



Trade Cooperation in Fragile States

Helder da Costa, PhD
General Secretary, g7+

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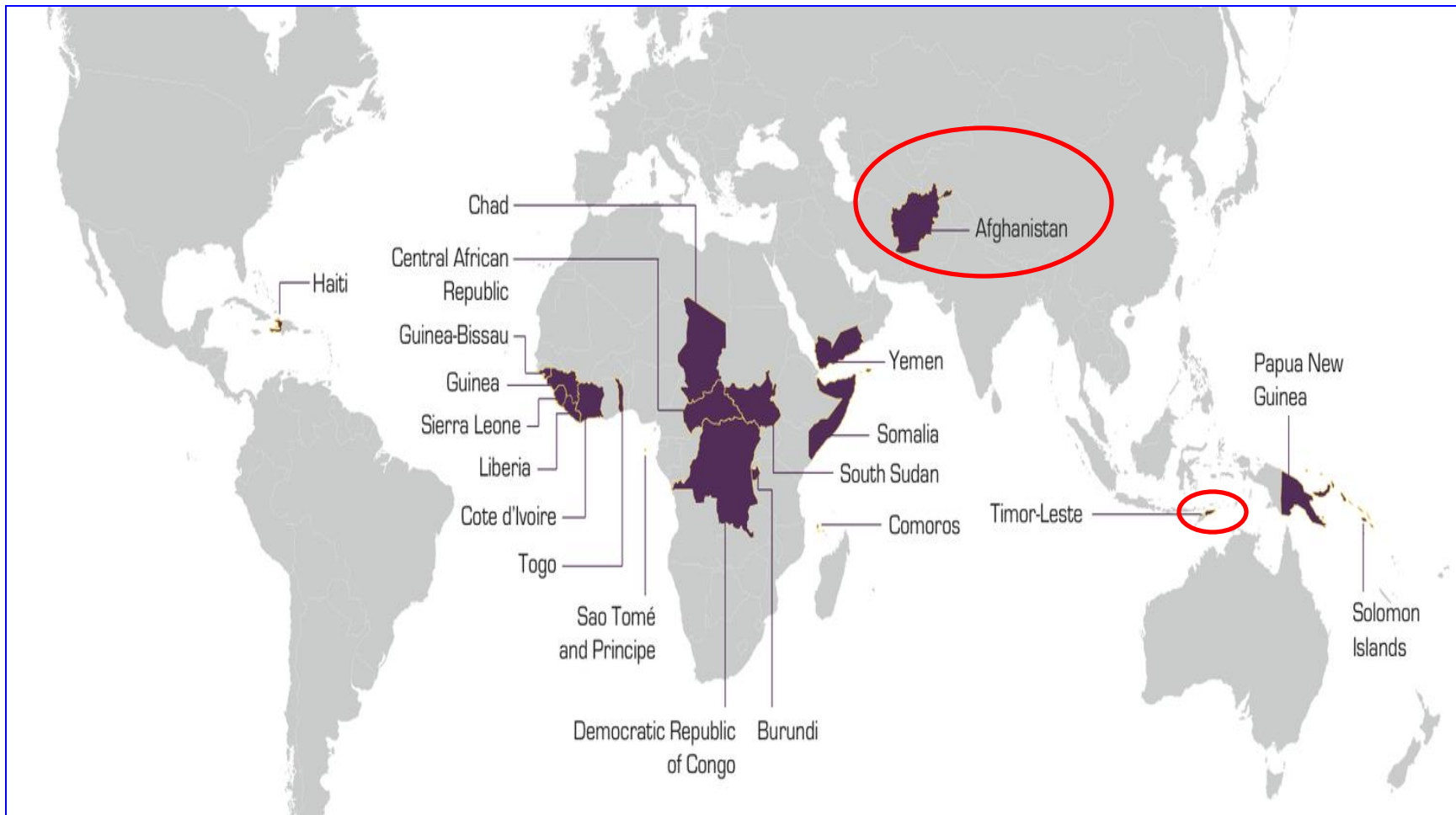


