

Aid for Trade in Asia and the Pacific

Driving Private Sector Participation
in Global Value Chains



WORLD TRADE
ORGANIZATION

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in Global Value Chains**



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Foreword

Trade organized through value chains has proven to be an important engine of growth for countries in Asia and the Pacific region. The disaggregation of the production process offers new opportunities for export and to add value to trade from the region's developing countries. Today, more than 80% of Asia's merchandise trade by volume is in parts and components and this figure continues to grow. By pulling more countries into this dynamic network, we will continue to see improvements in economic development, employment, and in living standards throughout the region.

The private sector has become an important partner in efforts to build trade capacity. As development assistance continues to experience downward pressure from the global financial crisis, this partnership is becoming even more crucial. Aid for trade flows fell slightly in most regions during the latest reporting period and Asia and the Pacific is no exception. This necessitates a more efficient use of available resources to address trade capacity shortfalls. The rise of public-private dialogues and nontraditional forms of trade financing assistance are two ways that this is playing out in the region.

Gains from participation in the global trading system in the region are strong but uneven. While trade continues to be an engine of growth in the region, "frontier economies" struggle to access these potential gains. Aid for Trade can act as a tool to open up new economic opportunities and therefore reduce economic volatility in countries in Asia and the Pacific which face special challenges such as in landlocked or small island states.

This report highlights the link between private sector participation in trade capacity building and the ability of firms to plug into value chains. Information sharing promotes more efficient targeting of assistance and sequencing of reforms. The identification of bottlenecks such as trade finance gaps also enables donors and the private sector to diversify their resources and focus them on specific interventions. Aid for trade is a key input to ensure that trade capacity building is sustainable and has positive development spillovers.

We would like to thank Cambodia and Japan for their work as co-chairs of this report. Aid for Trade continues to help beneficiary countries meet the new challenges they face in the regional and global economy. By providing support for closer consultation and cooperation between the public and private sectors, Aid for Trade has proven to be an important enabling mechanism for developing countries in their pursuit of sustainable growth strategies.



Takehiko Nakao
President
Asian Development Bank



Pascal Lamy
Director General
World Trade Organization

Preface

This report was prepared as the contribution to the Fourth Global Review of Aid for Trade in July 2013 with a view to sharing the experiences of our region with the rest of the world.

The formation of a Regional Technical Group (RTG) on Aid for Trade in Asia and the Pacific was a key recommendation from the Aid for Trade Regional Review meeting in Manila in September 2007. Since the establishment of the group in March 2009, we have held six meetings throughout the region.

Based on the presentations and discussions of the first three meetings, the first report of the RTG, entitled "Aid for Trade in Asia and the Pacific: Its Role in Trade Driven Growth," was prepared for the Third Aid for Trade Global Review which was held in Geneva in 2011.

This second report is based on the discussions held during RTG meetings in Seoul (May 2012) and Tokyo (March 2013), as well as further discussions with Asian delegates and in the Committee on Trade and Development of the World Trade Organization (WTO) in Geneva in June 2013.

The membership of the RTG comprises both country representatives and institutional partners participating in the development efforts of the region. The members which contributed to this second report include the Asian Development Bank (ADB), the Asian Development Bank Institute (ADBI), Australia, Cambodia, the European Union, India, Indonesia, Japan, the Republic of Korea, Tonga, Viet Nam, the United States, and the WTO.

As Co-Chairs of the RTG, we would like to express our sincere gratitude to the members of the RTG for their constructive engagement and valuable contributions. We wish to express our special thanks to those who acted as Secretariat of the RTG, including Ramesh Subramaniam and Alisa DiCaprio of ADB as well as Dirk Willem te Velde of the Overseas Development Institute. We are also grateful to the valuable contributions and guidance provided by Ganeshan Wignaraja of ADBI as well as Shishir Priyadarshi and Michael Roberts of the WTO.



Tomochika Uyama
Co-Chair
Regional Technical Group



Sok Sopheak
Co-Chair
Regional Technical Group

Executive Summary

Background

2013 marks the eighth year since the inception of the World Trade Organization (WTO) Aid for Trade (AfT) initiative. During this time, WTO members have discussed how to best assist developing countries to take full advantage of the benefits of trade liberalization. Under the heading of AfT, various initiatives have been explored and implemented by governments, the private sector, bilateral donors and development agencies.

The Regional Technical Group on Aid for Trade in Asia and the Pacific (RTG) has been working on issues related to AfT since 2009. The group has produced research based on the experiences of both donors and beneficiaries of AfT in Asia and the Pacific. The first RTG report in 2011 focused on the critical role played by foreign direct investment (FDI) in the promotion of trade and production capacity in Asia and the Pacific. Experiences highlighted in the 2011 report illustrated the ways that AfT supported domestic efforts to attract FDI.

Based on the conclusions of the first report, this second RTG report deepens our analysis of the overall context in which AfT can facilitate development through trade. Our analysis is again based on experiences from Asia and the Pacific, where AfT has supported key trade-related investments.

This second report also expands on the regional production component of Asia's impressive trade-led growth. The first report highlighted the role of integration as a way to reduce barriers to trade. We have seen that those economies that are better integrated into global value chains have been best positioned to gain from trade. Here, we highlight the specific role value chains play in promoting the assimilation of Asia's developing countries into dynamic production networks which can thereby promote growth.

Main Findings

There are five main findings of the RTG report:

1. **AfT has played an important role in helping Asian economies build the productive capacity to integrate further into the global economy.** By supporting efforts by developing countries to adapt to the shifting nature of the trading system, AfT also builds stronger links to regional and global value chains. In this overall context, the critical factor is that AfT is most effective when it is used, together with other forms of finance, to encourage private investment.

2. **Domestic development strategies in Asia and the Pacific are increasingly incorporating measures that target improvements in the investment climate.** Investments, including FDI, can improve both production and export capacity. This is particularly true in the context of deepening participation in regional and global value chains. In the longer term, such investments may level-up technologies through human resource gains. Investment supports trade (“investment for trade”) and is therefore also a key feature of successful and sustained development.
3. **Effective public–private dialogues (PPD) are an essential feature of modern development strategies in Asia and the Pacific.** Increasingly, regional governments are holding regular dialogues with the private sector to identify where bottlenecks for private sector activities exist. Asia’s experience shows that PPDs can enable governments to more effectively prioritize reform agendas and better target development assistance.
4. **AfT can promote and work together with other financial flows, which together can enhance AfT’s positive impacts on trade capacity.** These other financial flows can include development bank loans and guarantees, EXIM banks loans, and trade insurance as well as private bank loans and investments. Increasingly South–South cooperation is also emerging as a non-traditional source of development assistance. Since the resulting financial flows are large in size and relevant to business, they often play a significant role as a catalyst for business activities.
5. **Despite important successes, Asia’s challenged states must more actively diversify AfT resources beyond their existing focus on physical infrastructure.** In particular, investors need support to provide the means to take advantage of open trade channels. These include activities such as human resource development, technological capacity in customs and logistics, and assistance to identify external trading opportunities.

1 Introduction

Economic development in Asia and the Pacific has been driven by investment flows. Where conditions are favorable, such flows can contribute financial resources, strengthen export capacity and provide skills and employment. Aid for Trade (AfT) has played an important supporting role by enhancing features of the domestic economy that promote such positive outcomes.

The first regional report, *Aid for Trade in Asia and the Pacific: Its role in trade-driven growth*, highlighted the role of AfT in creating a good business climate and integrating countries into regional value chains. The conclusions of this report (see Box 1) focused on the links AfT could build between investment and growth.¹

In this second edition of the Regional Aid for Trade report, we update and build on the lessons of the first report. We begin with the first report's premise that investment is key to development success in Asia and the Pacific. We then highlight the role of global and regional value chains as a vehicle for countries to further expand trade and investment activities.

Our focus on the investment environment comes at a time when countries are increasingly incorporating investment policies into national development plans. Because the variables that

Box 1 Main Messages from the First Regional Technical Group Report on Aid for Trade in Asia and the Pacific

1. Certain economies in emerging Asia and the Pacific have been transformed into global factories—where trade liberalization has led to robust economic growth and rising prosperity.
2. Foreign direct investment (FDI) has been key to this success. Well-managed FDI brought with it technological transfer, new factories, competitive products, jobs, and exports.
3. Despite these success stories, however, two-thirds of the world's poor live in Asia.
4. Aid for Trade must help close this gap.
5. A regional approach backed by national strategies can maximize the benefits of available Aid for Trade.
6. Official Development Assistance must continue to play a critical role in helping attract FDI by improving the business climate.

¹ The first report "Aid for Trade in Asia and the Pacific: Its Role in Trade-Driven Growth" by the Co-Chairs of the Regional Technical Group on Aid for Trade for Asia and the Pacific is available from http://aric.adb.org/pdf/AfT_06-Sep-2011_print.pdf

affect the investment environment differ for every country (see Box 2), the challenges and opportunities countries face in promoting favorable conditions will also vary. As a result, the angle taken by this report is to highlight how developing countries in Asia and the Pacific can best identify the needs of investors and the bottlenecks to reform.

Box 2 What Is the Investment Climate?

The investment climate includes all of the factors that impact the opportunities and incentives for a firm to invest and expand in a market. It is determined by both domestic and international factors, and balances market liberalization with the need to have a stable regulatory regime.

Policy measures that impact this climate include investment promotion measures, macroeconomic factors, codes and standards governing investment, and regional or international institutions and practices. Beyond these measures, the attractiveness of an economy is also affected by characteristics such as political stability, geography, human capital, technological capacity, physical infrastructure and export diversity among others.

Aid for trade can play an important supporting role in both identifying areas for reform and providing resources to accomplish these measures. This RTG report highlights in particular how national governments can work with the private sector to most effectively identify bottlenecks to investment that can be addressed through aid for trade.

The objectives of this second report are threefold. The first objective is to describe the fundamental role AfT plays in supporting the public–private dialogues which are needed to identify appropriate targets for national reforms. Secondly, this report highlights the importance of non-Official Development Assistance (ODA) sources of financing, which together with AfT, can help to improve the business environment for investment. Activities through non-ODA financial sources include development bank loans, public–private partnership projects, and South–South cooperation. Third, we explore how AfT has performed in countries with special challenges in Asia, such as landlocked developing countries and small island developing countries.

2 AfT in Context: A Better Investment Climate for Plugging into Global Value Chains

Global Value Chains (GVCs) have become a key characteristic of the global economy. United Nations Conference on Trade and Development (2013) now estimates that over 80% of world trade occurs within production networks. For emerging economies such as the People's Republic of China, close to 75% of imports are in intermediate goods (WEF, 2012). Such trade has been a driver of regional growth.

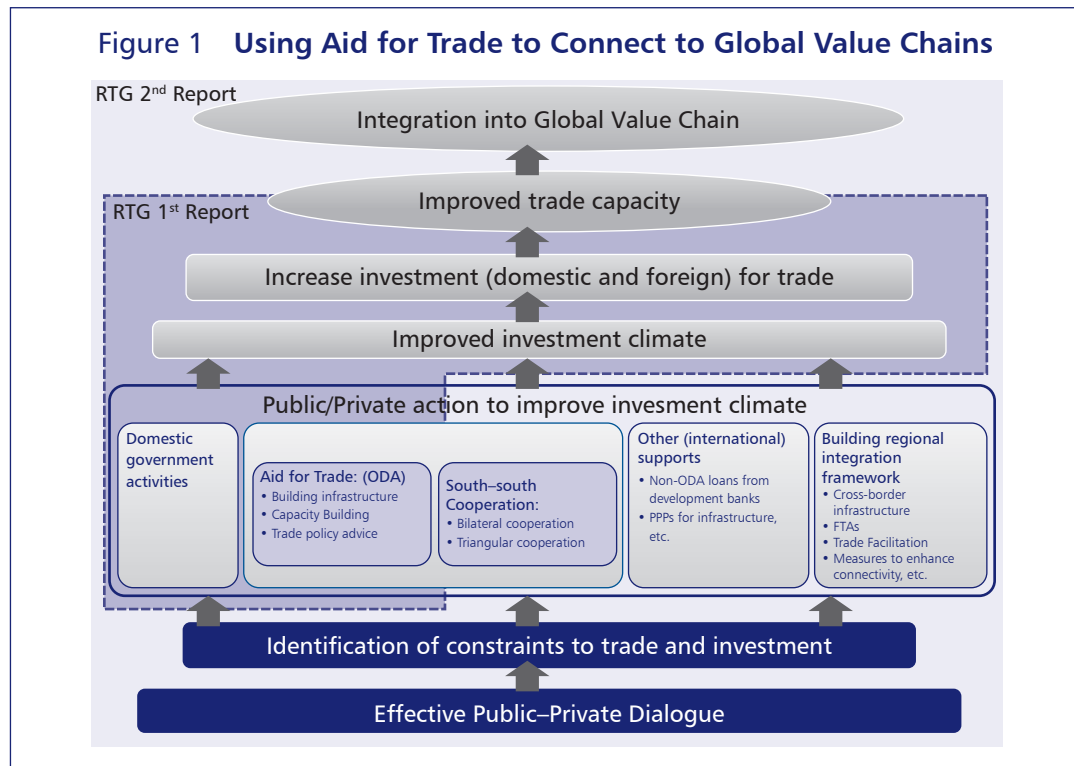
The rise of networked trade presents important opportunities to Asia's developing countries. The developing country share in global value-added trade has increased from 20% in 1990 to over 40% today. While much of GVC trade within Asia is dominated by high- and middle-income countries, increasingly nontraditional trading partners such as Cambodia are beginning to export into segments of existing networks.

