



**Asia-Pacific  
Economic Cooperation**

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**2010/SOM3/SCE/023**

Agenda Item: 7

## **Interim Report: Aid for Trade in the Asia-Pacific and ADB's Role**

Purpose: Consideration

Submitted by: Asia Development Bank



**Third SOM Steering Committee on Economic  
and Technical Cooperation Meeting  
Sendai, Japan  
24 September 2010**

# **Interim Report: Aid for Trade in the Asia-Pacific and ADB's Role<sup>1</sup>**

Background Note for Third SOM Steering Committee on Economic  
and Technical Cooperation Meeting  
Sendai, Japan  
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## **Introduction**

1. This interim report covers the following topics: (1) ADB's role in the WTO Aid for Trade initiative; (2) the work of the Regional Technical Group (RTG) on Aid for Trade for Asia and the Pacific; (3) ADB's support for trade facilitation, customs and free trade agreements (FTAs) in the Asia-Pacific; and (4) cooperation between ADB and APEC on regional trade.

## **B. ADB's Role in the WTO Aid for Trade Initiative**

2. Aid for Trade is concessionary development assistance to create the conditions for trade-led growth in the developing world. Launched in December 2005, the World Trade Organization (WTO) Aid for Trade Initiative seeks to help developing countries, particularly least developed countries (LDCs), build the supply-side capacity and trade-related infrastructure needed to expand trade and implement and benefit from WTO Agreements. In July 2006, the heads of regional development banks, including the Asian Development Bank (ADB), agreed to partner with the WTO to implement the Aid for Trade Initiative in their respective regions.

3. As the region's development bank, ADB is the natural catalytic agent for helping mobilize and channeling Aid for Trade effectively. This can be done initially in three ways:<sup>2</sup> (i) through increased lending for trade-related infrastructure at regional, subregional and national levels; (ii) by helping to coordinate the many participants in Aid for Trade as secretariat for the newly created Regional Technical Group (RTG), co-chaired by Cambodia and Japan; and (iii) by sharing cross-border experience and technical expertise on Aid for Trade activities through policy dialogues and studies.

4. ADB has been active in trade-related lending through subregional cooperation programs for over forty years, well before the start of the WTO Aid for Trade Initiative. ADB has supported the Greater Mekong Subregion (GMS) Program since its inception in 1992, the BIMP-EAGA (the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area) Program, and the Central Asia Regional Economic Cooperation (CAREC) Program, and the South Asia Subregional Economic Cooperation (SASEC) Program among others.<sup>3</sup> Following a General Capital Increase, ADB has significantly ramped up lending to regional cooperation and integration activities since 2009. ADB's lending and non-lending activities in the region cover a

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<sup>1</sup> For more information, please contact Dr. Ganeshan Wignaraja, Principal Economist, Office of Regional Economic Integration (OREI), Asian Development Bank. Email: [gwnaraja@adb.org](mailto:gwnaraja@adb.org)

<sup>2</sup> ADB President Haruhiko Kuroda outlined this vision in his statement to the 2nd Global Aid for Trade Review in Geneva on 6 July 2009. For more information on ADB's role in Aid for Trade see [www.aric.adb.org](http://www.aric.adb.org)

<sup>3</sup> The GMS, CAREC and SASEC programs seek to promote development through closer economic linkages and cooperation. The GMS program involves Cambodia, People's Republic of China, Lao PDR, Myanmar, Thailand, and Viet Nam. The CAREC program involves Afghanistan, Azerbaijan, the People's Republic of China (participating through Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. The SASEC program covers Bangladesh, India and Nepal. For more information see <http://www.adb.org>.

range of trade-related areas including cross-border infrastructure, trade facilitation, trade finance, policy dialogue, policy studies and capacity building.

5. ADB has supported the WTO Initiative in other ways. It co-organized high-level Asia and Pacific Regional Review Meetings on Aid for Trade in Manila in September 2007 and in Siem Reap in May 2009. The ADB President and Managing Director General have presented the outcomes of these regional review meetings and shared lessons from the region as plenary speakers at the 1<sup>st</sup> and 2<sup>nd</sup> WTO Global Review Meetings in Geneva. ADB is member of the WTO Director-General's Advisory Group and provides updates on the Asia-Pacific to the WTO Committee on Trade and Development. ADB has facilitated the formation of the Regional Technical Group (RTG) on Aid for Trade for Asia and the Pacific and acts as the secretariat to the RTG.

