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POLICY BRIEF No. 28

MIGRATION, AID AND TRADE: POLICY COHERENCE FOR DEVELOPMENT

by

Jeff Dayton-Johnson and Louka T. Katseli

- To meet international goals and commitments, OECD countries have pledged to scale up aid spending: they must also make intelligent use of non-aid policies, most notably trade and migration policies.
- Aid, trade and migration policies are in fact *complementary*: the question for OECD policy makers is not which policies to choose, but how to combine them to achieve the desired results most effectively.

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Table of Contents

African health-care Workers in the OECD: Untangling the Incoherence

In November 2005, Glenys Kinnock, Co-President of the ACP EU Joint Parliamentary Assembly, reported that “there are more nurses from Malawi in Manchester than in Malawi and more doctors from Ethiopia in Chicago than Ethiopia.”[1] These Africans had been lured North by work permits targeted at health-care workers, in short supply in the United Kingdom and the United States. On the face of it, this is reasonable policy making: the African health care workers in Manchester and Chicago clearly prefer their new situation to the one they left, and the general public in Manchester and Chicago benefit from the increase in the availability of health-care services. At the same time, however, Ethiopia and Malawi are two of the poorest countries in the world with the greatest need for health-care workers (Malawi in particular has an adult HIV incidence rate of 14 per cent). This particularly egregious form of brain drain, or emigration of skilled workers, cannot improve and may indeed exacerbate the health crises Ethiopia and Malawi face.

Consider the case of the Malawian nurses. This is not solely a case where the needs of the UK and Malawian economies are opposed: it is also a case where UK government efforts are working at cross purposes. For at the moment that UK migration policy sought out Malawian nurses, UK development-assistance policy channelled sizeable resources into the Malawian health-care sector. The United Kingdom provided $120 million in aid overall to Malawi in 2004; UK aid commitments to the health sector were set to double to $34 million (£18 million) per year starting in 2005[2]. From a purely theoretical standpoint, the United Kingdom could conceivably have recruited fewer Malawian nurses and at the same time reduced health-related aid to Malawi: the UK public would have fewer nurses, but more resources (from its aid savings) with which to address the problem, while the Malawian public would have more nurses, though less aid. Of course, such hypothetical tradeoffs cannot even be considered in the real world: budget lines are decided before allocation guidelines, and the aid and health budgets are under different ministerial competencies. Even under such circumstances however, and partly in response to such unintended consequences of its policies, the UK Department of Health developed ethical guidelines governing the international recruitment of health-care workers, and indeed banned recruitment from South Africa and some Caribbean countries altogether.

The incoherence between migration and aid policies is not limited to the United Kingdom and Malawi or the United States and Ethiopia. Many OECD countries recruit internationally skilled workers for their health, education, or public administration sectors and the subsequent emigration of such workers can cause critical shortages in developing countries, even as these countries receive substantial aid from those same OECD countries. Nor is this lack of coherence limited to the interaction of aid and migration policies. Similar inconsistencies emerge from the interaction of aid and trade policies, for example, when trade-distorting subsidies or barriers to market access in the OECD undermine the effects of aid policy, most notably for trade capacity building. Indeed, there are many circumstances in which OECD-country aid policies are undermined by non-aid policies.

Policy coherence for development can be defined as the pursuit of development objectives through the systematic promotion of mutually reinforcing policy actions on the part of both OECD and developing countries[3]. Note three things about this definition. *First,* policy coherence is concerned with the joint impact and interaction of policies. In the case of African health care workers, aid and migration policies are incoherent in their impacts on development, but OECD decision makers could in principle choose aid and migration policies that reinforce each other. *Second,* our concern is with the impact of policies on *development* outcomes, but conceptually "policy coherence" could be a concern for security policy, trade policy, foreign relations or any other policy domain whose objective is influenced by other policies. *Third,* the effects on development are determined by policy initiatives of both OECD and developing countries.

Rich countries' policies have interacted and impacted upon poor countries' development for a long time. Moreover, the issue of policy interdependence is an old and divisive one. Already in 1963, developing countries called for increased capital flows (including aid) to address their persistent trade deficits, judged permanent because of their specialisation in primary product exports, for which demand grew only slowly over time: political pressures for greater coherence between aid and trade policies led to the founding of the United Nations Conference on Trade and Development[4]. More recently, the G20 nations banded together at the 2003 WTO Ministerial Meeting in Cancún, Mexico, motivated by (among other reasons) the lack of consistency between trade policies that thwart agricultural exports from the developing world and aid policies that ostensibly promote development.

Why the renewed interest in the interdependence of policies? First, the political costs of incoherence have risen: in the case of the brain drain of doctors and nurses, non-governmental organisations have focused public opinion on the consequences of OECD migration policies for development. (This is not to deny that the political cost of long waiting times in OECD-country hospitals remains high.) Such political mobilisation, linked to increased calls for a more transparent and inclusive international economic architecture, has put pressure on decision makers to consider the development impact of non-development policies. Second, globalisation and liberalisation have raised the potential gains from increased interdependence, which are more likely to be realised if policies are coherent. Finally, new actors (including China and India) and sources of risks have emerged (e.g. security, environmental, communicable diseases, etc.) that require coherent responses across diverse policy domains.

This *Policy Brief* will survey some of the core issues in the Policy Coherence for Development agenda. In particular, we ask, which is the best way to think about policy interactions, such as the interactions across trade, migration and aid policies? To that end, we focus on the distinction between policies and flows and explore the evidence on the directions of causality across both flows and policies. For example, do trade flows between countries affect (positively or negatively) flows of migrants, or do flows of migrants influence the level of trade? (The answer, it turns out, is yes, in all cases.) Can migration policy affect trade patterns? We also highlight the difference between complementarity and substitutability of policies by looking more closely at three types of policy interactions: trade/aid, trade/migration, and aid/migration. We close with some implications of relevance for policy makers.

