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Policy Brief

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Key Points:

- In Asia's least developed and small island states, human resource gaps contribute to the divergence between potential gains from regional integration and realized gains.
- Aid for Trade flows primarily support hard infrastructure, but the proportion going to soft infrastructure has been rising over the past decade.
- As Asia's FTA profile continues to become more complex, there is a danger that LDCs and SIDS are making commitments that they have not fully evaluated and which may negatively impact future growth.
- Cooperation with the private sector and regional cooperation (e.g., in form of the Pacific Islands Forum) can enhance the benefits of limited aid for trade flows while accounting for their shortfalls.

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Can Aid for Trade enhance human capacity shortfalls in Asia's LDCs and SIDS?

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For a small state like Tonga—with a labor force of only 41,771 people[1]—one of the fundamental challenges of participating in the international trading system is limited human capacity. Least Developed Countries (LDCs) and Small Island Developing States (SIDS) in particular often struggle to field experts in the negotiations that will define the terms of the trading system in which they participate.

While LDCs and SIDS have made great strides in securing membership in regional and multilateral trade institutions, the ability to attain the full range of potential benefits remains a severe challenge.[2] The human resource constraints faced by LDCs and SIDS are further amplified for states in Asia by the ongoing negotiations of multiple, overlapping trade agreements.

Human resource gaps in the region exacerbate the divergence of realized gains from potential gains from Free Trade Agreements. The private sector response to trade depends on both physical infrastructure and human elements such as the managerial skill of the bureaucracy, a well-trained scientific community, and a research that spurs innovation and productivity.

Starting from this fact, this brief explores the extent to which the global Aid for Trade (AfT) agenda recognizes human capacity as a critical constraint, what is being done about it, whether it is enough and what actions states can take to address shortfalls.

1. Aid for Trade flows favor physical infrastructure

AfT "aims to help developing countries, particularly least-developed countries, develop the trade-related skills and infrastructure that is needed to implement and benefit from WTO agreements and to expand their trade."[3] Under this definition, assistance encompasses everything from road building to the training of trade officials. But the division of resources among different objectives is highly uneven.

[1] World Development Indicators 2012.

[2] A recent WTO report on trade facilitation implementation listed human capacity constraints as one of the main reasons for non-compliance (WTO, 2012).

[3] From WTO Aid for Trade Gateway: http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm

The OECD classifies AfT flows into three categories (**Box 1**). Encouragingly, all categories of AfT have been increasing over the past decade. In 2000, overall flows were 12 billion USD, and by 2010, the OECD reported flows of 31 billion USD. While part of the growth is reclassification of existing assistance, there are also new commitments from donors (WTO, 2012).

The intent of the AfT program is to assist both physical and human infrastructure. However in practice, flows have favored projects with tangible outputs. Assistance to Categories 1 and 2 accounts for more than 95% of AfT flows worldwide.

The bureaucratic infrastructure of trade—administrative capacity and managerial skills—accounts for only about 3% of all AfT worldwide. In Asia, the picture is even more skewed as this category accounted for only 1.6% of total flows in 2010.

The outlook is slightly more positive if we break down all categories of aid into hard and soft infrastructure (**Figure 1**).

This alternative breakdown shows us that flows to soft infrastructure (human capacity building) are in fact increasing as a percentage of overall flows. In the aggregate, this is encouraging. However much of the capacity building is being done in the private sector to support hard infrastructure projects rather than capacity building in the government bureaucracy.

2. Flows small but growing to SIDS and LDCs

LDCs and SIDS have received steadily increasing flows of AfT over the past decade. Lao PDR and Cambodia both received over 8 million US dollars each in 2010, from only 660,000 and zero in the year 2000 for Lao PDR and Cambodia, respectively. This increasing trend can also be seen in the Pacific Islands, though to a lesser extent (OECD, 2012). In addition, the total number of projects that went to building trade capacity increased sharply in all countries during this time period (**Figure 2**).

Even as the number of AfT projects is growing, however, aid for bureaucratic capacity remains small relative to other forms[4] of assistance in spite of its significance and the growing need over the past decade.

3. Influence on international trade architecture remains limited

Though aid to LDCs/SIDS is increasing, there remain wide gaps to be filled (Cali and te Velde, 2009). The nature of their engagement with the international trade regime highlights the shortcomings of existing assistance. There are three areas of concern in particular.

