

Mainstreaming Aid for Trade: Where Do Cambodia and Laos Stand?

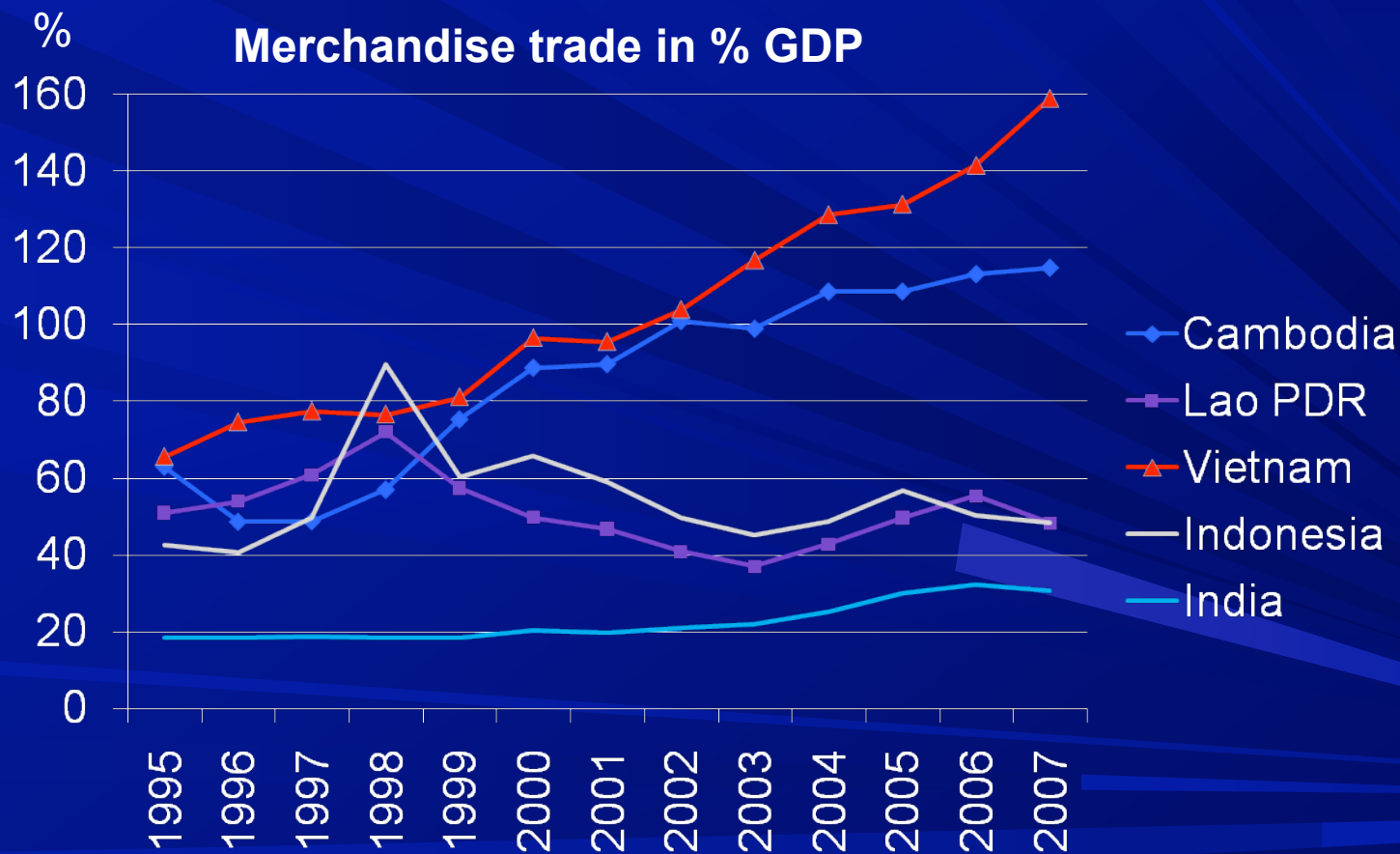
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May 29, 2009**

**Regional Meeting on Aid for Trade
for Asia and the Pacific**

Mainstreaming trade into country strategies – Why?

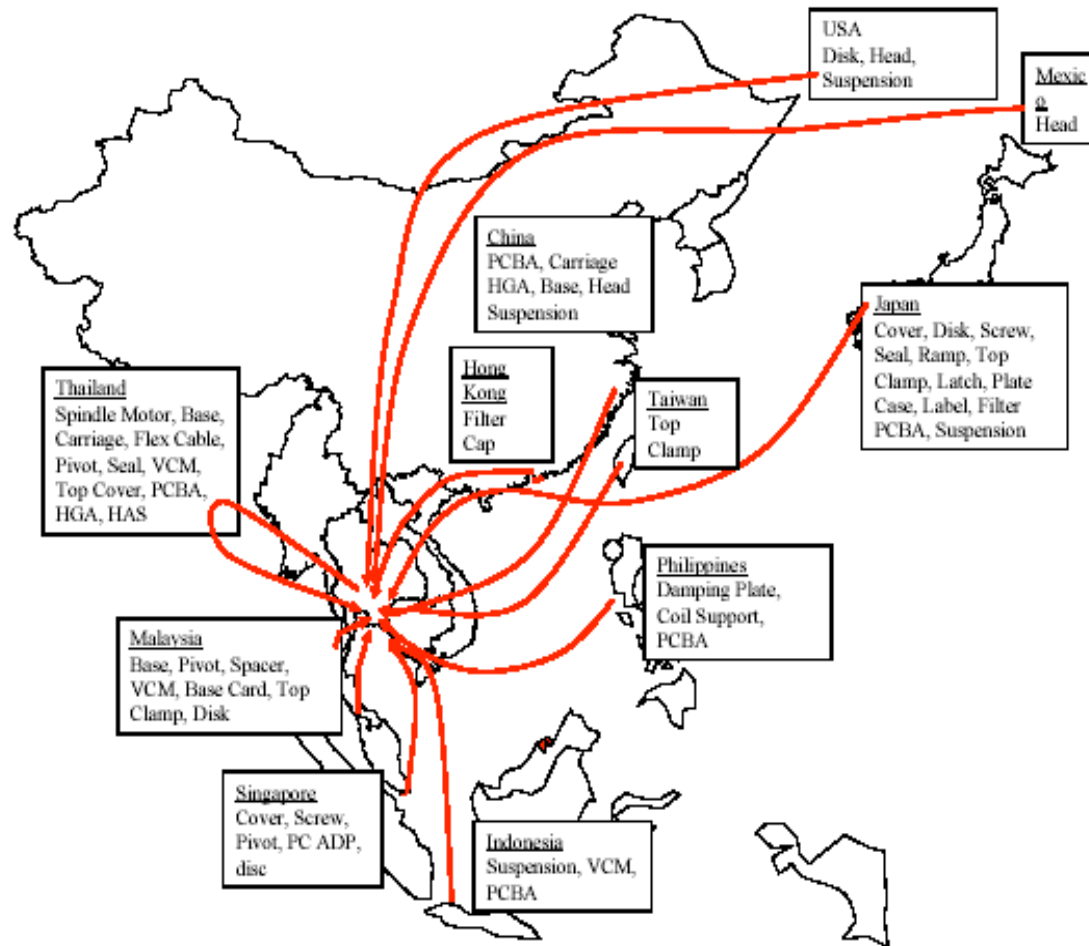
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- Economies that are more integrated into the world economy have grown more and through longer periods
- The objective is to access cheaper inputs and capital and consumers goods, and to produce/sell more products on domestic and foreign markets

Trade performance in East Asia



Source: World Bank database

Figure 8: An example of interdependence in 'Factory Asia.'



Note: This shows the nations where parts are sourced for a hard-disk drive assembled in Thailand; the disk drives are then shipped on to various markets to be used in various electronics.

Source: Adapted from Hiratsuka (2005). Figure 2

Presentation

- Matching supply and demand in aid for trade
- Mainstreaming trade in Cambodia and Laos
- Impact of the crisis

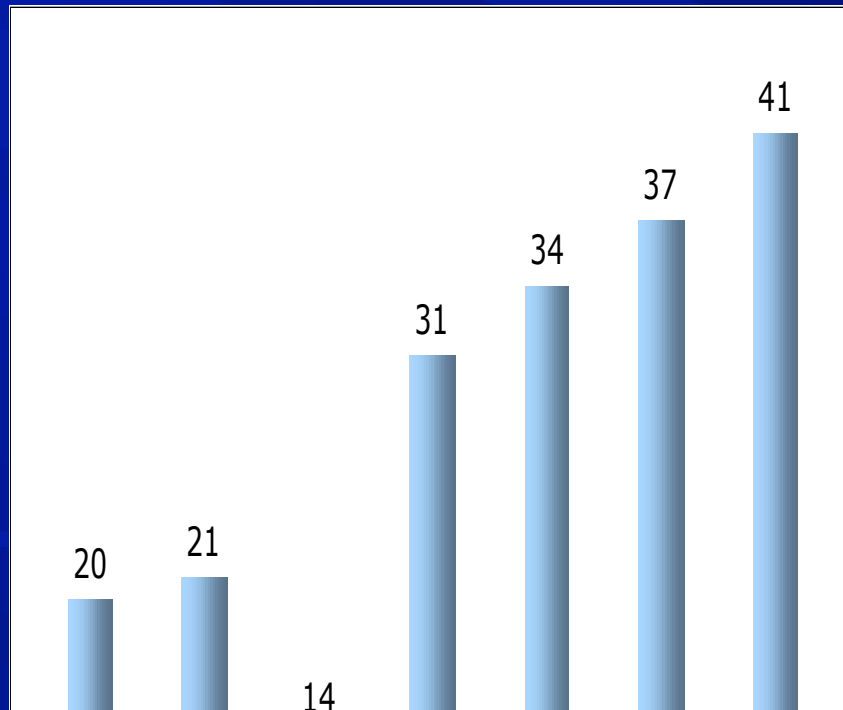
Aid for Trade: Matching Supply and Demand

Is Aid for Trade Enough?