Conceptualising Coherence: Interdependence, Shocks and Adjustment

The fact that policies are not coherent is in itself not surprising. For example, OECD-country trade and migration policies have objectives other than promoting development in poorer countries, and citizens and policy makers may decide that in some cases those other objectives are more important than development. An illustrative example of OECD country policies where competing policy objectives (in the domains of development assistance, trade, investment and natural resource conservation) leads to incoherent outcomes is the case of fisheries access agreements. These accords grant OECD country fleets access to supposedly "surplus" fish stocks in coastal developing countries' waters in exchange for payments to the developing countries, but can prejudice the sustainability of those fish stocks and the livelihoods of artisanal fishers (see Box 1).

Even if there will always be a certain irreducible quantum of incoherence, there is nevertheless considerable value in making explicit the magnitude of the trade-offs among policies. What, in short, is the cost of policy incoherence?

In order to answer questions related to the costs of incoherence, it is useful to take stock of what we know about the interactions of various OECD-country policies as they affect developing countries. Consider four critical "policy vectors": aid, investment, migration and trade. Figure 1 proposes a way to think about policy interactions among these vectors. At the top of each column, the explicit objective of each policy vector is given: thus, the objective of aid policy, according to the Millennium Development Goals, is to promote poverty reduction in developing countries. Across the rows, the figure lists impacts of one policy on the objectives of another: thus, aid spending might, in addition to reducing poverty, promote the objectives of foreign-investment policy, if aid finances physical and human capital accumulation that attracts foreign direct investment to that same country. Note that for development practitioners, the effects listed in the first column are the most pressing: that is, how do non-aid policies affect the objectives of development-assistance policy?

Figure 1. **Interactions Among OECD-countries' Policies**

	AID: Growth and poverty reduction	**INVESTMENT**: Expands Productive Capabilities	**MIGRATION**: Enhances Income Opportunities	**TRADE**: Expands Consumption Possibilities
AID POLICY…	---	… promotes infrastructure and human-capital investment, reduces investment costs	… capacity building, market integration in home country	… promotes trade capacity building in LDCs and demand for rich- country goods and services
FOREIGN INVESTMENT POLICY…	… raises human and physical capital stock in LDC; promotes local enterprise development	---	… expands employment opportunities in LDCs	… enhances linkages to foreign markets; creates business networks; increases export capacity; upgrades quality standards
MIGRATION POLICY…	… induces remittances, lowers unemployment, can contribute to skill formation, productivity increases	… encourages brain circulation and technology transfers; expands savings	---	…encourages trading opportunities and networks
TRADE POLICY…	… promotes growth	… enhances market access	…increases wages	---

Box 1. **Access Agreements in Fisheries and Policy Coherence for Development**

Access agreements between OECD countries and coastal states – through which OECD-country fleets pay to fish in developing-country waters – have been increasingly criticised for their lack of coherence with OECD country development co-operation objectives.

In Senegal (the first country to sign an access agreement with the EU in 1979), the fishing industry is a major contributor to employment, GDP, export earnings and consumption of protein. Under the latest EU-Senegal access agreement, covering 2002-2006, 125 EU country vessels can fish in Senegalese waters. The cost to the EU of this latest four-year agreement was 64 million euros. While this boosts Senegalese public revenue, the cost to the small-scale fishermen who compete with EU vessels in markets at home and abroad is assumed to be large, both in foregone revenues to the local workers and to the government in terms of subsidies given to them (fuel tax equalisation and tax breaks on fishing gear). The fishing agreements moreover put increased pressure on fish stocks and can lead to over-fishing, not only in the signatory country but in neighbouring countries like Mauritania and Guinea-Bissau that share access to the same inshore demersal species stocks. These international spillovers provide strong endorsement for revitalised regional fisheries management organisations (RFMOs), a point highlighted by the High Seas Task Force in 2006.

Fisheries access agreements date from a period when OECD and developing countries had, arguably, different capacities and perspectives than they do today. Then, many developing countries could not adequately harvest the fish resources within their territorial waters. Prior to the adoption of the United Nations Convention on the Law of the Sea (UNCLOS) in1994, which recognised 200-mile exclusive economic zones (EEZs), access agreements were seen by developing countries as a way to assert their rights over their EEZs. For OECD countries, the problems of excess capacity and declining fish stocks at home loomed larger than the threat of global declines in fish stocks.

Access agreements are explicitly not a development co-operation policy. Making such agreements coherent with development and environmental goals is the current challenge for policy makers. Attention to two aspects especially can help meet that challenge. First, adherence to the principle of "complementarity" enshrined in the UNCLOS must be ensured – namely, that access can only be negotiated to resources that a developing country cannot harvest within a sustainable management framework. In practice, the monitoring necessary to determine whether foreign fleets are catching only "surplus" fish is not often provided, and even if it were, the enforcement of infringements is similarly lacking. Second, genuine partnership in this sector can focus on building capacity in developing country policy making: the policy to design and implement sustainable fisheries management, learning from the (often painful) experience of OECD countries.

