Position paper for Round Table of Commission for Foreign Trade and Development Aid, 23 October 2024

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My contribution focuses on the impossibility of combining trade policy and development cooperation policy. In the end, I give suggestions for what the Netherlands can do.

The idea that trade and aid can be mutually beneficial is based on wrong assumptions. First, trade is not an engine for growth of developing countries. Trade usually means exports of unprocessed raw materials. However, for sustainable growth developing countries need to build up production capacity in order to process goods themselves, to achieve a higher level of technology and increase wages. The promotion of exports requires low production costs and low wages, which keeps developing countries at a low development level.

Second, the benefits of promoting exports from the Netherlands TO developing countries can also be questioned. The Netherlands has a huge balance of payments surplus: the average over 2020-2022 was 8.8%. This is much higher than the maximum of 6% of GDP set by the European Commission. And why should we stimulate or subsidize exports to countries far-away? Transport costs are high, especially also in terms of CO2 emissions of transport by sea and by air.

Third, linking trade (in the form of Dutch exports and investments) with aid leads to more “tying” of development cooperation (defined as the use of Dutch suppliers in aid). According to estimates, tying leads to direct cost increases of between 15 and 30%. In addition, there are indirect costs: tying influences the choice of development projects and as a result, there is a structural need for Dutch imports (Jepma 1991). Tying also leads to displacement of local or regional companies. For this reason, OECD donors agreed to untie aid to the poorest countries. According to official international statistics, tying only amounts to 10% of aid, but according to a EURODAD study it is more than 50%, and for some donors more than 90% (Meeks 2018). Many Dutch private sector programmes, such as DRIVE and D2B (now part of Invest International) require that 70% of contracts is awarded to Dutch companies.

The 2022 IOB Policy review of the trade and aid policy, plus the underling evaluations, revealed the many weaknesses and contradictions of the combination of trade and aid (Kamstra et al. 2022). There proved to be many trade-offs. Companies prefer exporting rather than investment, and they prefer being active in middle income countries rather than in low-income countries. As a result, 50% of Dutch aid went to middle income countries, and within this group to countries that need it less. The current focus on “combitracks” in emerging markets is likely to reinforce this trend. Evaluations also show that the same trade-off is visible WITHIN countries: in Bangladesh, aid focused on rural development in poor regions, but it proved very difficult to engage Dutch companies. In Kenya, the embassy tried to link promising and commercially viable agricultural enterprises with Dutch investors. This succeeded, but did nothing for improving the income position of poor farmers (De Groot and Van Rijsbergen 2021).

The Policy Review also highlights that Dutch products were “relatively expensive” and as a result, not very attractive for the recipient. This confirms the disadvantage of aid tying. Some other expected results of linking trade with aid do not materialize either. It was expected, for example, that the subsidies would leverage more private funding for development. In practice, subsidies for investment in developing countries (e.g. the Dutch Good Growth Fund) were under used because of insufficient enthusiasm among companies. And the projects that did come about were not profitable (Kamstra et al. 2022). This of course did not lead to higher amounts of private involvement. Another assumed outcome was that these programmes would lead to more sustainable business activities. This is still an objective of Dutch policy (Ministerie van Buitenlandse Zaken 2022). In practice, however, Dutch companies benefitting from the subsidies did not always apply corporate social responsibility (CSR). There were often negative effects on the environment, on climate change and on people. The application of CSR components was not monitored, nor were the effects on inequality. Inequality often increased (ITAD 2020). Companies benefitting from the subsidies also used large amounts of scarce resources like land and water in the recipient countries. Even though this was legally allowed, it meant less access to these resources for local firms (Van Westen and Zoomers 2014, 126-137).

But perhaps the biggest problem with engaging Dutch companies in development cooperation is the lack of additionality. In other words, Dutch companies benefitting from the aid subsidy would have exported or invested anyway (Kamstra et al. 2022). That implies wasting aid resources, extra profits for the involved companies and probably also market distortion. The IOB review states that there may be more additionality in the poorest countries. However, most subsidies proved to go to activities in middle income countries. With regard to the Dutch Good Growth Fund, there was probably some additionality from the perspective of the Dutch companies, but this has displaced local production and employment (ITAD 2020).

So how can the Dutch make a difference?

It would be a big step to disentangle trade and aid. Do not maintain the illusion that development of the poorest countries in the world can be enhanced by trade policy. Nobel prize winner Jan Tinbergen already wrote that effective policy requires that the number of objectives is equal to the number of instruments. It is not possible to have one instrument for two goals. Development cooperation greatly suffers if it is combined with trade policy.

There are many reasons to re-prioritize the original objectives of development cooperation: sustainable economic development and poverty reduction (and of course to assign a higher budget to it). Aid is a matter of justice and of promoting peace and stability. Aid should mitigate global inequality, which is partly caused by colonialism and by the accompanying exploitation of natural and human resources by the rich countries. Aid should also compensate for the very high CO2 emissions by rich countries, both in the past and still today. The resulting climate change affects the poorest countries and regions of the world disproportionally. The absence of aid for climate change mitigation and adaptation will cause impoverishment, instability and an increase in migration flows.

Dutch aid can become effective if it focuses on the poorest countries, and uses instruments that have proven to be effective: budget support, aid for health and education, and aid for social protection programmes In addition, a much larger effort is required for climate mitigation and for helping countries with adapting to climate change (several IOB evaluations and reports by AIV).

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