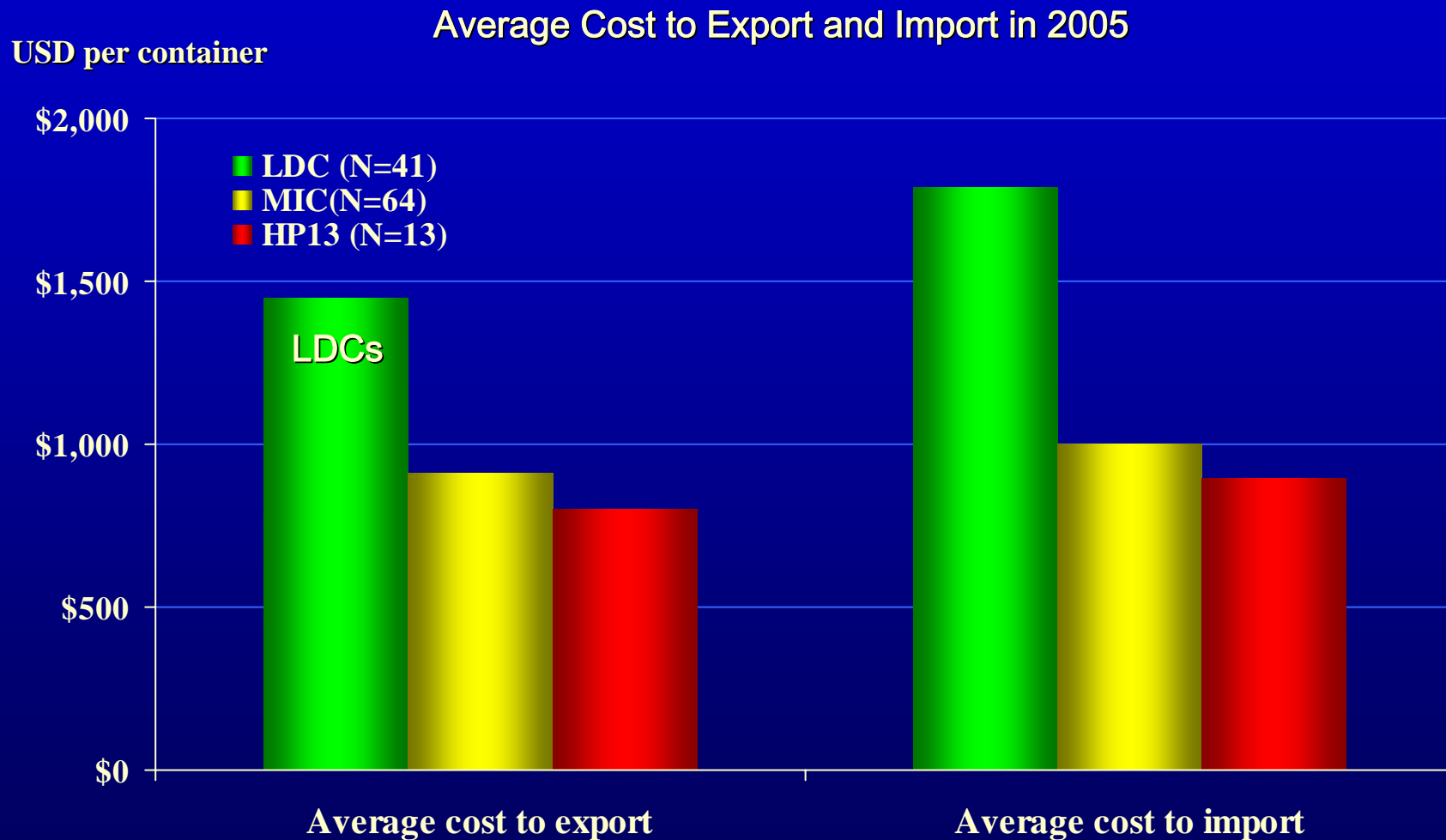
# Trade-related institutions cause delays...

