

AID FOR TRADE IN ASIA AND THE PACIFIC

LEVERAGING TRADE AND
DIGITAL AGREEMENTS FOR
SUSTAINABLE DEVELOPMENT

27 July 2022
10:30 am-11:30 am (CET)
4:30-5:30 pm (GMT+8)

Report launch

<https://www.adb.org/publications/aid-trade-asia-pacific-trade-digital-agreements>

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Aid for Trade in Asia and the Pacific 2022

SDG target 17.12

Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

SDG target 17.7

Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favourable terms, including on concessional and preferential terms, as mutually agreed

Trade and Aid for Trade to support developing Asia in meeting their sustainable development goals through the lens of regional cooperation.

PART I – AID FOR TRADE LANDSCAPE

- Aid for Trade (AfT) is important for developing countries to tackle the changing trade environment: the enduring COVID-19 pandemic, raising inequalities and the supply chains disruptions requiring to build resilience and robustness of the most vulnerable economies.

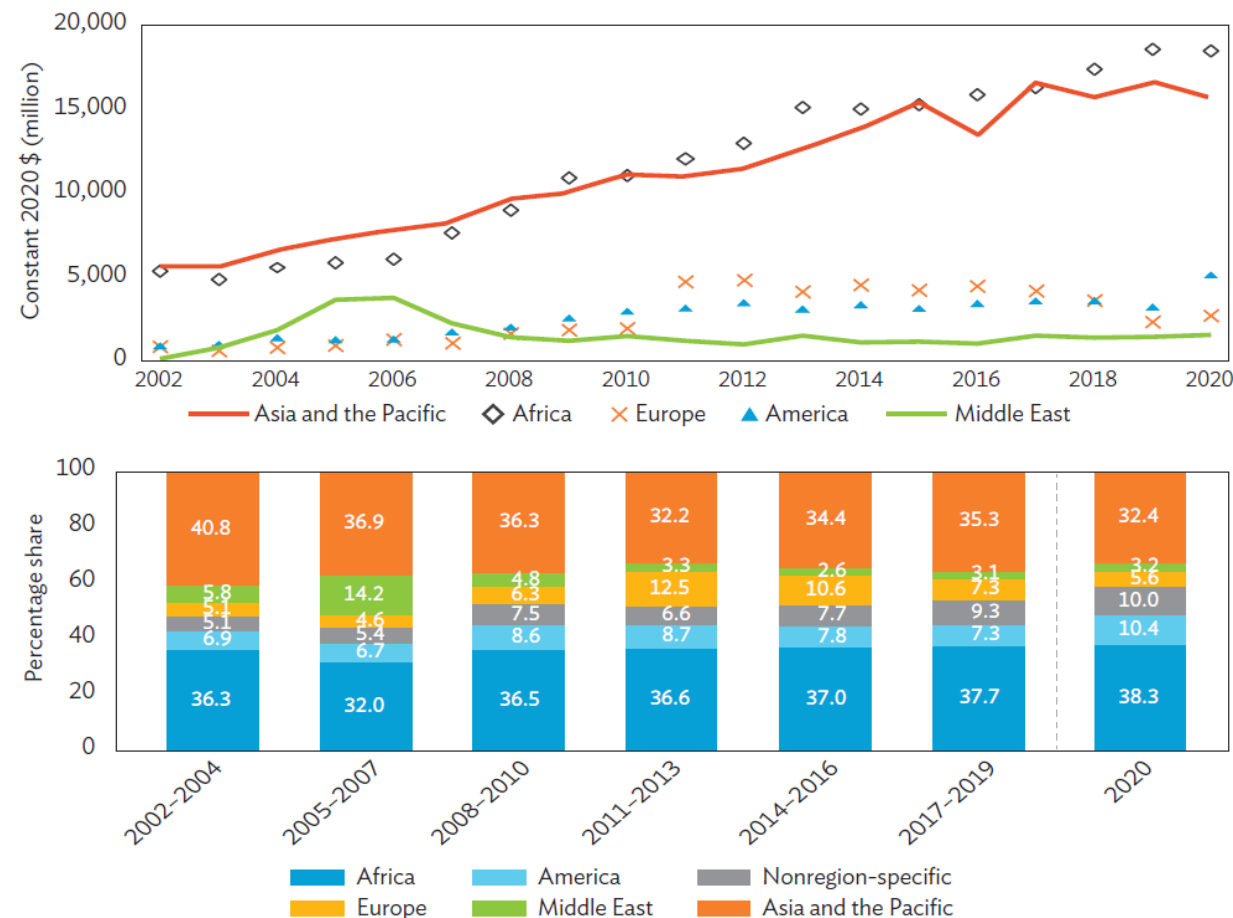
PART II – LEVERAGING TRADE AND DIGITAL AGREEMENTS FOR SUSTAINABLE DEVELOPMENT

- AfT needs to be coordinated to avoid exacerbating the growing regulatory heterogeneity.
- More support is needed for **regional cooperation on “soft infrastructure”**