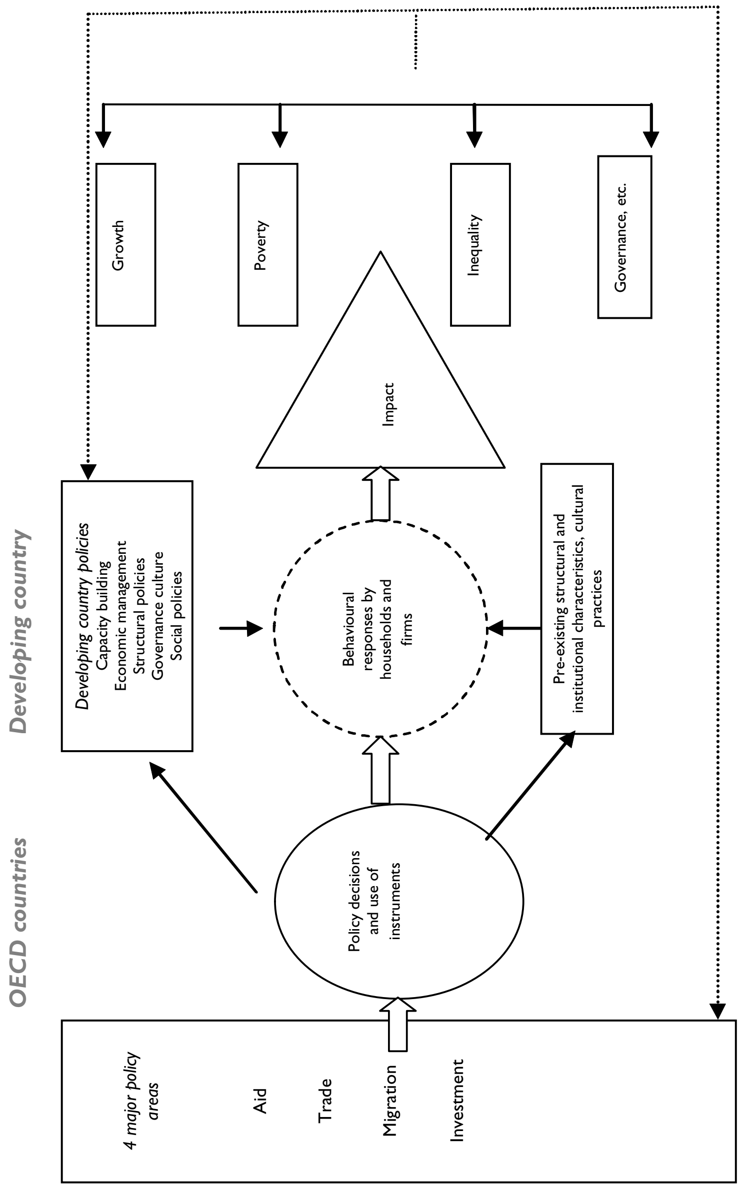
Sources: UNDP (2005); OECD (2006).

Armed with this understanding of the objectives and measures of the four policy vectors, we can now intelligently discuss the combined impact of these policies on poor countries. Figure 2 illustrates the interaction and impact of OECD and developing countries' policies: it can be interpreted as follows.

In the simplest conception, suppose that there are two countries, the OECD country and the developing country. Policy shocks originate in the OECD country, in the domains of aid, investment, migration or trade (these are the four policy areas considered in this *Policy Brief*, but there are others). These OECD-country policy decisions have an impact on the socio-economic environment in the developing country that can be understood, in economic terms, as akin to external shocks. These shocks may lead to one or more of four possible types of adjustment. First, the usual textbook response is either a price or quantity adjustment. For example, a negative external shock (e.g. a fall in demand for the country's exports) could bring about a wage decrease (a price adjustment), or it could bring about a reduction in output or even an increase in unemployment (a quantity adjustment). Another example of price adjustment is an exchange-rate devaluation. In a developing-country context, beset by imperfectly-functioning markets, it is usually quantities and not prices that adjust in response to external policy impulses. Second, prices and quantities may remain unchanged, but the quality of goods might deteriorate, for which there is substantial evidence in the adjustment of economies during the transition from planned economies. A third type of adjustment involves movement of economic activity from the market to the non-market sector, or from the formal to the informal sector. For example, if OECD-country immigration policy becomes more restrictive, so that fewer unskilled workers from a particular developing country can migrate legally than in the past, then unskilled workers might choose to cross borders illegally and join the informal sector of the OECD country or remain behind; if the informal sector in the poor country uses unskilled labour more intensively than the formal sector, this might raise its ratio of informal- to formal-sector workers. Finally, the shock may change economic behaviour: for example, following the initial stages of labour emigration from rural areas, there may be an expansion in the labour force participation rate in the sending country or even mechanisation of agricultural production to fill in the labour shortages that arise. The important idea is that OECD-country policies change the incentives facing economic agents in the developing country.

The impact of these OECD-country policy decisions on agents in the poor country is of course conditioned by a host of characteristics of the latter country: the developing country's economic and social policies including the quantity and quality of publicly provided infrastructure might affect households' decisions at

Figure 2. **Policy Coherence: The Basic Framework**



least as much as OECD countries' policies; so is the pre-existing structural and institutional environment in the poor country, which may include the quality of governance, property rights, the degree to which contract law is enforced, the general "rule of law", cultural practices, etc. All these characteristics will condition economic decision making and behaviour. Incentives provided by OECD-country policy making will thus be filtered through the developing-country policy and institutional environments.

Finally, in the schema of Figure 2, economic agents (including, notably, firms, farms and households, but also civil-society groups) make decisions regarding production, consumption, investment and distribution. These include decisions regarding entrepreneurial activity, the mix of goods to be produced, the techniques used to produce them and the allocation among different factors of production and social groups. While decision makers may be in the developing country or in the rich country (as with foreign firms making decisions about foreign direct investment), the outcomes of these decisions in turn are reflected in the developing country in the rate of growth of income per head, the level of poverty, the extent of inequality, and the quality of governance.