Average Days to Export and Import in 2005



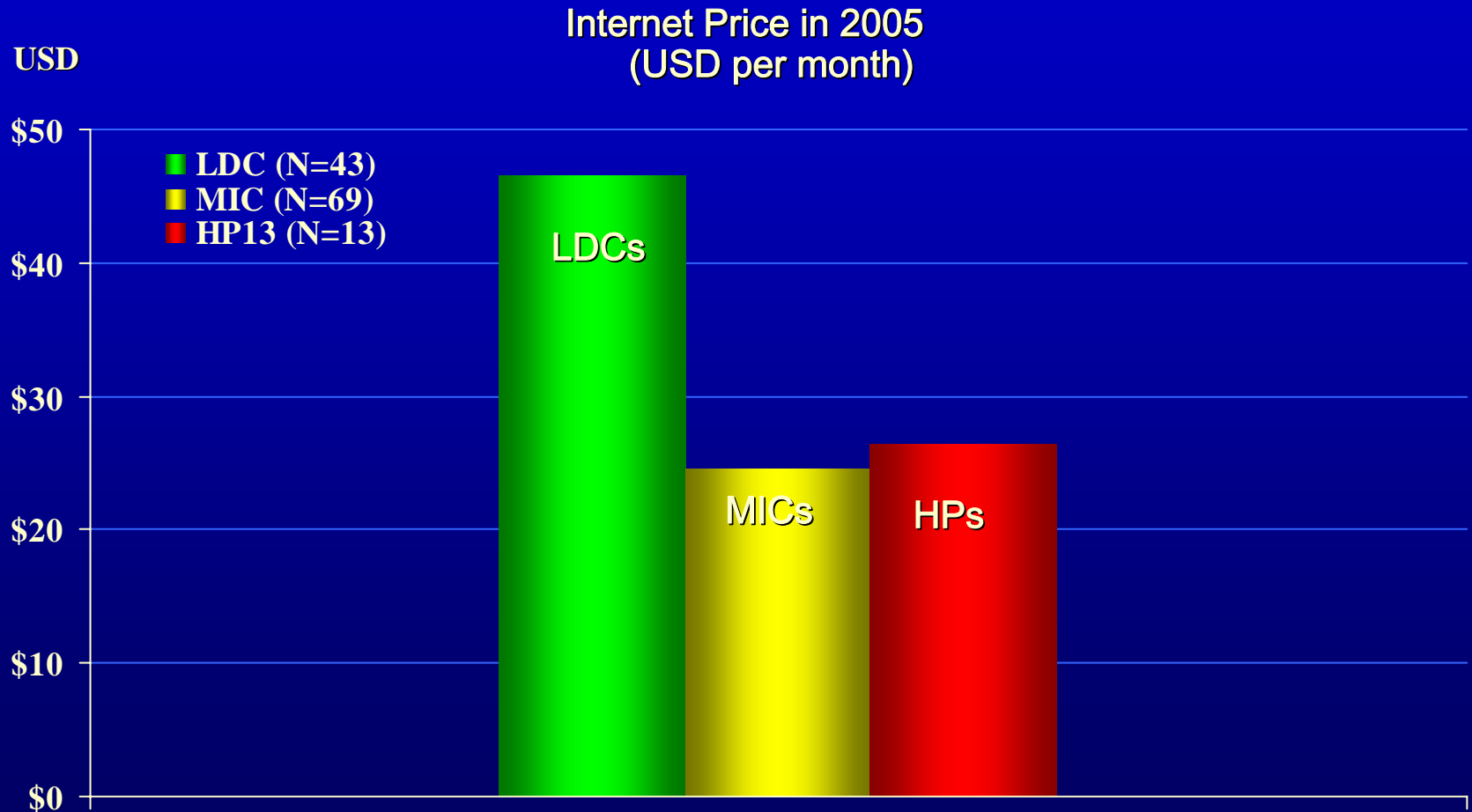
Source: Bank staff calculations based on data from Doing Business Report 2006.

# Trade-related institutions cause delays...and cost money



Source: Bank staff calculations based on data from Doing Business Report 2006.