 - ❖ **Regional trade agreements** can help mitigate the risks associated with geographical concentration by providing alternative export destinations and promoting robustness of the regional trading system.
 - ❖ **Regional and multilateral cooperation in regulating the digital economy** will be instrumental in promoting sustainable development while balancing domestic interests of safeguarding cybersecurity and data protection on the one hand, and establishing an enabling environment for resilient and inclusive digital trade on the other hand (see AEIR 2022)

Aid for Trade flows to Asia–Pacific follows an upward trend

- AfT flows to Asia-Pacific countries almost tripled between 2002 and 2019
 - ❖ 35% of average global aid for trade disbursements (2017–2019)
 - ❖ \$16.4 billion in 2019 - Second highest recipient after Africa.
- AfT declined by 5% during 2019-2020
- Disparities across sub-regions in Asia and the Pacific (2020)
 - ❖ South Asia 53%
 - ❖ Southeast Asia 29.6%
 - ❖ Central Asia 10.3%
 - ❖ Pacific 4%
 - ❖ Least developed countries (LDCs) 36.1%

Aid for trade Disbursements by Region, 2002-2020



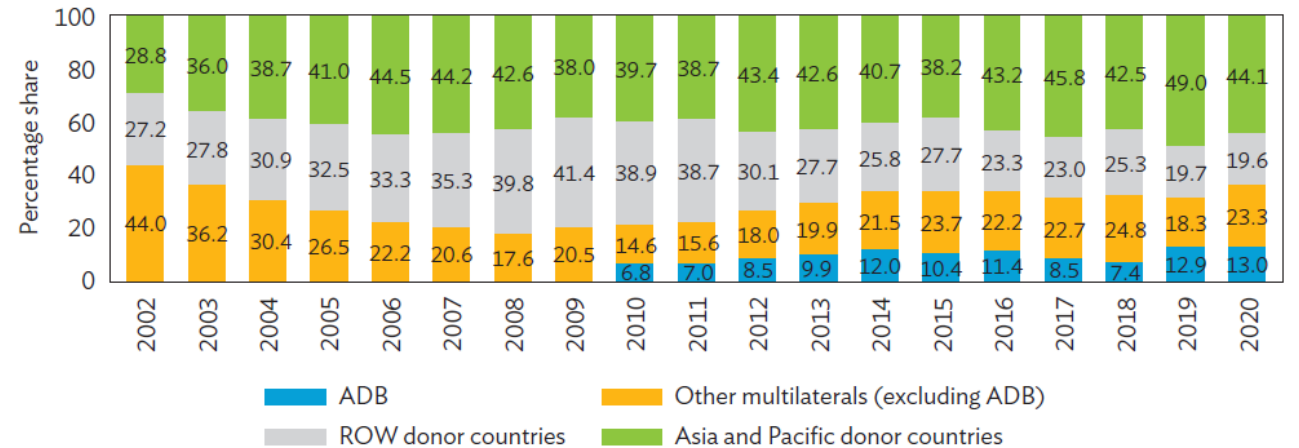
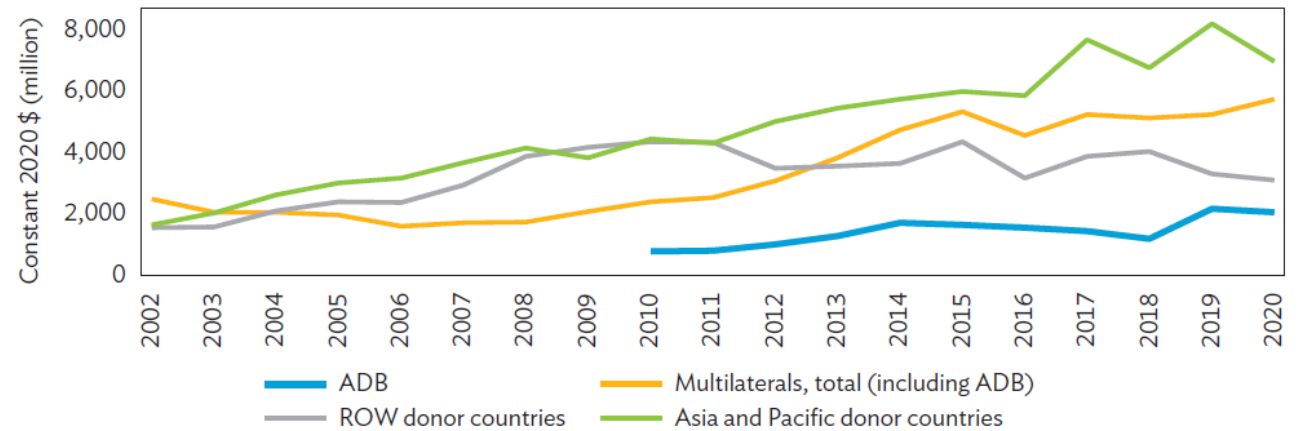
Note: Three-year averages are calculated using constant 2020 United States dollars.
 Source: ADB using data from OECD. Creditor Reporting System. <https://stats.oecd.org/Index.aspx?DataSetCode=crs1#> (accessed April 2022).



