



Overseas Development
Institute

The Role of Policy Coherence in Sustainable Development

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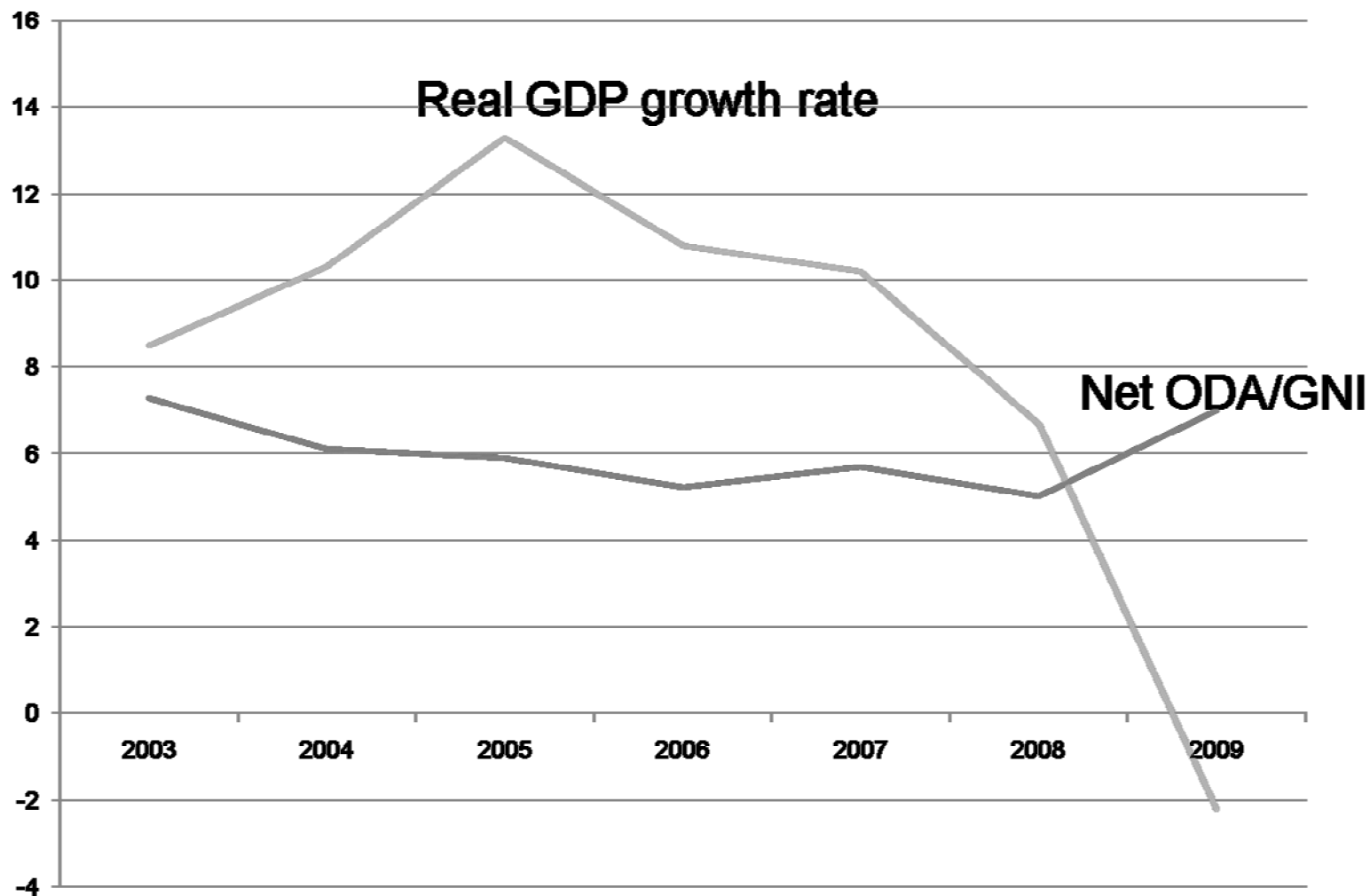
Yogyakarta: Asia – Europe meeting 26/27 May 2010

What is policy coherence for development?