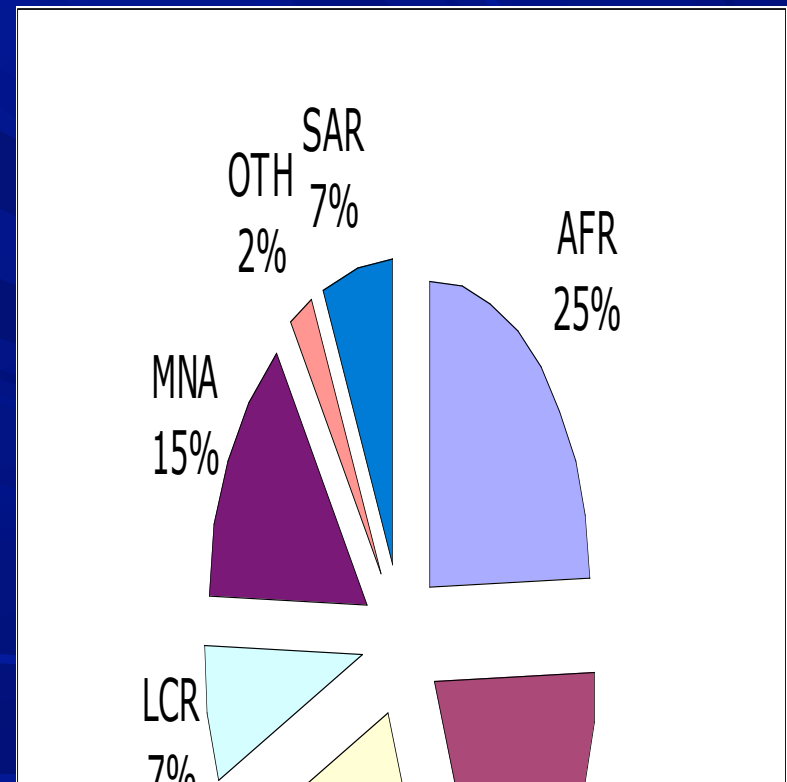
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- Which countries might have a *potential demand* for aid for trade, either because of poor trade performance or because of capacity constraints that hamper trade?
- Is the *supply* of aid for trade going to countries that have a potential demand for it?
- Which countries are receiving below average aid for trade – relative to their potential demand?

Trade-related technical assistance

Number of projects, FY02-08



Breakdown by Region, FY08



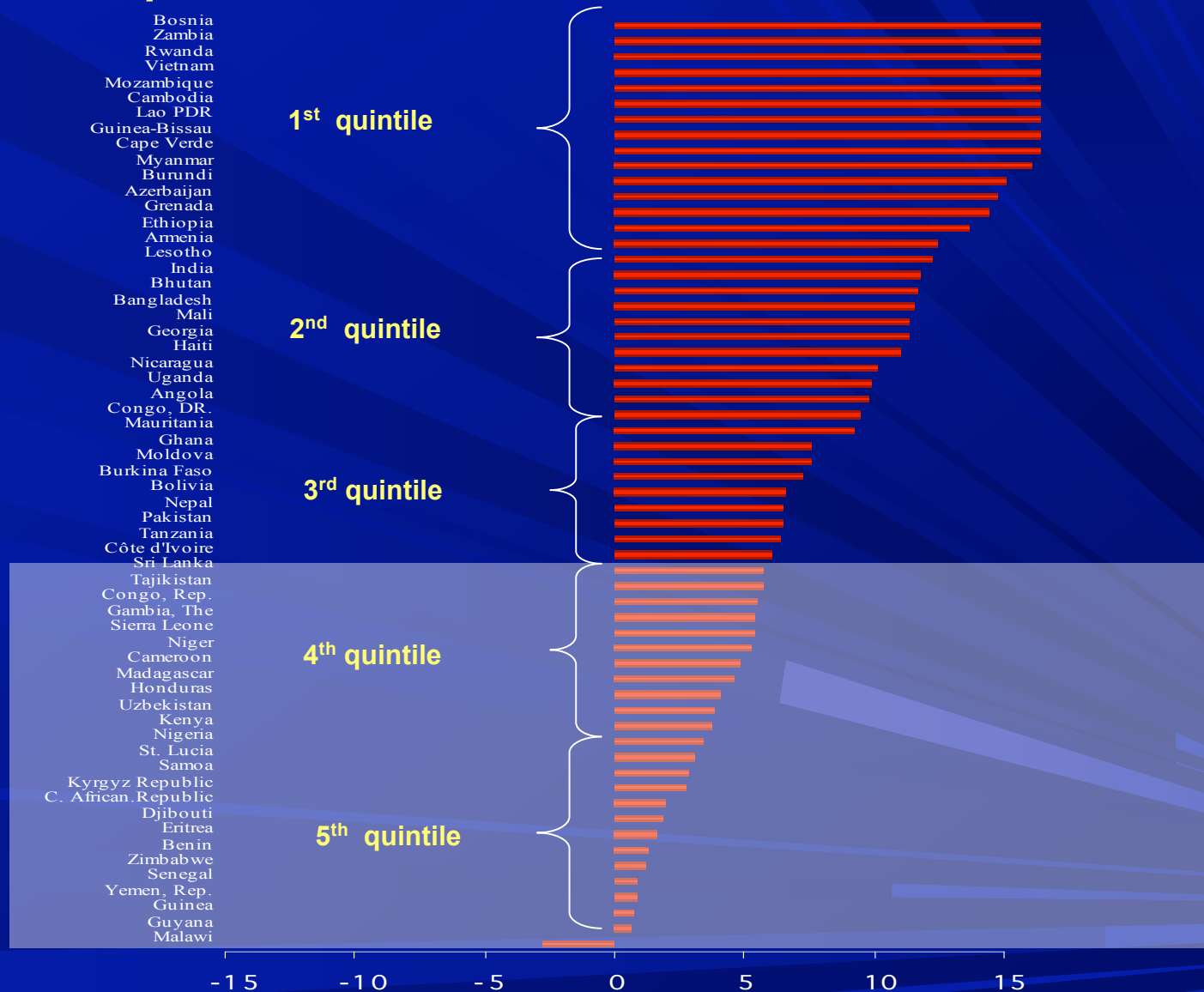
Source: Business Warehouse

Potential demand arises from poor trade performance and weak trade capacity ...

■ **Trade performance** – Several ways to measure..

1. Growth rate of exports of goods and services
2. Change in global market share
3. Change in competitiveness in existing markets
4. Growth rates of export markets – product and geographic markets
5. Degree of export concentration

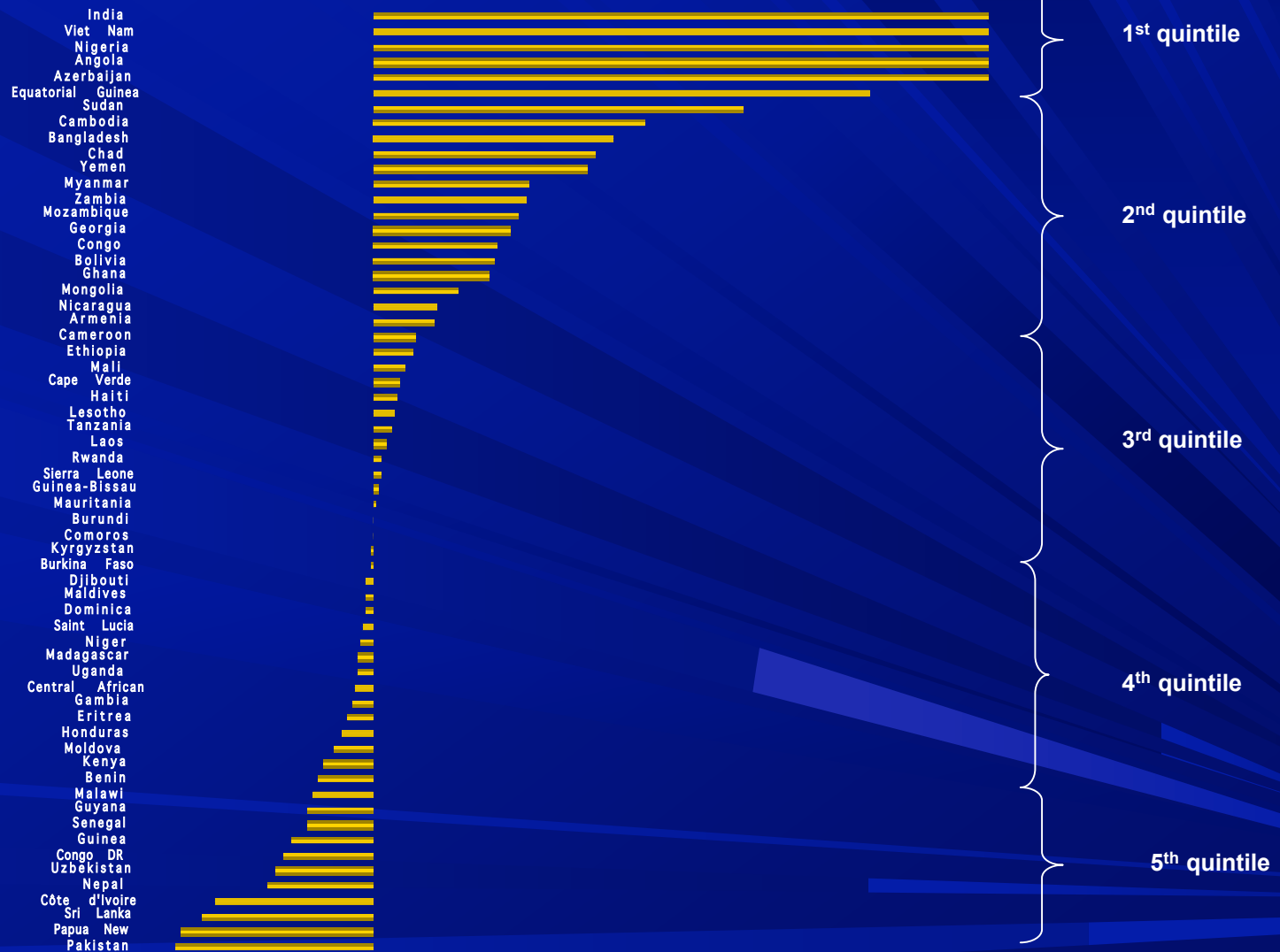
Trade performance varies...but 29 low income countries figure in the bottom two quintiles



Source: Authors calculation. World Bank, WTI Note: Quintile scale are from the entire sample of low and middle income countries

Despite export growth, about half of LICs lost market share

Low income countries: Change in market share, 1996-2006



Source: Authors calculation. World Bank, WTI Note: Quintile scale are from the entire sample of low and middle income countries

Sources of export growth: competitiveness or demand growth?