[4] The relative increase in AfT in human capacity between 2000 and 2010 is modest (from 1.5% to 3.4% worldwide, from 1% to 1.6% in Asia and almost stagnated in our sample countries at around 2.9%).

Box 1: Background information on Aid for Trade categories

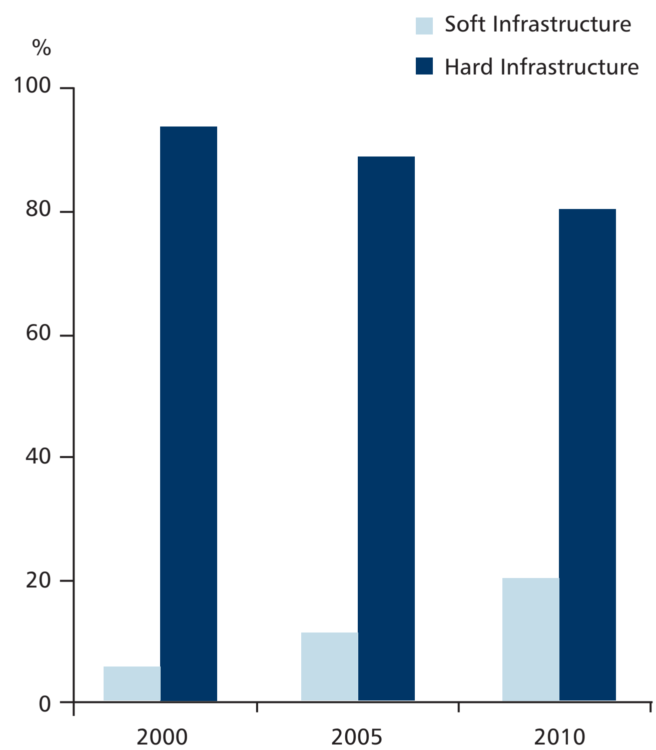
The OECD classifies Aid for Trade flows into three categories.

- **Category 1: Economic Infrastructure**
  - Transport and storage, communications, and energy generation.
- **Category 2: Building Productive Capacity**
  - Banking and financial services, business and other services, agriculture, forestry, fishing, industry, mineral resources and mining, and tourism.
- **Category 3: Trade Policy Regulation and Trade Related Adjustment**
  - Trade policy and administrative management, trade facilitation, regional trade agreements, multilateral trade negotiations, trade related adjustment and trade education/training.

Roughly 60% of AfT is allocated to economic infrastructure, about 37% goes to the productive capacity and about 3% of AfT is designated to Trade Policy and regulations.

Source: OECD (2012).

Figure 1. Global AfT flows divided by aim of project (hard vs. soft infrastructure)



Source: Author's assessment of flows. OECD (2012)

Figure 2. AfT for Human Capacity by country (2000–2010)

	Value of disbursements (10,000 US$)			Number of projects		
	2000	2005	2010	2000	2005	2010
Fiji	0	27	11	1	5	14
Tonga	7	19	20	2	4	16
PNG	11	46	230	1	6	29
Lao PDR	66	100	883	2	8	40
Cambodia	0	158	811	0	9	31

Source: OECD (2012) and author's computations.

Figure 3. LDCs/SIDS participation in WTO dispute settlement

	LDCs/SIDS involved in WTO dispute settlement cases	LDCs/SIDS serving as panel members	LDCs/SIDS serving as Appellate Body members
2000	0	0	0
2010	3	0	0

Source: Data drawn from individual dispute settlement case documents.

The first comes from states' lack of participation in multilateral trade rule-making. LDCs and other challenged states have made great strides in gaining membership and increasing participation in negotiations (see e.g. DiCaprio and Trommer, 2010). However, international trade law is made in two ways—through the design of new trade laws and through adjudication and clarification of existing rules. Since the Doha Round has stalled, adjudication and clarification is effectively how international trade law is moving forward. While developing countries in general are active in filing disputes, Asia's LDCs and SIDS have hardly participated in this process.[5]

Figure 3 illustrates the lack of participation of Asia's LDCs and SIDS in the dispute settlement process, even as third parties. Nor are they represented in the adjudicatory bodies. Without active engagement, the particular interests and concerns of these states are not accounted for as the international laws that these states must also follow moves forward.

A second problem posed by human capacity limits stems from over-engagement in regional trade agreements. Specifically, Asia's LDCs and SIDS are participating in a confusing array of regional trade agreements and other trade negotiations, which may be locking them into rules that have current impacts on resource allocation and future impacts on development objectives.