Overview

- Who is fragile?
- Fragility's impact on the trade-development link
- Tools to improve the development impact of trade
- Case Study I: Timor-Leste
- Case Study II: Afghanistan



20 Fragile Member States



1. Who is fragile?

Fragile States are open

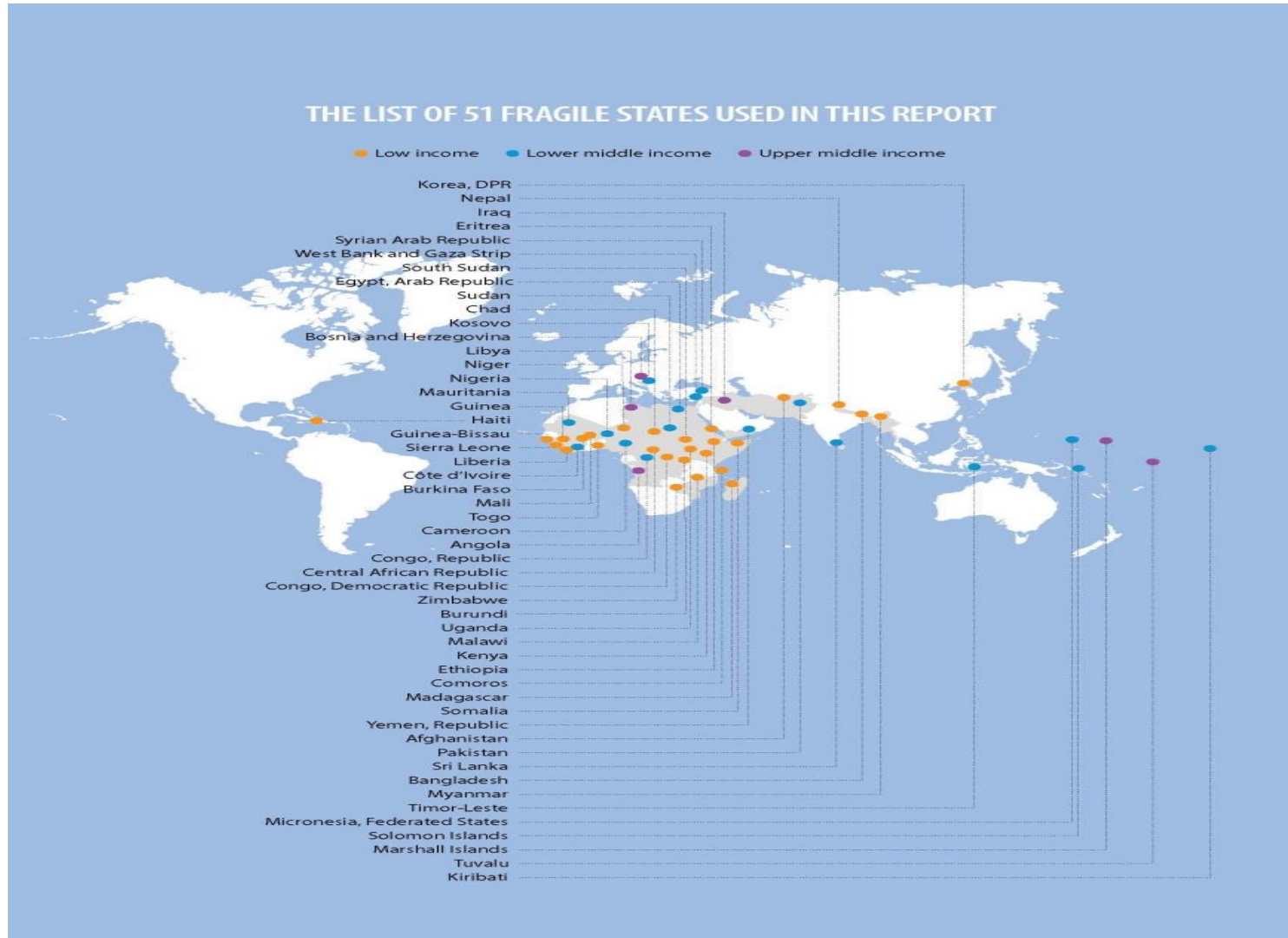
Average applied tariff rates (%)