# Lack of quality services hampers exports



Source: Bank staff calculations based on data from WDI.

# Ways the World Bank supports government programs to improve competitiveness...

- Country studies
- Regional studies

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Diagnostics

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# Aid for trade, according to the WTO/OECD

	Average 2002-05 in constant 2004 dollars					
	LDC and other Low income countries		Middle Income Countries		Total aid for trade	
	<i>US \$Billion</i>	<i>% of total</i>	<i>US \$Billion</i>	<i>% of total</i>	<i>US \$Billion</i>	<i>% of total</i>
Japan	2.2	15.9%	2.8	26.2%	5.0	20.4%
United States	0.6	4.4%	3.1	29.0%	3.7	15.2%
EC	1.9	13.5%	0.8	7.5%	2.7	10.8%
Other EC Members a/	1.1	8.0%	0.7	6.1%	1.8	7.2%
United Kingdom	0.9	6.5%	0.2	2.2%	1.1	4.6%
Germany	0.4	3.0%	0.7	6.0%	1.1	4.3%
France	0.4	2.9%	0.3	3.0%	0.7	2.9%
Canada	0.2	1.1%	0.1	0.8%	0.2	1.0%
Italy	0.1	0.7%	0.1	1.1%	0.2	0.9%
Other bilateral b/	0.4	2.9%	0.2	1.8%	0.6	2.4%
<i>Sub total bilateral</i>	<i>8.1</i>	<i>58.8%</i>	<i>9.1</i>	<i>83.7%</i>	<i>17.2</i>	<i>69.8%</i>
World Bank	4.2	30.6%	0.5	4.2%	4.7	19.0%
Asian Development Bank	0.6	4.3%	0.4	3.9%	1.0	4.1%
African Development Bank	0.6	4.6%	0.1	0.5%	0.7	2.8%
Interamerican Development Bank	0.1	0.8%	0.1	1.0%	0.2	0.9%
Other agencies	0.1	0.8%	0.7	6.6%	0.8	3.4%
<i>Sub total multilateral</i>	<i>5.7</i>	<i>41.2%</i>	<i>1.8</i>	<i>16.3%</i>	<i>7.4</i>	<i>30.2%</i>
<i>Total</i>	<i>13.8</i>	<i>100.0%</i>	<i>10.8</i>	<i>100.0%</i>	<i>24.6</i>	<i>100.0%</i>

Source: World Bank "Aid for Trade: Harnessing the Global Economy for Development" Oct 2007