Aid for Trade (AfT) supports efforts of developing countries to take better advantage of the opportunities available in the global trading system. One important new trend is the organization of world trade into GVCs. The importance of trade costs for participation in GVCs underlines the need to engage the private sector in trade and investment policy making. The participation of business can facilitate the identification of domestic bottlenecks to a smoothly functioning investment climate. By contributing to a growth-enabling environment, AfT more closely links efforts to plug into value chains with developmental outcomes that result from increased efficiency and domestic trade capacity.

Figure 1 illustrates some of the major considerations developing countries go through as they seek to adjust the domestic investment environment to attract GVC trade. In Asia, there are many examples where AfT has been mobilized to identify challenges that face domestic and foreign firms to create an enabling investment environment and to enhance the capacity of exporters to identify and take advantage of trade opportunities.

2.1 Engaging the Private Sector

The foundation of developmentally sustainable participation in the global trading system is set out by a transparent relationship between the public and private sector (lower levels of Figure 1). In Asia, fostering private sector growth has a long and dynamic history. Japan was



one of the first countries to promote integration with GVCs in its efforts to achieve structural transformation.² More recently, the Asian Tigers famously engaged the private sector in national development strategies in order to produce the most rapid period of industrialization yet seen.

Active and open consultations with the private sector can provide governments with both additional capacity in trade negotiations as well as insight into the constraints to trade and investment that exist in the domestic economy. Since firms are best positioned to articulate productive constraints, they have an important role to play in advocating priority targets for AfT. Continued engagement can offer needed feedback about AfT programs and projects.

Once constraints are identified, actions can be taken on a number of fronts. Traditionally, Official Development Assistance (ODA) has provided resources to support reform. However, increasingly, it is being recognized that other types of investment and financial flows also support improvements to the investment environment. Operationally, this is reflected in continued engagement through public-private partnerships in areas such as infrastructure and education.

² The development of Japan's textile industry benefited from shifts in production from the US. Akamatsu (1962) suggested in the 1960s that as economies advanced, the production of certain goods would shift to less developed economies where producing those goods would be cheaper. This 'flying geese model' was used to explain the experience of the industrialization process in East Asia, starting with Japan followed by the Republic of Korea, and more recently the People's Republic of China (Kasahara, 2004).

2.2 Improving the Investment Climate

The identification of existing investment bottlenecks then feeds into the improvement of the investment environment (middle section of Figure 1). This step is critical to the goal of plugging into GVCs since the quality of the domestic market affects the decision to invest, export and expand operations.

Increasingly investment policies are being integrated into national development policies. This is accompanied by a need to balance trade liberalization with regulatory regimes that ensure that the gains from investment are captured domestically. This balance underscores the importance of the private sector in identifying policies that are best suited to their needs.

In order to establish or scale up operations, investors require a supportive business environment. By aligning trade and investment policy with private sector needs, developing Asia has been fostering an unprecedented opportunity for growth. Yet it is here where financing gaps become restrictive. Aft itself is an important resource, but it can also mobilize other resources which may also contribute to an improved investment environment.

One Aft project that has made clear improvements to the regional business climate is the United States Agency for International Development (USAID)-assisted Association of Southeast Asian Nations (ASEAN) single window project. This project has the objective of improving the handling of goods at the borders of ASEAN countries. The single window will allow companies and traders to submit import, export and transit data to a single point and is intended to reduce the processing time for clearance of containers from a regional average of 5 days to 30 minutes. The project is being piloted in Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

Another important feature of an enabling investment environment, given our experience in Asia, is a vision and will to reform on the part of the government. The presence of a decisive plan and willingness to act facilitates donor assistance by incorporating various donor objectives into an existing national development framework. It is under these conditions that Aft is more effective in supporting the needs of both governments and the private sector.

2.3 Integrating into GVCs

The emerging concept of GVCs as a development tool in Asia (top level of Figure 1) is changing the basic thinking about industrialization. By becoming integrated into a GVC, a developing country that does not have the capacity to produce final electronics goods can still become an exporter of electronic products by producing intermediate components. The new reality of global trade is that manufacturing is now characterized by trade between countries that specialise in particular segments of a given production chain. This is particularly significant for the Asia and Pacific region, since it is here where the most dynamic change is occurring.

In Asia, the majority of regional trade today is in materials, parts and components.³ Since a single good may be manufactured in several different countries, the success of export-led development is often determined by producers' positions within production networks. This means that the relevant indicator of success is no longer the volume of exports, but rather the amount of value added in a given stage of the production process.

The emergence of GVCs as a dominant feature of world trade means that firms have new opportunities to reduce the thickness of the national borders they face.⁴ In Asia, the private sector has long been the engine of development. But even here, as integration via free trade agreements and other arrangements continues, business activities are becoming more border-blind. Though Asia was relatively late to begin negotiating FTAs, these efforts to promote the investment climate have become an important feature of growth (see Box 3).

Box 3 Regional Integration: Developments in ASEAN and Progress in Regional Trade

Efforts to promote regional economic cooperation within Southeast Asia did not receive significant attention among member states until the mid-1970s. Since then activity aimed at fostering closer economic integration gained momentum; notably in the late 1980s and early 1990s with the implementation of the ASEAN Free Trade Area (AFTA) in 1992. More recent efforts to accelerate economic integration include an agreement to move towards a regional economic community by 2015.

Practically, regional integration has advanced more in Asia than in other developing regions. In 2011, the intra-regional share of exports was 53% (48% in 2001) in Asia, compared to 13% (8% in 2001) in Africa and 27% (17% in 2001) in South and Central America. This is lower than Europe (71%) but greater than North America (48%). See WTO (2011).

The regional angle is important to understand the utility of interventions particularly in challenged states. Cambodia, for example has received assistance in its efforts to upgrade and modernize the railway system in collaboration with the private sector. The total cost of \$142.1 million has received contributions from ADB (60.9%), Australian Agency for International Development (AusAID) (14.7%), OPEC Fund for International Development (OFID) (8.8%), Government of Malaysia (1.9%) and the Government of Cambodia (13.7%). The completion of the rehabilitation is expected to provide better trade links to Thailand and Viet Nam, thus building better access to neighboring economies.

³ To quantify this phenomenon, a joint initiative of the OECD and WTO has constructed a dataset of Trade in Value Added indicators (TiVA), where trade in goods and trade in services both constitute value chains.

⁴ Economic data do not directly measure the importance of GVCs in a country's exports. OECD (2012a) however developed a database and index which can measure indirectly the importance of imports and intermediate exports in total exports. The participation index measures to what extent countries are involved in vertically fragmented production. Several Asian countries top the list of GVC participation, although some larger Asian countries are located nearer to the bottom. Cambodia's share of trade linked to value chains is particularly striking, given its LDC status.

3 Promoting Public–Private Dialogues

Aid for Trade (AfT) is most successful when it is targeted to address the specific impediments facing the private sector. One of the most effective ways to identify these impediments is to maintain an ongoing dialogue between the government and the private sector. The presence of a well-functioning public–private dialogue (PPD) smoothes the interface between the government, which is the official recipient of AfT, and the private sector, which is best able to identify challenges and opportunities in the domestic economy. PPDs can also have further spillover effects such as improving trade negotiation capacity and promoting transparency in the policy process. Both of these effects further promote AfT’s goals of facilitating trade flows.

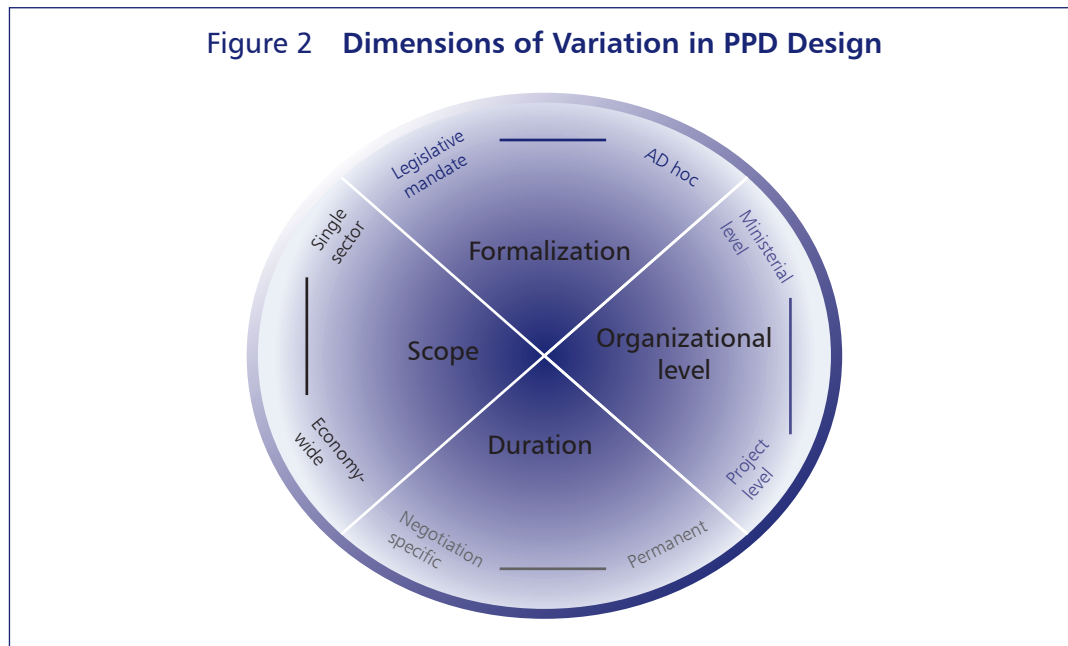
3.1 Effective PPD Formats Vary

PPDs exist throughout Asia and the Pacific in a variety of different formats, all of which can work effectively. Figure 2 illustrates four of the dimensions in which a national-level PPD may vary. The most obvious is in the level of formalization. The spectrum extends from countries that have a legal mandate for private sector consultations, such as the Philippines, to those where interaction is informal and often ad hoc, such as in Pakistan.

A second variation is in the scope of issues covered by PPDs. The most common coverage for a PPD is to include all sectors of the economy, such as Malaysia’s PEMUDAH which aims to improve the business climate in general. At the other end of the spectrum are dialogues which exist only for a specific industry, such as the case in Nepal where a PPD was established with the Pashmina Industries Association to support efforts to obtain trademark certification for Chyangra Pashmina in 2010.

A third variation is the duration of PPDs. Some dialogues take place regularly and continuously and are not tied to any specific negotiating outcomes. This would include PPDs such as a 2011 initiative in the Philippines called One Country One Voice which seeks to improve utilization of existing trade agreements through information sharing. On the other side of the spectrum are dialogues which are created to service specific negotiations such those focused on WTO issues. Malaysia maintains a PPD specifically related to the ASEAN Economic Community negotiations for example (also see Box 4 for another example).

Figure 2 Dimensions of Variation in PPD Design



There is also a fourth dimension in which PPDs may vary, which is the organization level. The discussion above focused on national-level PPDs that support trade policy and national business climate development. However PPDs may also exist at the local or project level which can also align government assistance more closely with private sector needs in highly targeted projects. In Viet Nam for example, Japan International Cooperation Agency (JICA) has funded a successful program—Human Resource Development of Technicians at Hanoi University of Industry—which has linked the curriculum development of a vocational school to the skills demanded by industry. By aligning skills education with industry needs, the program has enabled 90% of the graduates of this school to successfully attain job placement.

Box 4 The Task Force for the WTO Agreement on Agriculture Re-negotiation (TF-WAAR)

The TF-WAAR in the Philippines is an example of a formal PPD mechanism that has successfully brought together the public and private sectors in a way that promotes consultations and more effective trade negotiations.

In 1998, the Department of Agriculture of the Philippines established the TF-WAAR to help draft WTO negotiating positions. It is comprised of public representatives from more than 20 government agencies and private sector representatives from industry associations, chambers of commerce, farmers, and business among others. Private sector representatives are appointed by the President to advisory councils. It has remained consistent despite changes of leadership, which is a problem informal mechanisms often face.

TF-WAAR's contribution to trade policy has been highly regarded. According to a recent ITC study, it has both helped the private sector to become more aware of how trade issues affect them, and helped the public sector to more effectively represent business interests in WTO negotiations.

Source: ITC (2013) Assessing PPD on Trade Policy in the Philippines.