## **B. Work of the Regional Technical Group (RTG) on Aid for Trade for Asia and the Pacific**

6. The formation of the RTG is a key milestone in the 2009-2010 WTO Aid for Trade Roadmap for Asia and the Pacific. The RTG serves as the coordinating body and a regional forum for discussing Aid for Trade issues and proposals, sharing good practices, and taking stock of available analytical work on Aid for Trade in the region; building partnerships among actors and stakeholders; and formulating an integrated approach to operationalizing Aid for Trade in the medium-term and in line with the Paris Principles on Aid Effectiveness. Stewardship of the RTG under Japan and Cambodia was announced at the regional meeting on Aid for Trade on May 2009 in Siem Reap. The announcement established RTG's ownership by donor countries and DMCs, and highlighted their committed partnership. The RTG has met three times (Manila, Bangkok and Tokyo) and also by videoconference.

7. The first RTG Co-Chairs Report, *Aid for Trade in the Asia-Pacific: Its Role in Trade-Driven Growth*, reviews the experience of the Asia-Pacific with a view to highlighting lessons and makes suggestions. The RTG Co-Chairs Report is under preparation and a presentation of the main findings is scheduled at the WTO in late 2010. The full RTG Co-Chairs Report is expected to be available in 2011 and be a part of the region's contribution to the 3<sup>rd</sup> Global Review on Aid for Trade in Geneva in mid-2011.

8. Several inter-related issues in relation to Aid for Trade in the Asia-Pacific are being considered in the RTG Co-Chairs Report. These include links between investment, aid and development; Aid for Trade flows into the region; the relationship between regional and national strategies as well as lessons from good practice projects and programs; and the future direction of Aid for Trade in the region.

9. Some emerging messages/findings from the Asia-Pacific's experience can be highlighted as follows:

- (i) *Parts of the Asia-Pacific have been transformed into the global factory with high growth and rising prosperity through five decades of outward-oriented development strategies.* This highly visible industrial success is largely confined to a handful of economies particularly the Asian newly industrializing economies (NIEs), the Peoples Republic of China (PRC), and India. Several factors underlie this record, including inflows of export-oriented foreign direct investment (FDI), infrastructure investment, and market-friendly business environments. Foreign aid, particularly infrastructure and capacity building such as trade-related assistance, has played an important supporting role.

- (ii) *Over 900 million people in Asia still survive on less than US\$1.25 per day.* Indeed, the reality of the Asia–Pacific trade and development story is a heterogeneous pattern of trade performance and development, known as the "two faces of the Asia–Pacific." The high poverty and trade under-performance in resource-rich, other low-income economies, least developed countries (LDCs) and small states is worrying.
- (iii) *The Asia–Pacific needs more Aid for Trade to close the gap between the two faces of the region.* Aid for Trade flows to the Asia–Pacific have increased to US\$11.3 billion a year in 2005–2008 compared with US\$9.5 billion a year in 2002–2005. Aid for Trade flows adjusted for population and the incidence of poverty reveal that such flows into the region are smaller compared to other regions in the developing world. And the distribution of Aid for Trade flows is largely concentrated in a few countries in the region. With fiscal constraints facing many aid donors, the outlook for further increases in Aid for Trade flows may be modest. Accordingly, the effectiveness of existing Aid for Trade needs to be maximized and non-concessionary assistance should be given greater attention.
- (iv) *A regional approach backed by national strategies offers an optimal strategy to use available Aid for Trade and non-concessionary assistance most effectively.* National and regional approaches are intricately linked. The experience of implementation successes in the Asia–Pacific indicates that an effective operational approach typically addresses core Aid for Trade elements—economic corridors, trade finance, competitiveness, and trade capacity—and are based on common principles that stress public–private partnerships, mainstreaming trade in regional and national development strategies, donor coordination, and effective monitoring and evaluation. As geography and development levels vary across the Asia–Pacific, the strategy needs to be tailored to the individual circumstances of different sub-regions and different countries.
- (v) *The RTG serves as a useful regional forum to continue to build partnerships and operationalize the Aid for Trade Initiative in the Asia–Pacific.* This informal grouping of developing countries, donors, and development agencies started as a pilot project to discuss aid for trade issues, build partnerships, and evolve an operational approach to Aid for Trade in the Asia–Pacific. It meets periodically and depending on the interest and availability of funding, a gradual expansion of the RTG and its work program is envisaged in 2011–2012. This will permit a more integrated contribution to the WTO's Work Program in 2011–2012, including the Third Global Aid for Trade Review Meeting in Geneva in mid-2011.