# A case study -- Lao PDR Trust Fund: \$8.5 m to improve competitiveness

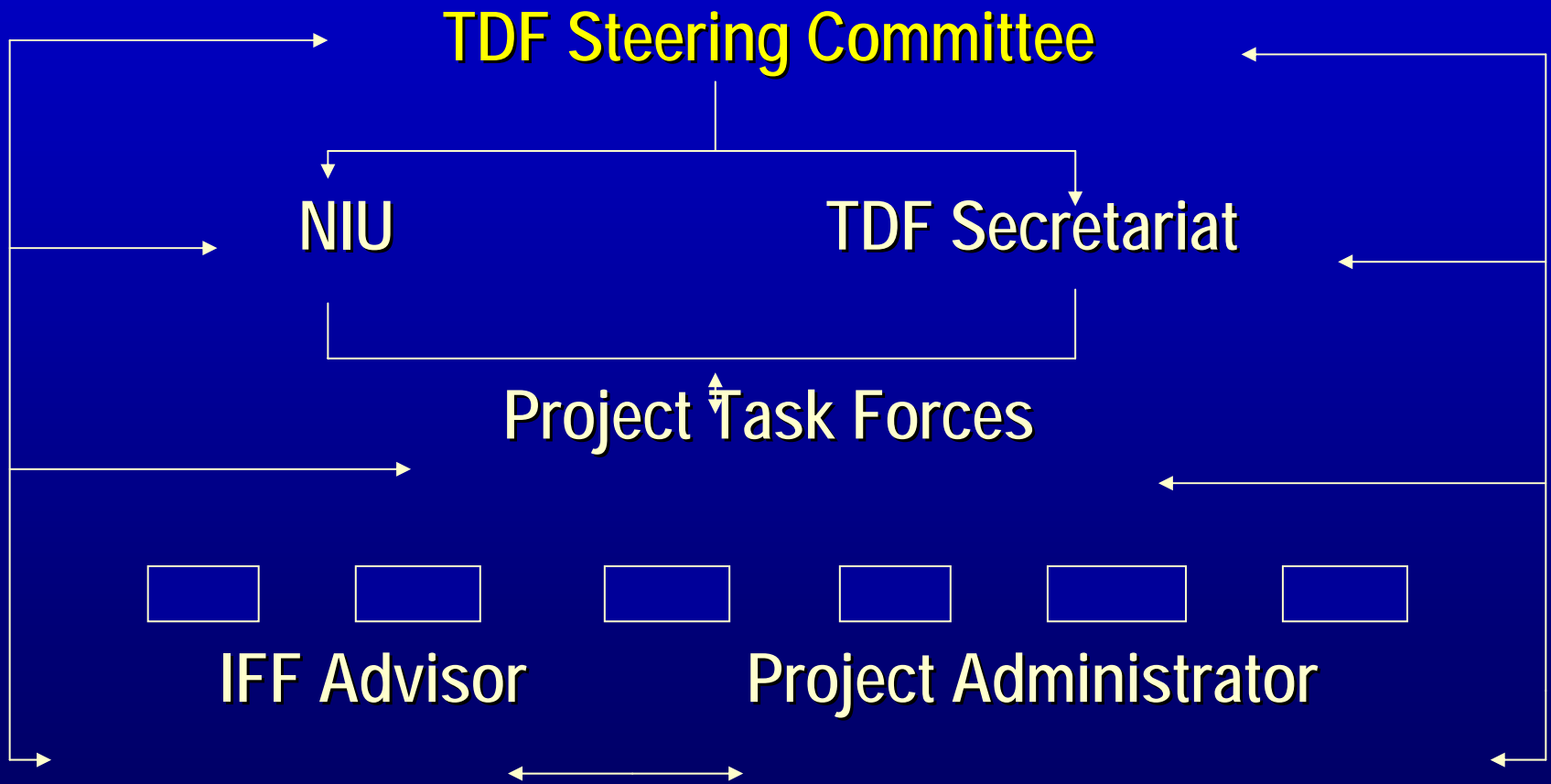
<b>1. Export Competitiveness</b>	<ul style="list-style-type: none"><li>➤Agriculture competitiveness</li><li>➤Light manufacturing</li><li>➤Tourism</li><li>➤Micro, small and medium enterprises</li><li>➤Regional development</li></ul>
<b>2. Trade Facilitation</b>	<ul style="list-style-type: none"><li>➤Customs and border agency reform</li></ul>
<b>3. Business Environment</b>	<ul style="list-style-type: none"><li>➤Industrial strategy</li><li>➤Investment promotion</li><li>➤Banking system</li></ul>
<b>4. SPS</b>	
<b>5. Trade Policy, Trade Agreements and Global Opportunities</b>	<ul style="list-style-type: none"><li>➤Capacity building for trade policy</li><li>➤Capacity building for trade negotiations</li></ul>
<b>6. Trade Opportunities for the Poor</b>	<ul style="list-style-type: none"><li>➤Village level handicraft and textiles</li><li>➤Roads linking villages to markets</li></ul>

# Lao government controls the allocation of resources

## Strategic Direction and Oversight

- TDF Steering Committee
  - Co-chaired by Vice Minister of MOIC and Donor representative (EC)
  - All key ministries and agencies represented
  - Representative of TDF donors
  - Bank (as TDF administrator) an observer
  - Other observers by invitation
- Role to provide strategic oversight of project and to approve annual work plans as well as reviewing progress reports and financial statements
- Establish and monitor Project Task Forces