Disbursements from multilateral organizations and Asia-Pacific donor countries are on the rise

- Since 2010, regional support for aid for trade outpaced contributions by nonregional donors.
 - ❖ Asia-Pacific country donors were the fastest-growing group between 2002 to 2019, with disbursements increasing fivefold.
 - ❖ The share of AftT disbursements from multilateral providers (including ADB) increased by 10.5 percentage points between 2009 and 2019.
 - ❖ The share of AftT disbursements from donor countries not located in Asia and the Pacific decreased by 11.5 percentage points between 2009 and 2019.
- Regional disbursements are concentrated among few donors
 - ❖ ADB, Germany, Japan, and the World Bank: about 3/4 of AftT trade disbursements to Asia and the Pacific in 2020.

AftT disbursements to Asia and the Pacific by type of donors, 2002-2019



ADB = Asian Development Bank, ROW = rest of world. Note: "Other multilaterals" include EU institutions, Islamic Development Bank, United Nations organizations, and the World Bank Group. Source: ADB calculations using data from the OECD. Creditor Reporting System. <https://stats.oecd.org/Index.aspx?DataSetCode=crs1#> (accessed April 2022).

Most aid for trade is directed to economic infrastructure while flows targeting trade policies and regulations remain limited

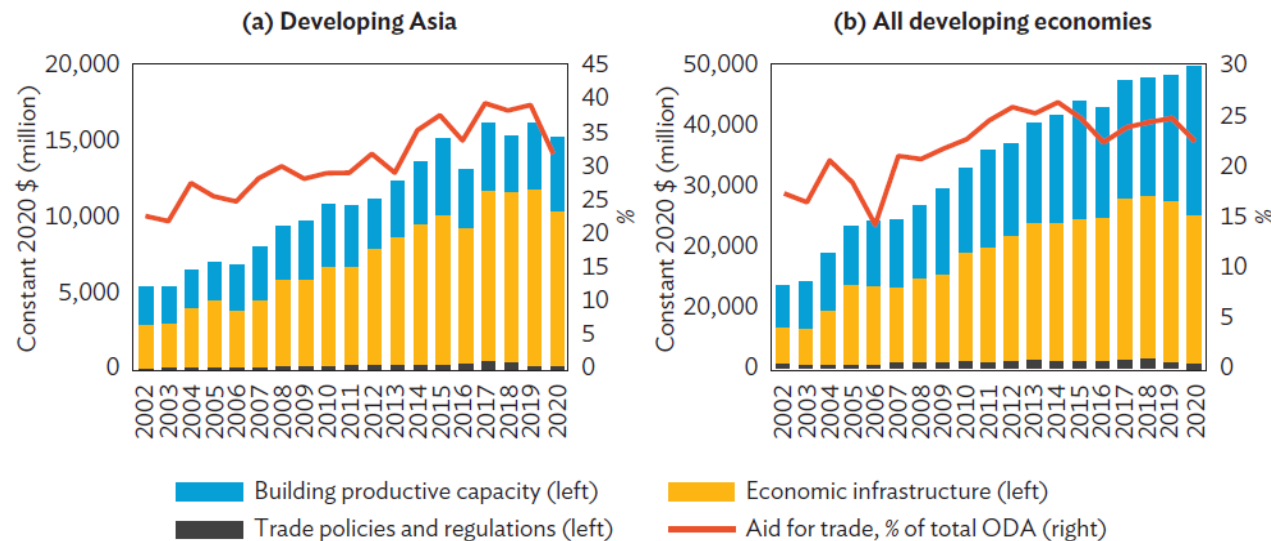
➤ Economic infrastructure

- ❖ 71.4% of regional AfT disbursements (2017-2019): 16 percentage points above the corresponding share for all developing economies

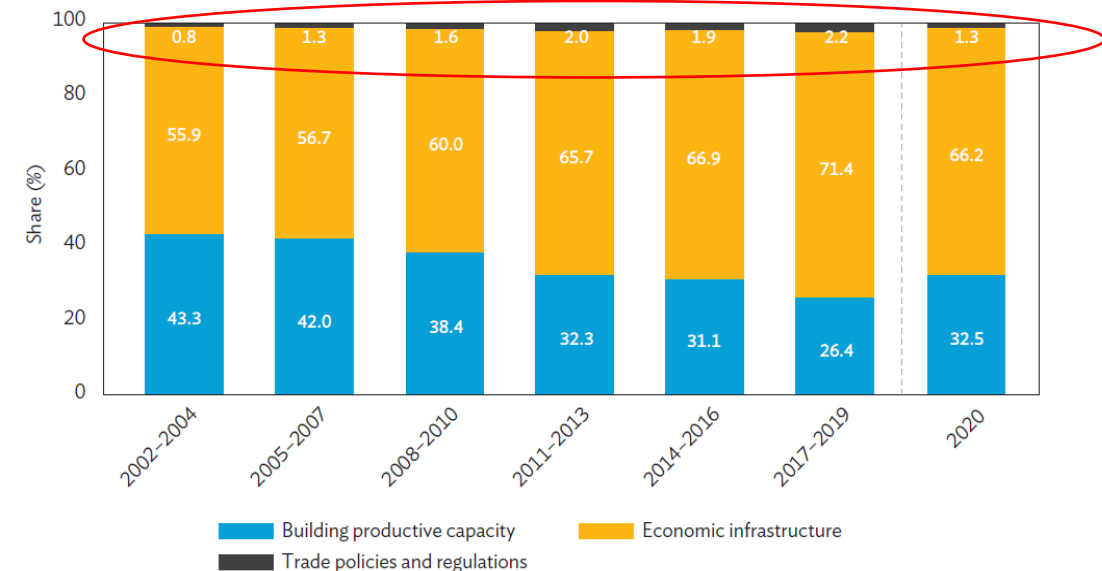
➤ Trade policies and regulations

- ❖ AfT disbursements more than halved in Asia and the Pacific from 2018 to 2020.
- ❖ 2020 share: 1.3%