Table 1 Ease of Doing Business in East Asian and Pacific Countries and Other Regions (By Rank)

Country	2011	2012	Income Group
Australia	11	10	High income: OECD
Brunei Darussalam	83	79	High income: non-OECD
Cambodia	141	133	Low income
China, People's Rep. of	91	91	Upper middle income
Fiji	54	60	Lower middle income
Hong Kong, China	2	2	High income: non-OECD
Indonesia	130	128	Lower middle income
Japan	20	24	High income: OECD
Kiribati	115	117	Lower middle income
Korea, Rep. of	9	8	High income: OECD
Lao People's Democratic Rep.	166	163	Lower middle income
Macao, China			High income: non-OECD
Malaysia	14	12	Upper middle income
Marshall Islands	103	101	Lower middle income
Micronesia, Fed. Sts. of	146	150	Lower middle income
Mongolia	88	76	Lower middle income
New Zealand	3	3	High income: OECD
Palau	109	111	Upper middle income
Papua New Guinea	108	104	Lower middle income
Philippines	136	138	Lower middle income
Samoa	55	57	Lower middle income
Singapore	1	1	High income: non-OECD
Solomon Islands	94	92	Lower middle income
Thailand	17	18	Upper middle income
Timor-Leste	169	169	Lower middle income
Tonga	61	62	Lower middle income
Vanuatu	78	80	Lower middle income
Viet Nam	99	99	Lower middle income
East Asia and Pacific (developing)	98	98	
East Asia and Pacific (all)	76	75	
Latin America and Caribbean	95	97	
Sub-Saharan Africa	139	139	
Small States	103	105	

OECD = Organisation for Economic Co-operation and Development.

Note: Lower scores reflect more positive ease of doing business.

Source: World Development Indicators.

Wherever PPDs fall within the various dimensions, if managed transparently, their presence can promote more effective interaction between the state and the private sector. Some common characteristics to PPDs that were identified in recent International Trade Centre case studies as effective by both public and private sector actors include those with regular and well-publicized meetings, which involved a wide range of stakeholders, and where inputs were both well-researched and formally taken into account.

3.2 PPD Can Facilitate AfT

PPD facilities can assist both the government and the private sector to target AfT assistance in ways that improve the overall business climate. A functioning relationship between actors is a feature that is often reflected in positive or improving scores on the World Bank's Doing Business Index (see Table 1). Malaysia, which has a variety of PPD mechanisms at various levels scores very well for example, while countries with highly limited or non-existent PPD often fare poorly.

The presence of PPDs can make AfT more effective for both the public and the private sector. Consistent with the experience of the Philippines, the Asian Development Bank (2009) suggests support for public–private partnership (PPP) activities is more successful where effective PPDs exist. The reason is that PPDs give the private sector partner a means of raising and addressing project concerns as they arise.

In addition to their role in directing AfT to proper targets, PPDs are often funded directly by AfT. As developing countries have come to play a greater role in international trade institutions, their accession process often includes AfT resources aimed at the establishment of PPD. In Nepal for example, there are few functioning PPD facilities, but that associated with their participation in the Enhanced Integrated Framework, which was donor driven, is seen as bring a good role model for other initiatives.

An example of the volume of AfT resources that directly targets joint initiatives is the Japan–Philippines Economic Partnership Agreement. Under this project, \$100 million has been allocated to improve the Philippines' emerging business environment. This program is cofinanced by ADB, with a \$350 million loan. The aim of the program is to support policy actions which have been developed through dialogue between various stakeholders, including government agencies, business communities, and donor agencies. Such policy actions include the resolution of the VAT refund issue, supply of affordable and stable electricity, improvement of customs procedures and the development of specific infrastructure to remove the bottlenecks. Annex 2 includes further details.

4 Improving the Investment Climate by Engaging Non-ODA Financing

A second objective of this report is to illuminate the role Aid for Trade (AfT) can play in attracting or supporting development projects that receive other forms of financing. Trade capacity building is a multifaceted process that involves many actors in various sectors. As a result, traditional aid is only one of many resources that countries can access to support trade and private sector development. Below we highlight the ways that AfT interacts with other types of financial flows to promote the development of the investment climate and capacity to trade in developing countries.

The potential for private flows to bridge financing gaps is particularly important in Asia and the Pacific. Trade finance refers to the lending and guarantees that support import and export transactions. A recent Asian Development Bank (ADB) survey found a \$1.6 trillion gap in trade finance, of which \$425 billion is in Asia and Pacific. Such unmet demand for lending and guarantees is holding back growth and jobs in Asia and the Pacific. According to the survey, a 5% increase in the availability of trade financing could result in an increase of both production and employment by 2%.

Infrastructure financing is also an issue. ADB has estimated that the demand for infrastructure in Asia will be \$8 trillion over the period 2010–2020, an average of \$730 billion per year. Meanwhile, public and private investments in infrastructure were estimated to be only around \$30 billion. Of this, some \$7 billion is in the form of loan assistance, grant aid and technical aid; and \$20 billion is in the form of private investment in infrastructure.

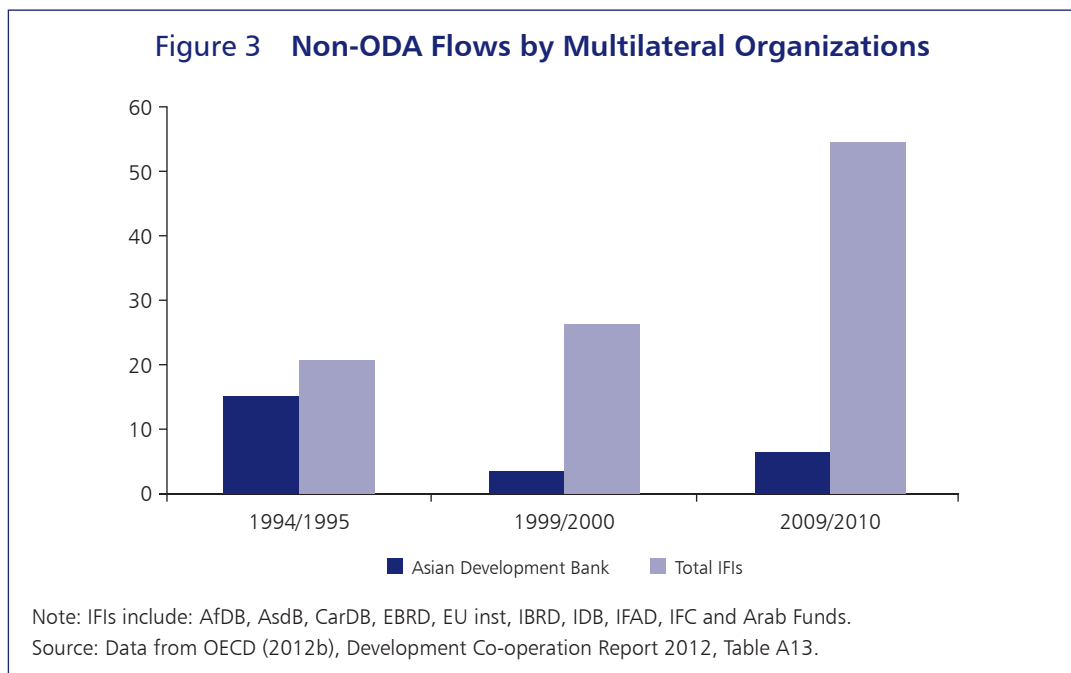
There are various financial instruments that seek to address these gaps. These can include public loans, private loans, guarantees, and resources attached to South–South collaboration. We are particularly interested in understanding how the range of different financial flows can together promote the investment climate and build trade capacity so that developing countries can take part in global value chains.

The variation in the importance of different types of financing across Asia and the Pacific suggests that we must consider a wide range of international financial flows in our efforts to understand the role of AfT. From the perspective of how best to improve the investment climate given Asia’s experiences, the following merit attention—programs financed through development banks, projects financed using public–private partnership arrangements, and emerging forms of South–South cooperation.

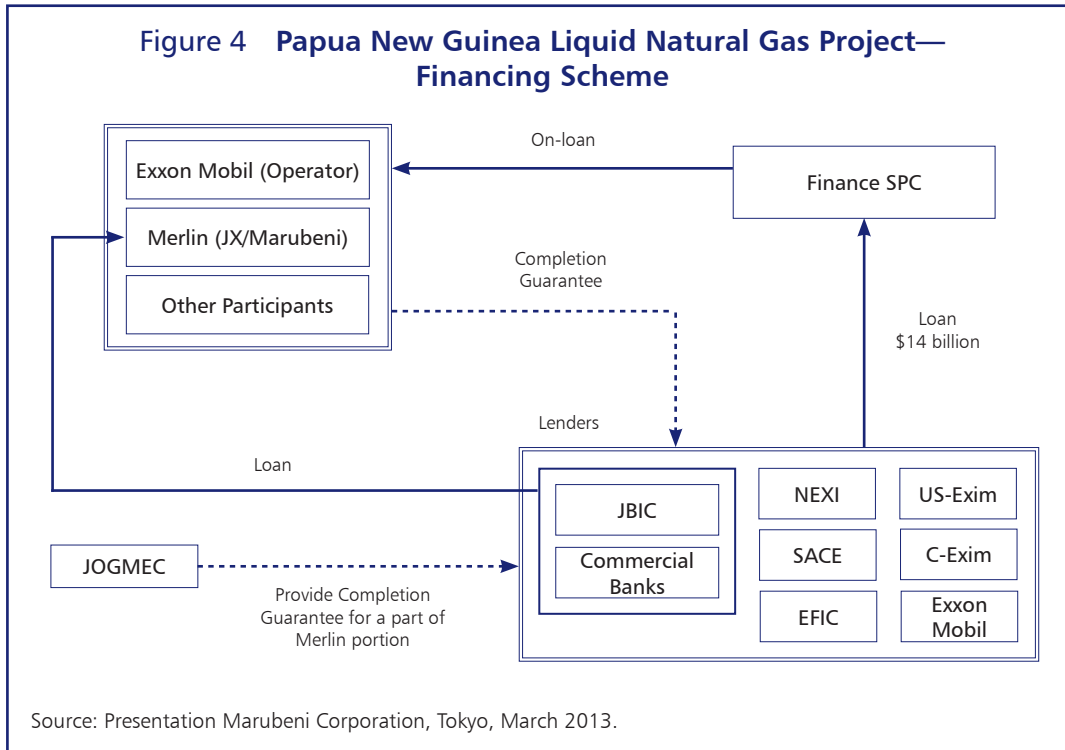
4.1 Development Projects/Programs Financed by Development Banks

One category of support that is not categorized as AfT, but which has contributed to infrastructure projects and other elements of the investment climate is that of “other official flows.” These include government-run projects and programs which are financed by development banks, but are not classified as AfT due to their lower level of concessionality than Official Development Assistance (ODA) (grants or loans with a minimum concessionality of 25%).

Figure 3 shows that non-ODA finance by international financial institutions is worth \$55.2 billion on average in 2009/2010, of which \$6.6 billion or 12.2% was provided by ADB.



Development banks use a range of tools to address market failures in capital markets. These can address long term financing gaps in both infrastructure and other sectors. One example where development bank resources have contributed financial services crucial for the financial closure is the Papua New Guinea (PNG)–Liquid Natural Gas project. Figure 4 shows the financing scheme for the project which involves several development banks, alongside commercial banks and private sector operators. In 2012 alone, \$3.2 billion was spent on project activities; for the period of 2004–2012 the total amount was nearly \$13 billion. The project is expected to double PNG’s GDP and triple export revenues. This provides an important example of how non-ODA flows from development banks can help build trade capacity in Asian countries.



Loans are particularly useful for building infrastructure. For example, Cambodia is benefiting from loans from ADB, the World Bank and Japan, for infrastructure including new ports in Sihanoukville and Phnom Penh and a new railway which will connect Cambodia to Thailand and Viet Nam.

Development banks are particularly active in providing trade finance. Actions in this area by development banks are an important means to mobilize private sector resources through guarantees, cofinancing and knowledge dissemination. ADB's Trade Finance Program provides guarantees and loans through over 200 partner banks to support trade. The value of transactions supported has grown rapidly from its inception in 2004 to \$4 billion in 2012. It aims to crowd-in banks and insurance through cofinancing of which it attracted \$2.3 billion in 2012. Currently resources are focused on challenging environments and the program is active in countries such as Viet Nam, Pakistan, Bangladesh, Sri Lanka, Mongolia and Uzbekistan. Trade finance activities have the additional benefit of attracting international banks to new markets through guarantees.

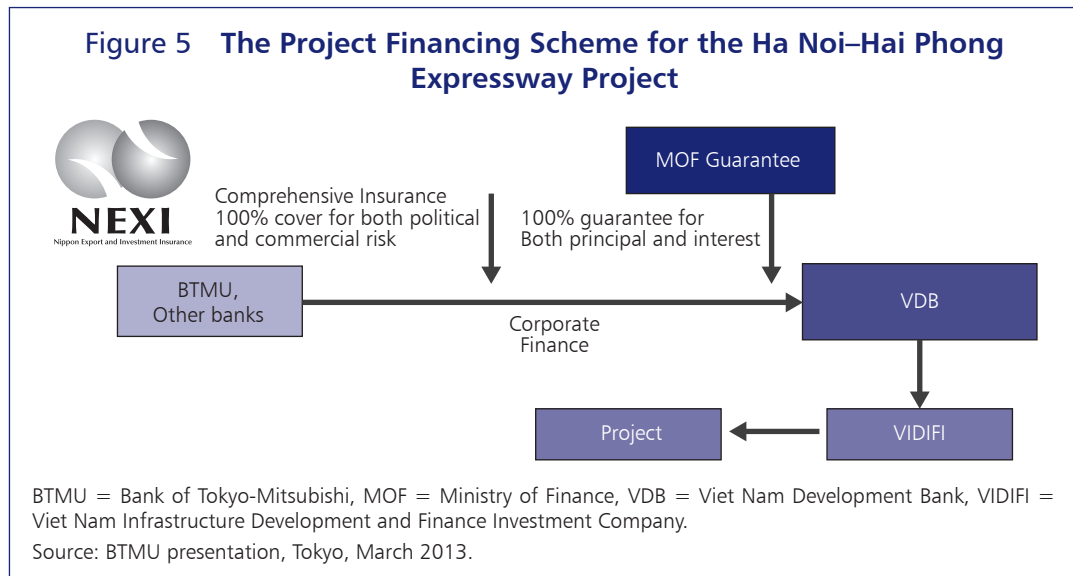
EXIM Banks in Asia have also emerged as important facilitators of foreign investment originating within and beyond the region. For instance, the Republic of Korea's EXIM Bank, Japan Bank for International Cooperation (JBIC) and the People's Republic of China's (PRC) China Development Bank and China EXIM Bank were important financiers of a \$2 billion, 1,200 megawatt power plant in Viet Nam.