Competitiveness effect

Gaining competitiveness in slow growing markets

Gaining competitiveness in fast growing markets

+ -
Azerbaijan, Bangladesh, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Burkina Faso, Cambodia, Chad, Comoros, Djibouti, Ghana, Haiti, India, Kenya, Kiribati, Laos, Mali, Mauritania, Mozambique, Rwanda, Samoa, Sierra Leone, Solomon Is, Sri Lanka, Tajikistan, Togo, Uzbekistan, Vanuatu, Viet Nam.

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Angola, Armenia, Cape Verde, Congo, Equatorial Guinea, Georgia, Myanmar.

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Burundi, Cameroon, Central Afr. Rep., Côte d'Ivoire, Congo D. R., Dominica Eritrea, Ethiopia, Gambia, Grenada, Guinea, Guinea-Bissau, Guyana, Honduras, Liberia, Madagascar, Malawi, Maldives, Moldova, Nepal, Nicaragua, Pakistan, Papua New Guinea, Saint Lucia, Saint Vincent, Sao Tome and P., Senegal, Somalia, Sudan, Tanzania, Tonga, Uganda, Zambia, Zimbabwe.

+ -
Kyrgyzstan, Mongolia, Niger, Nigeria, Yemen.

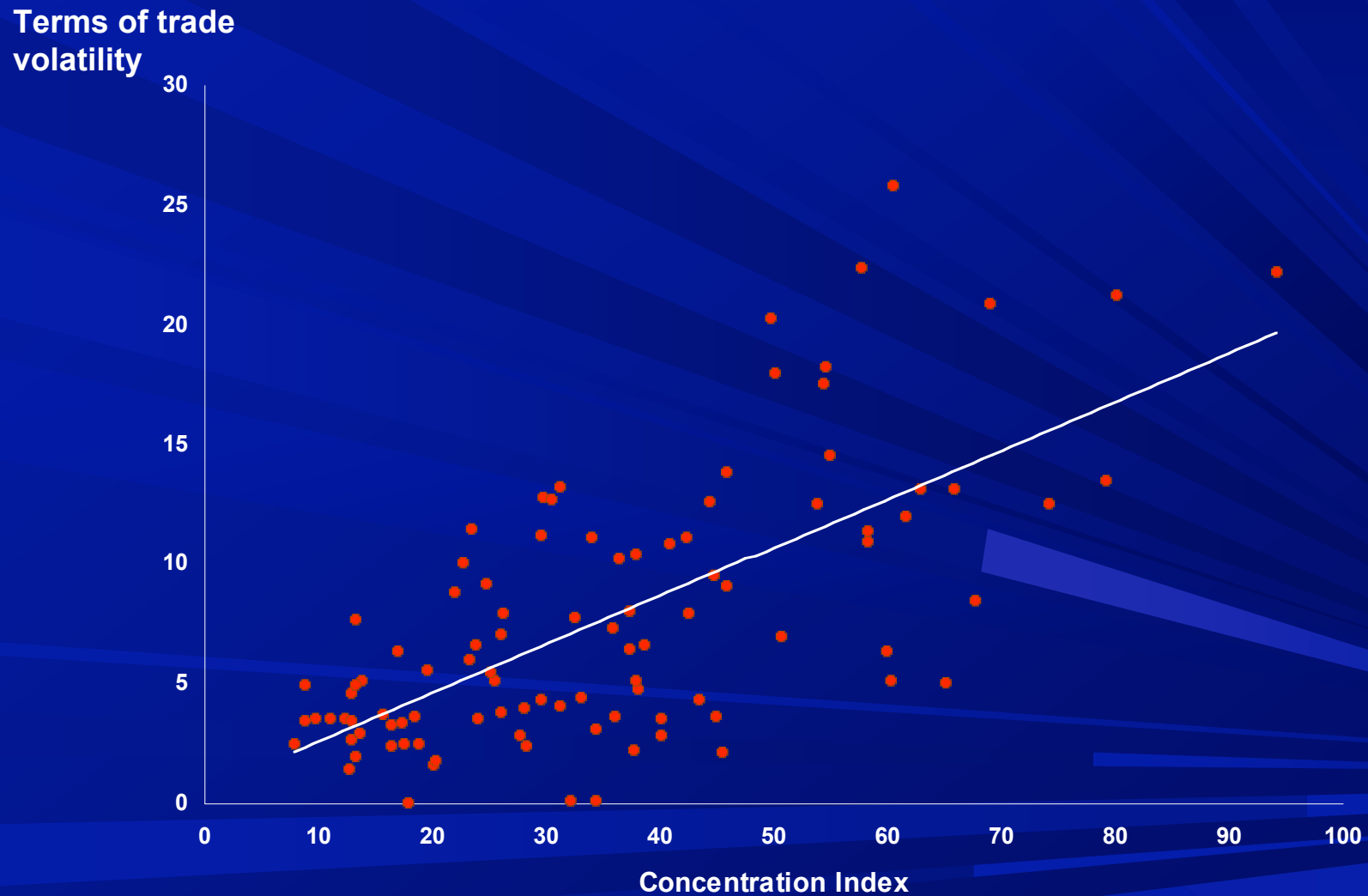
Demand

Losing competitiveness in slow growing markets

Losing competitiveness in fast growing markets

Dependence on a few exports exposes countries to terms of trade shocks

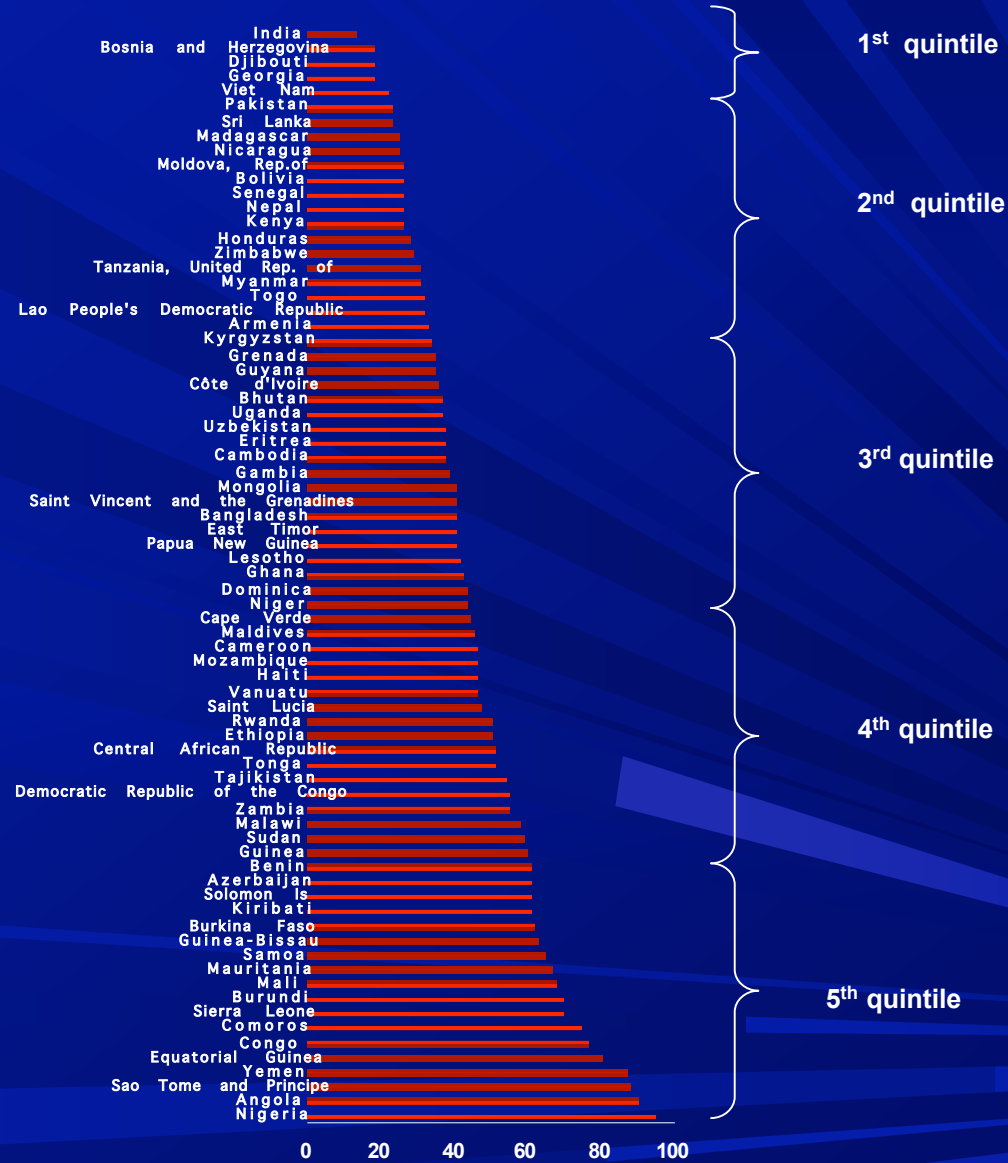
Developing Countries: Terms of trade volatility (1996-2006)



Source: Authors calculation based on World Bank, World Development Indicators and World Trade Indicators

Concentration Index – average 1996-2006

Low income countries



Source: Authors calculation. World Bank, WTI Note: Quintile scale are from the entire sample of low and middle income countries

Besides trade *performance*, potential demand should include trade *capacity*...