AfT and as a Share of Official Development Assistance, 2002–2020
(constant 2020 \$, %)



Distribution of AfT inflows to Asia and the Pacific
3-year averages



ODA = official development assistance. Note: Total aid for trade is the sum of aid for infrastructure, aid for building productive capacity, and trade policy and regulations, and trade related adjustment.

Note: Three-year averages are calculated using constant 2020 United States dollars.

Aid for trade to support better designed and effective trade agreements

- Trade agreement to promote **resilience and robustness**
 - ❖ Key role in maintaining economic activity during the pandemic
 - ❖ Bilateral, regional and mega-regional trade agreements—the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) can strengthen regional value chains
- Potential **gains** are massive, but **conditional**:
 - ❖ Value added over existing agreements: did countries negotiate access on favorable terms?
 - ❖ Promoting regulatory convergence vs enhancing heterogeneity (“noodle bowl” of overlapping rules and regulations)
 - ❖ Effective use by economic stakeholders
- Aid for trade needed to help identify the **costs and benefits** of new or existing trade agreements
 - ❖ Some agreements bring additional market access over the existing ones, others less so
 - ❖ Difference in the fine print of the agreements (ex. rules of origin, cumulation, nontariff measures, other regulatory issues)
 - ❖ Develop better-evidenced approaches to the design, negotiation, and implementation of trade agreements.
- Aid for trade needed to help monitor trade agreements with **utilization rates** and the development of other tools

How to measure the incremental value of an agreement?