4.2 Public–Private Partnerships

Involving the private sector in efforts to build trade capacity is crucial, particularly following the decline in ODA that has occurred in the wake of the global financial crisis. Table A4.2 in Annex 4 reports that firms find that domestic private investment and FDI are the most important sources of finance available to them, followed by ODA, domestic public, remittances and non-concessional funding.

Increasingly governments are turning to Public–Private Partnerships (PPPs) as a tool to access resources to build infrastructure and support other sectors. By partnering with the private sector, the government increases its stock of expertise, finance and skills while still maintaining control over the allocation of resources.

The Ha Noi–Hai Phong expressway project in Viet Nam illustrates both the importance and complexity of PPPs (Figure 5). The highway is the lifeline for Northern Viet Nam, but it has become overloaded. This resulted in the design of an expansion via a build–operate–transfer project. Commercial banks provided the corporate finance with the assistance of guarantees of the Japanese risk insurers and the Ministry of Finance. The total size was \$177 million in equity and \$1,556 million in loans.



4.3 South–South Cooperation

A third emerging category of support in Asia is South–South cooperation, i.e. resource flows coming from emerging economies. There has been a rapid increase in South–South trade and investment in recent years.⁵ In part this reflects the growing economic role of rising powers such as the PRC and India. It also reflects increasing regional integration. A number of new players have emerged, which contributes to the range of resources available to promote trade.

⁵ Note: Figures of South–South cooperation by countries which are not member states of the OECD DAC are not based on OECD criteria for ODA, including in terms of concessionality level.

India is one prominent source of South–South cooperation in the region. The Department of Commerce of India (2012) details four principles of its South–South collaboration (SSC). These include: (i) voluntary partnerships based on commonalities, respect and non-interference; (ii) cooperation is demand-driven, response oriented and free from conditionalities; (iii) SSC countries must have flexibility to progress forward; and (iv) SSC must complement North–South Cooperation, not substitute it. India’s SSC increased from \$426 million in 2009/2010 to \$618 million in 2011/2012. The EXIM bank’s lines of credit amounted to \$6.7 billion.

Appendix 2 shows that aid from the PRC amounted to \$1.4 billion in 2009. The PRC’s development cooperation is largely channeled through buyer’s export credits, which are popular in the PRC’s investment in Africa. Between 2009 and 2012, the PRC’s commitment to Africa was worth \$10 billion in packages of preferential credits and non-concessional loans. That amount is expected to double over the next 3 years.

Increasingly, other developing countries in Asia are also participating in South–South cooperation addressing trade barriers. Indonesia and Malaysia, for example, have long provided technical cooperation to their trading partners in and outside of the region. Indonesia has provided \$42 million in foreign assistance over the past decade; and their humanitarian assistance has amounted to \$7 million in the past two years alone. Annex 2 describes the forms of SSC from the following providers: the PRC, India, Malaysia and Indonesia.

FDI is an increasingly important element in South–South regional cooperation. United Nations Conference on Trade and Development (UNCTAD) finds that intraregional FDI in ASEAN increased from \$6.3 billion in 2003–2005 to \$14.4 billion in 2009–2011. Landlocked countries in particular have sought FDI from neighboring countries to build up their productive capacity in ways that will promote their participation in GVCs.

For example, international companies are building cross-border production networks in landlocked Lao PDR, from their existing manufacturing bases in Thailand, leading to more investment from Thailand. Improvement in the investment climate, especially infrastructure development such as the East–West Economic Corridor, have made a significant contribution to the expansion of value chains from Thailand to the Lao PDR. An example of this is the decision by two Japanese manufacturing companies to expand their production networks from their existing base in Thailand to the Savan-Seno Special Economic Zone in the Lao PDR.

UNCTAD (2013) suggests that greenfield FDI has increased in manufacturing since the adoption of the ASEAN Investment Area. Low-income countries in ASEAN, including Cambodia, the Lao PDR, Myanmar and Viet Nam, have benefited from growing investment from more advanced member States (Malaysia, Singapore, Thailand, the PRC and the Republic of Korea). Increased intraregional FDI has accelerated the development of production networks within ASEAN.

Another element that can enhance the inclusiveness and development potential of South–South trade, is the creation of intercontinental bank links between emerging economies. ADB’s trade finance program has successfully supported links among banks in developing Asia, however there has not yet been a dedicated effort to address the weak links between Latin American, African and Asian banks.

5 Challenges in Different Contexts

In the first Regional Technical Group (RTG) report, we found that while many countries in Asia and the Pacific have made considerable progress in their efforts to expand trade and realise economic growth, there are a number of countries which are still struggling. The first report characterized this divergence as the “two faces of Asia.” The final objective of this second report is to highlight how Aid for Trade (AfT) operates under conditions of volatility and other development and governance constraints.

Table 1 in Section 3 has shown that the business climate and quality of institutions in challenged states such as landlocked developing countries and small islands is on average much weaker than other developing countries in the region. The cost of infrastructure is also comparatively higher in smaller states since the initial fixed cost is spread over less economic activity. This contributes to a higher than average cost of transportation which drives up the cost of exporting goods.

Complex financing programs are often needed to address these multifaceted development constraints. In the case of the landlocked Kyrgyz Republic, export volatility associated with a narrow economic base is compounded by skilled outmigration and a chronically negative current and fiscal account. Development partners have acknowledged the compounded difficulties and turned to focus on the importance of investment climate reform. Asian Development Bank’s (ADB) Investment Climate Improvement Program focuses on both reducing costs of regulatory compliance and improved access to finance as well as engaging the private sector through public–private partnership (PPP) and worker skills building projects. More than \$50 million has been disbursed since 2008 through policy based grants, complemented by technical assistance and other project loans.

The domestic capacity of challenged states to leverage assistance to plug into global value chains (GVCs) is more limited than more central states and larger economies. This is the result of over-specialization, high production costs and weak human resources. In these countries, AfT tends to concentrate in economic infrastructure projects. But for small states to take part in GVCs, AfT also needs to address enabling factors behind participation in GVCs including quality standards (through development of standards) and human resources (through, for example, business scholarship schemes).

A success story of effective support in a landlocked country comes from the Nepal Multimodal Transit and Trade Facilitation Project. With the support of World Bank and Government of India, Nepal was able to establish two dry ports, one with road links and another with rail

links. The cost of this project was \$28.5 million. As a landlocked, least developed country Nepal bears significant transport costs. Moreover, Nepal is unique among the landlocked developing countries group in that it only has one viable trade-corridor option, which connects to India. A UNDP funded project titled 'Enhancing Nepal's Trade-Related Capacity project' has also played an important role by conducting feasibility studies as well as facilitating the dialogue between the private sector and the government around these issues.

Aft for human resource and skills development can also play a key role in promoting trade for development. For example, the EU's Centre for Development Enterprise (CDE) has provided support for a family business in Fiji called Pure Fiji. CDE funded technical assistance, business know-how, marketing and networking. Supported by an investment of \$2,000 in 2002, Pure Fiji is currently worth \$3.2 million. It exports high quality beauty products such as oils and soaps. Importantly, it still maintains close links with rural villages that supply the raw materials.

There are also potential niches for small island developing states in the services sector (e.g. health care) and especially information and communications technology based services (e.g. offshore education, or call centers). Important factors in the development sector are human resources and options to migrate. In addition, there is evidence that even small island developing states such as Samoa can benefit from global value chains through producing for globally-established companies.

Countries in this group face substantial constraints in many areas of trade capacity. Infrastructure financing remains in high demand, but infrastructure support alone has not been sufficient to plug challenged countries into the global value chains that have driven the region's dynamism. While no "one-size-fits-all" approach is appropriate, further efforts need to be made to ensure that trade capacity building efforts can improve trade outcomes where development challenges are most complex.

6 Conclusions

Since our previous regional report in 2011, Aid for Trade (AfT) has remained an important feature of the development landscape in Asia and the Pacific. As the global economy continues to adjust in the aftermath of the global financial crisis, countries have taken on a broader view of the development agenda and the ways in which both aid flows and investment flows can play a part in building trade capacity.

AfT flows have grown since 2006, but have fallen over the last year. This highlights the importance of leveraging all possible avenues for building trade capacity. By describing some of the features of the regional economy that have supported the development of global value chains, this report adds support for the observation that we are moving towards a broader use of “investment for trade” as well as traditional AfT.

This report has illustrated how packages of financial flows come together to build trade capacity. Loans from EXIM banks or development banks are used to seek financial closure in complex projects such as Papua New Guinea’s Liquid Natural Gas project or the public–private partnership (PPP) for highway construction in Viet Nam. Formalized public–private dialogues help to set the right framework and investment climate. Regional cooperation and investment is also doing a great deal to help landlocked countries to take part in global value chains.

Continued action by the Regional Technical Group (RTG) will be framed by the renewed mandate for the Aid-for Trade initiative and the specific elements that will come out of the 4th Global Review and WTO’s 9th Ministerial Conference in Bali, Indonesia. Mobilization of Aid-for-Trade resources and continued action to promote trade mainstreaming are likely to remain central elements of this mandate. Additionally, a monitoring mandate which focuses on development impacts is likely to be combined with a better understanding of how AfT can mobilize other forms of development financing, namely an Aid and Investment for Trade approach. The role that AfT can play in regional integration, in supporting countries efforts to integrate into value chains, in addressing the capacity constraints faced by small and medium-sized enterprises, and in trade facilitation are among the elements that the RTG can consider focusing on in its future work.

Annex 1

Aid for Trade Flows in Asia and Pacific

A1.1 Flows in Asia and Pacific and recent changes in AfT

Table A1.1 shows total disbursements to ADB developing member countries in the period 2006–2011. Total Aid for Trade (AfT) to ADB member countries increased by an average annual 13%, but with large differences among recipients. The top 5 recipients in terms of total AfT during the period were India, Afghanistan, Viet Nam, Indonesia, and the People’s Republic of China (PRC). The bottom five in terms of average AfT per capita were Turkmenistan, Myanmar, the PRC, India, and Pakistan.¹

Table A1.1 AfT Disbursements to ADB Members

Country	Current (\$ million)						Average Annual Change (%)	Average per Capita (\$)
	2006	2007	2008	2009	2010	2011	2006–11	2006–11
Individual country disbursements:								
Afghanistan	762	890	1,180	1,671	1,750	1,590	16	39.6
Armenia	54	87	162	224	168	124	18	44.3
Azerbaijan	64	79	93	115	62	158	20	10.8
Bangladesh	247	330	550	289	467	480	14	2.7
Bhutan	29	24	20	37	87	70	19	63.0
Cambodia	100	125	140	132	211	256	21	11.6
China, People’s Rep. of	662	797	874	620	509	505	–5	0.5
Cook Islands	1	1	1	2	3	9	60	n/a
Fiji	9	7	7	5	9	11	4	9.7
Georgia	101	121	215	227	239	179	12	40.8
India	907	1,053	1,661	1,887	2,298	2,232	20	1.4
Indonesia	694	646	925	795	1,124	860	4	3.6
Kazakhstan	16	104	153	88	58	37	18	4.8
Kiribati	10	12	6	6	4	13	6	85.6
Kyrgyz Republic	56	48	50	57	81	131	19	13.2
Lao People’s Democratic Rep.	102	125	113	104	149	157	9	20.6

continued on next page

¹ Calculated using population data from the World Bank’s World Development Indicators. No data available for Cook Islands or Nauru.