– Infrastructure

- 1. Quality of infrastructure and information technology**
–LPI (2)

– Institutions

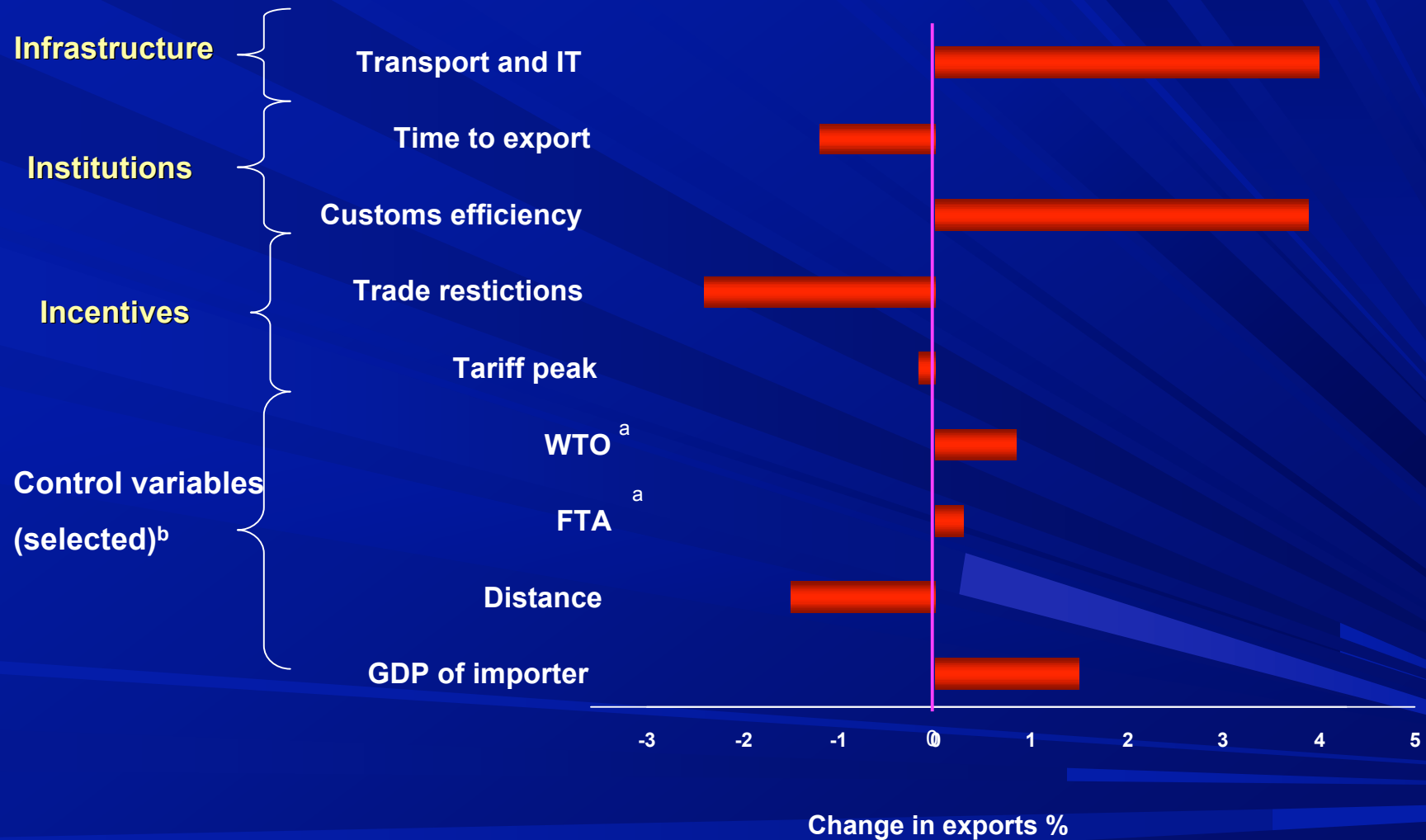
- 2. Quality of customs – LPI (3)**
- 3. Time to export – *Doing Business***

– Incentives

- 4. Peak tariffs (# of lines 3x average tariff level)**
- 5. Tariff overall restrictiveness index - OTRI**

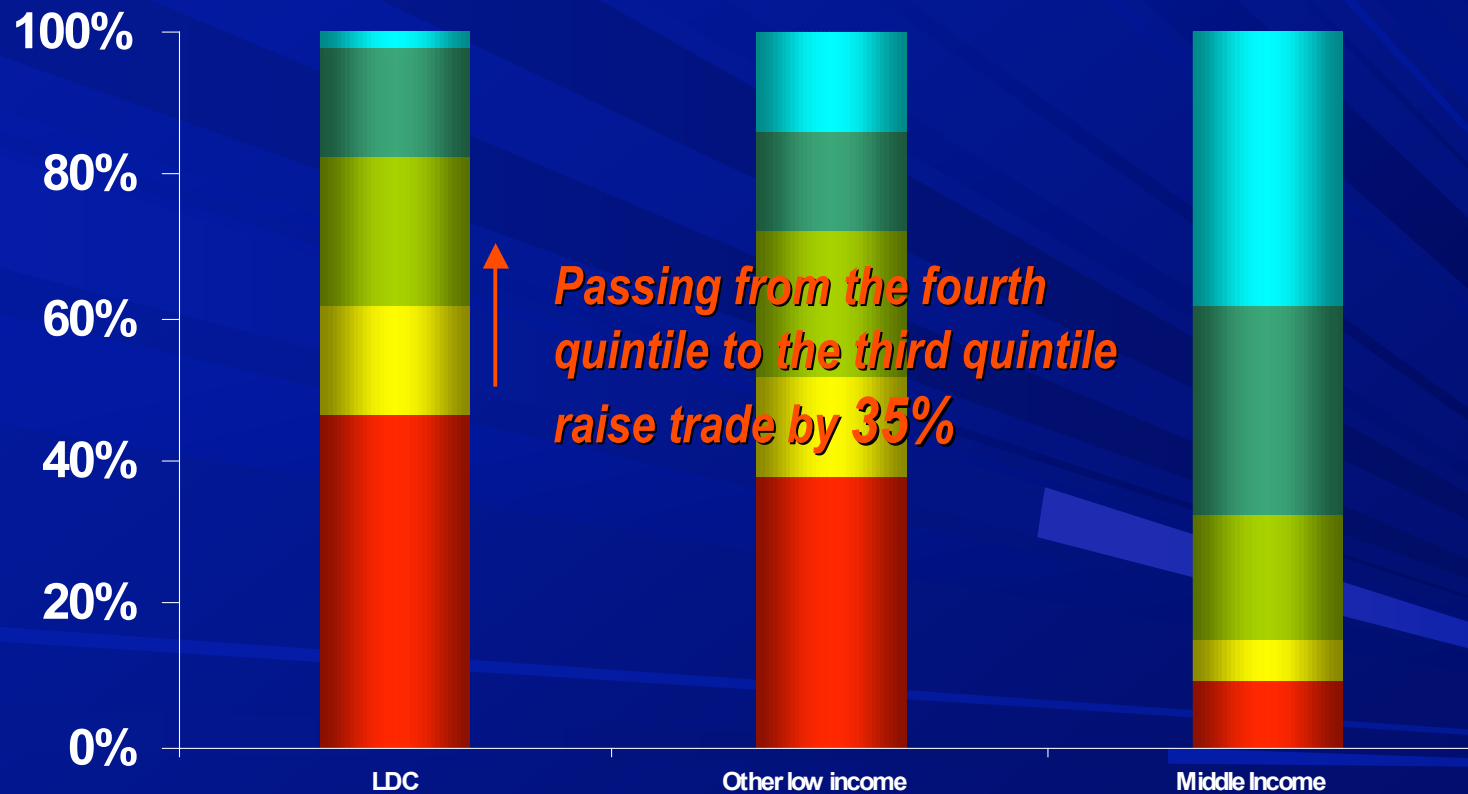
Infrastructure, institutions and incentives influence trade

Effects of 1% change in infrastructure, institution, and incentive on exports



Note: Marginal effects calculated at the average of the sample. ^a represents the change passing from zero to one. The rest of the variables refers to change of 1 percentage point. ^bOther control variables are listed in the Annex.

About 60% of LDCs figure in the bottom two quintiles of infrastructure rankings for all developing countries



Source: Authors calculation based on World Bank, LPI Indicators



DEVELOPMENT PROSPECTS

Quantifying “potential demand” ... adding it up

■ Trade performance

- 1 Growth of exports
- 2 Change in market share
- 3 Competitiveness in existing markets
- 4 Demand structure
- 5 Concentration- diversification

■ Capacity

- 6 Infrastructure
- 7 Customs
- 8 Time to export
- 9 Tariff peaks
- 10 Overall tariff restrictiveness

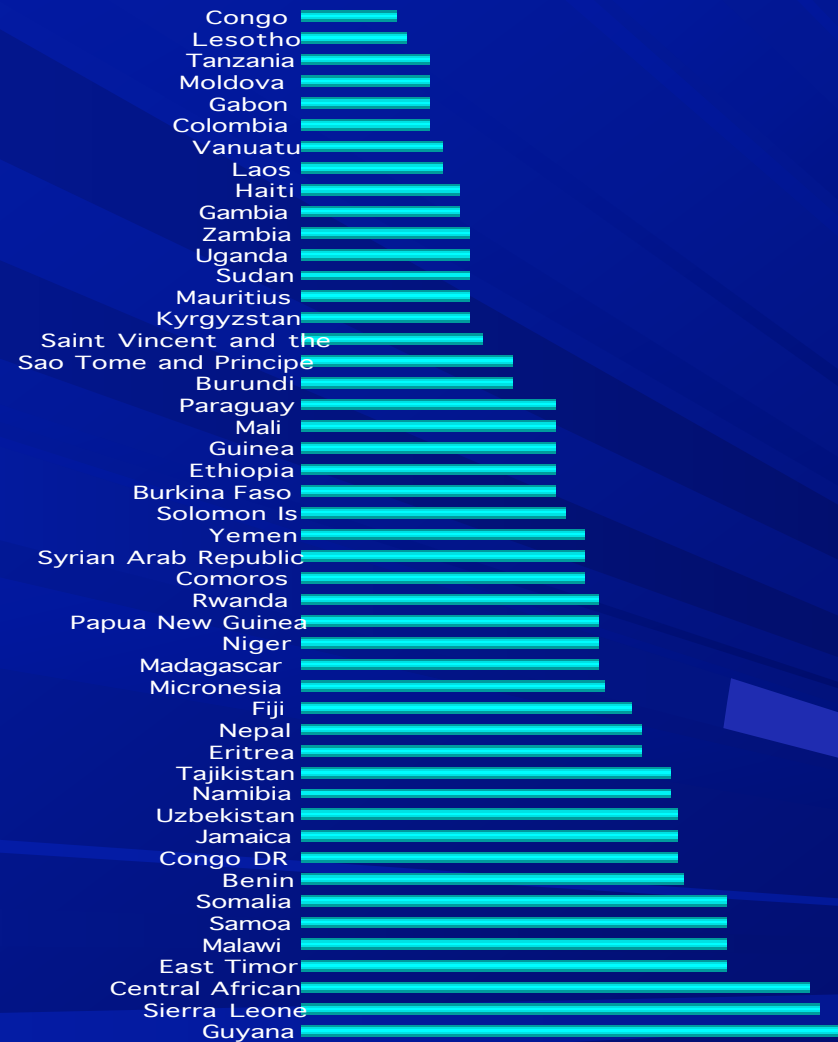
■ Score every country on 10 dimensions

■ 1 for highest quintile...to 5 for lowest quintile

■ Least demand (best score) = 10....
to highest need for aid for trade = 50

Potential demand for aid for trade

Countries in the bottom two quintiles



Source: Authors calculation based on data from ITC and World Bank.

