

Mobilizing Aid for Trade: Focus Asia and the Pacific

Report and Recommendations

Prepared by the Asian Development Bank (ADB)
and the World Trade Organization (WTO)
November 2007





WORLD TRADE
ORGANIZATION

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INTRODUCTION

The Asia and the Pacific regional Aid-for-Trade review meeting – co-hosted by the Asian Development Bank (ADB), Philippine Government, and World Trade Organization (WTO), in cooperation with the World Bank – was held in Manila on 19–20 September 2007. It was the second of three parallel regional events, the others for Latin America in Lima, Peru and for Africa in Dar es Salaam, Tanzania. These were held in preparation for the WTO's inaugural Global Aid-for-Trade Review held in Geneva on 20–21 November 2007. This report provides a summary of the main points from the Manila event and suggestions for the next steps in the regional Aid-for-Trade process for the Asia-Pacific.

Globalization has created opportunities for developing countries in Asia and the Pacific to participate in the international trading system and improve prosperity. Some economies, especially in East Asia, where outward-oriented development strategies were adopted and infrastructure prioritized, have witnessed rising prosperity. But others—particularly least-developed countries (LDCs), small states, and other developing countries in the region—lack the productive capacity, human resources, and infrastructure needed to take advantage of the globalization trend. These economies are spread across all subregions in Asia and the Pacific.

The review meeting brought together trade and finance ministers, key donors, and the private sector to collectively discuss the trade capacity and infrastructure challenges facing the region. The focus of the dialogue among decision makers was about what is working in the region and what is not. The outcome included proposals on how Aid for Trade should proceed within Asia and the Pacific—including encouraging potential beneficiary countries to make trade a greater priority; aid donors to scale up trade-related official development assistance and to offer their expertise; and stronger partnerships with the private sector to develop increased private/public financing.

The review meeting had four broad objectives:

- Identify the main trade needs and priorities for addressing them—both nationally and regionally;
- Encourage recipient countries or subregions to formulate "business plans";
- Encourage donors to develop a detailed response and scale-up trade-related development assistance;
- Secure the political commitment to follow through on the Aid-for-Trade agenda in the region.

Over 400 participants from Asia and the Pacific and elsewhere attended the Manila event— including the Philippine President, the Prime Minister of Tonga, ten ministers of trade or finance, four heads of international organizations, senior government officials, leading private-sector representatives, and key donor agencies.

The two-day regional review was conducted in four plenary sessions covering (i) the case for increased Aid-for-Trade flows in Asia and the Pacific, (ii) public-private sector partnerships, (iii) a ministerial roundtable on Aid for Trade, and (iv) donor partnerships. There were three parallel breakout sessions the first afternoon on the Greater Mekong Subregion (GMS), South Asia, and the Philippines. Parallel to the main event, three side events were organized by the WTO, International Trade Center (ITC), and the Organisation for Economic Co-operation and Development (OECD) to highlight specific dimensions of Aid for Trade (standards, the private sector, and monitoring aid for trade, respectively).

CONFERENCE DISCUSSIONS

The conference participants underlined that there are two faces of Asia and the Pacific. As a whole, the region has responded well to globalization. Reduced trade barriers, rapid technological progress, the spread of transnational corporations, and lower communications and logistics costs have expanded trade and brought millions out of poverty. East Asia's newly-industrialized economies (NIEs), the People's Republic of China (PRC,) and India together accounted for 21.0% of world exports in 2006, from just 6.7% in 1980. By contrast, however, the region's 22 least-developed economies (LDCs) and small states, plus 15 other developing economies still account for only 2.8% of world exports, barely above the 2.2% in 1980.