- q The pursuit of development objectives through the systematic promotion of mutually reinforcing policy actions (OECD).
Substance and *Process*.
 - q Maastricht Treaty (1992) and Lisbon Treaty (1998) refer to PC
 - q "It is important that non-development policies assist developing countries' efforts in achieving the MDGs." (European consensus).
 - q "We emphasize that it is the primary responsibility of each nation to achieve its own development, complemented by an enabling international environment for development." (Beijing declaration)
 - à Beyond aid issues to address challenges / opportunities posed by globalisation: e.g. Trade and Finance, Agriculture, Migration
- Example:* don't put up trade barriers to products from countries which receive aid for the development of such products, and don't export subsidised products to these countries.

Why is PCD important?

The international environment beyond aid matters: Cambodia



Source: ADB, CDRI estimate for aid in 2009

Why is PCD important?

FDI and trade flows greater than aid

	Net ODA/GNI (2008)	FDI/GDP (2008)	Exports/GDP (2008)
Cambodia	5	7.4	52.7
China	0.0	3.4	36.5
India	0.1	3.1	22.7
Indonesia	0.1	1.6	29.8
Laos	4.5	7.9	
Malaysia	0.1	3.6	103.6
Mongolia	3.5	8.3	57.2
Pakistan	0.5	3.8	12.8
Philippines	0.0	0.9	36.9
Thailand	-0.4	3.7	76.4
Viet Nam	1.9	9.8	78.2

Source: ADB

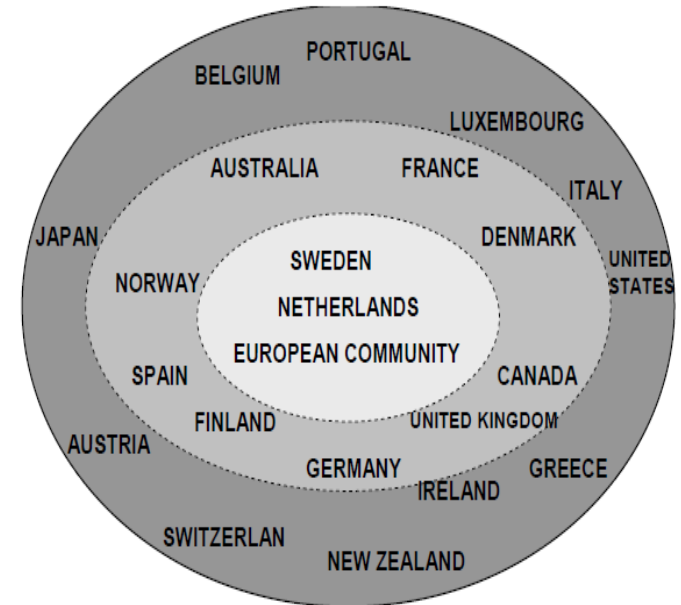
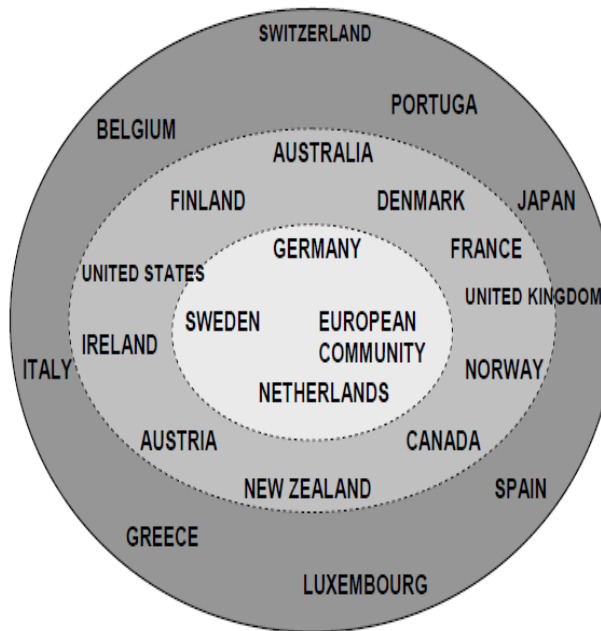
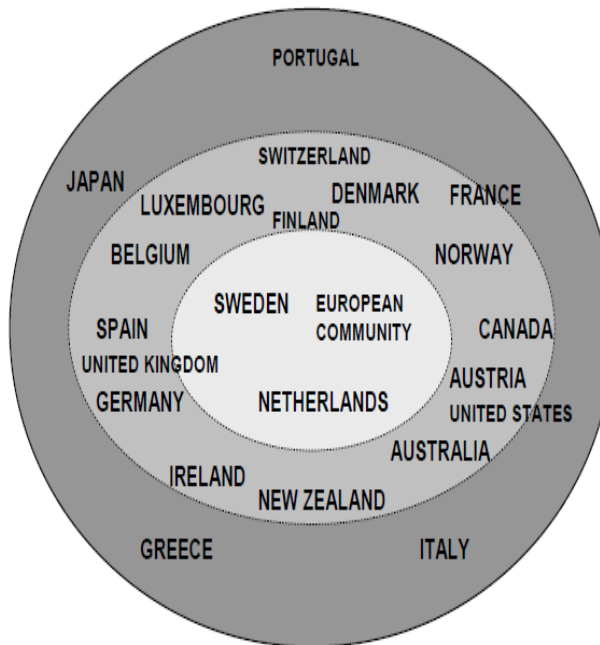
Measuring PCD as a process issue (OECD, 2008)