Table A1.1 *continued*

Country	Current (\$ million)						Average Annual Change (%)	Average per Capita (\$)
	2006	2007	2008	2009	2010	2011	2006–11	2006–11
Malaysia	52	223	118	115	52	9	–30	3.4
Maldives	0	5	7	11	33	7	86	33.8
Marshall Islands	1	2	2	4	11	4	26	77.4
Micronesia, Fed. States of	8	9	10	8	15	28	29	116.7
Mongolia	45	60	91	122	136	155	28	37.7
Myanmar	15	11	21	27	45	86	41	0.7
Nauru	7	7	12	6	1	1	–28	n/a
Nepal	103	116	157	154	251	278	22	6.1
Pakistan	280	386	349	383	327	606	17	2.3
Palau	7	5	12	5	8	1	–27	308.0
Papua New Guinea	45	106	112	82	125	151	27	15.6
Philippines	312	604	492	559	383	357	3	5.0
Samoa	8	9	9	19	32	36	34	103.6
Solomon Islands	18	17	11	19	26	50	23	45.5
Sri Lanka	254	222	374	434	363	472	13	17.4
Tajikistan	39	46	49	72	172	129	27	12.5
Thailand	258	128	112	114	200	263	0	2.6
Timor-Leste	18	16	35	31	44	49	22	29.4
Tonga	4	10	4	10	33	17	36	126.0
Turkmenistan	1	1	4	3	3	3	19	0.5
Tuvalu	7	3	4	7	2	4	–12	452.8
Uzbekistan	47	25	76	71	87	73	9	2.3
Vanuatu	5	15	45	47	36	18	29	119.2
Viet Nam	795	1,103	1,191	1,367	1,716	2,069	21	16.0
Regional disbursements:								
Central Asia, regional	44	27	34	39	61	30	–7	
Far East Asia, regional	68	41	18	10	21	18	–24	
Oceania, regional	19	16	108	24	49	68	29	
South and Central Asia, regional	11	7	6	4	6	11	1	
South Asia, regional	28	22	34	13	6	18	–8	
Total	6,314	7,690	9,646	10,018	11,461	11,824	13	

Sources: Derived from data obtained from OECD CRS database (downloaded April 2013) and World Bank World Development Indicators (downloaded May 2013).

Table A1.2 shows total AfT disbursements by sector. Over 50% of flows were concentrated in just two sectors—Transport and Storage (35% of the total) and Energy (23%). Although Tourism disbursements were the lowest in absolute terms (at only 0.3% of the total), they were the fastest growing during the period (at an annual average 23%) along with the Energy sector which experienced annual average increases of 17%.

Table A1.2 AfT Disbursements to ADB Members (By Sector)

Country	Current (\$ million)						Average Annual Change (%)	Share of Total (%)
	2006	2007	2008	2009	2010	2011	2006–11	2006–11
Transport and Storage	2,079	2,344	3,086	3,756	4,229	4,510	16.8	35.1
Communications	101	129	241	193	181	145	7.5	1.7
Energy	1,285	1,699	2,492	2,015	2,778	2,779	16.7	22.9
Banking and Financial Services	531	789	828	863	661	760	7.5	7.8
Business and Other Services	570	841	521	428	359	422	-5.8	5.5
Agriculture	984	1,075	1,337	1,698	2,028	1,827	13.2	15.7
Forestry	263	291	288	285	383	331	4.7	3.2
Fishing	61	69	169	138	101	107	11.7	1.1
Industry	315	284	438	447	498	676	16.5	4.7
Mineral Resources and Mining	29	44	36	50	42	61	15.6	0.5
Trade Policies and Regulations	84	109	190	121	160	171	15.3	1.5
Tourism	13	16	21	23	41	36	22.7	0.3
Total	6,314	7,690	9,646	10,018	11,461	11,824	13.0	100.0

Source: Derived from data obtained from OECD CRS database (downloaded April 2013).

Disbursements in the categories of Economic Infrastructure and Productive Capacity Building accounted between them for 99% (59% and 40% respectively) of total AfT flows in the period 2006–2011 (Table A1.3). AfT in the Trade-Related Adjustment category, although representing only a tiny (0.01%) proportion of the total, have grown quickly in the four years that they have been recorded by the OECD; from zero in 2007, they increased rapidly over 2008–2010. There are only a few recipients of Trade-Related Adjustment disbursements such as Afghanistan, Azerbaijan, Kazakhstan, the Lao PDR, and Papua New Guinea.

AfT disbursements to Asia as a whole, although the largest among regions in absolute terms, have grown more slowly than those to any other region—at an annual average 6.7% 2006–2011 (Table A1.4).² Disbursements to Asian subregions, however, have varied—with those to the Middle East falling by an annual average of 17% in the period 2006–2011 (the only subregion to experience a fall in flows) while those to South and Central Asia increased by an annual average 20% over the same period. The strongest growth in disbursements has been to the Americas (particularly North and Central America), although the value of these is small compared to disbursements in Asia and Africa.

² Although it should be noted that the fastest rate of growth is in disbursements to 'unspecified' destinations.

Table A1.3 Aft Disbursements to ADB Members by Task Force Category (Current \$ million)

Recipient	Economic Infrastructure										Productive Capacity Building										TA for Trade Policy and Regulations										Trade-Related Adjustment ^a																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234	3235	3236	3237	3238	3239	3240	3241	3242	3243	3244	3245	3246	3247	3248	3249	3250	3251	3252	3253	3254	3255	3256	3257	3258	3259	3260	3261	3262	3263	3264	3265	3266	3267	3268	3269	3270	3271	3272	3273	3274	3275	3276	3277	3278	3279	3280	3281	3282	3283	3284	3285	3286	3287	3288	3289	3290	3291	3292	3293	3294	3295	3296	3297	3298	3299	3300	3301	3302	3303	3304	3305	3306	3307	3308	3309	3310	3311	3312	3313	3314	3315	3316	3317	3318	3319	3320	3321	3322	3323	3324	3325	3326	3327	3328	3329	3330	3331	3332	3333	3334	3335	3336	3337	3338	3339	3340	3341	3342	3343	3344	3345	3346	3347	3348	3349	3350	3351	3352	3353	3354

Table A1.4 Aft Disbursements (By Region)

Country	Current (\$ million)							Average Annual Change (%)	
	2002–5 Ave.	2006	2007	2008	2009	2010	2011	2002–11	2006–11
Africa	4,335	5,460	7,474	9,337	10,909	11,142	12,271	14.3	17.6
<i>North of Sahara</i>	737	1,090	1,257	1,763	1,790	2,261	2,160	16.0	14.7
<i>South of Sahara</i>	3,489	4,290	5,892	6,923	7,689	8,259	9,225	13.4	16.5
<i>Africa, regional</i>	109	80	325	652	1,430	621	886	24.2	61.9
Americas	854	1,086	1,633	1,981	2,495	2,879	2,926	20.0	21.9
<i>North and Central America</i>	373	476	638	889	1,128	1,496	1,593	19.9	27.3
<i>South America</i>	444	538	906	874	1,054	1,240	1,192	19.1	17.2
<i>America, regional</i>	36	72	89	218	312	143	141	33.9	14.5
Asia	6,486	9,329	9,520	10,841	11,075	12,779	12,893	13.4	6.7
<i>Far East Asia</i>	2,488	3,111	3,870	4,124	3,974	4,549	4,699	12.1	8.6
<i>Middle East</i>	1,227	3,012	1,878	1,283	1,144	1,434	1,173	33.1	-17.2
<i>South and Central Asia</i>	2,728	3,060	3,604	5,194	5,807	6,563	6,715	12.3	17.0
<i>Asia, regional</i>	43	146	168	240	151	233	305	37.7	16.0
Europe	617	1,128	1,016	1,711	1,885	2,024	1,690	12.8	8.4
Oceania	147	151	227	351	246	365	437	15.1	23.7
Unspecified	641	1,091	1,378	1,736	2,003	3,051	2,972	23.7	22.2
Total	13,079	18,244	21,248	25,957	28,613	32,240	33,189	14.9	12.7

Source: Derived from data obtained from OECD CRS database (downloaded April 2013).

Disbursements per capita are highest to Oceania (Table A1.4), followed by North Africa and the Southern Africa. Those to Far East Asia and South and Central Asia are the lowest, at around \$2–3 per capita (average, 2006–10). Growth in per capita disbursements was strongest to the Americas (both North and Central and South) in the period 2006–11, followed by Oceania and South and Central Asia. In line with the value of disbursements shown in Table 3, per capita disbursements to the Middle East have fallen sharply (by an annual average 17%, 2006–11).

Aft disbursements average less than 0.5% of GNI in all regions except Oceania and Sub-Saharan Africa (Table A1.5). In Far East Asia the share is declining, but all other regions saw an increase 2006–11.

A1.2 Asian South–South Development Cooperation

India

India's aid-related expenditures can be seen in Table A1.7. They are broken down into three main sectors: training, export credits (lines of credit) and project-related activities. Training makes up the largest proportion of expenditures at 60%. This includes training for civil servants, engineers and public sector managers in developing countries. India's largest assistance program is the Indian Technical and Economic Cooperation (ITEC), in which India delivers its assistance to other

Table A1.5 Aft Disbursements per Capita (By Region)

Region		Current \$							Average Annual Change (%)	
		2002–5							2002–11	2006–11
		Ave.	2006	2007	2008	2009	2010	2011		
Africa	North of Sahara	4.9	6.7	7.3	10.5	10.7	13.2	11.4	12.4	11.3
	South of Sahara	4.6	5.3	7.1	8.1	8.6	8.9	9.7	10.2	12.7
Americas	North and Central America	1.9	2.2	2.8	4.1	5.3	6.7	6.9	17.3	26.0
	South America	1.2	1.3	2.2	2.2	2.6	3.0	2.8	17.1	16.0
Asia	Far East Asia	1.4	1.6	2.1	2.2	2.1	2.4	2.4	11.2	8.3
	Middle East	7.0	16.6	10.0	7.9	6.9	8.5	6.8	32.5	–16.2
	South and Central Asia	1.7	1.8	2.1	3.0	3.3	3.7	3.7	10.6	15.8
Europe		5.4	6.2	6.1	9.5	11.2	11.5	10.0	6.9	10.3
Oceania		15.7	14.6	22.8	25.6	23.7	33.2	35.9	10.4	19.7

Note: In any given year, the regional Aft/population totals used to derive these amounts do not include: (1) Aft disbursements to any country for which population data are not also available and (2) population figures for any country which did not receive an Aft disbursement. This means, for example, that because of lack of population data the per capita amounts shown for Oceania take no account of Aft to Cook Islands, Nauru, Niue, Tokelau and Wallis and Futuna.

Sources: Derived from data obtained from OECD CRS database (2002–5 downloaded November 2012, 2006–11 downloaded April 2013) and World Bank World Development Indicators (downloaded May 2013).

Table A1.6 Aft Disbursements as Percentage of GNI, by Region

Region		2002–5 Ave.	2006	2007	2008	2009	2010	2011
Africa	North of Sahara	0.29	0.28	0.26	0.30	0.34	0.43	0.35
	South of Sahara	0.72	0.56	0.67	0.70	0.79	0.69	0.69
Americas	North and Central America	0.04	0.03	0.04	0.06	0.09	0.10	0.09
	South America	0.04	0.03	0.04	0.03	0.04	0.03	0.03
Asia	Far East Asia	0.10	0.08	0.08	0.07	0.06	0.06	0.05
	Middle East	0.18	0.39	0.20	0.20	0.17	0.42	0.39
	South and Central Asia	0.29	0.22	0.21	0.29	0.30	0.28	0.25
Europe		0.13	0.12	0.10	0.13	0.19	0.17	0.14
Oceania		1.59	1.18	1.59	1.56	1.57	1.95	1.70

Note: In any given year, the regional Aft/GNI totals used to derive these shares do not include (1) Aft disbursements to any country for which GNI data are not also available and (2) GNI figures for any country which did not receive an Aft disbursement. This means, for example, that because of lack of GNI data the shares shown for Oceania take no account of Aft to Cook Islands, Nauru, Niue, Tokelau and Wallis and Futuna, and that because of a lack of recent GNI data for several countries growth rates may be somewhat skewed.

Sources: Derived from data obtained from OECD CRS database (2002–5 downloaded November 2012, 2006–11 downloaded April 2013) and World Bank World Development Indicators (downloaded May 2013).

emerging economies through technical training. Within the past decade, ITEC has grown from 2,544 training slots to 7,400 slots.³ The second category of aid expenditures is in the form of concessional export credits which make up 30% of total expenditures. Export credits are used to enable foreign countries to purchase Indian equipment and services. The final 10% is spent on project-related activities, such as feasibility studies and deployment of technical experts

³ "South–South Cooperation on Aid for Trade," Vimal Srivastava, Dept of Commerce, India, 2012.

Table A1.7 Principal Destination of India's Aid and Loan Programs (Excluding Lines of Credit), Current \$ million

Country/Region	2009/2010	Country/Region	2010/2011	CountryRegion	2011/2012
Bhutan	235.01	Bhutan	311.01	Bhutan	366.43
Afghanistan	51.81	Afghanistan	55.96	Afghanistan	52.35
Nepal	27.08	Nepal	27.08	Maldives	49.28
African countries	22.56	African countries	27.08	Nepal	27.08
Mongolia	22.56	Sri Lanka	16.25	African countries	22.38
Sri Lanka	14.44	Myanmar	16.25	Sri Lanka	24.01
Myanmar	9.93	Eurasian countries	5.42	Myanmar	20.18
Eurasian countries	3.61	Maldives	1.99	Eurasian countries	5.42
Bangladesh	0.68	Latin American countries	0.72	Bangladesh	1.44
Maldives	0.63	Bangladesh	0.54	Latin American countries	0.36
Latin American countries	0.36	Others	64.32	Mongolia	0.09
Others	37.1			Others	48.84
Total	425.77	Total	526.6	Total	617.85

Rupee exchange rate \$1 = Rs55.4.

Source: Government of India, Ministry of External Affairs, Annual Reports 2009/10, 2010/11, 2011/12.

from India. Overall, India delivers its aid as a part of comprehensive investment packages and trade deals.

