# Trade Policies and Institutions in Post-Conflict Countries

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USAID Guide to Economic Growth in Post-Conflict Countries is basis of this presentation

Use examples of 5 countries from different regions and at different places along spectrum of Failed States Index prepared annually by Fund for Peace. Higher number = more stability; ever present risk of backsliding

- Afghanistan (8 – 2007; 7- 2008)
- Burundi (12 – 2007; 24 – 2008)
- Sri Lanka (25 – 2007; 20 – 2008)
- Bosnia ( 56- 2007; 54 – 2008)
- Mozambique (81 – 2007; 85 – 2008)

## Trade Policy Objectives in Post-Conflict Countries

- Ultimate Goal
  - Trade to promote growth & peace
- Immediate Task
  - Nurture conditions to enable legitimate trade

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## Trade Policy Should Be…

- **Strategically**
  - **Part of overall reconstruction effort**
  - **Coordinated with/ nurtured by other economic policies**
- **In Practice**
  - **Kept simple**
  - **Supported by local private sector**
  - **Supported by international community**

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Strategic:

Trade policy to be treated as integral to reconstruction effort

Trade policy to be coordinated with/nurtured by other economic policies: trade functions best (can increase economic activity) in an open, competitive setting

Practical:

Avoid complexity, keep simple: best practices/technological advances point in this direction

Trade is by and for the private sector – essential to have private sector representatives involved in policy making

Post-conflict regimes need support of neighbors and international community: help to build trade regimes that facilitate the cross-border flow of goods/services; helps to take advantage of or be aware of potential pitfalls in international agreements

## Overall Reconstruction Effort: Transition to Stability—Trade Element

| Theme | Conflict State | Post Conflict | Trade Element |
|---|---|---|---|
| **Security** | Armed conflict | Peace | Secure Borders |
| **Governance** | Charismatic leader | Sound management | Coordinate policy |
| **Legal System** | “Rule of gun” | Rule of law | Enforce laws and regulations |
| **Public finances** | Opaque | Transparent | Publish tariffs and procedures |
| **Service Delivery** | Poor | Efficient and Effective | Develop capacity and institutions |
| **Civil Society** | Groups in conflict | Engaging dialogue | Private sector consultations |
| **Infrastructure** | Destroyed | Restored/expanded | Build roads/ports/etc. |
| **International Relations** | Isolation/ illegitimacy | Responsible member of int’l community | WTO, WCO, other int’l & regional bodies |

Adapted from "Agenda for State Building in 21st Century" - Ghani, Lockhart, Callahan

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Strategic point 1: Trade policy as an integral part of overall reconstruction effort.

Added “Trade Element” to this chart to illustrate how trade policy can be a natural extension of the fundamental objectives of a post-conflict regime.

Question for trade policy programmer: In what way could the trade policy activity contribute to building a solid post-conflict regime?

Question for other government initiatives: In what way could the initiative help the regime develop an environment conducive for the efficient operation of trade policy?

## "Coordinated/Nurtured": Trade vis-à-vis Other Policy Areas

- Economic policy: "Legacy" or *de novo*?
  - Competition policy
  - Anti-corruption
  - Fiscal policy
  - Monetary and financial policy
  - Business enabling environment
  - Infrastructure

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Strategic Point 2: Trade policy to be consistent with/nurtured by associated economic policies

What is the starting point: Building on legacy regimes? Or working from a clean slate? Example: Market-oriented policies important for trade to function efficiently to help generate growth. Afghanistan: monarchy/communist legacy; Burundi and Bosnia: state directed economies.

Competition Policy: Basic provision to allow competition is important: legacy regimes have powerful groups that can take control of markets (page 9 of USAID Guide). Russia: enforcement action against local government officials.

Anti-corruption: Can be linked to competition, impeding efficient functioning of the market (Handout chart 3 notes interesting relationship: high corruption/low marks on trade facilitation).

Fiscal Policy: Revenues from trade are an important contribution to overall government revenues (Handout chart 2).