q PCD is inherently desirable..... •




Political commitment to PCD




Co-ordination mechanisms

Monitoring, reporting



 = Substantial political commitment to PCD; clear PCD policy statements
 = Moderate political commitment to PCD; some PCD policy statements
 = Partial political commitment to PCD; lack of PCD policy statements

 = Substantial success in putting policy co-ordination mechanisms in place
 = Moderate success in putting policy co-ordination mechanisms in place
 = Partial success in putting policy co-ordination mechanisms in place

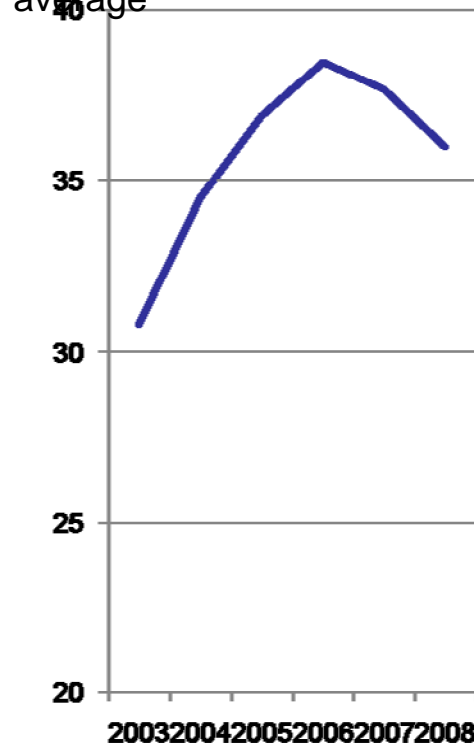
 = Substantial success in putting monitoring/analysis/reporting systems in place
 = Moderate success in putting monitoring/analysis/reporting systems in place
 = Partial success in putting monitoring/analysis/reporting systems in place

EC's Policy Coherence for Development Work Programme 2010- 2013 (key substantive areas)

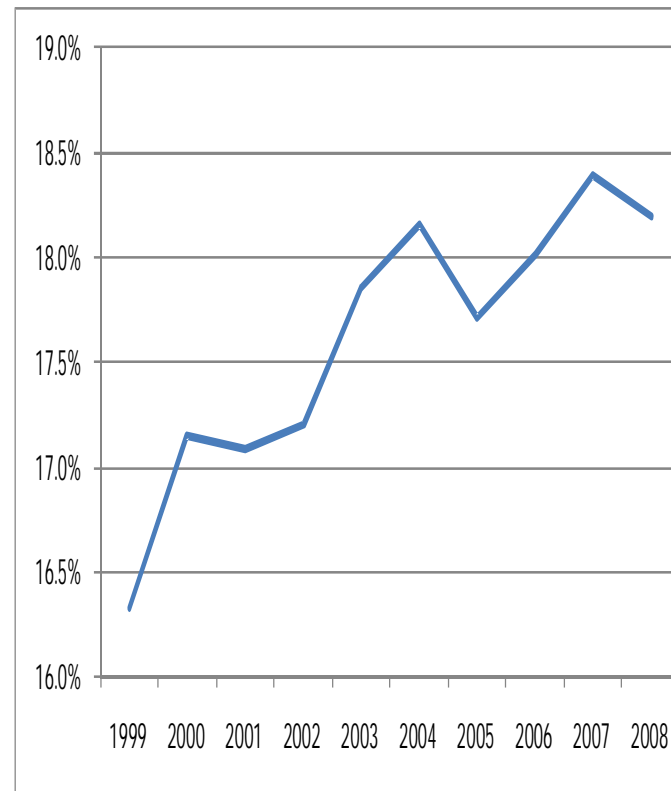
1. **Trade and Finance** (e.g. trade policy, market access, standards, CSR and EITI, IPR, Tax)
2. **Climate Change** (e.g. FLEGT, climate finance, emission trading system)
3. **Food security** (agriculture policy, **trade**, fisheries etc)
4. **Migration** (mobility partnerships, remittances, rights)
5. **Security** (e.g. arms trade treaty)