People's Republic of China

Foreign aid from the PRC is broken down into seven main areas: agriculture, industry, economic infrastructure, public facilities, education, medical and health care, and more recently, climate change. The focus of the PRC's foreign aid is centered on laying a solid foundation for economic and social development in the recipient countries. This focus aims to increase recipients agricultural and industrial productivity, as well as improve basic education and medical care. The PRC designates its foreign aid through several instruments, such as complete (turn-key) projects, goods and materials, technical cooperation, human resource development cooperation, medical teams, emergency humanitarian aid, overseas volunteer programs and debt relief. Complete projects, especially in industry and public facilities, seem to receive the most attention, accounting for 40% of the PRC's foreign aid.

The PRC's development cooperation is often channeled through buyer's export credits, in which a foreign buyer is granted a long-term credit in order to purchase exports of goods and services from the PRC. These credits are popular in the PRC's investment in Africa, with the PRC's commitment to Africa of \$10 billion in preferential credits to Africa between 2009–2012.⁴ The Export-Import Bank of the PRC is a major player in supporting private sector investment in

⁴ <http://www.american.edu/sis/faculty/upload/Brautigam-Chinese-Aid-in-Africa.pdf>

**Table A1.8 Top 20 Recipients of Exim Bank's Operative Lines of Credit
(As of 6 June 2012), \$ million**

Country/Region	\$ million
1. Sri Lanka (6)	1,216
2. Bangladesh (1)	1,000
3. Ethiopia (6)	705
4. Africa, multiple countries (12)	630
5. Sudan (6)	567
6. Nepal (2)	350
7. D.R. Congo (4)	269
8. Mali (7)	267
9. Myanmar (7)	247
10. Iran (1)	200
11. Mozambique (8)	173
12. Ghana (5)	149
13. Senegal (8)	137
14. Russian Federation (2)	125
15. Syria (2)	125
16. Lao PDR (3)	123
17. Zambia (4)	115
18. Cote d'Ivoire (4)	112
19. Angola (5)	108
20. Chad (2)	90

Figures in brackets are the number of operative lines of credit

Source: Calculations based on the Exim Bank data (<http://www.eximbankindia.com/loc.asp>).

Table A1.9 Principal Destinations of PRC's Foreign Aid Funds, 2009

Region	\$ million
Africa	639.8
Asia	459.2
Latin America and the Caribbean	177.8
Others	63.0
Oceania	56.0
Europe	1.4
Total	1,400

Sources: PRC's Information Office of the State Council (2011), Brautigam (2011).

Figure A1.1 Actual Disbursements of Export Credit



Source: Adapted from Chen (2010).

infrastructure, oil and gas, mining, and telecommunication projects abroad. However, these export credits cannot be classified as ODA because the PRC is not a member of the OECD and it does not have to conform to the guidelines.

Malaysia

Despite its emerging place in the global economy, aggregate data on the amount and direction of Malaysia's foreign aid is not readily available. The last record of net disbursements of cooperation was released in 2006. However, a glimpse into Malaysia's foreign aid policy can be seen through one of its main development assistance programs: the Malaysian Technical Cooperation Programme (MTCP). Founded in 1980, MTCP encapsulates Malaysia's contribution to the international community by promoting South–South cooperation through professional training in areas that will sustain economic development in the partner country. MTCP is unique to other global assistance programs because of its two main principles: demand-driven assistance and untied aid. While most aid is locally distributed within the region, MTCP reaches a good portion of the Western world as well, as shown in Table A1.10.

Table A1.10 Geographical Distribution of MTCP Participants, 2011

Country/Region	% of MTCP Expenditure
ASEAN	33
Africa	21
North Africa and West Asia	15
South Asia	13
Pacific Island	5
CIS	4
Non-ASEAN Asian states	4
East and Central Europe	2
Others	3

Source: Asia Foundation, 2011.

Table A1.11 Top Ten Recipient Countries of MTCP, (in Ranking Order) 2011

Country
1. Indonesia
2. Myanmar
3. Cambodia
4. Viet Nam
5. Philippines
6. Sri Lanka
7. Thailand
8. Lao PDR
9. Bangladesh
10. Sudan

Source: Asia Foundation, 2011.

In addition to its commitment to South–South cooperation through MTCP, Malaysia is an emerging presence in terms of outward FDI. Total outward FDI flows totalled \$15.5 billion, making up 5.3% of the country’s GDP. Malaysia’s FDI flows are broken down by sector as: non-financial services (35%), financial services (32%), oil & gas (19%), manufacturing (11%), and others, such as agriculture and construction (3%).⁵

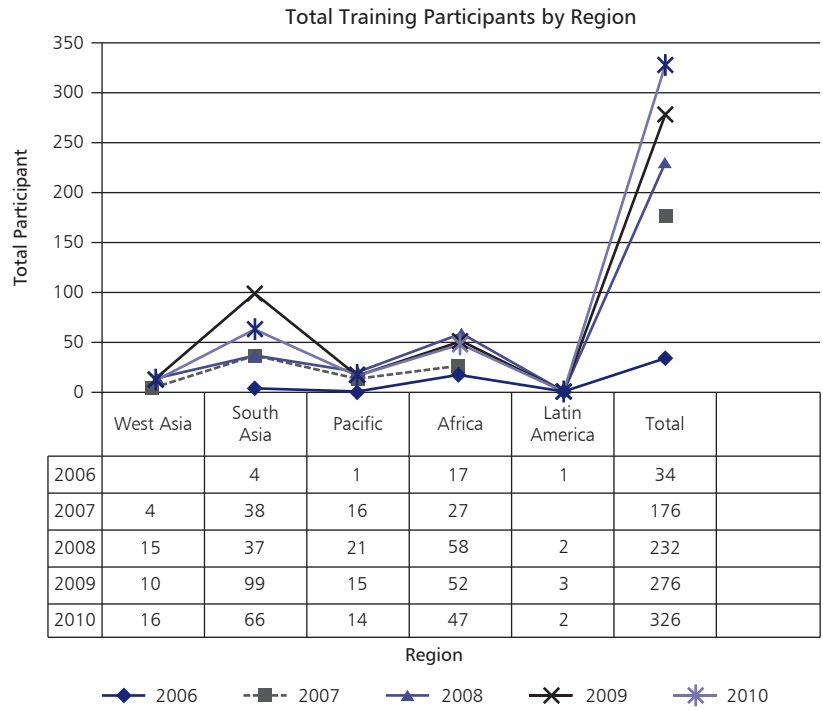
Indonesia

Similar to Malaysia, Indonesia is a rising source of South–South flows and regional development assistance, but it is not easy to undertake an aggregate analysis of its foreign aid policy. By Indonesia’s estimates, \$42 million has been given in foreign assistance over the past decade; and humanitarian assistance has amounted to \$7 million in the past two years alone. In addition, in 2011, Indonesia pledged to give \$1.5 million to the World Bank’s South–South Exchange Facility, in order to continue its growing commitment to South–South trade and cooperation. At the end of 2011, Indonesia’s net foreign direct investment outflows accounted for 0.9% of its GDP, coming to \$7.621 billion. Indonesia, similar to Malaysia, devotes a large portion of its South–South assistance to technical cooperation, as shown in Figure A1.2. In addition, other popular sectors of Indonesia’s South–South cooperation include health, infrastructure, financial management, fisheries, agriculture and tourism.⁶

⁵ BNM, 2011 http://www.bnm.gov.my/files/publication/ar/en/2010/ar2010_book.pdf

⁶ “Aid for Trade and Strengthening South–South Cooperation,” Ministry of Trade, Indonesia

Figure A1.2 Indonesia’s Technical Cooperation: Total Training Participants by Region, 2006–2010



Source: SSC-Indonesia, 2011.

Annex 2

Aid for Trade Experiences from the Asia and Pacific Region

This annex describes a range of experiences in Aid for Trade (AfT) programs from the Asia-Pacific region. Section A2.1 begins by detailing several projects that have financed aspects of the investment climate. Section A2.2 then discusses a number of projects that involve a strengthening of public–private dialogue. Finally, section A2.3 describes experiences in promoting other financial flows.

A2.1 Building a Conducive Investment Climate— Illustrative Experiences

This section provides illustrative examples of AfT projects that have helped countries in Asia and the Pacific to improve their investment climate. It first deals with infrastructure and trade policy projects (2.1.1), then discusses the role of aid for regional projects (2.1.2) and finally moves onto the special challenges of specific contexts (2.1.3).

A2.1.1 Supporting National Policy

Infrastructure

The Government of Cambodia is being supported in its efforts to upgrade and modernize the railway system, in collaboration with the private sector.¹ The total cost of \$142.1 million has received contributions from the Asian Development Bank (ADB) (60.9%), the Australian Agency for International Development (AusAID) (14.7%), the OPEC Fund for International Development (OFID) (8.8%), the Government of Malaysia (1.9%) and the Government of Cambodia (13.7%).² The project seeks to rehabilitate Cambodia’s railway network and assist the Government with transferring its management and operation to a private company through a 30 year concession. The national railway system had deteriorated due to war, neglect, poor management and asset stripping. ADB has been supporting the rehabilitation of Cambodia’s physical railway infrastructure since 2002. An efficient railway system was identified as a key element of improving Cambodia’s freight transport links. However, it was realized that mere rehabilitation of the physical infrastructure would not be sufficient and would require improved management and operations to meet the objectives of transforming Cambodia’s railway system.

¹ ADB. 2012. Greater Mekong subregion: Twenty years of partnership. Asian Development Bank.
AusAID. 2010. *Australian Aid for Trade in the Mekong: Reducing poverty through greater trade and economic growth*. Australian Government.

² AusAID. 2009. *Greater Mekong subregion: Rehabilitation of the railway in Cambodia*. Australian Government

In 2009, the Government of Cambodia signed a concessionaire agreement with Toll Royal Railway, a joint venture between Toll (an Australian logistics group) and the Cambodian Royal Group of Companies.³ The completion of the rehabilitation will provide better trade links to Cambodia's neighbors Thailand and Viet Nam. Thailand is also upgrading the rail link on its side of the border, which is crucial in realizing the full benefit of the rehabilitation of railway system in Cambodia. Improved links with the Thailand railways system, particularly cross-border railway links, will ensure more cost-effective movement of freights between ports in Thailand and Cambodia, which in turn will better connect Cambodia to regional markets of Malaysia and Singapore. Work has been progressing, although there have also been a number of delays.⁴

Trade Policy

USAID is providing support to the Lao PDR's World Trade Organization (WTO) accession process as well as trade negotiations with the US. These include:⁵

- Establishment of a Trade Resource Centre to create a transparent trade regime by including and engaging the private sector (including business associations), national assembly, academia, and the civil society.
- Provision of economic and legal analysis to increase the understanding of the reforms required for WTO accession, US–Lao PDR BTA compliance and ASEAN integration.
- Raising awareness and understanding of the obligations and opportunities presented by trade agreement.

Similarly, ADB has been providing trade-related technical assistance at the regional level in the areas of information and transparency, capacity building, research, and advocacy.⁶ The Asian region is one marked with growing number of trade agreements. A study by ADB on the impact on the business from increasing free trade agreements found that businesses were using these FTAs.⁷ However, it also found that many businesses, particularly small and medium-sized enterprises, lacked information to use as well as institutional support to benefit.

A2.1.2 Supporting Regional Integration

ASEAN Single Window

USAID is helping ASEAN develop a single window to improve the handling of goods across borders.⁸ The objective is to reduce processing time for clearance of containers to 30 minutes from a regional average of about 5 days. The project is being piloted in Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. The single window will allow companies and traders to submit import, export and transit data to a single point. Once

³ Railway Gazette International, see: <http://www.railwaygazette.com/news/single-view/view/ausaid-pledges-funding-as-cambodian-rehabilitation-resumes.html>.

⁴ AusAID. 2012. *Cambodia Annual Program Performance Report*. Australian Government

⁵ See: http://transition.usaid.gov/rdma/documents/ADVANCE_Laos_BTWWTO_200805_508.pdf

⁶ See: <http://www.oecd.org/aidfortrade/47078022.pdf>

⁷ Wignaraja, G. and Kawai, M. 2011. *Asia's free trade agreements: How is business responding?* Asian Development Bank.

⁸ See: http://transition.usaid.gov/rdma/documents/SS_ASEAN_Single_Window_20090218_FINAL.pdf

systems have been integrated between countries, the information will be processed through this single window. It is an example of how AfT can support deep regional integration.