Understanding better the response of growth, poverty, inequality and governance to the external shocks originating in OECD-country policies is the principal aim of this *Policy Brief*.

Looking more closely at flows

A first step is to look more closely at the flows affected by the policies in Figure 1 – measured in terms of aid spending, investment capital, export earnings and migrating workers. Are these flows, which result from policy decisions taken in OECD countries, mutually reinforcing or do they work at cross purposes?[5]

The data on flows analysed in a recent *OECD Development Centre Working Paper* by Denis Cogneau and Sylvie Lambert (2006) tells us the following about their allocation:

1) *Aid favours poorer countries.* Aid flows disproportionately to the poorest developing countries: that is, countries that account for the poorest fifth of world's population receive more than a fifth of aid spending from the OECD. Moreover, this pro-poor bias has grown in recent decades, especially for aid from multilateral organisations such as the World Bank and United Nations agencies;

2) *Foreign direct investment is concentrated among middle-income countries.* When companies from rich countries purchase assets – structures or equipment or whole companies – in the developing world, they favour a small number of countries: some ten per cent of developing countries receive 60 per cent of all such foreign direct investment (FDI) in developing countries. In addition, FDI to poor countries tends to flow to the relatively better-off countries among them – the countries that receive proportionately less aid;

3) *The benefits of trade flow, likewise, to more prosperous countries.* The poorest countries export very little to the OECD and consequently earn very little in export earnings. Those developing countries that export most are relatively better off; and

4) *Migrants to the OECD area come from the more prosperous developing countries.* The rate of migration to the OECD – measured by the stock of migrants in the OECD in 2000 – is concentrated among the developing countries with higher per capita income. Since migration induces remittances and provides incentives for the acquisition of skills, then the data suggest that the poorest countries benefit relatively little from these effects.

In sum, among developing countries, the flows related to trade, investment and migration are concentrated among the least poor countries. Aid, in contrast, flows disproportionately to the poorest countries.

From flows to policies: exploiting synergies and avoiding "coherence orphans"

Relationships between flows must be complemented by an assessment of the interaction between policies.

Should one conclude from the above discussion that aid policy compensates those countries that reap the smallest gains from global economic integration? Perhaps. But if these OECD policies are mutually reinforcing – if, for example, foreign aid spending renders FDI more productive, or promotes exports – then this "compensatory approach" creates *coherence orphans*: countries that receive substantial aid but not the other complementary flows that exploit the synergies among them.

Given the urgency of reducing global poverty, policy makers cannot afford to underestimate these synergies and create or ignore coherence orphans. There is an emerging consensus that aid is more effective when acting as a catalyst to promote other flows (e.g. capital, trade) or diffuse the benefits that accrue from them (e.g. migration). While these flows must be fostered in their own right in the appropriate international forums like the Doha round of the World Trade Organisation (WTO) negotiations, greater attention to the coherence of OECD country policies can help ensure a more inclusive globalisation.

Policy Interactions: Synergies and Joint Impact

At the heart of the conceptual analysis of policy coherence is the nature of the interaction between two policy vectors. There are two components to this: the first is the question of the direction of causality. Does aid, for example, influence trade flows or trade policy, or does causality run in the opposite direction, i.e. from trade to aid? The second is the question of *complementarity* or *substitutability,* between policy vectors.

Two vectors are *complements* if increases in the first tend to lead to increases in the second: i.e. foreign investors might be more likely to invest in a country if policy makers liberalise trade between the investors' home country and the country that receives the investment. That is, more open trade could raise the return to foreign investment. Two policy vectors are *substitutes* if higher values of one can reduce the need for the second: i.e. migration might be considered a substitute for aid. If this logic is correct, policy makers in the OECD countries could restrict legal immigration from a poor country while expanding aid spending: higher transfers would obviate the need for emigration. (This is merely an illustration of the concept of substitution among policy vectors: we will argue that targeted aid spending is in fact complementary to more open immigration, as aid helps better distribute the benefits of migration for the sending country.)

If two policies are complementary, then policy makers could achieve a given policy objective by engaging in both so as to enhance synergies and involve more stakeholders in the envisaged net gains. If they are substitutes, then policy makers can achieve a given objective by choosing the policy vector that reduces financial, economic, social or political costs of meeting that policy target.

Trade and Aid and Aid for Trade

Some of the most glaring examples of policy incoherence occur at the intersection of the trade and aid domains. Aid policy on the one hand promotes productive restructuring (often export-oriented) in the developing economy, while trade policy pursued by OECD countries (including domestic subsidies that distort trade) can sometimes present obstacles to developing-country exports.

What is the interrelation between aid and trade policies?[6] Seen from the perspective of the balance of payments, aid flowing from an OECD country to a poor one might raise or lower trade between those countries. On the one hand, aid can be used for trade capacity-building, thus improving supply conditions in poor countries and expanding exports[7]. Aid is also increased saving and can therefore finance increased imports, some of which will be purchased from the aid donor. (Tied aid is an extreme and inefficient example of this phenomenon.) On the other hand, aid might in some cases depress the recipient country's exports, by increasing domestic prices or revaluing its currency; this is the so-called "Dutch disease" effect. Might the causality run from trade to aid? Increased trade links between a rich and a poor country might create pressure on supply constraints (e.g. inadequate transport infrastructure) in the latter country; OECD-country exporters might accordingly pressure their governments to increase aid in order to relieve those constraints. Finally, the effect of trade on aid could be negative, if trade increases prosperity or wages and leads donors to reduce aid.