Overlapping preferences:

Cambodia-PRC FTA and RCEP

“RCEP came into force in January 2022, at the same time as the Cambodia–PRC FTA. The PRC and Cambodia both produce textiles and apparel, so Cambodia benefits most under the RCEP from the elimination of many customs duties on its several agricultural exports. Countries with relatively large apparel industries based on intra-RCEP imports, such as Cambodia, should also benefit from the RCEP’s Rules of Origin and modern cumulation rules. What additional benefits the PRC–Cambodia agreement offers in better market access for agricultural exports?”
(ADB 2022)

- Particularly important in the case of **overlapping schemes**
 - ❖ Viet Nam - Japan: (i) ASEAN–Japan FTA, (ii) Viet Nam–Japan bilateral, (iii) RCEP, (iv) CPTPP
 - ❖ Cambodia-PRC: bilateral agreement and RCEP
- **Trade in goods**
 - ❖ Overlapping tariffs schedules and tariff differentials
 - ❖ Rules of origin, cumulation, certification
 - ❖ Thousands of tariff lines
 - ❖ Text-based or side-by-side reviews of legal provisions to (i) identify the meaning for market access and national treatment, (ii) quantification methodology to rank the degree of liberalization.
- **Services, TBT, SPS, and other regulatory issues**
 - ❖ Comparison exercise enters complex and uncharted territory.
 - ❖ AfT needed to develop new methodology to each of these new disciplines, and assist developing countries with tailored capacity building.

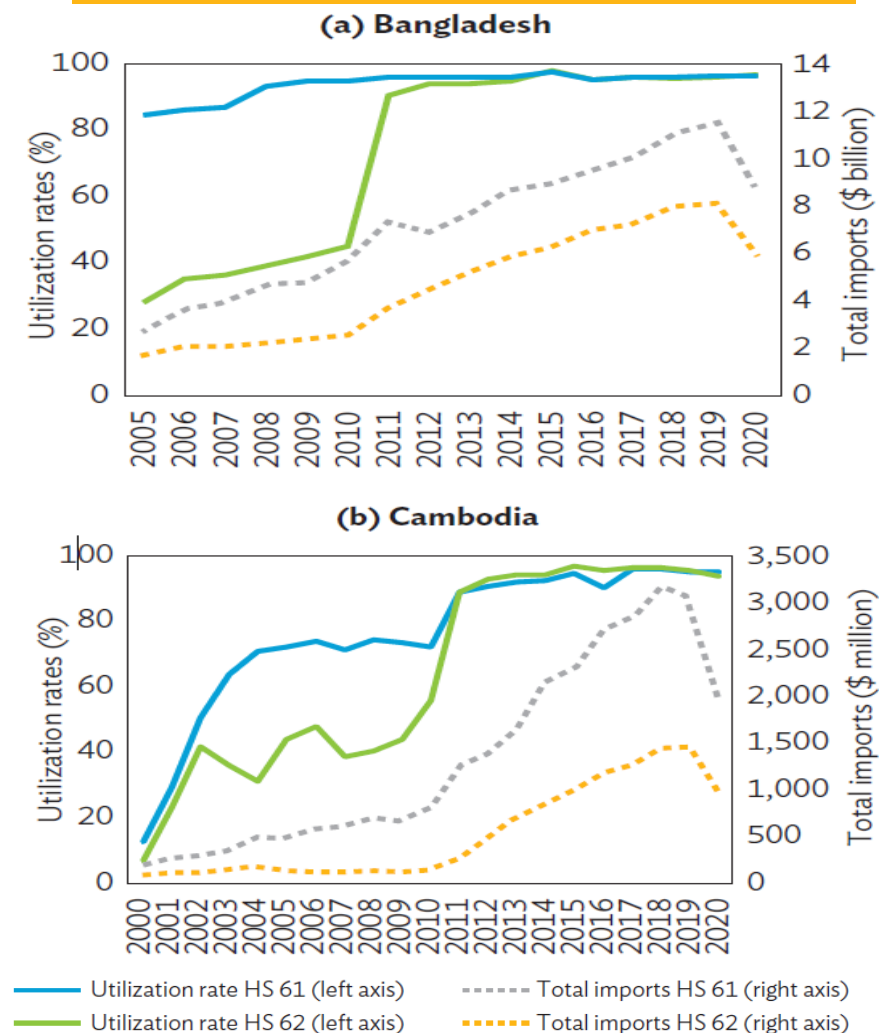
Monitoring the effectiveness of an agreement - utilization rates