Trade in Agricultural Products in the Mekong Subregion

A recent ADB study has shown that there is substantial intra-industry trade within the Mekong subregion.⁹ However, it further found that there were weak integrated systems on sanitary and phytosanitary measures, quarantine, and standards, that created drag on the movement of goods. It proposed the automation of quarantine systems, issuance of permits that are mutually recognized, public–private partnerships with a focus on improving certification standards and processes, and increasing the capacity of quarantine agencies. ADB has provided support for efforts in the Mekong subregion towards increasing cross-border trade in agricultural products within and beyond the region.¹⁰

A2.1.3 Supporting Specific Challenges in Different Contexts

Trade Connectivity and Landlocked Developing Countries

With the support of World Bank and the Government of India, Nepal was able to establish two dry ports, one with road links and another with rail links. The cost of the Nepal Multimodal Transit and Trade Facilitation Project was \$28.5 million.¹¹ As a landlocked, least developed country Nepal bears huge costs due to lack of appropriate and adequate infrastructure for the movement of goods. Moreover, Nepal is unique among the landlocked developing country group in that it only has one viable trade-corridor option, which connects to India as the northern borders with the People’s Republic of China (PRC) create geographical barriers that are hard to overcome. The terminals at the dry ports are managed by private companies, with a lease of 10 years. ADB is also supporting Government of Nepal to establish dry ports in other parts of the country. And a UNDP funded project titled ‘Enhancing Nepal’s Trade-Related Capacity (ENTReC) project’ is playing an important role in conducting other feasibility studies as well as facilitating the dialogue between the private sector and the government around these issues.

Private Sector Development, Trade and Small Island Developing States

The EU’s Centre for Development Enterprise (CDE) began supporting a family business in Fiji called Pure Fiji, in 2000, with an investment of \$2,000.¹² At present, Pure Fiji is worth \$3.2 million. The EU’s CDE provides technical assistance, business know-how, and support for marketing and networking. Pure Fiji exports high quality beauty products such as oils and soaps to high value niche markets. In spite of expanding over time, it still maintains close links with the rural villages that supply the raw material. Pure Fiji has organized the suppliers of the raw material, mostly women, into cooperatives.

⁹ ADB. 2012. *Agricultural trade facilitation in the greater Mekong subregion*. Asian Development Bank.

¹⁰ ADB has also supported regional road rehabilitation in the GMS region. See AfT case story submitted by ADB: <http://www.oecd.org/aidfortrade/47078344.pdf>

¹¹ Regmi, D. R. 2012. *Development and operations of dry ports in Nepal*. United Nations Economic and Social Commission for Asia and Pacific.

¹² EU. *Making trade work for development. Aid for Trade: A selection of case studies from around the world*. The European Union.

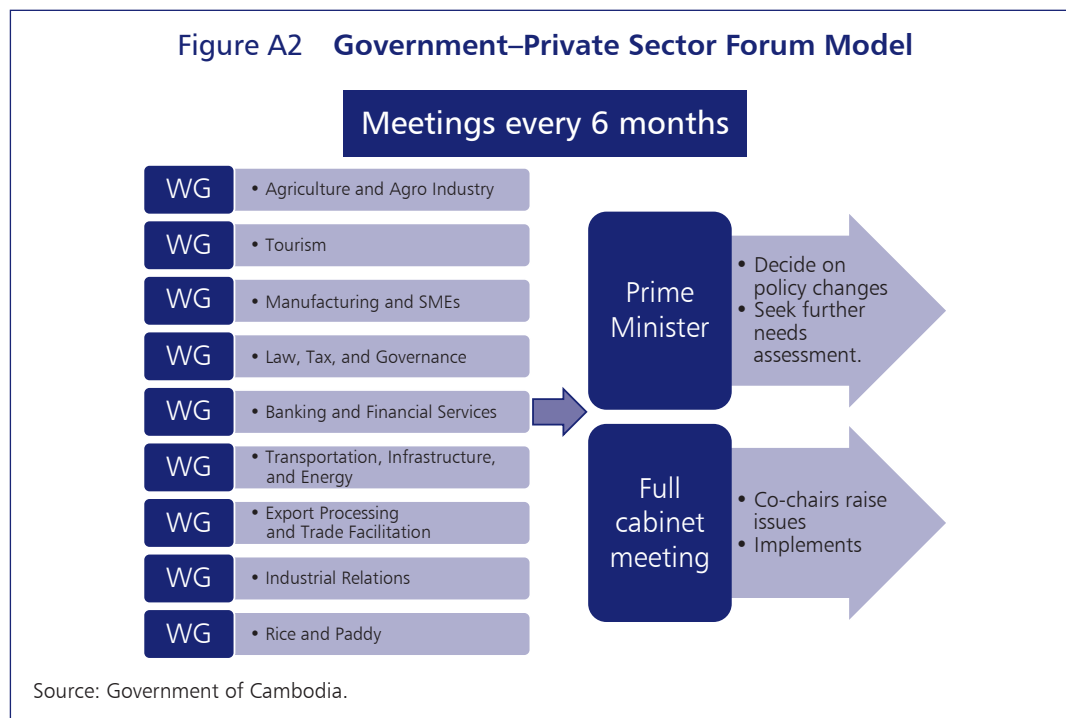
A2.2 Aid for Trade and Public–Private Dialogue— Illustrative Experiences

This section describes three projects aimed at improving public–private dialogues in the Asian context.

Cambodia’s Dialogue with Private Sector

The primary development objectives of the Cambodian government include the development of the private sector, enhancement of the agriculture sector, human resource development and improvement of physical infrastructure. Cambodia promotes its commitment to the development of the private sector by fostering an open dialogue. To promote this public–private sector dialogue, the Cambodian Prime Minister holds a government–private sector forum (G-PSF) every six months to discuss the interests and concerns of foreign and domestic investors. The G-PSF was established in 2000 and has accumulated a savings of over \$100 million for the private sector.¹³ In addition, there are nine government–private sector working groups that meet on a monthly basis and specialize in specific sectors and issues such as agriculture and agroindustry, tourism, manufacturing and SMEs, law, taxation and governance, banking and financial services, energy and infrastructure, export processing and trade facilitation, industrial relations, and rice and paddy.

In an assessment of the impact of the public–private sector dialogue in Cambodia, the steps of the policy process that were most affected were the steps that helped push the reform through



¹³ “Public and Private Partnership: Cambodia’s Experience,” Pan Sorasak, 5th Regional Technical Group Meeting on Aid for Trade for Asia and the Pacific, ADB, 2012

into action. These included increasing access to Ministry-level authority, providing a mechanism for escalating issues to senior government, and providing a feedback opportunity for on-going reforms.¹⁴ The public–private sector dialogue process in Cambodia is of high value in itself, especially in terms of long-run benefits, because a platform for this type of dialogue did not previously exist.

Japan–Viet Nam Joint Initiative

The maintenance of peace and security within the ASEAN region is an important goal for Japan. One strategy to achieve this goal is to deepen intraregional cooperation by balancing the region’s overall economic development. Viet Nam has great potential for economic growth and the goal to emerge as an industrialized nation by the year 2020. Japan’s assistance program for Viet Nam is centered on four main areas: economic growth/international competitiveness, improvements in living conditions, environmental conservation, and the strengthening of governance. In each of these areas, Japan promotes open and effective communication between the government of Viet Nam and the private sector, both Vietnamese and Japanese, in order to develop a successful and long-term initiative.

In particular, the Japan–Viet Nam Joint Initiative to Improve the Business Environment with a view to Strengthen Viet Nam’s Competitiveness (2009) aims to improve the business sector, transport sector, and sustainable resource supply through the development of the private sector. Japan’s plan to achieve this includes the development of both hard and soft infrastructure—from the enhancement of power generation supply/capacity in the energy sector to the strengthening of policy planning for local companies and improving access to capital in the business sector.¹⁵ The other important area that promotes public–private sector dialogue in the Japan–Viet Nam Initiative is the strengthening of governance within Viet Nam. The program promises to implement internal reforms through several programs, such as the Japan–Viet Nam Joint Committee for Preventing Japanese Official Development Assistance (ODA)-related Corruption, the Poverty Reduction Support Credit, and the “Basic Policy in terms of Legal System Improvement Support.”¹⁶ With the support of Japan’s assistance, public–private sector alliances have formed through specialized sector policy dialogues with the Vietnamese government, as well as deliberations between the Japanese private sector and Vietnamese government regarding project formulation.

Japan–ADB–Philippines Government Consultative Process

Japan has invested in the development of a successful business environment in the Philippines through the entry into force of the Japan–Philippines Economic Partnership Agreement (JPEPA) in December 2008. It has recently taken a major step in this relationship with its most recent program of assistance. On 5 October, 2012, the Japanese ambassador to the Philippines and the Philippines’ Secretary of Foreign Affairs signed a note that appropriated \$100 million as an ODA loan to improve the Philippines’ emerging business environment.¹⁷ This program is funded

¹⁴ IFC, 2007, “Public-Private Dialogue Internal Report: Impact Assessment of PPD Initiative in Cambodia, Lao, Vietnam”.

¹⁵ Government of Japan, 2009, “Country Assistance Program for Vietnam”.

¹⁶ Government of Japan, 2009, “Country Assistance Program for Vietnam”.

¹⁷ Embassy of Japan to the Philippines, 2012, Press Release. See: <http://www.ph.emb-japan.go.jp/pressandspeech/press/pressreleases/2012/81.htm>

by the Government of Japan and cofinanced by ADB. Its intention is to support the policy action achievements made already by the Philippines' government, such as the resolution of the VAT refund issue, supply of affordable and stable electricity, improvement of customs procedures and infrastructure development.¹⁸

In addition, in June 2012, the ADB issued a \$350 million "Increasing Competitiveness for Inclusive Growth Program" loan, which aims to promote competitiveness and develop labor skills.¹⁹ With this loan, ADB worked with the Department of Labor and Employment to develop MyFirstJob, a program that provided 1,600 out of school youth with career counseling, grants for vocational training and local internships.²⁰

A2.3 Non-ODA Project Loans—Illustrative Experiences

Development Bank Loans

The ADB recognizes that the private sector is an essential engine for economic growth and development, especially for countries that are low-income or still developing. ADB has two strategic tools for growth within the private sector: investment in infrastructure and advice for governments on the contents of business-friendly environments (beneficial rules, regulations, etc).²¹ As ADB's strategic private sector development framework explains, ADB provides these tools by establishing an enabling policy and institutional environment through policy dialogue, promoting public sector goods and services through public-private partnerships and financial assistance, and making direct private sector investments with transactions that promote private inward capital.²²

In terms of implementation and operations, ADB has a department devoted to the planning and allocation of assistance: the Private Sector Operations Department (PSOD). This department assists a country's economy through two channels: the infrastructure sector and the financial sector. ADB provides loans, equities and guarantees to projects in both sectors, but with different objectives in each. In the infrastructure sector, ADB allocates resources for physical projects, such as transport, power generation, water supply, and any other infrastructural entity that requires upgrading. In the finance sector, ADB provides the funds to banks, insurance companies, private equity funds and other entities in order for them to in turn finance small and medium-sized enterprises that further boost the domestic economy. In particular, ADB developed the Trade Finance Program in order to support trade in Asia's most neglected markets by crowding in trade finance support so that eventually the domestic economy can become self-sustaining. In 2011, the TFP mobilized \$2.4 billion in private sector capital from banks and insurance companies and has grown by more than 30% in the first eight months of 2012.²³ During 2011, ADB's PSOD approved 14 private sector projects with investments worth

¹⁸ JICA, 2012, Press Release. See: <http://www.jica.go.jp/english/news/press/2012/121010.html>

¹⁹ ADB. 2012. "ADB, Philippines to Improve Investment Climate and Boost Youth Employment." See: <http://www.adb.org/news/adb-philippines-improve-investment-climate-and-boost-youth-employment>

²⁰ ADB. 2012. "ADB, Philippines to Improve Investment Climate and Boost Youth Employment." See: <http://www.adb.org/news/adb-philippines-improve-investment-climate-and-boost-youth-employment>

²¹ ADB. 2012. <http://www.adb.org/themes/private-sector-development/overview>

²² ADB. 2006. <http://www.adb.org/sites/default/files/pub/2006/PSD-strategic-framework-2006.pdf>

²³ ADB. 2012. Focus on Trade Finance. <http://www.adb.org/features/focus-trade-finance-program?ref=themes/>

\$1.7 billion comprising \$1.1 billion in loans, \$89 million in equity investments, \$417 million in partial credit guarantees and political risk guarantees, and \$100 million in B loans.

As a further example, ADB has been supporting the Greater Mekong Sub-Region (GMS) for over 20 years. The ADB mobilises resources from development partners and the private sector for GMS programs. Supported by ADB and UNESCAP, the GMS business forum has been set up to strengthen private sector participation in GMS development. ADB is supporting the GMS's 'Cross-border transport facilitation agreement' (CBTA) to achieve seamless movement of goods, services and people.²⁴ A key feature of the agreement is that it fosters public–private partnership and dialogue. The agreement brings together in one legal instrument all the important non-physical measures to increase cross-border land transport. The CBTA includes mechanisms that enable (i) vehicles (on designated open routes), drivers (with mutual recognition of driving licenses and visa facilitation), and goods (with regimes for dangerous and perishable goods) to cross national borders through the GMS road transport permit system; (ii) avoidance of costly transshipment through a customs transit and temporary importation system and a guarantee system for goods, vehicles, and containers; (iii) the reduction of time spent at borders, through single-window inspection, single-stop inspection, information and communication equipment and systems for information exchange, risk management, and advance information for clearance; and (iv) increases in the number of border checkpoints implementing the CBTA in order to maximize its network effects and economies of scale.²⁵

EXIM Bank Loans

Export-Import Banks (EXIM) are playing an increasingly important role in facilitating trade and investments in the Asia-Pacific region. EXIM Banks are helping exporters through a number of financing instruments such as supplier's credit, buyer's credit, and lines of credit. In doing so, EXIM Banks assist their domestic exporters to meet international competition effectively through competitive financing packages.²⁶ The EXIM Banks in Asia have also emerged as important facilitators of foreign investment originating within and beyond the region. For instance, Republic of Korea's EXIM Bank, Japan Bank for International Cooperation (JBIC) and the PRC's China Development Bank and China EXIM Bank were important financiers of a \$2 billion, 1,200-megawatt power plant in Viet Nam.²⁷ And JBIC is funding the one of the largest infrastructure project in Asia—a \$4 billion, 2,000-megawatt power project in Indonesia.²⁸ There is also increasing cooperation between the many EXIM banks. An EXIM Bank forum has been established in cooperation with ADB, which brings together the EXIM Banks of Australia, the PRC, India, Malaysia, Indonesia, Thailand, the Republic of Korea, Japan, and the Philippines.²⁹

private-sector-development/features

24 ADB. 2011. *Greater Mekong subregion cross-border transport facilitation agreement: Instruments and drafting history*. Asian Development Bank. See: <http://www.adb.org/sites/default/files/gms-cbta-instruments-history.pdf>.