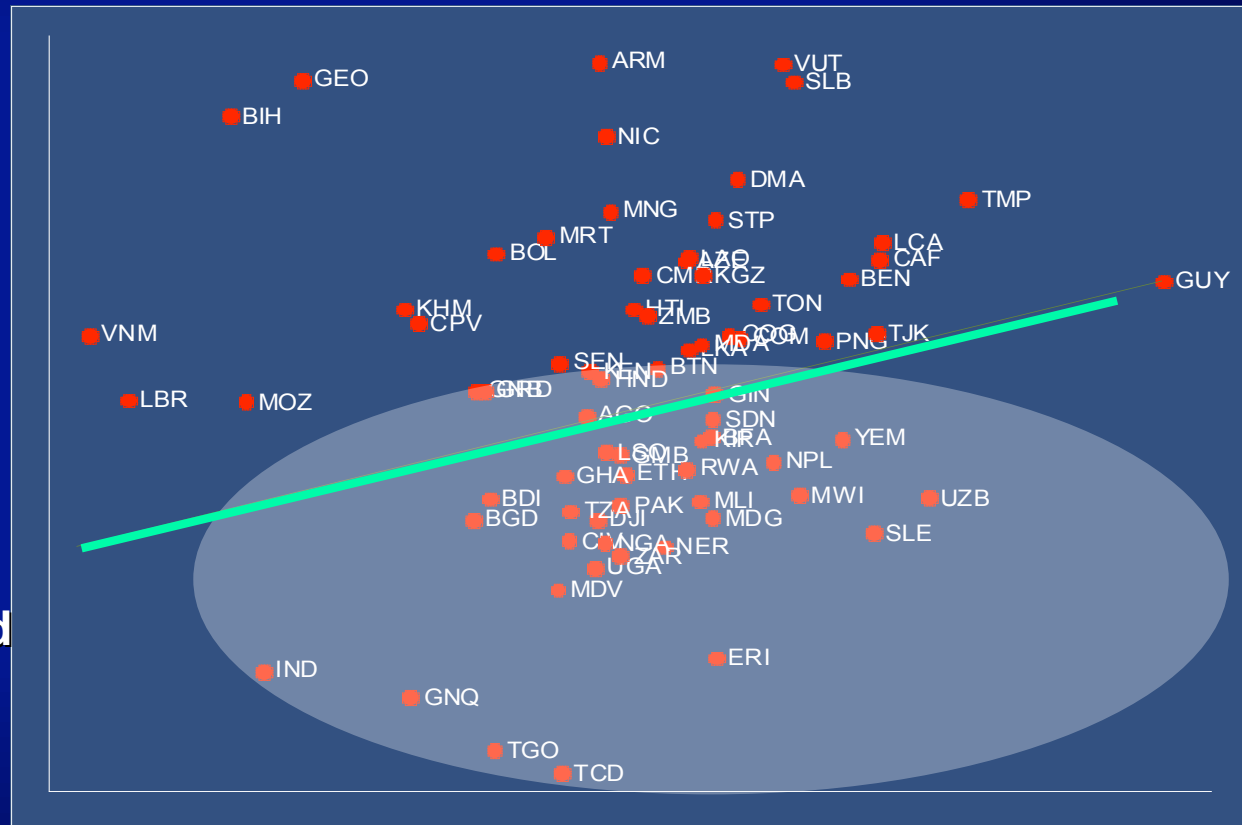
Does potential demand match supply?

Aid for trade (GDP) is determined by potential demand, p.c. income, and aid effectiveness...

Supply of aid for trade /GDP

Good news: positive correlation

Other news: many countries underserved



Potential demand for aid for trade

Source: Authors calculation based on 2006 cross section regression

Conclusions... Aid for trade potential demand outstrips current supply

- **While trade performance of developing countries as a group has been strong, many countries are performing below average and many countries are vulnerable to a slowing global economy**
- **Particular at risk are those with poor trade performance – slow growth, declining market shares, and concentrated exports –**
- **...and those with poor infrastructure, institutions and export incentives**
- **While aid for trade supply is broadly correlated with potential demand, still, several countries that have the highest potential demand are receiving less- than- average levels of aid for trade.**

The background of the slide is a solid dark blue color. It features a pattern of numerous thin, parallel diagonal lines that originate from the right side and fan out towards the left, creating a sense of depth and movement. The lines vary in length and thickness, some appearing as thin streaks and others as slightly thicker bands.

Mainstreaming Aid for Trade in Cambodia and Laos

Mainstreaming Trade in Cambodia

- Integrated Framework in 2002, 2007
- Successful integration of trade reform into national development strategy
- Consultative approach to Aid for Trade
- Aid coordination and harmonization among donors
- Strong partnership between development partners and private sector

Trade Sector Wide Approach

- Overall strategy for trade reform through aid for trade framework
- Strong partnership between government and development partners
- Development partners contribute specific activities in area of expertise—no duplication
- Government and development partners review progress on quarterly basis

Success Elements

- Government ownership/leadership
 - Sub-steering committee on trade under MOC
 - Strong government leadership
- Sector-wide approach—not project focused
- Well funded
 - Multi-donor trust fund finances Trade SWAp
- Donor coordination
 - Coordinated support from donors
- Private sector involvement
 - Key stakeholders in “doing” trade
- Monitoring and accountability

Trade SWAp: 3 Pillars

- Cross-cutting reforms
 - TBT/SPS; trade facilitation/customs; investment promotion; legal reform; IP
- Sector-specific reforms
 - Value chain analysis; garment and footwear; tourism; rice; rubber; fisheries
- Capacity development
 - MOC and related line ministries; provincial departments; public-private partnerships

Trade Facilitation and Competitiveness Project

- Application of ICT to border management
- Process re-engineering
- Export promotion
- Legal and judiciary framework
- Capacity building
- Trade infrastructure

Border management reform

- Customs automation through ASYCUDA
- System operational in Sihanoukville port; option to roll out in 5 other ports
- Risk management and post-clearance audit for quicker import and export process
- Inter-agency agreements to define responsibilities in clearance process
- Many donors involved
- Merit-based pay incentive

Export competitiveness

- Partner with individual firms to find overseas markets for their output
- Target firms to form cluster of new exporters in each sector
- TA to Department of Export Promotion
- Matching grant to cover up to 50% of cost of achieving market standards

Mainstreaming Trade in Laos

- Integrated Framework in 2006
- National Implementation Unit
- Donor and government stakeholders
- World Bank:
 - Poverty Reduction Support Operation
 - Customs and Trade Facilitation Project
 - Trade Development Facility

Laos: Poverty Reduction Support Operation

- Revising Customs law
- Developing and implementing national trade facilitation action plan
- Complying with ASEAN and WTO requirements

Laos: Customs and Trade Facilitation Project

- Simplification of customs procedures, elimination of duplication and redundancy
- Reduction of transaction costs and time to clear goods
- Increased transparency and accountability
- Implementation of automated customs system—ASYCUDA World
- Customs modernization support