### **C. ADB's Work on Trade Facilitation, Customs and Free Trade Agreements**

10. At the G-20 Summit in Toronto (June 2010), G-20 leaders re-affirmed their commitment to "maintain momentum for Aid for Trade."<sup>4</sup> G-20 leaders also called on "international agencies, ...Multilateral Development Banks (MDBs) to step up their capacity and support trade facilitation which will boost world trade."

11. It is noteworthy that ADB has increased its support for trade facilitation in the next 3-4 years. Next year, 2011, is expected to be a landmark year for ADB's trade facilitation and customs loans with 6 major projects worth \$235.5 million in the pipeline for approval. This figure includes two large projects: (i) the \$150 million CAREC Regional Border Crossing Points Improvement and Single Window Development Project; and (ii) the \$42 million Trade Facilitation: Improved SPS handling in GMS Cross Border Trade. The present 3-4 forward-

<sup>4</sup> See G-20 Toronto Summit Declaration 26 June 2010, paragraph 39.

looking pipeline of loans for trade facilitation and customs modernization includes 11 loans amounting to \$300 million. This represents a significant increase compared with historic levels of lending for this area. Between December 1998 and April 2010, ADB approved 20 loans amounting to \$88.8 million. ADB also approved technical assistance worth \$28.6 million between April 1993 and June 2010, and has technical assistance in the forward-looking pipeline amounting to \$11.5 million.

12. From modest beginning<sup>5</sup>, ADB's support for trade facilitation and customs modernization has developed into becoming an integral part of flagship regional cooperation initiatives like the Greater Mekong Subregion (GMS), Central Asia Regional Economic Cooperation (CAREC), and the South Asia Subregional Economic Cooperation (SASEC) programs. Evolution towards a regional cooperation approach has been accompanied by some scaling up of loans and technical assistance in an efficient manner. This partly reflects increased demand from developing member countries to improve competitiveness in recognition that past ADB support has resulted in reduced trade costs and contributed to increased trade flows. Scaling up of ADB's assistance to trade facilitation is also in line with the G-20's calls for MDBs to increase in such assistance to boost world trade.

13. ADB's loans include a range of infrastructure projects with customs components, dedicated national trade facilitation and customs modernization projects, and regional trade facilitation and customs modernization projects. Technical assistance, meanwhile, have supported the development of cross-border transit agreements, integrated trade facilitation and customs coordination activities (such as those embodied in the Transport and Trade Facilitation Strategy and Action Plan of CAREC and the GMS Cross-Border Transport Agreement), and the creation of knowledge products and training programs.

14. To better carry out its pipeline projects and in light of enhancing coordination among development partners in Aid for Trade, ADB signed a memorandum of understanding (MOU) with the World Customs Organisation (WCO) at the 2010 Tashkent Annual Meeting of ADB with the objectives of deepening operational partnership<sup>6</sup> and tapping international customs expertise.

15. The Asia-Pacific is a relative latecomer to the global spread of free trade agreements (FTAs) but has witnessed a rapid expansion in such agreements. In East Asia alone there were about 46 FTAs in effect and another 80 in the pipeline as of August 2010. This compares with only 3 FTAs in effect in 2000. ADB's program on FTAs, which dates to 2005, is largely technical assistance focused rather than based on project lending. It covers three main activities: (i) an online database on FTAs for the region to promote greater transparency;<sup>7</sup> (ii) training courses for government officials and the private sector on the economics of FTAs emphasizing international best practices and FTA consolidation into region-wide agreements; and (iii) research on the business impact of FTAs through firm surveys and general equilibrium simulation studies.