# Lao PDR: Government drives the process

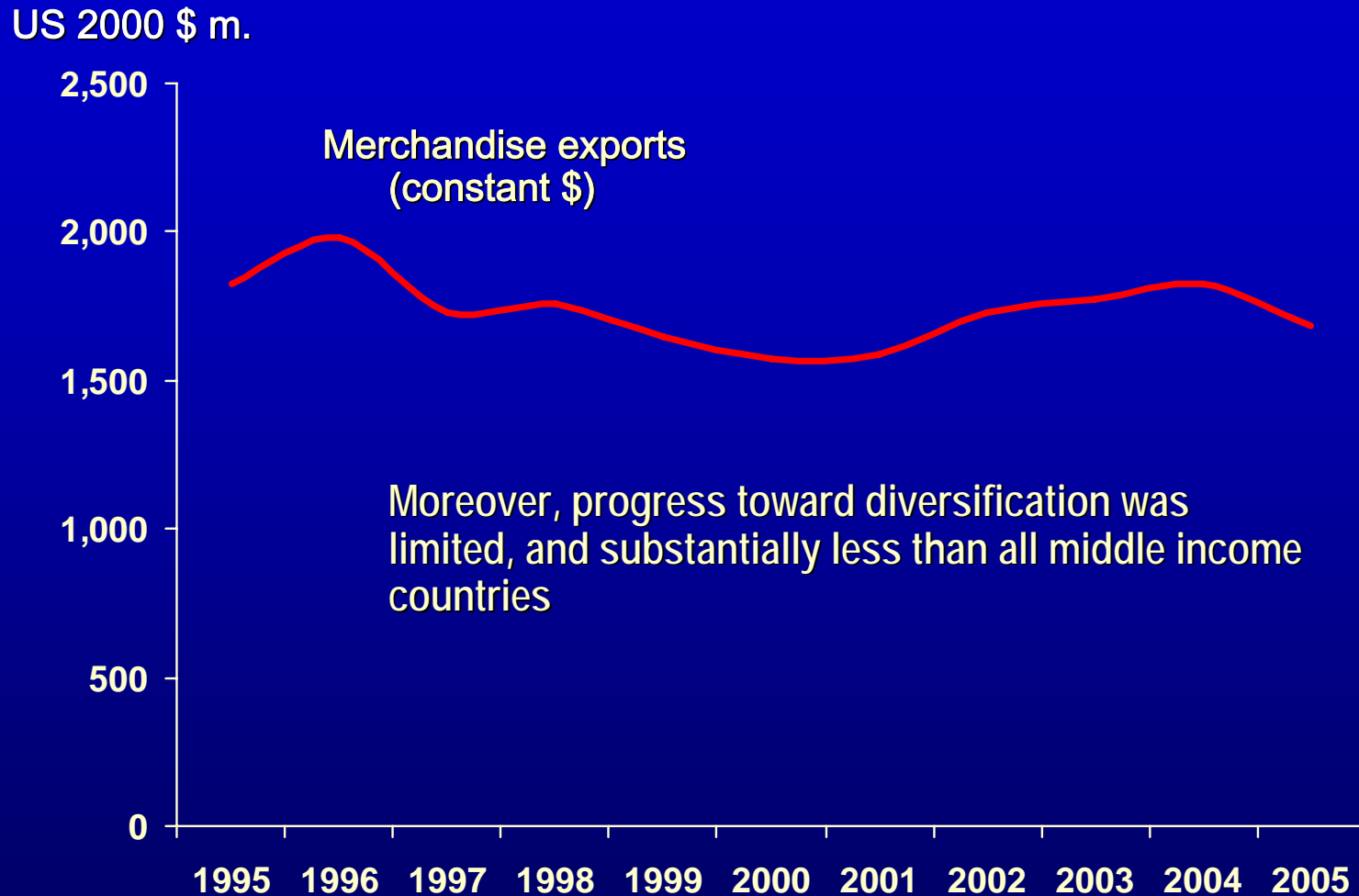


# Countries control the allocation of resources

## Country-driven Management and Administration

- National Implementation Unit (Lao Government)
  - Government implementation of the project including preparation of action plans, coordinating Project Task Forces, procurement of goods and services
  - Management of project activities, monitoring and reporting
  - Financial management and administration
- TDF Secretariat (World Bank)
  - Provide advice to NIU
  - Prepare reports for TDF Steering committee and donors
  - Manage World Bank project requirements
- IFF Advisor - Financed by Window II funds (AusAID)