Laos: Trade Development Facility

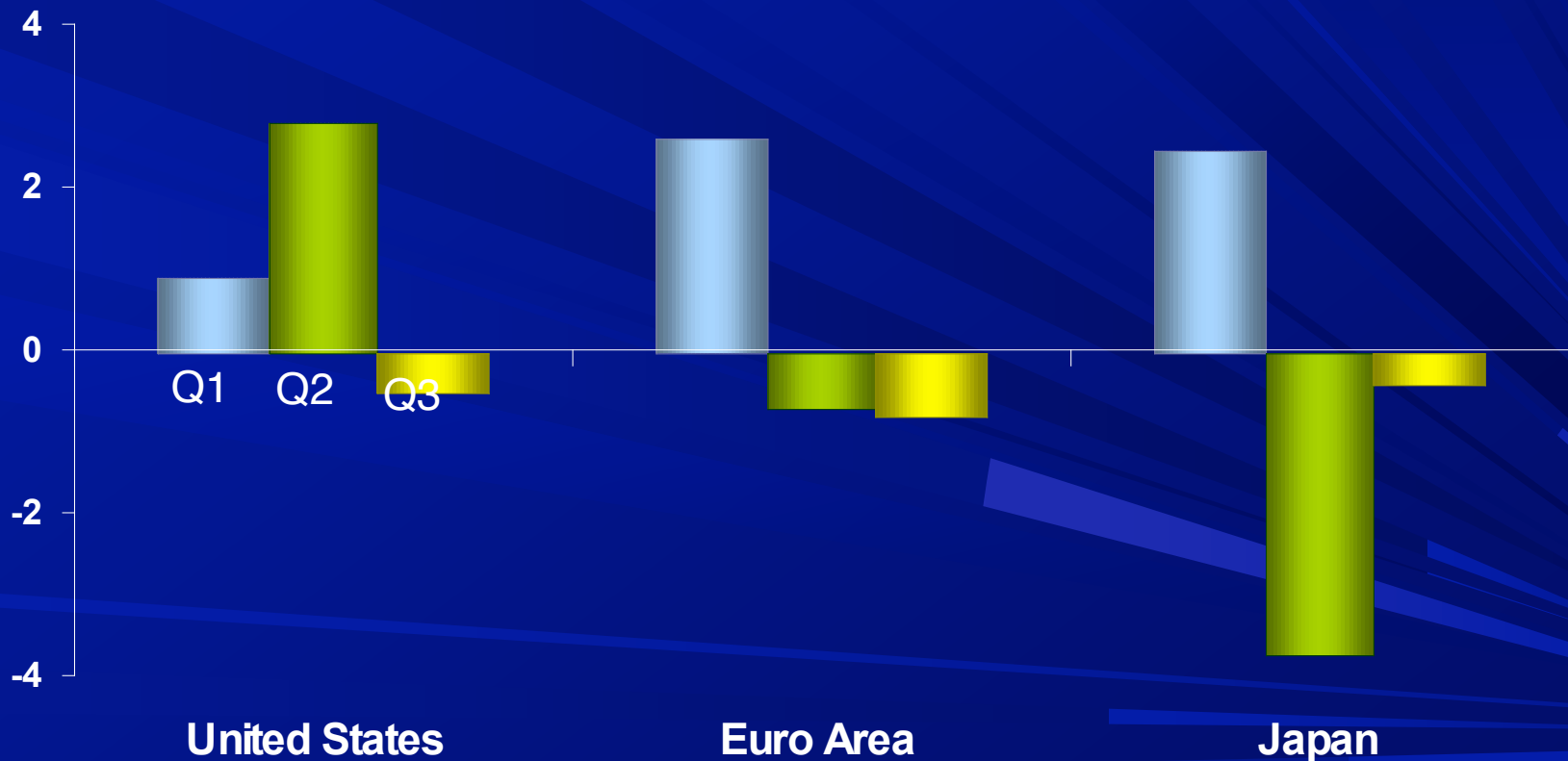
- Simplified bureaucratic procedures
- Improved legal and regulatory framework, especially in SPS/TBT
- Enhanced capacity of line ministries and agencies involved in trade
- Improved private sector capacity to compete
- Strengthened national implementation unit

Impact of the Crisis

The background of the slide is a solid dark blue color. It features a series of diagonal lines in a lighter shade of blue, which create a sense of depth and movement, resembling a perspective view of a tunnel or a series of parallel paths receding into the distance. The lines are most prominent on the right side of the slide and become more subtle towards the left.

70% of the global economy is in recession...

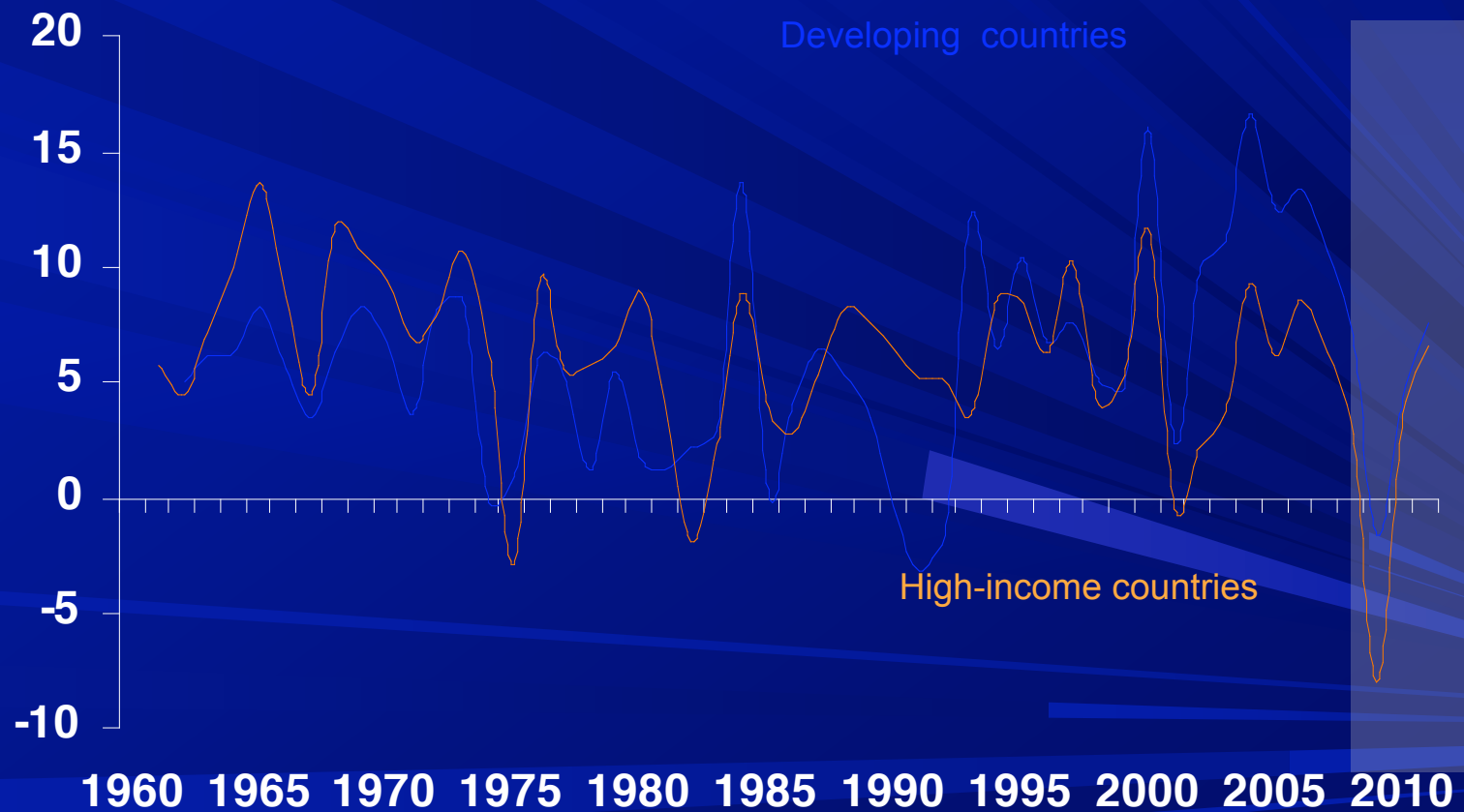
Growth of real GDP, percent change annualized



Source: World Bank and National Agencies.

Global trade volumes to decline by 6.1 percent in 2009 and recover in 2010

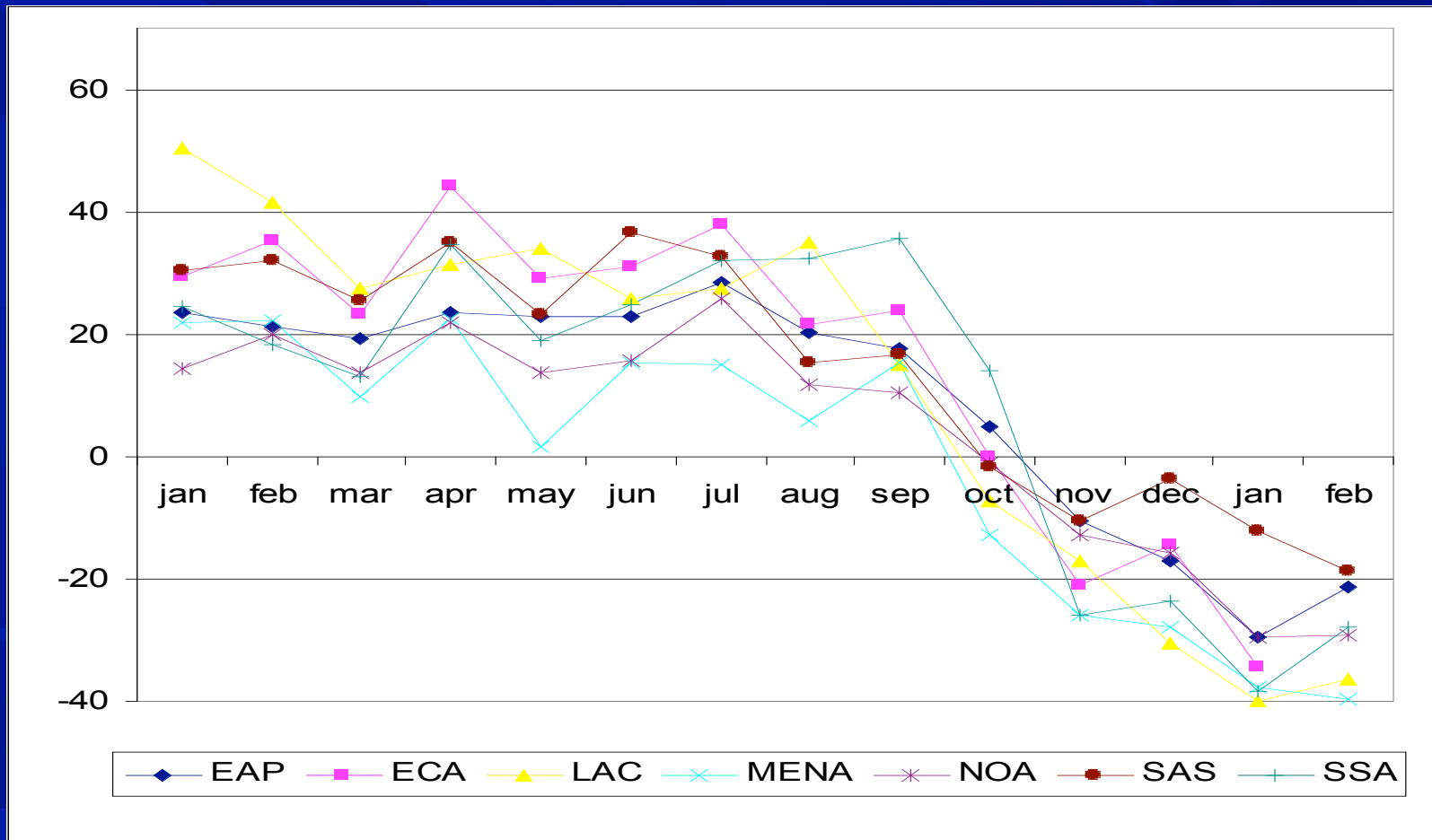
Annual percent change in the volume of exports of goods and services



Source: World Bank, DEC Prospects Group.