From the outset, there was widespread recognition at the Manila conference that there are countries, particularly those that are land-locked, small, and remote, that need greater assistance in order to prosper from global trade. In the opening plenary session, presentations from the Lao People's Democratic Republic, Solomon Islands, Mongolia, and Uzbekistan outlined the clear rationale for greater funding under Aid for Trade for these regions and countries. The discussion in subsequent sessions included representatives from many of the other regions still struggling to fully to benefit from trade. They underscored the fact that the underperformance in some regions is directly correlated with high trade costs. Indeed, it costs an average of just \$608 to export one 20-foot container from the NIEs, PRC, and India, for example. But it costs \$1,029 from the LDCs and small states, and \$1,855 from the 15 other developing countries in the region. Furthermore, it takes an average of only 16 days to process exports in the NIEs, PRC, and India, but 31 days in the LDCs and small states, and 43 days in the 15 other developing countries. This huge efficiency gap is also apparent in logistics, production technology, marketing, and other export-related capabilities.

The Manila event brought together and networked participants with abundant knowledge and vast experience in Asia and the Pacific in the trade sector, and made clear that much more needs to be done via the Aid-for-Trade initiative to bring the benefits of trade to all in the region.

I. SUBREGIONAL ISSUES: AID FOR TRADE IN ASIA AND THE PACIFIC

Greater Mekong Subregion (GMS) Breakout Session

In the 15 years since its inception, the GMS Economic Cooperation Program has built an impressive record of aid that benefits trade, showcasing the great potential of Aid for Trade. Assistance has supported projects in transport, energy, telecommunications, environment, human resource development, tourism, trade, private sector investment, and agriculture, (including loans amounting to \$1.4 billion from ADB, as of 2005). Exports from the seven GMS economies rose to \$153 billion in 2005 from \$37 billion in 1990, representing a growth rate nearly twice that of world exports.

Nonetheless, the GMS economies still account for a combined share of world trade of just 1.5%, suggesting that considerable room remains for investment and trade-related development assistance. At the same time, significant constraints hamper greater trade. Participants in the GMS breakout session identified several areas where improvement would reduce the costs of doing business, increase predictability of the policy

environment, and help increase private sector investment. They included (i) physical infrastructure; (ii) trade facilitation; (iii) institutional capacity for trade policy and analysis; (iv) sanitary and phytosanitary measures; (v) tariff and non-tariff barriers; and (vi) regulatory constraints on the private sector.

The lending pipeline of projects proposed for ADB support under the GMS Program—totaling over \$2 billion for the 2008–2010 period—supports trade-related infrastructure and capacity-development. The GMS Program also offers several platforms and agreements upon which new assistance can be built, such as the recent GMS Cross-Border Transport Agreement and the Strategic Framework for Action on Trade Facilitation and Investment. In addition, the GMS Program has established effective private-public partnerships, such as the \$1.25 billion Nam Theun 2 hydropower project, that can serve as models for tapping vast private sector potential. There was broad consensus at the review meeting that Aid for Trade funding would help GMS countries leverage progress and their own comparative advantages in different areas of trade as they continue to integrate into the global economy.

South Asia Breakout Session

Regional cooperation and integration in the South Asian region remains in its early stages. However, trade is picking up as are the forces of cooperation, and exports are diversifying away from agriculture and into labor-intensive manufacturing and information technology. Also ground work has been done on a broad range of activities in the South Asia Subregional Economic Cooperation (SASEC) program, to expand trade and regional cooperation and integration. SASEC includes Bangladesh, Bhutan, India, and Nepal, and was established in 2001 with assistance to support initiatives in the areas of energy and power; environment, information and communication technology; tourism; trade, investment, and private sector cooperation; and transport. ADB also recently began strengthening cooperation with the South Asian Association for Regional Cooperation (SAARC), which was established in 1985 by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

The challenges are many, however, and were clearly laid out during the South Asia breakout session: one panelist noted that South Asia accounts for a relatively small percentage of global trade; shows low volumes of regional trade; is still hampered by somewhat restrictive trade policies; lacks exportable surpluses; and suffers a lack of trust made worse by ongoing conflict. Compounding these factors are weak access to finance, and major regulatory and customs barriers.

The scope for additional assistance to clear these many hurdles is huge. At ADB alone, estimates of potential trade-related assistance to South Asia totals about \$2.1 billion. Trade-related infrastructure investment and building supply capacities, especially in least-developed countries in the region such as Nepal, take the bulk of additional resources. Among projects that will expand the scope for assistance, SASEC officials recently endorsed the Information Highway Project, the Tourism Development Project; and the Transport Logistics and Trade Facilitation project. Participants in the South Asia sessions agreed, however, that there is need for a clear road map for developing an Aid-for-Trade strategy in the region. Thus, ADB is planning to work toward a substantial technical assistance and capacity-building facility for detailed strategy and implementation.