Are aid and trade substitutes? Put differently, what is more valuable to a developing country, a dollar of aid, or a dollar of market access (which might be granted by reducing tariffs, subsidies or other barriers to trade)? Economists have traditionally argued that aid is better than trade for raising welfare in developing countries: aid directly provides additional resources for capacity-building, while trade does so only indirectly, via export earnings. Nevertheless, the dynamic effects of trade liberalisation – notably long-term employment generation and productivity gains driven by learning by doing in the export sector – cast doubt on this conclusion. This tension suggests that a judicious mix of market access and aid spending by OECD countries would be more effective than either policy in isolation.

Indeed, some aid spending has taken the form of aid *for* trade, to bolster developing economies' export potential[8]. This is predicated on the idea that aid and trade are complements. Aid for trade might be targeted to increase a poor country's trade capacity in a narrow sense (i.e. trade-related technical assistance) or in a broader sense (infrastructure, supply-side constraints). A recent OECD Development Centre Study of aid-trade coherence in the case of Mozambique[9] illustrates that many current or promising potential exports from Mozambique to OECD countries (including citrus, sugar, textiles, oil cakes, maize and some milled products) can enter the European Union or the United States virtually tariff-free under extensions of the Generalised System of Preferences (GSP) such as the Everything But Arms Initiative (EBA) and African Growth Opportunities Act (AGOA): direct trade barriers are not the biggest problem. More problematic for Mozambique are non-tariff barriers such as rules of origin (ROOs) regulations, and sanitary and phyto-sanitary (SPS) measures and safeguards. But the study argues that even greater obstacles are posed by supply-side constraints on Mozambican firms' ability to respond to new opportunities, including transport infrastructure. Needless to say, these supply-side issues afflict many other countries in sub-Saharan Africa. According to the *African Economic Outlook 2005-2006*, trade and insurance costs comprise 6 per cent of exports in OECD countries, but fully 32 per cent of export costs in least developed landlocked countries of sub-Saharan Africa[10]. These bottlenecks could have been (and could yet be) mitigated by more effective targeted use of ODA.

The good news is that the obstacles to trade-driven development identified in Mozambique – non-tariff barriers and supply-side constraints – are amenable to judicious and carefully targeted development assistance policy on the part of OECD countries. Technical assistance for testing laboratories can address SPS measures (even if safeguard measures and graduation mechanisms are more worrisome, as they offer the EU a way to prevent and harm the expanding export industries on a very short notice). Infrastructure investment is already benefiting from foreign aid (though infrastructure has suffered in recent decades in the allocation of ODA; see the *African Economic Outlook 2005-2006*). Indeed, aid for trade, whether narrowly targeted toward technical assistance and building capacity in trade negotiating or more broadly conceived as removing supply-side bottlenecks, could be a showcase triumph of coherent development policy making. Having said that, current international co-ordination of the aid-for-trade agenda among the six-agency Integrated Framework has been criticised as ineffectual (so far), and the place of aid-for-trade in the final outcome of the Doha Round negotiations of the WTO remains unknown at present. Regardless of the final product of the Doha round, one should not lose sight of the potential for aid to enhance developing countries' capacity to benefit from economic integration.

In sum, aid and trade policies interact powerfully, but trade is not a substitute for aid. By incorporating poorer countries into the world trading system, the "substitutes" argument says, they will grow and no longer require development assistance. This argument may be factually correct, but the mechanism it relies upon is very slow-acting. Thus in the medium term, *more* aid (for trade) will be needed precisely to facilitate these poorer countries' integration into the world trading system.

Trade and Migration Policies[11]

Trade theory suggests that providing developing countries with greater opportunities for exporting their goods will eventually reduce out-migration pressures as a consequence of economic convergence. Indeed, at the time of ratification of the North American Free Trade Agreement (NAFTA) treaty, the US President suggested Mexicans who would otherwise migrate to the United States would instead stay at home and work in new export industries. Economists call this process of adjustment "factor price equalisation". How does this work? Global trade liberalisation, in the long run, leads poor countries (who have relatively larger populations of unskilled workers and relatively smaller capital stocks than large countries) to specialise in sectors that use unskilled labour relatively intensively. That is their comparative advantage. When developing countries specialise, this increases employment or wages, or both, so that fewer unskilled workers decide to migrate; they can earn a better livelihood at home than before the liberalisation. In sum, trade flows increase, economic restructuring occurs, wages rise, workers stay home.

There are shortcomings in the application of this economic logic. First, the "long run" over which this adjustment occurs might last a long time indeed (35 years, according to a recent analysis[12]), during which time emigration flows might continue to be large. A second problem is that it does not address the reality of surplus labour in sending countries: even if trade links foster specialisation, substantial unemployment might endure in the developing country. A third and final problem is that the theory of factor price equalisation has nothing to say about the under-utilisation of skilled workers in developing countries or the lack of sufficient incentives provided to them to stay and work in their countries. For example, it was arguably an oversupply – relative to domestic demand – of software engineers in India that led to their dramatic emigration, even as India pursued more open trade.

Indeed, the empirical evidence suggests that trade and migration are complements – both tend to increase at the same time. One explanation for this observed positive correlation between trade and migration flows is that many recent examples of trade integration and regional partnership (e.g. NAFTA or the

Euro Mediterranean Partnership) have linked ageing, slow-growing populations with young, rapidly growing populations. Under such circumstances, this demographic "complementarity of needs" alone provides a powerful force for high rates of migration even in the presence of factor price equalisation through trade.

Furthermore, liberalisation of trade in services implies greater mobility of people. This may be a movement of high-skilled people in the service sector, as was the case in East Asia's development, or of lower-skilled workers, as is the case of Poland and other recent members of the European Union today. (East Asia's experience is explored in Box 2.)