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<sup>5</sup> ADB's first technical assistance (TA) on trade facilitation in 1993 was to improve customs valuation in Nepal while the first loan in 1998 involved a road project with a customs component in Cambodia and Vietnam.

<sup>6</sup> During the 2000s, there were five ADB loan projects which used the WCO's agreements and conventions as guide on international standards on customs practices and regulations. In addition, during the same period, WCO supported 10 ADB technical assistance projects by providing technical inputs, co-organizing and/or participated in 29 ADB-financed conferences and workshops as resource persons.

<sup>7</sup> The ADB FTA database can be found at [www.aric.adb.org](http://www.aric.adb.org) Apart from tracking the number of FTAs by country, it contains a tool to compare the provisions of several FTAs.

16. Recent ADB research on the business impact of FTAs has attracted academic, policy and media attention. A prevalent view is that East Asia has low FTA utilization rates, with the agreements being viewed as discriminatory and a drain on scarce trade negotiation capacity in developing countries. The FTA spread has also been described as a “noodle bowl” - with complex rules of origin (ROOs) and variable tariffs – which has increased transaction costs business (especially small and medium enterprises). To test these views, the ADB study surveyed 841 manufacturing firms based in the Peoples Republic of China (PRC), Japan, Korea, Singapore, Thailand, and the Philippines<sup>8</sup>. The survey’s participating firms were mainly from electronics, automotives and textile and garments. The remaining firms were exporters of chemicals and pharmaceuticals, metals and machinery, and processed foods. SMEs (100 or less employees) comprised 32% of the survey sample while large and giant firms making up the remainder.

17. Key findings from the ADB research include the following:

- The rapid spread of trade agreements suggests that FTA-led regionalism seems here to stay in East Asia as a means to pursue country-level and regional trade strategies.
- The large economies of Northeast Asia—the People’s Republic of China (PRC), Japan, and the Republic of Korea (Korea)—have taken the lead in forging FTAs with trading partners in the region and around the globe.
- Interestingly, around 28% of respondents were using FTA preferences while another 25% had plans to do so. The survey reveals that the region’s exporting manufacturers generally view FTAs positively, with the highest levels of firms’ FTA utilization taking place in the large economies of Northeast Asia.
- About 20% of respondents said that the Asian noodle bowl (particularly multiple rules of origin) added to business costs but bulk of the firms did not consider this to a significant impediment to using FTAs. Nonetheless, the noodle bowl may become an issue with further spread of FTAs.
- To maximize the use of FTAs, the region’s policymakers should adopt best practices in designing trade agreements and provide more outreach support to firms in the short-term, and move towards a region-wide trade agreement in the medium-term.
- An optimal approach would be to adopt a sequential approach to develop a region-wide FTA which eventually links efforts at consolidating ASEAN FTAs with the emerging Transpacific Strategic Economic Partnership Agreement (or TPP).

#### **D. ADB-APEC Cooperation on Regional Trade**

18. Several possibilities exist: (i) a study on the evolving regional trade architecture and next generation trade issues for presentation at appropriate APEC fora; (ii) joint training for regional policy makers on the economic implications of region-wide FTAs/next generation trade issues; (iii) furthering the case for more aid for trade for the Asia-Pacific (e.g. through presentations of the RTG co-chairs report at APEC fora); and (iv) a partnership for mobilization of infrastructure and trade finance.

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<sup>8</sup> See Kawai, M. and Wignaraja, G. (forthcoming 2011), *Asia’s Free Trade Agreements: How is Business Responding?* Cheltenham (UK): Edward Elgar. For a summary see Kawai, M. and Wignaraja, G. (2010), “Free Trade Agreements in East Asia: A Way Toward Trade Liberalization” *ADB Briefs*, No. 1, June 2010.