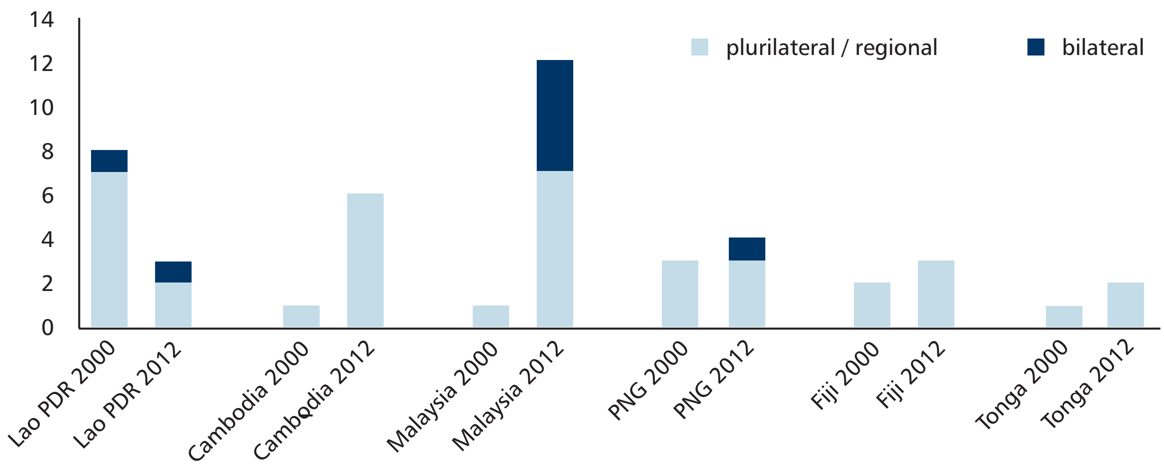
Figure 4 shows that in 2000, most of our sample countries had concluded less than 2 FTAs. This number has tripled in the last decade and is expected to increase further as more FTAs move through the negotiation process. These numbers reflect a continuously growing need to ensure that building trade-related human capacity in trade negotiations and designing trade agreements, policies and regulations are prioritized.

Figure 5 illustrates that the LDCs and SIDS in our sample have low rates of tertiary education. And yet, they are negotiating FTAs at rates similar to their more developed and more populous regional neighbors such as Malaysia. They are obliged to keep pace with their neighbors as most FTAs in the region are being negotiated as plurilateral or regional agreements which require the participation of all of ASEAN's 10 member countries.

A third challenge posed by the nature of LDC and SIDS' engagement in the international trading system comes from the need to maintain and potentially defend compliance with the rules to which they have committed. In addition to negotiated bilateral and multilateral agreements, LDCs and SIDS are also beneficiaries of unilateral preferences which are

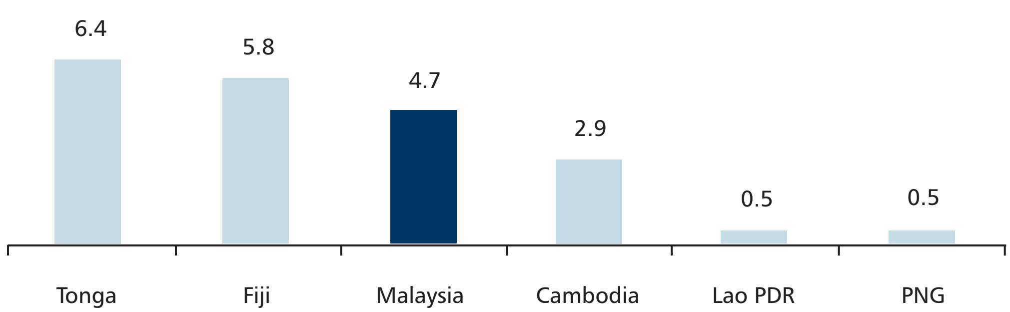
[5] The WTO Annual Report 2012 points out that "in eight of the last ten years, the filing of disputes by developing countries has come to equal or surpass the total by developed countries." (page 16).

Figure 4. Number of Free Trade Agreements by sample country (2000 and 2012)



Source: ARIC database

Figure 5. Percent of population with tertiary education



Source: Barro and Lee (2010).

often an important channel of market access. However all of these include both eligibility requirements and dispute procedures to challenge non-compliance. **Figure 6** highlights the extent of three popular arrangements—the Generalized System of Preferences, Bilateral Investment Treaties, and the World Trade Organization.