	2011	2012
Afghanistan	—	6.5
Timor-Leste	2.5	2.5
Mongolia	4.9	5.0
RPC	7.9	-
Av. Developing Countries	9.0	8.4

- In terms of “openness” fragile states fall within the normal range of their Asian neighbors

Source: World Bank

Fragile states are not necessarily poor states



1. Who is fragile?

Reasons trade is not contributing to development

- Chronic current account deficits are typical
 - States are borrowing to finance current consumption (not to finance investment)
 - Also disincentives local industry development, as consumption is already met
- Insecure environment leads private sector to take short-term time horizon
- Heavy reliance on only one source of domestic revenue: non-renewable natural resources



Small shocks can disrupt the economy

	2012		2013	
	# products	Concentration Index	# products	Concentration Index
Afghanistan	78	0.2592	101	0.277
Papua New Guinea	115	0.3002	144	0.316
Solomon Islands	34	0.5266	45	0.621
Timor-Leste	3	0.9185	4	0.935
China	256	0.1015	256	0.097
Korea, Republic of	248	0.1468	246	0.148
Viet Nam	245	0.1370	249	0.127

- For fragile states, there are very few products with export values > \$100,000. In TL, only 4 products in 2013
- This is also reflected in high concentration ratios. These 4 products comprised 93% of TL's exports.



Tools to improve the development impact of trade

- New types of international cooperation
 - Fragile to fragile
 - South-south
 - Regional trade blocks
- Private Sector Development
 - Aid is falling in fragile states. Need to engage private sector more effectively
 - IFC and G7+ exploring cooperation in this area
 - Use of technology to promote communication and transparency

Learn from success:

Peacebuilding in Mozambique

Water sector in Zimbabwe

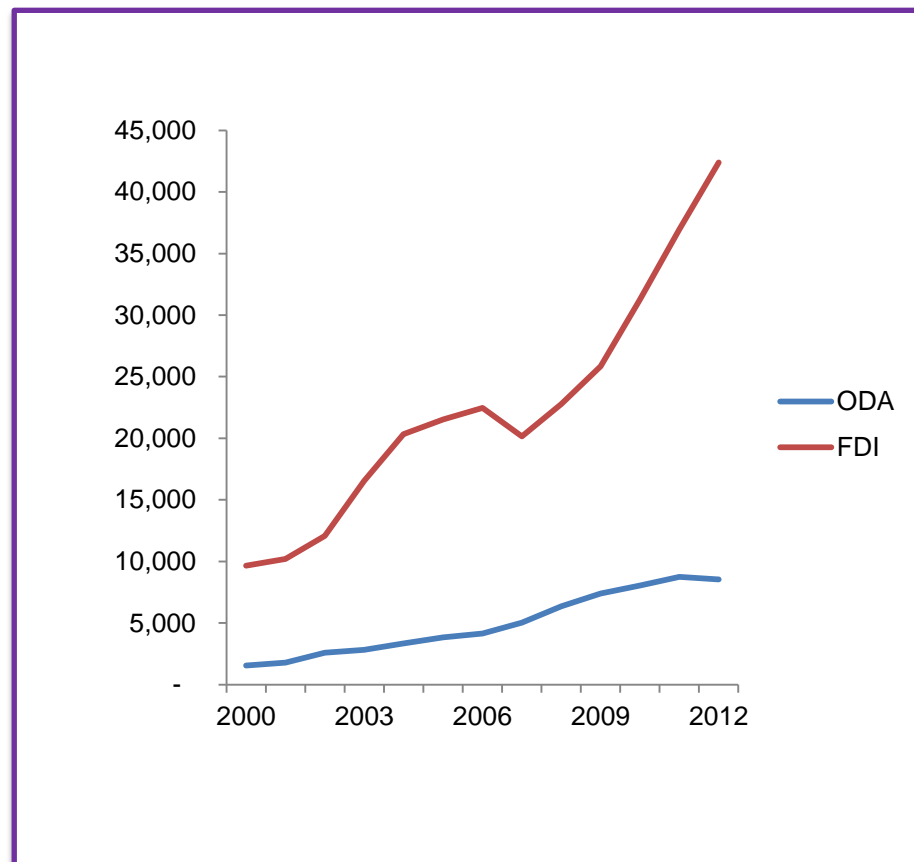
TL's support of elections in GB



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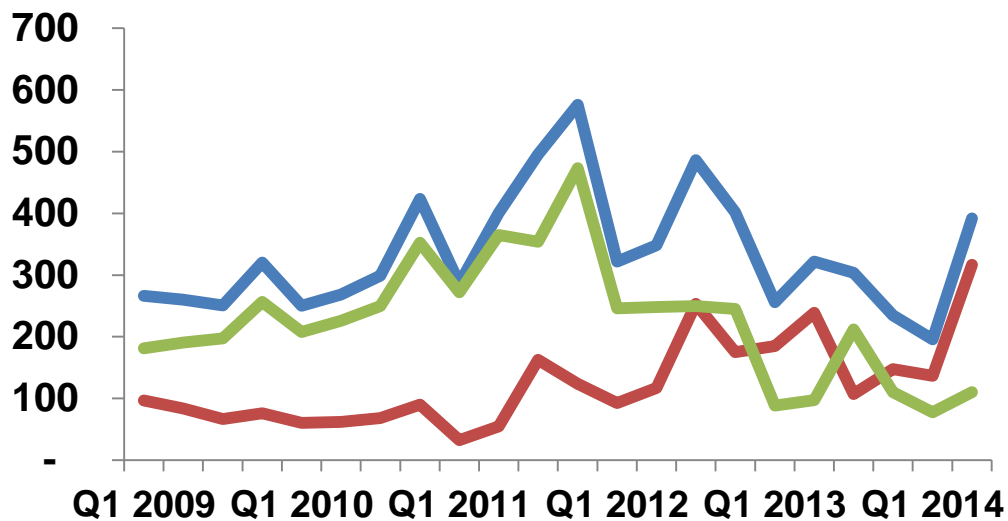
Aid vs. FDI flows to Fragile states





Case Study: Timor-Leste

Balance of Trade in Timor-Leste (BoP, \$m)