Philippines Breakout Session

The Philippine experience in liberalization has been mixed. While there was a dramatic shift in the composition of exports toward manufactured products in the 1990s, it barely contributed to the overall employment and to poverty reduction. With few exceptions—most notably in the semiconductor industry—agriculture and manufacturing grew less competitive internationally during the 1990s. The rise of exports as a percentage of national income hides a sharp narrowing of the export base.

Yet there is great potential for new aid for trade assistance and even stronger public-private sector partnerships. Indeed, the Philippine Finance Minister noted at the conference that the Philippines aims to raise infrastructure spending to 4.5% of GDP from 2.5% currently, stressing the significant need for better water, power facilities, and roads. He also highlighted steps taken to further mainstream trade into national development strategy.

The Philippine breakout session identified areas where Aid for Trade could help: possible initiatives—ranging from strengthening the structural foundations for macroeconomic stability to improving physical infrastructure. Specific initiatives included investing in worker skills; initiatives for improved competitiveness of local firms; strengthening support systems and enhancing entrepreneurial skills for small and medium-sized enterprises; strengthening capacity for setting and meeting standards and certification for exports; enhancing economic and technological intelligence and trade promotion; and improving local governance, processes, and accountability to improve competitiveness and the investment climate.

Pacific Islands

The Pacific Plan endorsed in 2005 by 16 island countries and supported by ADB is increasingly guiding assistance to the region and provides a platform for boosting trade-related assistance. With an emphasis on development of the region's small and under-financed private sector, backed by a similar focus in ADB's Pacific Strategy, it is bringing regional cooperation and integration to the fore as the route to faster development. The remote island nations of the Pacific are constrained by the difficulties of transport, poor economies of scale, weak private sectors, and limited government capacity for reform and policy making. Representatives of the Pacific at the Manila review meeting, including the Tongan Prime Minister, Samoan Minister of Finance, and the Solomon Islands Minister for Foreign Affairs, highlighted the areas where Aid-for-Trade funding could help, including infrastructure, agriculture, tourism, and human resources development.

Central Asian Republics

The difficulties in linking to international markets in small, landlocked Central Asian economies were highlighted by several participants at the conference. Constraints such as high trade costs, cumbersome customs procedures, and fragmented infrastructure are among the challenges faced by these economies. To help overcome these barriers, the Central Asia Regional Economic Cooperation Program (CAREC) program was established in 1997, and has focused largely on financing infrastructure projects and improving the region's policy environment in transport, energy, trade policy, and trade facilitation. Spanning nearly 4,000 kilometers and grouping together Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan, it is a powerful platform for marshalling financial resources, with combined assistance from multilateral institutions totaling \$2.3 billion for 2006–2008 covering 42 projects. CAREC is also an alliance of multilateral institutions comprising ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank.

2. CROSS-CUTTING THEMES

Several common themes became evident from the four plenary sessions and three breakout sessions:

Regional Cooperation and Integration (RCI): RCI complements Aid for Trade and was singled out by most participants at the Manila review meeting as an integral part of the initiative, and one that can help guide funding priorities. Through RCI, countries can better enhance (i) regional and subregional cross-border infrastructure and related services; (ii) promote trade and investment; and (iii) develop monetary and financial integration; and (iv) establish regional public goods such as prevention of communicable diseases and environmental degradation.

Cross-border Infrastructure: Better roads, railways, ports, and other infrastructure that cost effectively help speed the movement of goods across borders was recognized as fundamental to outward-oriented development in the Asia-Pacific. The cost of new infrastructure was cited in particular as a significant obstacle for land-locked and least-developed countries.

Trade Facilitation: As trade barriers are reduced and trade increases, associated issues rise in importance, such as customs procedures and red tape, which add to the costs of doing business. Conference participants repeatedly stressed the need for further assistance to countries in their efforts at trade facilitation, through simplification and harmonization of international trade procedures.