- What is the **share of trade utilizing the trade preference** out of the trade that is eligible to receive it?
- **Interpreting utilization rates**
 - ❖ Low utilization rates suggest that a preference scheme is not working properly.
 - ❖ High utilization rates may or may not be a positive sign
 - ❖ Like a medical check-up, the analysis of utilization rates should be carried out by trade experts able to draw conclusions from a variety of datasets and evidence from firms.
- **Utilization rates are key to increasing transparency**
 - ❖ Measuring the effectiveness of various overlapping trade preferences.
 - Ex. Cambodia's utilization rates in the ASEAN–Japan FTA were as low as 10% in 2018; but utilization rates were more than 80% for the Japanese Generalized System of Preferences scheme in the same year.
 - The latter provides more lenient product-specific rules of origin, especially in the garment sector.
- **Provide policy makers the necessary information**
 - ❖ Determine the preference scheme that best suits their firms
 - ❖ Formulate (revise) rules of origin, tariff dismantling, and trade facilitating administrative measures for future (existing) RTAs.

Aid for trade can support developing economies overcome preference erosion and graduation

- Asian LDCs that have been relying on unilateral trade preferences schemes are progressively exposed to preference erosion.
 - ❖ Graduation from LDC category / DFQF preferences
 - ❖ Bilateral FTAs: preferences erosion and/or loss of cumulation
 - ❖ Plurilateral FTAs
 - ❖ Mega-Regional FTAs – RCEP, CPTPP
- Policy options when graduating out of the GSP for LDCs or DFQF:
 - ❖ Standard GSP
 - ❖ Start using existing FTAs where available
 - ❖ New bilateral FTAs
 - ❖ Consider joining Plurilateral/Megaregional agreements
- **Substantial negotiating challenges**

EU Imports from Bangladesh and Cambodia and GSP Utilization Rates



HS = Harmonized System, GSP = Generalized System of Preferences. Note: Articles of apparel and clothing accessories, HS 61 (knitted/ crocheted) and HS 62 (not knitted/ crocheted clothing and accessories). Source: ADB calculations based on UNCTAD Database on GSP Utilization. <https://gsp.unctad.org> (accessed May 2022).