Monetary and Financial Policies: Currency and exchange rate (page 32 of USAID Guide); banking and payment systems.

Business enabling environment: Long-term agenda. Do not discount potential importance of foreign direct investment (FDI). Handout chart 4. USAID Guide cautions against devoting resources to attract FDI; benefits of FDI significant and often have links to trade (supply chains).

Infrastructure: WB Logistics Performance Index (Handout chart 3.)

## Practical Issues: Programming Priorities

- Border Management
- Unilateral "liberalization"
  - Simplification/good policy own reward
- Rebuilding institutions
  - Government agencies/coordination
  - Private Sector
  - Regional and International Engagement
- Export diversification
  - Value Chain
  - Market Access

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Practical programming issues: first three are taken from the USAID Guide.

(1) Border Management: "Difficulty cannot be underestimated."

(2) Unilateral Liberalization: This is a term used in negotiations; another way to explain the central idea is that policies that help stimulate competition, such as open trade markets, can help drive productivity, economic growth, real incomes and living standards. Good policy is its own reward and most likely outweighs "payment" of concessions from negotiating partners (quicker, sustainable, calibrated).

(3) Rebuilding Institutions: Inter-agency collaboration on economic policy essential to achieve sound governance (link to overall economic development strategy such as in Afghanistan/Cambodia); rebuilding relationship with private sector and regional/international institutions contributes to legitimacy of the new regime.

New suggestion not in the USAID Guide: Export diversification

> The five sample countries exhibit a heavy concentration of exports in a few sectors: Afghanistan – 50% carpets; Burundi- 50% coffee; Sri Lanka- textiles and apparel; Bosnia – 5 products account for 67% of exports. Such concentration presents vulnerabilities, increasing risk of backsliding.

Approaches: (a) firm specific (competitiveness/value chain); (b) policy approach (trade facilitation, market access)

## Border Management

- Ensure Customs can act unimpeded
- Define responsibilities: revenue, enforcement
  - More than one agency/bureau?
- Provide adequate infrastructure
- Simplify making and receiving payments (e.g., Treasury, Central Bank).
  - Telecom infrastructure/mobile banking?

*Objective: Customs to have authority and facilities to assess, collect and transfer duties.*

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Programming themes: Border management

Top priority: secure border with customs in control. Willie Sutton syndrome: power groups know where the money is. Warlords versus customs; police (Interior) versus customs (Finance). Provisional Reconstruction Team intervention? Not sustainable.

Clear lines of responsibility: Mozambique: customs valuation versus customs police; IMF review of Afghanistan: “rent-seeking agencies” at the border (Commerce).

Basic Infrastructure: Hooches at the border/clear demarcation of customs territory.

Payments: Clear, straightforward steps in geographic proximity. Take advantage of technological developments (mobile phones for payment of customs duties). Usage of mobile phones has seen dramatic increase. Mozambique moving to direct interface for automatic collection of revenue. Philippines Bureau of Customs: E2M (electronic to mobile).

## Simplification: “KISS” Starts at the Border

- Simplify classification
- Minimize tariff dispersion
- Apply basic valuation methods
- Make customs clearance of goods straightforward:
  - *Assessment → Payment → Receipt → Clearance*
- Incorporate other agencies’ requirements
  - Single Window?
- Publish draft regulations for comment

*Objective: Facilitate trade, raise volume, increase compliance*

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Programming Theme: KISS

Competitiveness can be adversely affected by the cost of trading. Trade delays can be converted into tariff equivalents. Nathan study of tariff equivalents of delays for sample countries: Imports: Bosnia=13.6%; Sir Lanka=8.8%; Mozambique=7.0%.

Start simple, keep it simple: will be a solid accomplishment of new regime, strengthening its economic management.

Customs administration basic steps:

(1) Tariff classification: World Customs Organization Harmonized System

(2) Tariff dispersion: keep low (Afghanistan went from 25 tariff bands ranging up to 150% to 6 bands with a maximum tariff of 16%; Sri Lanka 5/10/15%; Mozambique 0-30%; Burundi 40 to 100% in 2003 with additional 44% other charges on imports. Bosnia 6% average. Note that trade revenue accounts for a smaller share in countries relatively more stable.