Trade Finance: Many Asian countries have been slow to integrate into the global trading market and have been unable to participate in its growth because of restrictions on trade finance. That is in part because international and domestic banks adopted more stringent lending standards following the 1997/98 Asian financial crisis. Many banks and non-bank financial institutions that provide trade finance were forced to raise fees, reduce country or bank lending limits, and shorten loan maturities. This is an area in which private sector participation in Aid for Trade can be particularly valuable. Projects that enhance trade finance, such as ADB's Trade Finance Facilitation Program, are designed to promote trade and would benefit from additional Aid-for-Trade funding.

Monitoring and Transparency: Throughout the conference, participants regularly called for close adherence to the principles of the Paris Declaration—harmonization of donor procedures, mutual accountability, and alignment to donor partnerships—under the Aid-for-Trade initiative.

3. CONFERENCE CONCLUSIONS

In their closing remarks, the two conference co-chairs¹ outlined some major conclusions that came from the proceedings:

- The success stories in Asia and the Pacific show the importance of outward-orientated trade and investment policies as well as public-private partnerships as an integral part of national development strategies.
- Countries and regions have to focus on what matters most to increasing trade — e.g. regional cooperation, infrastructure, trade facilitation and trade finance - and the areas that can deliver the biggest return on investment.
- It is clear that an appropriate Aid-for-Trade strategy in Asia and the Pacific must be tailored to meet the specific needs of diverse developing countries.
- There is a clear need for donors to follow through on their Hong Kong, China and broader Gleneagles commitments and provide additionality for Aid-for-Trade programs in line with the Paris Principles.
- A common theme of the Manila conference was cooperation, coordination, and coherence.
- The Aid-for-Trade initiative is in fact "Aid for Trade for Development," and not Aid for Trade per se. It must be firmly grounded in the region's development agenda.

The overall consensus of the review meeting participants was to move forward with an agenda that can translate Aid-for-Trade from concept to implementation in the Asia-Pacific region.

¹ Conference co-chairs were ADB President Haruhiko Kuroda and WTO Director-General Pascal Lamy.

RECOMMENDATIONS

Building on the Manila event, suggestions for moving the Aid-for-Trade initiative forward into 2008 and beyond include a series of actions that will better define and identify trade-related needs and requirements in Asia and the Pacific, with the aim of producing a proposal on how to implement Aid-for-Trade across the region. An update will be provided by ADB at the 2008 Global Review of Aid for Trade.

Regional Technical Group on Aid for Trade for Asia and the Pacific

Building on the high-level discussions at the Manila and Geneva events, a small technical working group will be formed in early 2008 consisting of senior technical-level representatives of recipient countries, bilateral donors, and regional and multilateral institutions. Its main tasks will be to (i) synthesize subregional/country needs and priorities, (ii) identify on-going assistance programs, and (iii) develop an integrated approach that will effectively operationalize Aid for Trade for the medium term in Asia and the Pacific. ADB will be a member of the regional technical group and coordinate its work.

Proposal for Aid for Trade in Asia and the Pacific

A succinct, regional proposal will be crafted by the regional technical group with the aim of providing a practical and pragmatic framework for sub-regions and countries to operationalize Aid for Trade. It is envisaged that the proposal will cover several topics. It will synthesize specific Aid-for-Trade needs, objectives, activities, and actors. It will also include an implementation schedule, define financing needs, and structure a monitoring framework based on the Paris Principles. The draft proposal will be circulated for comment to relevant stakeholders and presented at appropriate regional and international fora.

Study on Trade Performance and Aid for Trade in Asia-Pacific

As a complement to the proposal, a knowledge product will be produced in 2009 that will analyze trade performance among countries representing the two faces of Asia and the Pacific. The goal of the study is to analyse and define lessons learned about what has made trade-related development assistance work for successful economies in the region. Although there are unique circumstances underpinning success in Asia and the Pacific, this study may be of use to other regions in the developing world as well. The study is expected to be disseminated as widely as possible through various websites and conferences.