Finally, an additional explanation is provided by the so-called "migration hump" hypothesis[13]. Some would-be migrants are dissuaded by the high costs of migrating. These may be transport costs or other transaction costs, such as the costs of securing the services of migration specialists of dubious legality such as the *coyotes* of the US-Mexican border. If trade integration serves to raise the incomes of people who are potential migrants – say a household member is employed in a dynamic export industry – they may use increased incomes to finance their migration. Economic integration may also reduce information costs about employment opportunities, thus encouraging migration even as trade expands. It is only over time that the factor-price equalisation logic tends to take over and migration subsides. Thus the relationship between income and migration tends to be hump-shaped, first rising, then falling.

Falling information costs also means that the causality runs in the opposite direction: migration can promote trade. Migrants may serve as trade intermediaries and facilitators because of their knowledge of opportunities, potential markets, their access to distribution channels, contacts and language. Diaspora networks may also play an important part in contract enforcement given the importance of reputation. Moreover migrants' preferences for home-produced goods can also increase imports of these products from their home country. Thus migrants often create trading networks that increase trade flows between their host countries and their countries of origin[14].

Once again, much of the public debate argues that policy must take into account the interlinkages between the two policy vectors – trade and migration – but the reasoning is exactly the opposite of what is observed. Trade partnerships will not stem migration, at least not in the short and medium term. Therefore, current OECD-country migration policies must be carefully assessed, because freer movement of goods and services will almost ineluctably lead to greater movement of people, at least in the short run.

Aid and Migration Policies[15]

As we noted in the example of Malawian nurses with which we introduced this *Policy Brief*, the so-called "brain drain" of skilled workers (e.g. teachers, doctors, nurses) from their poorer home countries to the OECD is among the most salient effects of OECD-country migration policies. To the extent that OECD-country migration policies deliberately target skilled developing-country nationals, these policies are incoherent with foreign aid policies that seek to build capacity in the health and education sectors of the migrants' home countries.

An OECD Development Centre study of international mobility of nurses from Ghana illustrates the depth of the problem[16]. While DAC donors committed $77.7 million for health-sector aid in Ghana in 2003, and $36.1 million in 2004, many countries offered attractive conditions for nurses and other workers in the sector to migrate to the OECD[17]. Nurses and other migrants from Ghana respond to the incentives provided to them by OECD-country migration policy. Thus, a higher number of experienced Ghanaians are likely to be in the labour force in the United Kingdom, which favours economic migrants, than in the Netherlands, whose migration policy gives greater weight to family reunification and non-economic motives.

Nurses themselves derive substantial benefits from working abroad, but it is not immediately obvious that Ghanaian development is a net winner. In particular, the acceleration in the emigration of nurses has been accompanied by deterioration in many public-health indicators, such as, most alarmingly, a rise in the infant-mortality ratio after decades of consistent decline. In such circumstances, it is not unreasonable to bemoan a brain drain.

Nevertheless, well-targeted development assistance policy could help transform a brain drain into a brain gain: a situation in which emigration of skilled workers brings net benefits to the country of origin. Increased spending in the health and education sectors, supported by foreign aid, can promote more efficient service delivery systems, skill creation in those sectors, and more importantly, facilitate the replenishment of the supply of skilled people. Indeed, in some sending economies (e.g. Philippines), publicly and privately-financed increases in training capacity have more than compensated for the emigration of trained local people. Such a response is observable in Ghana today, but it is not yet adequate to replenish the outflow of nurses.

Box 2. **Policy Coherence and Migration of Highly Skilled Workers from Asia**

East Asia's extraordinary growth experience provides useful lessons about the complicated interaction of trade, investment, and the mobility patterns of highly-skilled workers. A recent Development Centre study of policy coherence in East Asia highlights several characteristics of this migration experience (Chalamwong, 2005).

First, strong migration pressures among the highly skilled in East Asia have been an important element of the region's recent economic history and these pressures are likely to continue. This applies to mobility within the region, and migration outside the region (chiefly from Malaysia, Korea, the Philippines and Chinese Taipei to OECD countries). Moreover, this migration has likely complemented the process of the sequential integration of markets in the region by means of deepening trade and investment links.

Second, East Asian migrants are highly educated: in the United States, for example, Asian-born migrants have a higher level of education than either the native or the other foreign-born population groups: 49 per cent of Asian migrants in the United States have at least a BA as compared with 27 per cent of the native population and only 11 per cent of Latin Americans. This highlights the interlinkages between domestic education policies and migration. The causality between the two is not immediately obvious. Do the educated migrate because of domestic underutilisation, an existing wage gap or better work prospects abroad? Or do people first decide to seek employment opportunities abroad and then acquire education and specific skills (for example in ICT or nursing)?

Third, for migration flows within the region, China, Philippines, Indonesia are migrant-sending countries while Japan, Korea and Chinese Taipei are receiving economies. Malaysia and Thailand have made the transition from net emigration to net immigration. This pattern – countries switching from net exporters to net importers of labour as average income rises – suggests that economic growth and sequential industrial specialisation have affected migration patterns. That is, sustained growth seems to curb emigration of unskilled labour while encouraging immigration of skilled labour. Indeed, highly skilled migrants in the East Asian region are, more often that not, corporate transferees being shifted within multinational companies. In this way, migration of skilled workers is a complement to rather than a substitute for FDI in more advanced productive sectors.