(3) Basic valuation: WTO first rule is transaction value; out sourcing valuation such as through pre-shipment inspection (PSI), raises other issues (little capacity building, need to manage contract, reconciliation of PSI values with actual imports.

(4) Requirements of other government agencies: In Burundi “numerous and redundant. Consider “single window” approach: all agencies’ requirements for import covered in a single submission.

(5) Publication of rules: Burundi – absence of clear rules undermines regime; Afghanistan customs reform published tariff and applicable exchange rate for valuation.

## Support from Private Sector: Building Legitimacy

- Trade happens:  with or without regulation (e.g., diamonds, drugs, logs)
- Trade flows to be part of formal economy
  - Promote economic growth
  - Boost government revenues
- Start public-private dialogue early



Trade happens before, during and after a conflict. (Handout chart I). Much of the trade may not be recorded (diamonds, drugs, logs, etc.)

Conducting trade in the formal economy provides certainty for firms allowing them to plan and invest which can contribute to economic growth.

Reviews of Mozambique, Burundi, and Sri Lanka all cited the need for more private sector dialogue.

USAID Guide suggests that private sector dialogue take place as an intermediate step: should be sooner – to build legitimacy as well as sharing ideas and avoiding any surprises that could give rise to mistrust.

> Business and government shared an interest in better customs facilities in Jalalabad – devised a cooperative solution.
>
> Informal conversation with Ambassador on customs reform in Afghanistan generated consultation with Finance Ministry on customs reform and lead to a second consultation on tax reform. The business community organized itself for these activities with USAID support.


International community contacts can help build legitimacy of new regime.

More practical considerations:

1. Develop ties with major trading partners: Afghanistan and Burundi are land-locked – "land bridges"/regional hubs to link others in their neighborhood. Most of Bosnia's trade is with its neighbors. Developing common procedures for trade facilitation would be beneficial.
2. Integrated Framework: Commissioning a Diagnostic Trade Integration Study would be useful to provide a comprehensive assessment of trade and related policies, prioritization for possible areas of work and stakeholder validation. Some criticism that the IF is clumsy and lacks donor enthusiasm: only two of the five sample countries have DTIS. The IF is what donors make of it and can serve as a common basis for coordination and leveraging resources.
3. Negotiations of trade agreements: USAID Guide suggests that this is low priority for post-conflict countries and would not be a good use of scarce time and talent. But trade agreements evolve and if signatories do not pay attention, they could be disadvantaged by developments.

## Takeaways

- Customize approach.
  - “The long term starts with the short term.”
- View trade in broader policy framework.
- Secure border as starting point.
- Concentrate on basics.
- Involve private sector early.
- Reach out to international community.

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Each country requires tailored approach.

Observations on USAID Guide’s trade offs:

1. Short-term versus long-term: Start as you would like to finish and be careful that short cuts do not lead to dead ends: no contributions to the new regime’s legitimacy, capacity building, sustainability.
2. Effective versus efficient: Seek to be both effective and efficient – a single window is not a long-term dream.
3. Urgent versus legitimate: Importance of legitimacy goes beyond economic policy – but economic policy has an important role to play. Dobbins on Nation Building: “Perceived legitimacy of the regime is an important determinant of whether democratization will be successful. While legitimacy itself is difficult to measure, the symptoms of failed legitimacy are well known: sagging support in opinion surveys, rampant corruption, economic stagnation, unsuccessful foreign policy initiatives, and loss of support from domestic constituencies such as regions authorities.”

Broader context: Trade dependent on other policies before it can become a driver of economic growth and peace – needs to operate within the broader post-conflict reconciliation/reconstruction setting.

Basics at the border: create the beginnings of a legacy for all time.

Private sector alliance: so private sector perceives that government takes their interests into account; higher economic activity in the interest of both the government and the private sector.

International community: Play a more active hand in trade policy in post-conflict setting since peace should be in everyone’s interest.

Thank you

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