# Another case study – Mauritius' exports had stagnated...

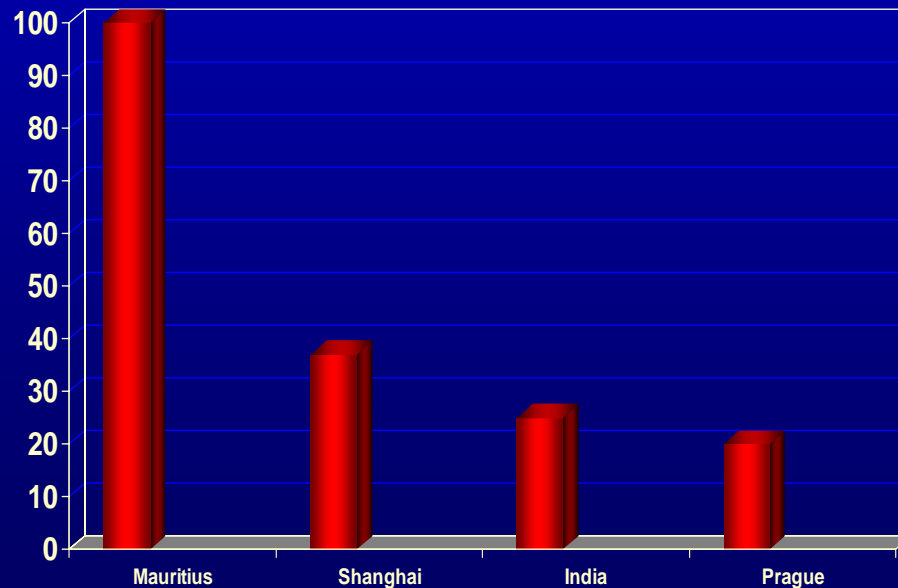


Source: Bank of Mauritius (from 1995 – 2003), RMSM (2004-2005) and IMF (for exchange rate and CPI).

# Three elements to improve competitiveness...

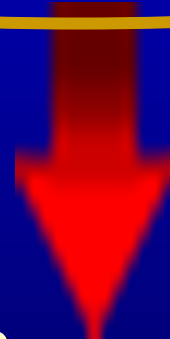
- Improving **incentives** to private investors to move resources to more productive activities... tariffs, taxes, business regulations
- Up-grading **services industries**: telecoms, air transport, ports, energy

Index of connection costs



## Three elements to improve competitiveness...

- Improving **incentives** to private investors to move resources to more productive activities
- Up-grading **services industries**: telecoms, air transport, ports, energy
- Adopting **pro-active policies** to help firms adjust



### Government Program (June 2006)

Development Policy Loan \$30 m.  
(Conditionality is govt program)

Investment Lending

Technical Assistance

Co-financing: French Agency for  
Development \$30 m.

## Key lessons from experience in aid for trade ....

- Improving competitiveness is central to achieving high and sustained growth rates
- Aid for trade can help, but country ownership of the competitiveness agenda is critical success
- Bank's role is to support government programs with diagnosis and finance. Government should set loan conditions to achieve project milestones

# References

- Brenton and Newfarmer (2007) "Watching more than the Discovery Channel: Export Cycles and Diversification in Development," World Bank Policy Research Working Paper 4343.
- World Bank *Mauritius– From Preferences to Global Competitiveness* Report of the Aid for Trade Mission, April 2006.
- World Bank/IMF "Aid for Trade: Harnessing the Global Economy for Economic Development" Paper prepared for the Development Committee, October 2007

# Aid for Trade: World Bank Activities

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Richard Newfarmer

Special Representative to the WTO and UN

World Bank

Geneva

Presentation to the LDC Group, WTO

October 24, 2007