Trade: engine of growth and EU-Asia increasingly interdependent

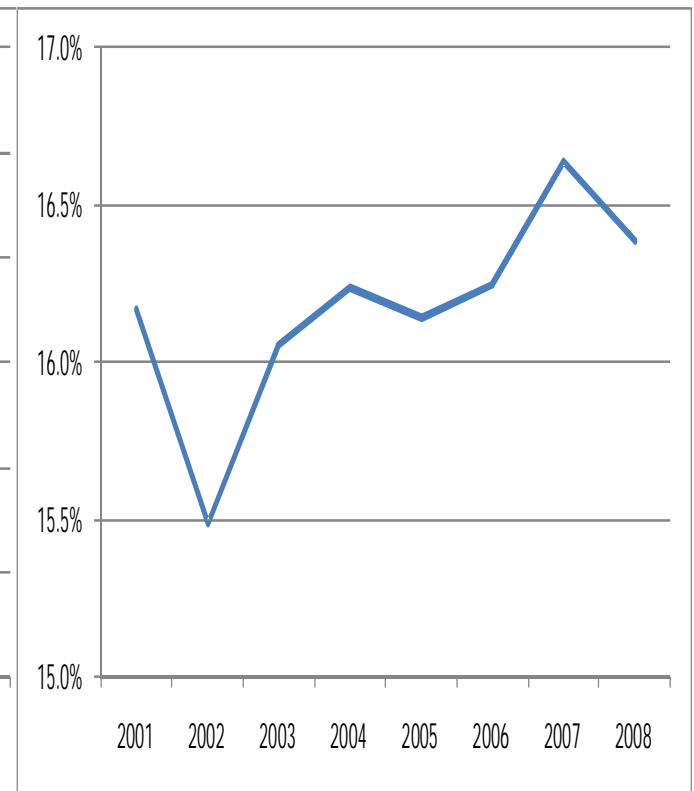
EXP/ GDP ASEM Asia
average



ASEM Asia share of total EU27 exports



EU27 share of total ASEM Asia exports



Source: ADB and Eurostat COMEXT database

PCD and Trade Policy

1. Ambitious WTO Doha round would lead to gains for much of Asia (e.g. agriculture exporters), though challenges for preference dependent economies
2. Thus additional Aid for Trade needed for poorest countries to benefit from trade agreements on market access
3. Support for trade creating regional integration agreements and an appropriate extension of the EU's General System of Preferences in the interest of Asian exporters (some products do not receive preferences; or some are linked to labour/environmental standards)

Global trade imbalances (*the new policy (in)coherence*)

- q Europe and Asia followed economic policies (incl. trade models) which coincided with the emergence of large global imbalances (measured by current account balances, reserves) which posed challenges for strong, sustainable and balanced growth.
- q Policy coherence also means that net exporters stimulate domestic consumption, net importers stop living beyond means, and that international reserves are distributed globally and efficiently (G20 discussions).
- q Development interest

International reserves (US\$ bn)

4 Asian countries in top 6

Country	US\$ billion
China, P.R.: Mainland	2,354
Japan	1,057
Euro Area	648
Russian Federation	434
Saudi Arabia	394
India	284
Korea, Republic of	264
Brazil	231
Germany	177
United States	134
Italy	129
France	126
Mexico	89
United Kingdom	87
Turkey	75
Indonesia	65
Canada	56
Argentina	49
Australia	45
South Africa	40

Source: World Bank G20 stats (Oct 2009)

Promoting FDI for development

	EU FDI in ASEM Asia (mn€)	Share of total outward EU FDI	ASEM Asia FDI in EU (mn€)	Share of total EU inward FDI
1998	5570	3	2516	3
2003	19882	14	6984	5
2008	40618	12	14319	7