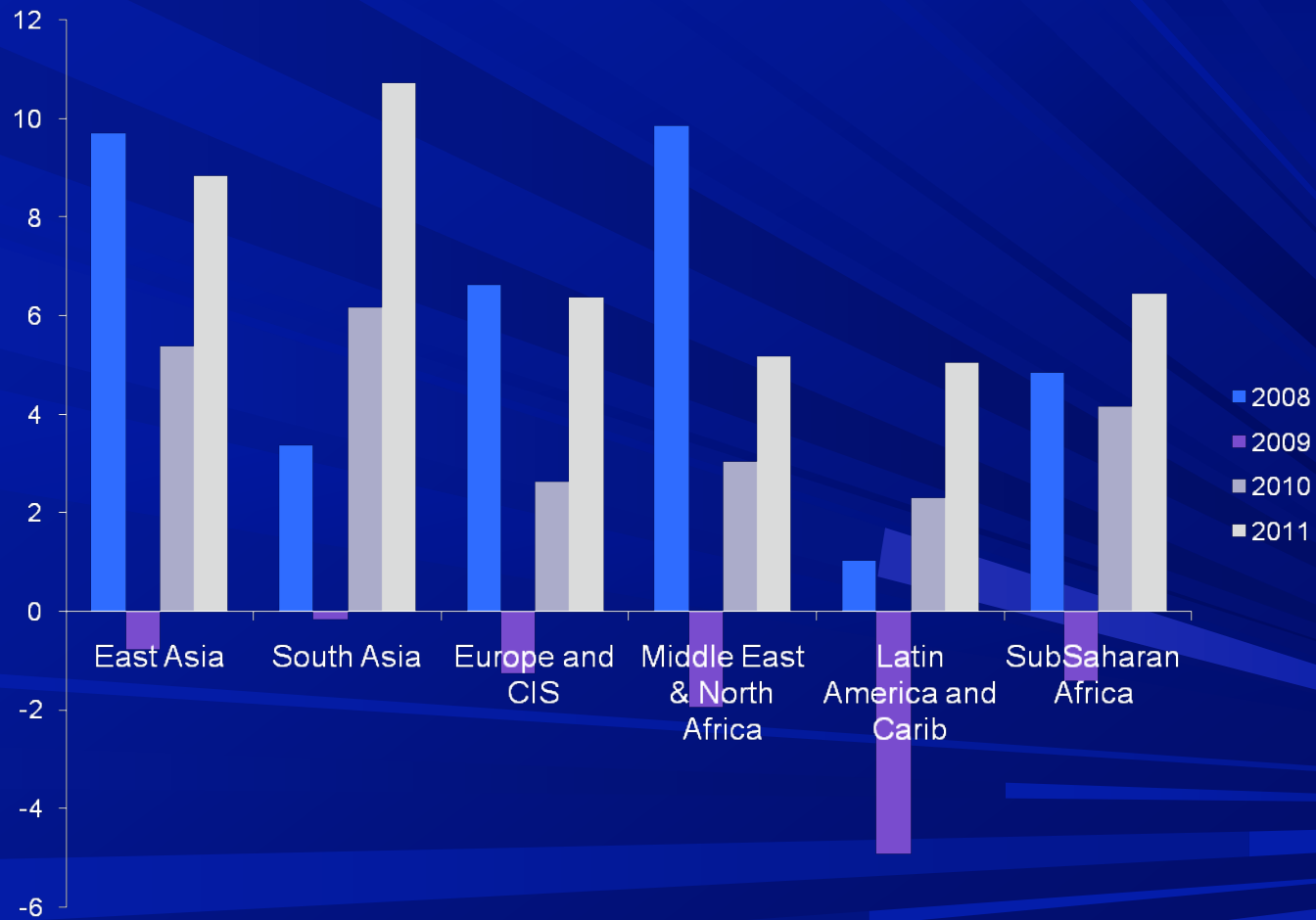
Trade In All Regions Is Affected

Export Growth by Region, Jan 08 – Feb 09, yoy change



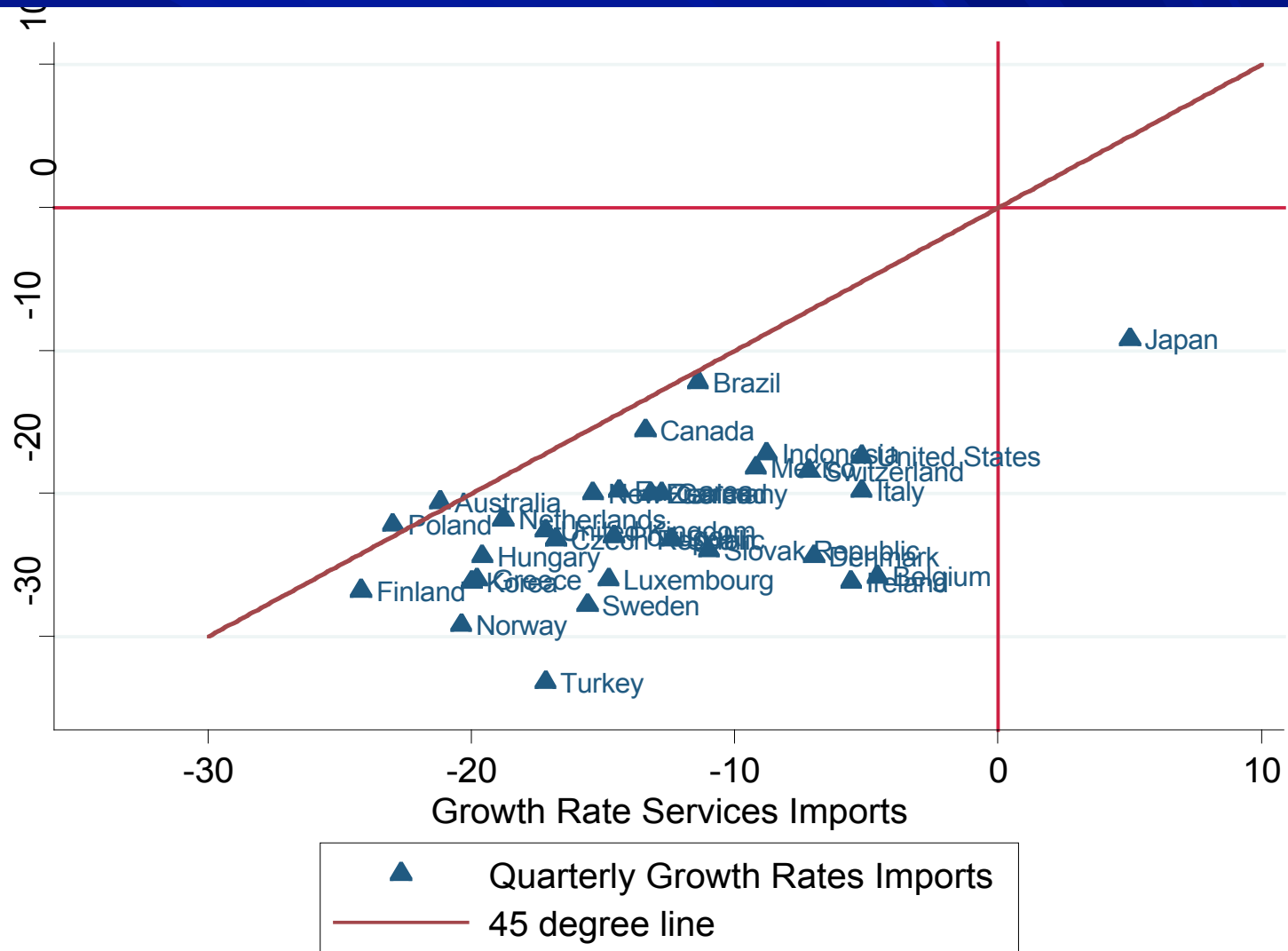
Source: Datastream, U.S. Commerce Department and authors' calculations. Simple average of growth rates across economies within regions for a balanced sample of 45 economies reporting data