Each of the arrangements in **Figure 6** holds beneficiary and member states to strict standards of compliance. And if non-compliance occurs, these arrangements can subject LDCs and SIDS to complex administrative and legal proceedings. Yet the availability of technical legal expertise is often in short supply in these countries. Take for example, Cambodia which has only one lawyer for every 20,312 people[6] in comparison with Malaysia where there is one lawyer for every 1,994 people[7]. Brain drain is not a problem exclusive to LDCs and SIDS, but the impact is more severe given the already limited pool of talent (Schiff and Wang, 2008).

In today's international trade system, countries without strong institutions, a technocratic bureaucracy and a large educated and English-speaking population are at a significant disadvantage. They may not be able to participate effectively in the design of the international institutions that define their development trajectory. AfT can help, but existing assistance is not sufficient to surmount the capacity challenges faced by LDCs and SIDS.

4. Some Ways Forward

Trade openness and participation in international commerce are key ingredients for development success. But for LDCs and SIDS, opportunity is not always enough. One way forward is through enhanced utilization of existing resources, three in particular.

A technocratic bureaucracy is a critical component for development success. A limited pool of talent leads many LDCs and SIDS to struggle to attract highly capable bureaucrats to participate in analyzing, designing, negotiating, and reviewing the impacts of trade agreements. To address this, countries may look to their neighbors such as Malaysia and South Korea

[6] http://www.nichibenren.or.jp/library/ja/bar_association/word/data/Cambodia.pdf

[7] http://www.malaysianbar.org.my/statistics_no_of_lawyers_and_law_firms.html

Figure 6. Asian LDCs/SIDS signatories of selected trade arrangements

	LDC/SIDS recipients of US (or EU) GSP	Number of BITs involving LDCs/SIDS	LDCs/SIDS members of WTO
2000	7 (US)* 13 (EU)*	55	7
2010	8 (US)** 12 (EU)**	92	10

Note: The table only includes 11 Asian LDCs and SIDS that are members of WTO. Singapore is excluded. *Year 2000 data comes from the Caribbean Trade Reference Center (US GSP) and the Directorate General of Trade for the European Commission (EU GSP). **Year 2012 data from the US GSP Guidebook (US GSP) and the Directorate General of Trade for the European Commission (EU GSP).

which encourage the arrival of highly skilled foreign professionals by offering them diverse incentives such as permanent residence status and tax incentives.

Alternatively, the diaspora can offer a rich source of talent. In Colombia, the COLFUTURO program offers partial forgiveness of the student loans of those who return after studying abroad. In South Sudan, the government keeps a database of skilled nationals—both residents and those in the diaspora—to match with open government jobs (HTSPE, 2011).

A second underutilized resource is the private sector. It can provide expertise and research during negotiations and implementation. Establishing formal channels to include the private sector in the design process can relieve some of the pressures of the trade negotiations process. Cambodia has done this with the creation of the Government-Private Sector Forum (G-PSF) in which the Prime Minister and Cabinet meets twice per year with the private sector. These meetings facilitate information exchange and knowledge inputs that can be drawn on during trade negotiations

A final source from which capacity can be drawn is existing region-wide forums or instruments associated with regional integration. This could address the problems with both WTO participation and the need to maintain compliance with trade rules. The Pacific Islands for example, have engaged the Pacific Islands Forum as their representative in the WTO. States that are members of trade agreements could look to MERCOSUR. Its members have created a regional mechanism for the coordination and harmonization of sanitary and phytosanitary measures that uses international reference standards to promote upward harmonization.

An overwhelming majority of the current and pipeline FTAs that involve LDCs and SIDS are negotiated through sub-regional blocs, rarely independently. To ensure that these benefit the smallest members, multilateralizing trade preferences would greatly simplify trade procedures for both exporters and bureaucrats. As such strengthening the trade-related capacity of trade blocs could help regional LDCs and SIDS bridge the human capacity shortfalls and negotiate trade rules today that are beneficial for economic development in the future.

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OREI traces its roots to the Regional Economic Monitoring Unit (REMU)—established in the aftermath of the 1997/98 Asian financial crisis. It was upgraded and renamed OREI in April 2005, as ADB expanded its role in promoting regional cooperation and integration (RCI) throughout Asia and the Pacific.

OREI assists its developing member countries in pursuing open regionalism that serves as a building block to global integration.