Source: Eurostat

- Increasing two-way links in FDI between Asia and Europe
- FDI has been crucial in selected Asian countries
- FDI flows to emerging Asia fell 20% from 2008 and 2009 (IIF); FDI in South, East and South East Asia fell 32% from US\$ 298 bn in 2008 to US\$ 203 bn in 2009

PCD and Investment Policy

- q How might new financial regulation (EU/G20) affect outward FDI and international bank lending to developing countries?
 - Ø Profits on bonuses
 - Ø Higher capital adequacy ratios on banks
 - Ø EU rules on private equity / hedge funds
- q Promoting responsible FDI (corporate social responsibility such as EITI; EU investment facility eg by promoting outward investment missions; providing equity, debt and guarantee support)
- q Are recipients creating an enabling investment environment themselves?

PCD and Agriculture

1. Efforts to promote food security (not self-sufficiency)
2. EU: Common Agriculture Policy has reformed, but agriculture still supported. What should the post-2013 CAP reform look like?
3. Standards, labelling, geographical indications could facilitate trade in supply chains but they could also lock out developing country suppliers and can become trade distortionary – what is the right mix of standards and development?

PCD and Migration Policy

- q Migration is good for overall welfare in home and host countries (e.g. human capital incentives, remittances, productivity spillovers; sectoral needs, ageing)
- q Migration patterns vary across ASEM; e.g. Philippines a key exporter of labour.
- q Encourage cross border mobility (Stockholm programme)
 1. providing access for different types of labour (EU blue card is one step but insufficient as there are remaining restrictions especially for lower skilled)
 2. encourage circularity (mobility partnerships)

Remittances (‘000 USD and % of GDP)

Country	2005	2006	2007	2008	2009e	% GDP 2008	Group
Philippines	13,566	15,251	16,302	18,643	19,411	11.20%	LMC
Vietnam	4,000	4,800	5,500	7,200	6,901	7.90%	LIC
India	22,125	28,334	37,217	51,581	47,000	4.20%	LMC
Pakistan	4,280	5,121	5,998	7,039	8,619	4.20%	LMC
Mongolia	180	181	194	200	194	3.80%	LMC
Cambodia	200	297	353	325	312	3.40%	LIC
Indonesia	5,420	5,722	6,174	6,795	6,639	1.30%	LMC
China	24,102	27,954	38,791	48,524	46,989	1.10%	LMC
Malaysia	1,281	1,550	1,803	1,920	1,900	1.00%	UMC
Thailand	1,187	1,333	1,635	1,898	1,845	0.70%	LMC
Lao PDR	1	1	1	1	1	0.02%	LIC
Myanmar	131	116	125	150	148		LIC
All developing countries	198,932	235,403	289,376	337,761	317,237	2.00%	
Low-income countries	16,097	19,940	24,600	31,567	31,799	5.80%	
Middle-income	182,835	215,463	264,775	306,193	285,438	1.90%	
Lower MICs	111,092	131,726	169,895	205,645	194,908	2.50%	
Upper MICs	71,742	83,737	94,881	100,549	90,530	1.30%	

Source: World Bank

Conclusions

1. PCD is an important concept to use as a peg to promote the development dimension of beyond-aid policies
2. The EC's PCD work programme addresses key PCD areas. Which priorities, and what should happen in each?
3. Asia can play its part in the PCD agenda
 1. Poorest countries are recipients of PCD (cf MDG8, beyond aid) partnerships; prepare offensive requests.
 2. Richest/largest countries can promote growth globally and development in region through PCD (G20, reserves, finance, EITI)

ASEM charter for sustainable development

- q Text on partnerships on aid, low carbon development and social cohesion
- q Possible elements of text on Policy Coherence for Development:
 1. Note the importance of PCD (and acknowledge process / progress by EU and other work programmes in areas of trade and finance, migration, etc)
 2. Note importance of G20 framework on strong, sustainable and balanced growth whilst ensuring a development dimension in the required rebalancing of the economy and necessary regulation.
 3. Promote an open trading regime (progress on WTO, trade creating RTAs and EU GSP/EBA for all Asia), including for agriculture (removing trade distortionary / wasteful support and export restrictions), incl. AfT
 4. Foster EU-Asia (country specific) mobility partnerships with better consideration of the development needs.
 5. Promote the volume and quality of FDI through an appropriate Asian investment facility, quality dialogue with business and effective CSR
 6. Others: Food security, Security, Climate Change etc

Thank you
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Policy Coherence for Sustainable Development