25 Ibid.

26 See: <http://www.asianeximbanks.org/detail.asp?id=22>

27 See: <http://www.ft.com/cms/s/0/a6f91c46-d4c2-11e1-9444-00144feabdc0.html>

28 Ibid

29 See: <http://www.asianeximbanks.org/detail.asp?id=22>

South–South Collaboration

Annex 1 described in detail the assistance programs of four providers of SSC: the PRC, India, and two others (Malaysia and Indonesia).³⁰ Some key aspects include:

- **India's SSC** increased from \$426 million in 2009/2010 to \$618 million in 2011/2012. It can be broken down into three main sectors: training, export credits (lines of credit) and project-related activities. Technical and Economic Cooperation, in which India delivers its assistance to other emerging economies through technical training for capacity building has grown from 2,544 slots to 7,400 slots over the past decade. The EXIM bank's lines of credit amounts to \$6.7 billion.
- **The PRC's aid** amounted to \$1.4 billion in 2009. Complete projects, especially in industry and public facilities, seem to receive the most attention, accounting for 40% of the PRC's foreign aid. The PRC development cooperation is also channeled through buyer's export credits, which are popular in the PRC's investments in Africa, with the PRC's commitment to Africa worth \$10 billion in preferential credits to Africa between 2009–2012 and double that over the next 3 years.
- **Malaysia** and **Indonesia** have also long provided technical cooperation. Indonesia has provided \$42 million in foreign assistance over the past decade; humanitarian assistance has amounted to \$7 million in the past two years alone.

Examples of Business Supporting Agencies

KOTRA—Provides business support to both inward and outward investment. It has opened a number of offices around Asia, for example, in India. Website: <http://www.kotra.in/index.jsp>

JETRO—Outward FDI and PPPs (Japan)

http://www.jetro.go.jp/en/invest/success_stories/pdf/1003_ipstar.pdf

³⁰ Note: Figures of South–South cooperation by countries which are not member states of the OECD DAC are not based on OECD criteria for ODA, including in terms of concessionality level.

Annex 3

Data on ODA, FDI, and Exports for ADB Members

ADB member	Net ODA received (% of GNI)			Exports of goods and services (% of GDP)			Imports of goods and services (% of GDP)			FDI, net inflows (% of GDP)		
	2000	2005	2010	2000	2005	2010	2000	2005	2010	2000	2005	2010
Afghanistan		41.6	42.4		25.2	15.5		71.3	53.6		4.0	0.4
Armenia	11.0	3.4	3.5	23.4	28.8	20.6	50.5	43.2	44.8	5.5	4.9	6.1
Azerbaijan	2.8	1.9	0.3	39.0	62.9	54.0	38.4	52.9	19.9	2.5	12.7	1.1
Bangladesh	2.4	2.1	1.3	14.0	16.6	18.4	19.2	23.0	25.0	0.6	1.3	0.9
Bhutan	12.7	12.6	9.2	30.5	39.1		51.3	62.8			1.1	1.3
Cambodia	11.2	8.9	6.9	49.8	64.1	54.1	61.8	72.7	59.5	4.1	6.1	7.0
China, People's Rep. of	0.1	0.1	0.0	23.3	37.1	29.5	20.9	31.6	25.6	3.2	5.2	3.1
Fiji	1.7	2.2	2.5	65.2	52.9	52.7	70.3	65.1	64.7	0.0	5.2	6.2
Georgia	5.3	4.5	5.5	23.0	33.7	34.9	39.7	51.6	52.4	4.3	7.1	7.0
India	0.3	0.2	0.2	12.8	19.3	22.8	13.7	22.0	26.9	0.8	0.9	1.4
Indonesia	1.1	0.9	0.2	41.0	34.1	24.6	30.5	29.9	22.9	-2.8	2.9	1.9
Kazakhstan	1.1	0.4	0.2	56.6	53.5	44.0	49.1	44.7	29.2	7.0	3.5	7.3
Kiribati	16.2	17.1	10.5	6.9			46.8			1.1	4.4	2.4
Kyrgyz Republic	16.7	11.3	8.5	41.8	38.7	55.6	47.6	57.7	85.8	-0.2	1.7	9.1
Lao PDR	16.9	11.3	6.2	30.1	34.2	35.5	44.2	46.5	37.9	2.0	1.0	3.9
Malaysia	0.1	0.0	0.0	119.8	117.5	97.3	100.6	94.6	79.5	4.0	2.9	3.9
Maldives	3.2	8.0	5.6	89.5	48.8	45.7	71.6	87.5	61.9	3.6	5.3	7.9
Marshall Islands	38.9	31.9	45.9							112.8	4.7	5.3
Micronesia, Fed. Sts. of	42.3	40.6	40.2								0.0	3.4
Mongolia	19.2	8.9	5.4	54.0	58.8	54.7	67.9	63.6	62.4	4.7	7.3	23.5
Myanmar				0.5			0.6					
Nepal	7.0	5.2	5.1	23.3	14.6	9.6	32.4	29.5	36.4	-0.0	0.0	0.5
Pakistan	1.0	1.4	1.6	13.4	15.7	13.6	14.7	19.6	18.8	0.4	2.0	1.1
Palau	31.2	15.8	19.5	9.6	77.2		106.1	80.8		12.4	0.6	1.4
Papua New Guinea	8.3	5.9	5.5	66.2	73.6	55.9	49.2	64.1	53.1	2.7	0.8	0.3
Philippines	0.7	0.6	0.3	51.4	46.1	34.8	53.4	51.7	36.6	2.8	1.8	0.7
Samoa	11.0	11.2	25.5	33.8	31.9	32.0	57.2	55.4	58.8	-0.6	-0.7	0.1
Solomon Islands	15.7	47.8	61.4	24.1	34.1	31.1	38.6	54.6	61.5	3.0	4.5	35.1
Sri Lanka	1.7	4.8	1.2	39.0	32.3	21.7	49.6	41.3	30.8	1.1	1.1	1.0
Tajikistan	15.0	11.3	7.8	98.8	26.0	15.2	100.9	52.8	61.1	2.7	2.4	0.3
Thailand	0.6	-0.1	-0.0	66.8	73.6	71.3	58.1	74.7	63.9	2.7	4.6	3.0
Timor-Leste	71.6	21.8	9.2								0.2	32.0
Tonga	9.9	12.3	19.5	15.4	18.0	13.2	46.9	57.9	59.1	2.5	2.8	4.5
Turkmenistan	1.3	0.4	0.2	95.5	65.0	51.7	80.9	47.8	54.6	4.5	5.2	10.4
Tuvalu		24.4	26.2							-6.6	-0.1	4.8
Uzbekistan	1.4	1.2	0.6	24.6	37.9	31.2	21.5	28.7	30.7	0.5	1.3	2.1
Vanuatu	17.7	10.7	16.2	39.2	45.0	48.0	48.0	52.1	54.4	7.4	3.4	5.6
Viet Nam	5.5	3.7	2.9	55.0	69.4	77.5	57.5	73.5	87.8	4.2	3.7	7.5

Source: World Bank, World Development Indicators. There are no data for Cook Islands or Nauru.

Annex 4

2013 WTO/OECD Questionnaire (6 Asian Developing Countries)

**Table A4.1 What Are the Top Three Obstacles to Greater Participation of Your Companies in Value Chains?
(Rank the Three Most Important Factors in Order of Importance)**

	1	2	3
Inadequate domestic infrastructure	Bangladesh, Indonesia, Vanuatu, Tuvalu, Nepal	Pakistan	
Limited access to trade finance	Cambodia, Pakistan	Indonesia, Tuvalu	
Structure of value chains	India	Bangladesh	
Burdensome border procedures in export markets	Papua New Guinea	Vanuatu	
Lack of comparative advantage	Samoa	Papua New Guinea	Nepal
Standards compliance		Cambodia, Nepal, India	Bangladesh, Indonesia, Vanuatu, Samoa
Burdensome documentation requirements			Cambodia
Inability to attract FDI		Samoa	Tuvalu, Pakistan
Trade restrictions			India, Papua New Guinea

Source: 2013 WTO / OECD questionnaire.

Table A4.2 What Is the Most Important Source of Financing for Your Firms to Connect to Regional, South–South and Global Markets?

	Most Important	Important	Non-Important	Not Sure
Domestic private	Bangladesh, Cambodia, Indonesia, Nepal, Vanuatu, Tuvalu, India, Pakistan, Papua New Guinea, Samoa			
FDI	Cambodia, Indonesia, Nepal, Vanuatu, Tuvalu, Pakistan, Samoa	Bangladesh, India, Papua New Guinea		
Domestic public	Indonesia, Vanuatu, Tuvalu, India, Pakistan, Papua New Guinea, Samoa	Bangladesh, Cambodia, Nepal		
ODA	Cambodia, Nepal, Vanuatu, Tuvalu	Indonesia, Pakistan, Samoa	Bangladesh, India, Papua New Guinea	
Non-concessional financing	Cambodia,	Nepal, Vanuatu, Tuvalu, India, Pakistan	Bangladesh, Indonesia, Papua New Guinea, Samoa	
Remittances	Tuvalu, Pakistan	Bangladesh, Cambodia, Indonesia	Vanuatu, India, Samoa	Nepal

Source: 2013 WTO / OECD questionnaire.

Table A4.3 What Policy Measures Do You Use to Achieve the Objectives Related to Trade?

	Most Important	Important	Not Important
Industrial Policy	Nepal, Vanuatu, Papua New Guinea	Bangladesh, Indonesia, India, Pakistan	
Firm and industry subsidies		Bangladesh, Pakistan, Papua New Guinea	Cambodia, Indonesia, Vanuatu,
Tax incentives	Papua New Guinea	Bangladesh, Indonesia, India, Pakistan, Samoa	Vanuatu
Local content requirements		Indonesia, Nepal, Vanuatu, Pakistan	Bangladesh, India, Papua New Guinea
Export restrictions		Indonesia	Bangladesh, Cambodia, Nepal, Vanuatu, India, Pakistan, Papua New Guinea
Infrastructure development	Bangladesh, Cambodia, Indonesia, Nepal, Vanuatu, India, Pakistan, Papua New Guinea	Samoa	
PPPs	Cambodia, Nepal, India, Pakistan, Papua New Guinea	Bangladesh, Indonesia, Tuvalu, Vanuatu, Samoa	
Improving the investment climate	Bangladesh, Cambodia, Indonesia, Nepal, Vanuatu, India, Pakistan, Papua New Guinea, Samoa	Tuvalu	
Import policy	Nepal, Pakistan, Samoa	Bangladesh, Indonesia, Tuvalu, India, Papua New Guinea	Cambodia, Vanuatu
Regulatory reform	Indonesia, Nepal, India, Pakistan, Samoa	Bangladesh, Cambodia, Vanuatu	
Service sector development	Nepal, Vanuatu, India, Pakistan, Papua New Guinea, Samoa	Bangladesh, Cambodia, Tuvalu	Indonesia

Source: 2013 WTO / OECD questionnaire.

Annex 5

Member List for the Regional Technical Group

Co-Chairs

Sopheak, Sok	Director General for International Trade, Ministry of Commerce, Kingdom of Cambodia
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Aid for Trade in Asia and the Pacific

Driving Private Sector Participation in Global Value Chains

The formation of a Regional Technical Group (RTG) on Aid for Trade for Asia and the Pacific was a key recommendation to emerge from the Aid for Trade Regional Review Meeting at the Asian Development Bank (ADB) headquarters in Manila in 2007 and the Global Aid for Trade Review Meetings at the World Trade Organization in Geneva in 2007 and 2009. Reflecting the principles of country ownership of Aid for Trade, the RTG operates under the stewardship of RTG co-chairs, representatives of Cambodia and Japan. The RTG comprises members from recipient and donor countries involved in formulating and implementing Aid for Trade policies and development agencies in the region. ADB is a member and serves as the Secretariat to the RTG. The RTG started as a pilot project to provide an informal regional forum for discussing Aid for Trade issues and proposals, sharing good practices, taking stock of available analytical work on Aid for Trade in the region, and building partnerships among actors and stakeholders. It seeks to formulate an integrated approach to operationalize Aid for Trade in the medium term.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than \$2 a day, with 828 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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