Fourth, mobility of the highly skilled in East Asia has raised the spectre of "brain drain": the loss of highly skilled workers is compounded by lost outlays on educational investment as well as forgone tax receipts. Nevertheless, a full cost-benefit accounting must consider opportunity costs and the dynamic consequences of migration. That is, would it be preferable if Filipino women, for example, had stayed in the Philippines and had not acquired the skills that enabled them to emigrate? And to what extent have migrants financed, through their remittances, the education of their offsprings in their home country?

Source: Chalamwong (2005).

It should also be noted that in some cases even the *prospect* of migration might induce higher demand for human capital accumulation[18]. If there is a possibility, even a rather small one, that one might be able to use one's skills in an OECD country where the rewards for skills are much higher, that raises the incentive to acquire more skills. If, in addition, the overall productivity of an economy depends in part on the average level of skills, then the incentives provided by the migration prospect can, under certain conditions, benefit the skilled workers who do not migrate and even the lower-skilled workers who stay behind as well. Development assistance, appropriately targeted to expand the supply of education, training and health services could facilitate the replenishment of skills once positive incentives have set in.

Finally, whether migrants are skilled or unskilled, aid spending could complement migration policies to diffuse the benefits of migration better. Consider the example of infrastructure development funded by external financing, including ODA. As a consequence of migration, labour shortages arise in some specific sectors or in some regions of the sending country. Improved transport and communications infrastructure, supported by foreign aid, can reduce the costs to these countries through labour-market adjustment, most notably through internal or regional migration. Similarly, remittances might expand economic opportunities in migrants' home regions, but with bad roads or telephone service, it might be difficult for workers elsewhere in the country to move to those regions and benefit from expanded opportunities.

Aid can thus better guarantee and diffuse the gains from migration throughout an economy, but can aid actually slow, or stall migration? This presupposes that aid will foster growth, which will in turn slow migration, but in practice the links from aid to growth to migration are weak at best. Even if aid spurs growth, migration might rise as a result through the migration-hump mechanism mentioned earlier.

One final dimension of the migration-development nexus is the question of remittances. There are considerable expectations about the development impact of remittances because of their size and their impact: net ODA disbursements in 2005 were $106.5 billion, while remittances transferred to developing countries through official channels were $166.9 billion during the same year[19]. Remittances not only sustain incomes but can be used for investment, including health and education, and have multiplier effects on the local economies where they are received. Remittances, however, are private intra-household or inter-household transfers while ODA consists of official intergovernmental transfers[20]. Nevertheless, ODA can amplify the positive effects of private transfers, for example in the area of education or health where ODA can be channelled to improve local infrastructure and service delivery systems, while remittances can finance increased demand for these services. Another interesting example is the *Tres por uno* programme in Mexico's Zacatecas state, in which domestic social spending is used to match remittances that are targeted to community social investments[21].

Implications for Reform: the Need for Greater Institutional Coherence

For policy making, both in OECD and developing countries, a greater awareness of the interaction of policies raises a number of challenges.

1) *How can we craft a more coherent and effective development co-operation policy which exploits the full range of policy instruments?* If there are complementarities between aid, migration and trade flows – as we have indeed suggested – the evidence demonstrates that some countries benefit more than others from these mutually reinforcing flows. The least-developed countries, though they might receive substantial amounts of aid, do not benefit from the full, complementary impact of FDI, export earnings or remittances from the OECD countries. Though they are not "aid orphans", many countries remain "coherence orphans."

2) *How can we maximise the gains from migration for development?* OECD country migration policies are aimed at improving the management of the flow of people into OECD countries and accordingly seek to juggle the sometimes competing interests of employers, law-enforcement agencies, providers of social services and migrants themselves. It is increasingly apparent that there is a further constituency affected by these policies: migrant-sending countries which need to be engaged more fully in policy dialogue, if migration flows are to be managed more efficiently. Given OECD countries' commitments to development in the migrant-sending countries, shouldn't migration policy take these effects into account?

3) *How can we integrate migration policy with trade and development co-operation policies to accelerate development?* Of course, migration policy is not the only policy vector that affects migration and development. Aid, we have argued, can broaden the gains from migration in sending countries. In larger, middle-income countries, domestically financed social spending can similarly spread the benefits of migration. Trade might increase the flow of migrants, and migration can stimulate trade. These complex interactions call for careful co-ordination of policies.

4) *How can we resolve incoherencies between trade and ODA policies, especially in agriculture?* Given that significant, sometimes majority, shares of the population of many developing countries make their living in the primary sector, opportunities for agriculturally-based development are especially promising. Accordingly, reform of OECD-country policies that penalise agricultural or primary exports (or that discourage value addition in the primary sector) should top the list of development-friendly initiatives, and should be coupled with active trade-capacity building programmes, including infrastructure development.

Policy reforms, including institutional ones, must occur at different levels. The first is the international level. There are important institutional incoherencies among organisations like the WTO, the IMF and the World Bank. For example, WTO rules may allow developing countries considerable "policy space" to protect domestic production of particular goods that might favour the poor; this is arguably the case of many agricultural products in which such countries have a dynamic comparative advantage. At the same time, the IMF or the World Bank might strenuously oppose the use of supports on the grounds that they violate fiscal discipline. Both positions are defensible, but they constrain developing countries in ways that neither organisation explicitly intends[22].

There is furthermore room for closer co-operation between the WTO and bilateral donors (as represented by the OECD/ DAC) in monitoring the effectiveness of aid-for-trade allocations and ensuring proper sequencing of behind-the-border measures. The special role of UNCTAD and other international or regional agencies needs to be carefully assessed in this process.