— Total Deficit — Goods Deficit — Services Deficit

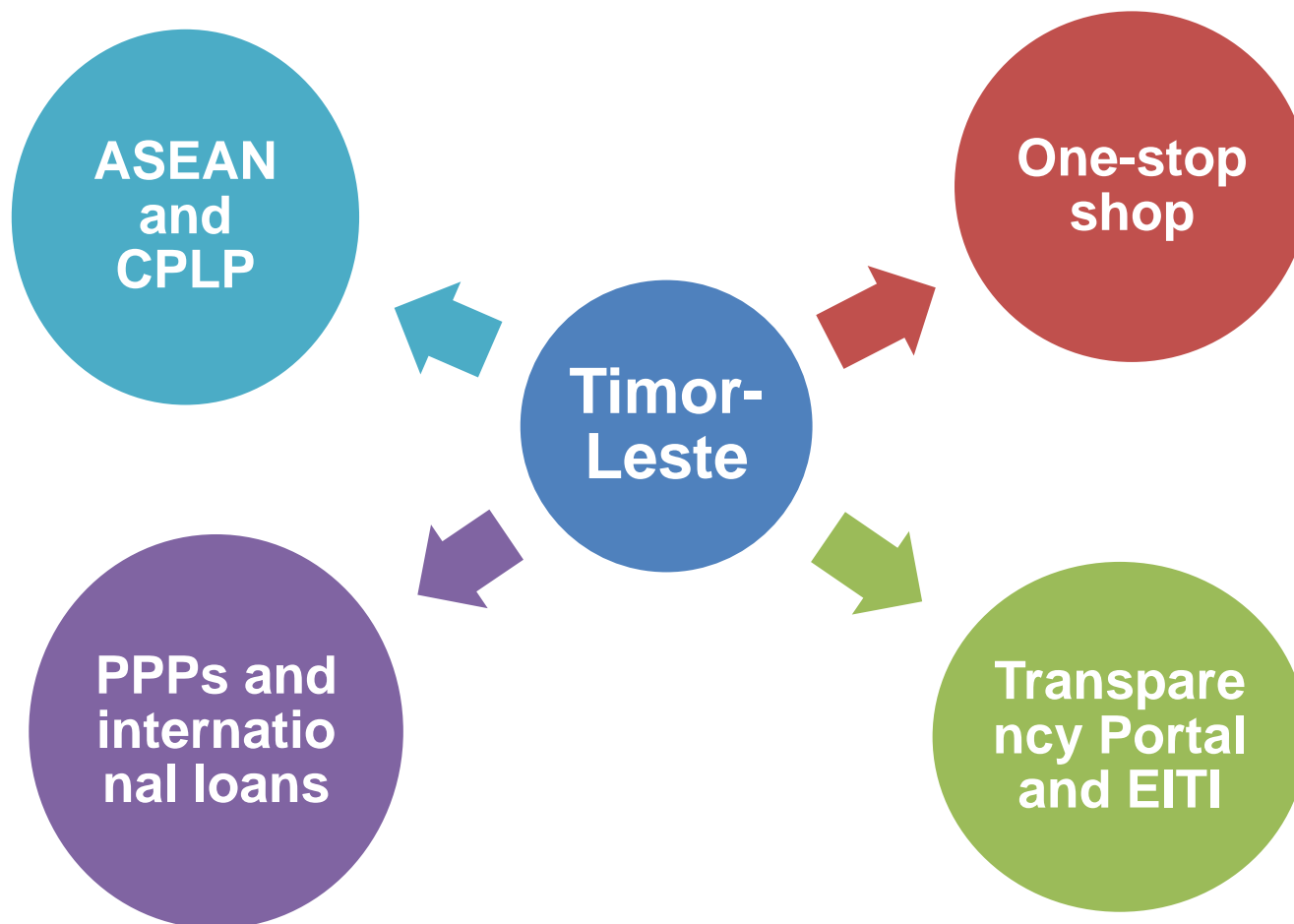
- petroleum based economy
- limited infrastructure and consistent non-oil trade deficit.
- major constraint is the lack of infrastructure
- virtually no private sector.

Policies to promote trade-led growth

- **Economic Policy**
 - Based on the SDP (2011-2030)
 - Foreign investment promotion
- **Infrastructure**
 - Large investments being sought
- **Private sector development**
 - Bilateral agreements with major trading partners
 - Fiscal Policy to boost infrastructure spending: Tibar port.
 - Transparency portal
 - New financing landscapes: PPPs, South South and Fragile to Fragile Cooperation.