East Asia will rebound in 2010

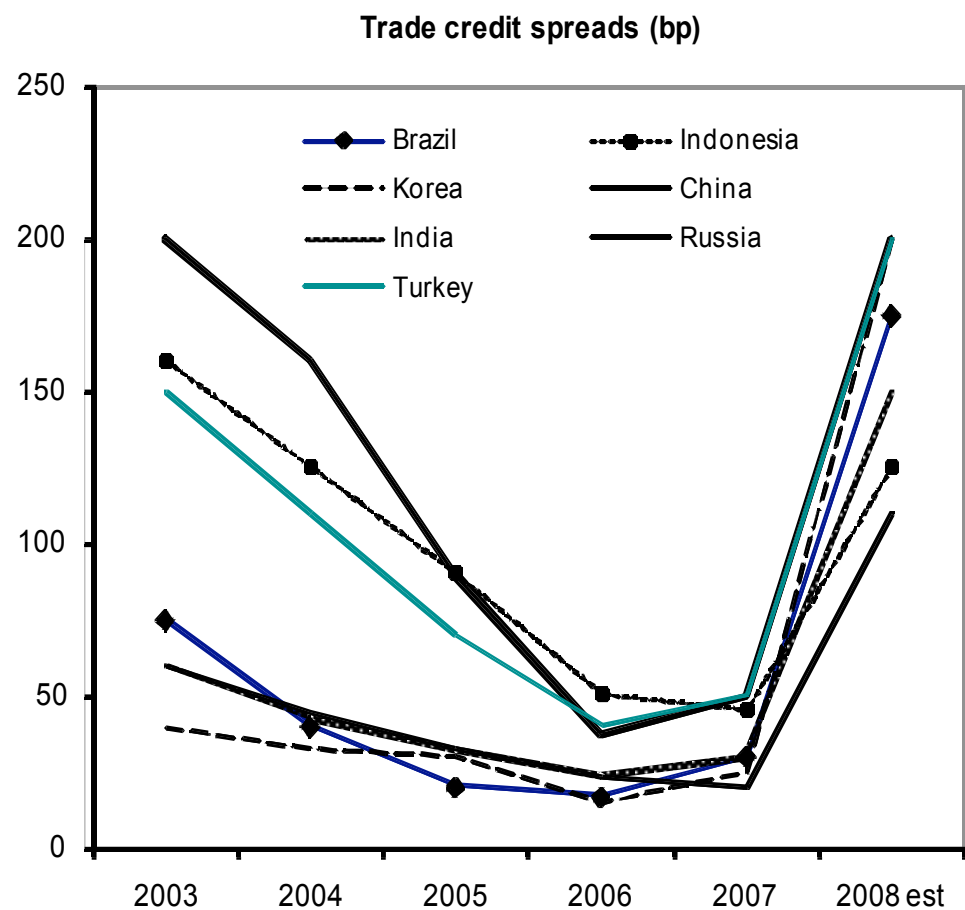
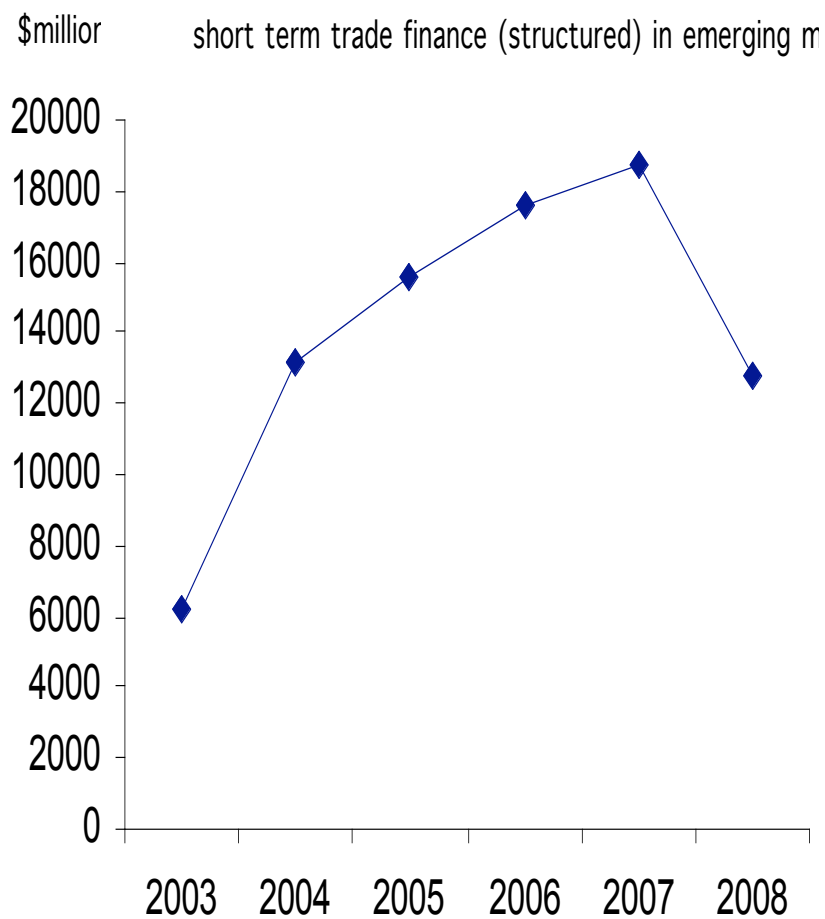


Source: World Bank Development Prospects Group

Services trade is more robust



Financial crisis has dried up trade finance -- strangling exporters



World Bank Group trade finance initiatives

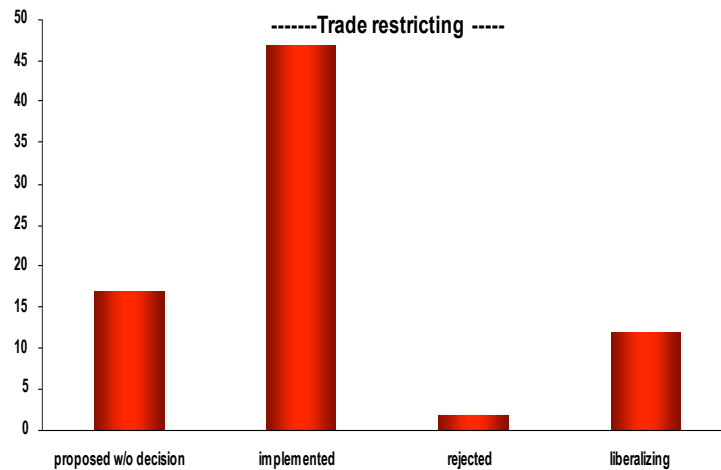
- A focus of the G20 summit.
- IFC Global Trade Finance Program (GTFP)
 - Offers guarantees for trade finance risks commercial banks do not want to take
 - 2,500 transactions in last 3 years for over US\$3 billion in guarantees
 - Doubling of GTFP capacity from \$1.5 to \$3 billion in December 2008
- New Global Trade Liquidity Program (GTLP)
 - IFC commits US\$1 billion over 2-3 years and mobilizes 2-3 times that amount from program partners (Govt's and other MDBs)
 - Resources used to fund self liquidating short term trade transactions, partnering with 5-10 major utilization banks
 - IFC and Program Partners to provide trade funding (pro rata) to Utilization Banks for up to 40% of their trade program
- Other World Bank support
 - Operations in support of Exim banks, SMEs, and regional trade finance initiatives. These amount to about \$4 billion, including \$2.6 billion of new projects under development or accelerated because of the crisis.

These programs are expected to contribute up to \$40-45 billion in trade finance over two years

Several countries have adopted new protectionist measures...

- Trade restrictions are numerous...

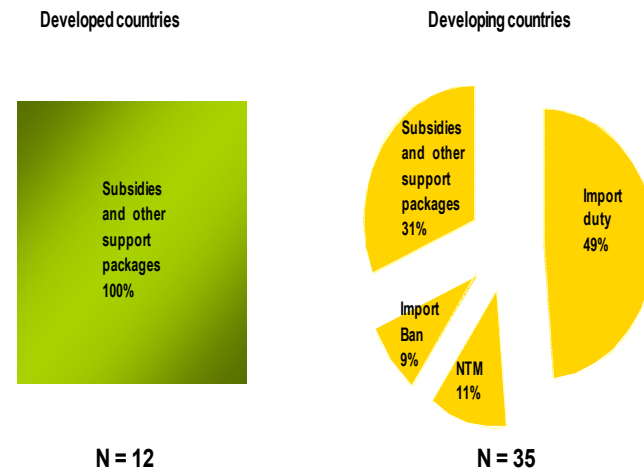
Mesures taken from October 2008 - February 2009
(number of measures)



Source: World Bank staff, List of Trade -related Measures, February 2009. Excludes anti - dumping cases.

- Rich countries subsidize... poor countries use barriers

Types of measures



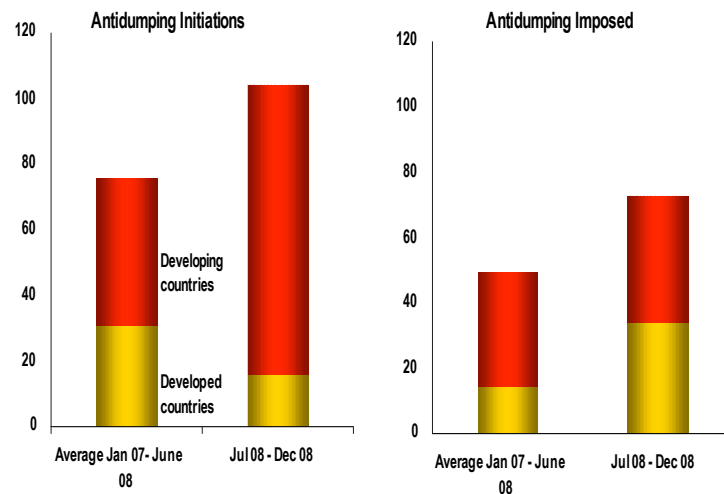
Source: World Bank staff, List of Trade -related Measures, February 2009. Excludes anti - dumping cases.

Anti-dumping cases are increasing...

■ Anti-dumping cases are up...

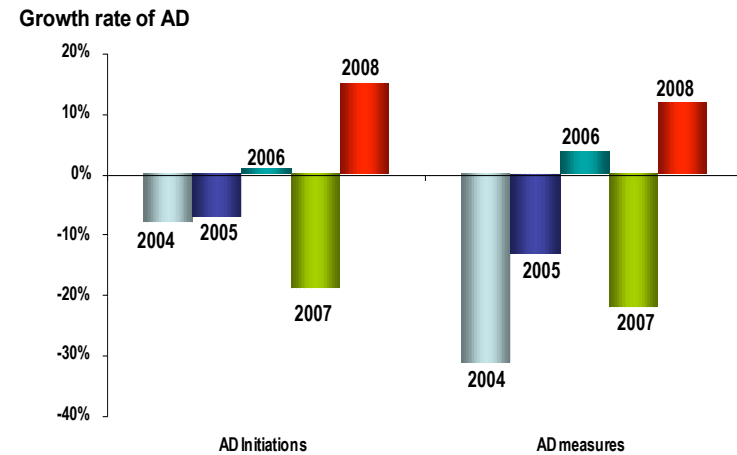
■ ...and growing rapidly

Anti-dumping cases, 2007 -2008



Source: Chad Brown, Global Anti-dumping Database, World Bank forthcoming.

Growth anti -dumping cases



Source: WTO, Anti-dumping Database (www.wto.org) and Chad Brown, Global Anti-dumping Database, World Bank forthcoming.

Pressing ahead with trade reform

- Avoidance of protectionist responses is paramount to preserve the mutual benefits of trade and to support economic recovery
- Actions to improve competitiveness and diversify exports through trade facilitation and related support measures remain key for developing countries
- The crisis increases the urgency of revitalizing and bolstering multilateral cooperation in the trade area—including through fulfillment of Aid for Trade commitments by high-income countries and support by international institutions

Aid for Trade to Reduce Trade Costs in the Crisis

- More, not less, is needed
- Focus on low-hanging fruits to reduce trade costs in the short term
- Quick measures to improve competitiveness
- Good time to push reforms
- Easier said than done

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Where Do Cambodia and Laos Stand?**

THANK YOU

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World Bank**

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