Reforms must also occur at the regional level. Particularly noteworthy is the European Union's December 2005 "European Consensus on Development", which explicitly calls upon the Commission and the member states to observe coherence among their policies that affect development. Regional reforms are increasingly promoted in developing countries, as well, as is the case of several policy processes being prepared by the New Economic Partnership for African Development (NEPAD).

Finally, reforms must occur at the national level. Among OECD countries, Sweden's 2003 Government Bill is perhaps the most institutionally ambitious[23]. The policy commits the various ministries to greater coherence in measures that affect development. Responsibility for annual reporting to Parliament is vested in a special unit that includes, but is not limited to, the aid agency. Other countries have tried less formalised approaches, that have similar effects given that they also encourage greater communication among ministries. In 2002 the Netherlands created a Policy Coherence for Development Unit (PCD) at the Ministry of Foreign Affairs, bringing together development and non-development related officials; members meet routinely to discuss development impacts of various measures (e.g. changes in phyto-sanitary standards imposed on agricultural imports)[24].

In all cases, a key element of reform is finding ways to increase the flow of effective and relevant communication among various actors: multilateral institutions, aid agencies and foreign and economic ministries. This can be more or less formalised, depending upon the political circumstances at the country level, but this is only one part of the process. The next step is that of negotiation and consensus building among various social groups whose incentives are not perfectly aligned. Some constituencies (e.g. producers, consumers, migrants, employers, intergovernmental organisations) will gain and others will lose from changes in current incoherent policy combinations. Pro-development lobbies in OECD countries must mobilise themselves and compensation (political or economic) must be generated for those who stand to lose from changes. If, as we argue, the benefits outweigh the costs, then such reforms are possible; the challenge is to discover which reforms are practically and politically feasible.

Notes

1. Speech to ACP EU Joint Parliamentary Assembly, Edinburgh, 21 November 2005. This assertion has been often made. A *Financial Times* editorial dated 13 April 2005 begins by noting that "There are apparently more Malawian doctors working in Britain's regional city of Manchester than in Malawi itself." It is difficult to confirm these assertions, although their veracity is doubtful. According to a recently compiled database of African health-care workers in eight OECD countries and South Africa (Clemens and Pettersson, 2006), there are 200 Malawian doctors in Malawi, and 191 in the United Kingdom. The same source claims there are 1 871 Malawian nurses in Malawi, versus 171 in the United Kingdom. The UK National Health Service (NHS), meanwhile, responded to our enquiry on the subject stating there were only 23 Malawian physicians in their employ (which is not inconsistent with the earlier figure, if most Malawian doctors in the United Kingdom do not work for the NHS). The NHS does not tally comparable statistics regarding nurses.

2. UK ODA figures from OECD/DAC (2006). UK health-sector spending from a press release of the Department for International Development (DFID) dated 3 December 2004. The United Kingdom's policy on attracting skilled workers is assessed by Findlay (2006).

3. Hoebink (2006) provides an exhaustive overview of the evolution of the Coherence agenda in the European context.

4. On the intellectual environment surrounding the founding of UNCTAD, see Love (2001) and UNCTAD (2004). The issue of interdependence of policies and their impact on developing countries was an ongoing source of bitter disagreement between UNCTAD and the IMF in the 1970s as well; see IMF (1974) and UNCTAD (1975) on the deliberations of the IMF's so-called Committee of Twenty, a group of Fund Governors charged with reforming the rules of the international monetary system at the twilight of the gold standard.

5. This section draws upon the analysis provided in Cogneau and Lambert (2006).

6. This question is answered at much greater length in an *OECD Development Centre Working Paper No. 254* by Suwa and Verdier (2006).

7. See OECD (2006*b*).

8. The Netherlands' aid for trade initiatives up to 2003 are evaluated in IOB (2005), which also serves as a useful introduction to the agenda and the international organisations that promote it. OECD (2006b) provides working definitions of aid-for-trade, estimates of the amounts of resources devoted to it by donors, and possible scenarios for future evolution of these flows.

9. Haaparanta *et al*. (2006).

10. For more information on this issue, refer to the synthesis chapter of AfDB/OECD (2006), on "Promoting and Financing Transport Infrastructure in Africa".

11. This section is based on *OECD Development Centre Working Paper No. 249* by Xenogiani (2006).

12. Brücker and Boeri (2005*a*).

13. The migration hump is discussed at length in Lucas (2005).

14. This literature is reviewed in *OECD Development Centre Working Paper No. 249* by Xenogiani (2006).

15. This section draws heavily upon *OECD Development Centre Working Paper No. 250* by Katseli *et al.* (2006).

16. Quartey (2006).

17. Aid commitments come from the OECD/DAC creditor reporting system. Given that a substantial proportion of aid to Ghana is in the form of direct budget support, which can be used for the health sector, the monetary amounts reported here likely underestimate the DAC-provided resources to the sector.

18. Stark (2005).

19. OECD/DAC (2006); World Bank (2006*a*) and World Bank (2006*b*).

20. OECD/ELS (2005).

21. The *Tres por uno* programme, as well as a less successful variant elsewhere in Mexico, is analysed by Iskander (2005). Some, however, have questioned the rationale of subsidising remittances as opposed to other local saving or activities.

22. There exist many other examples of incoherencies among international organisations. Taylor (1997) argued that even the World Bank and the IMF – often caricatured as a monolithic bloc – in fact sometimes impose conflicting conditions upon developing countries.

23. Sweden (2003).

24. This information is based on a presentation made by Jan Klugkist of the Netherlands Ministry of Foreign Affairs at a seminar of the European Association of Development Institutes in Vienna, March 2006. Also see "Working on Policy Coherence for Development", May 2006, publication of the Dutch MFA, www.minbuza.nl.

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