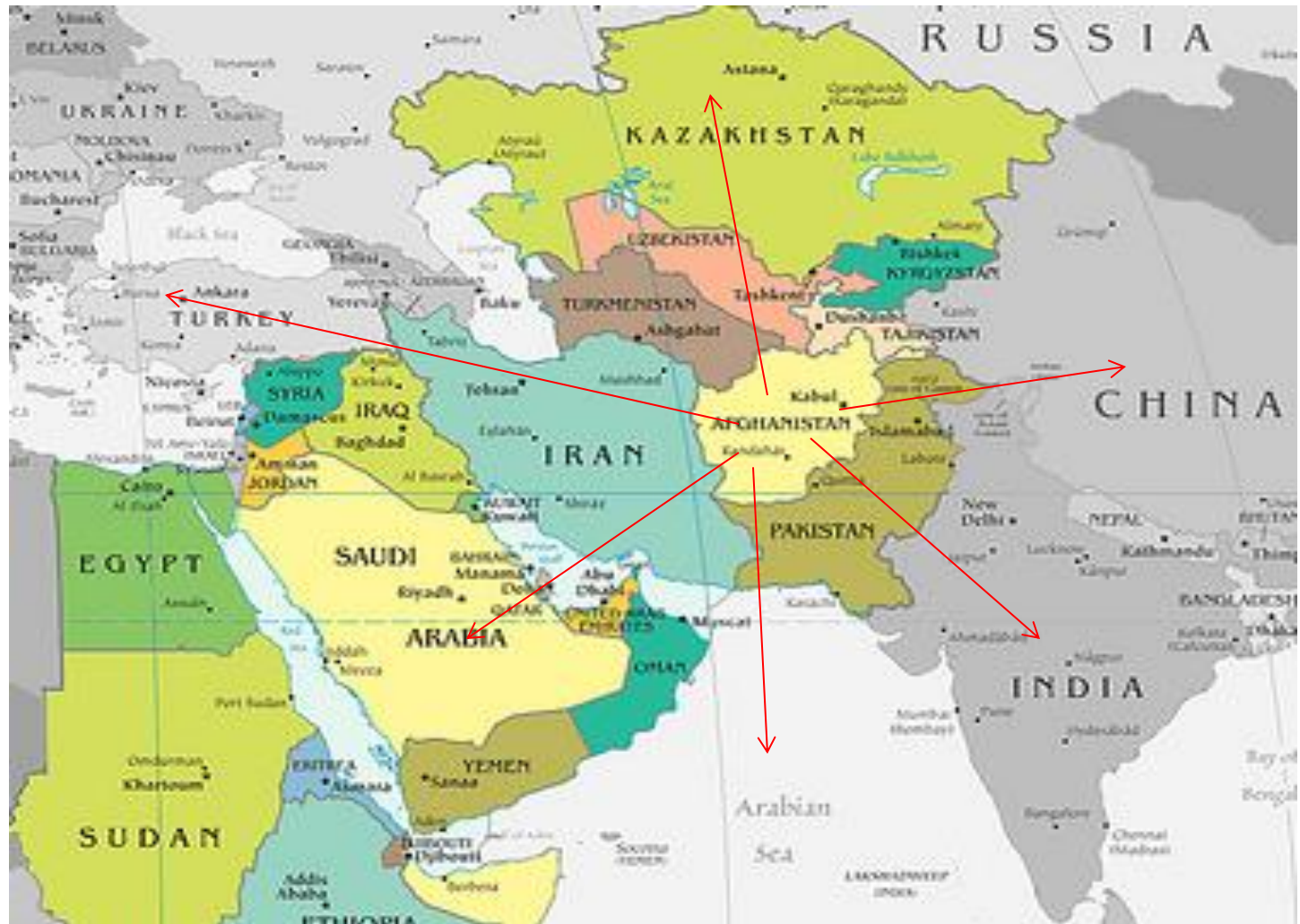


Private sector development efforts





Case Study: Afghanistan





Active in global trade

Trade Agreements:

- Afghanistan-Pakistan Transit and Trade Agreement (APTTA)
- Economic Cooperation Organistaion Trade Agreement (ECOTA)
- South Asian Free Trade Area SAFTA)
- World Trade Organisation (WTO)

Top Export Destinations

1. India
2. Pakistan
3. Tajikistan
4. Iran
5. China
6. UAE

Top Import Markets

1. China
2. Iran
3. Uzbekistan
4. Japan
5. Germany
6. Russia



Major constraint: security

- High levels of Illicit and informal trade
- Internal displacement of workforce
- Weak border management

Solution: Effective Regional Cooperation



Policies to promote trade-development links

1. Improved Trade and Transit links

- Afghanistan Pakistan Transit and Trade Agreement (APTTA)
- Automated System for Custom data (ASYCUDA)
- Ministry of Commerce and Industries: Strategy Objective 2
 - SAARC, CAREC, ECOTA implementation

2. Stability of Business Environment

- Afghanistan National Development Strategy (2008-2013)
 - Prioritizes: trade, transport and investment
 - Promote regional cooperation on border management
- Private Investment Law (2006)
- WTO Accession



Conclusions:

3 things fragile states can do to make trade work for development

1. Strengthen cooperation with your neighbors

- Customs cooperation, transit agreements
- Give domestic entrepreneurs access to regional and global markets

2. Use global institutions to promote stability

- WTO, BITS, FTAs introduce stable regimes where domestically this might not be feasible.

3. Engage the private sector

- Via PPP
- To more efficiently use limited resources