Countries have to prepare for the Digital Economy

Opportunities

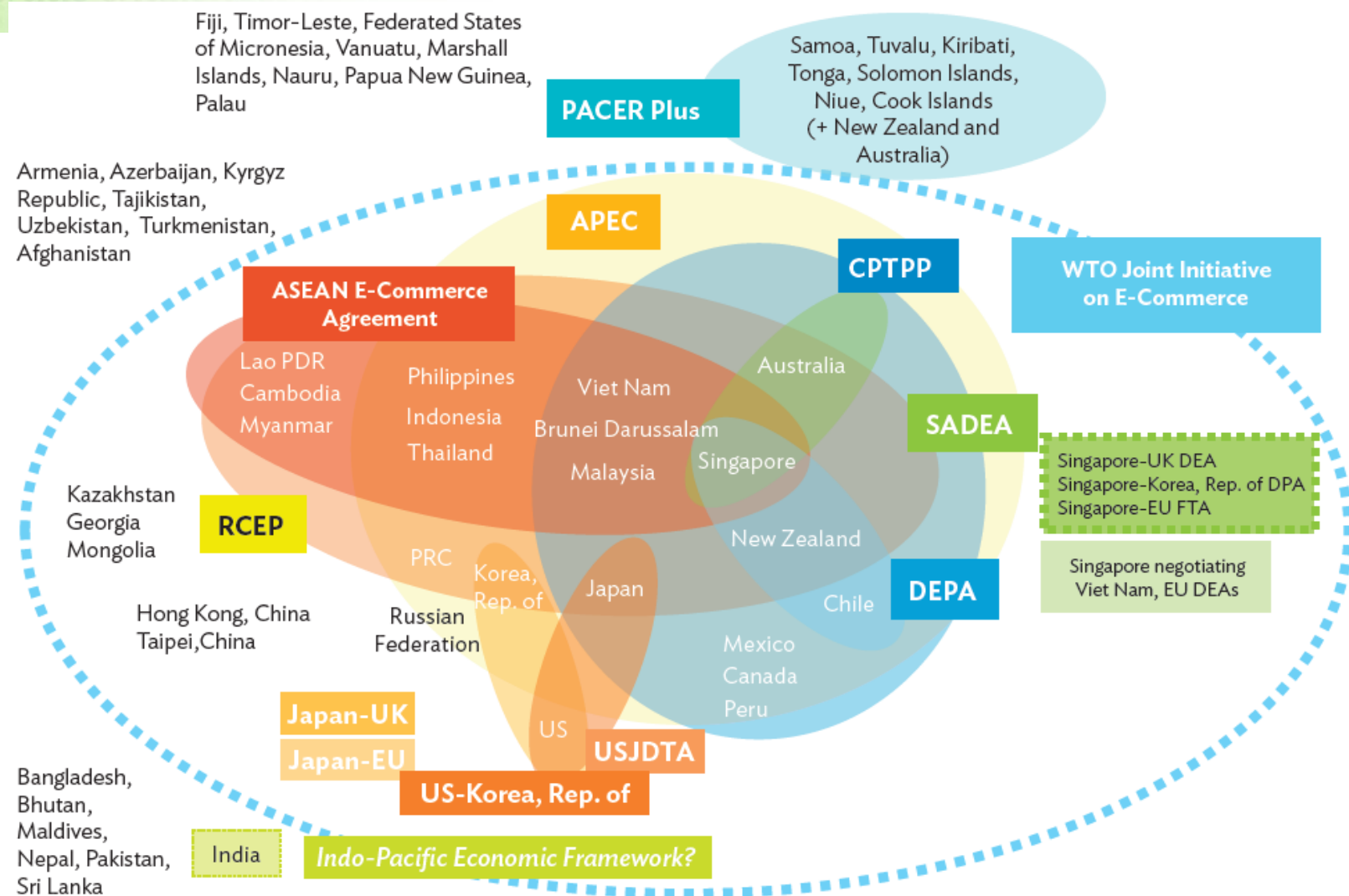
- Digital connectivity can be a key driver for economic integration in the region
- Can strengthen productivity and innovation
- More digitalization means more trade
- Can enhance economic recovery from the pandemic
- Opportunities for greater inclusion for MSMEs and women (financial inclusion, access to markets via platforms, participation in GVCs, other trade opportunities)
- Digital trade can contribute to the achievement of many UN SDGs

Risks

- Digital divide if developing economies cannot participate meaningfully in the digital economy (due to lack of necessary infrastructure, skills and regulatory settings)
- Increasing barriers and restrictions to digital trade, competition policy issues
- Lack of “interoperability” can exclude developing economies/MSMEs from trade
- Others will ‘write the rules’ if developing economies do not participate
- Potential for unintended adverse impacts (e.g. risks from cybersecurity threats, socio-cultural)

The “noodle bowl” of overlapping digital rules

- Complex digital trade regulation landscape in Asia and the Pacific
- Some of the strongest performers in growth of digitally deliverable services in the region (ex. Nepal) are absent of this web of agreements —nor is digital services giant, India



APEC = Asia Pacific Economic Cooperation, ASEAN E-Commerce Agreement = Association of Southeast Asian Nations Electronic Commerce Agreement (2019), CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership (2018), DEA = digital economy agreement, DEPA = Digital Economy Partnership Agreement (2020), DPA = digital partnership agreement, EU = European Union, Japan-UK FTA = Japan-United Kingdom Free Trade Agreement (2021), Lao PDR = Lao People’s Democratic Republic, PACER Plus = Pacific Agreement on Closer Economic Relations Plus (2017), SADEA = Singapore-Australia Digital Economy Agreement (2020), USJDTA = United States- Japan Digital Trade Agreement (2020), US-Korea FTA = United States-Republic of Korea Free Trade Agreement (2019), RCEP = Regional Comprehensive Economic Partnership Agreement (2020), UK = United Kingdom, US = United States.

Source: Asian Development Bank.

Innovative approach to Digital Economy Agreements

- Digital Economy Partnership Agreement (DEPA) signed between Chile, New Zealand and Singapore
- Broad scope of “trade in the digital economy” and focuses on enabling elements: end-to-end facilitation of trade, trust, innovation, and inclusion
- Assumes that the digital economy will keep evolving:
 - ❖ Soft norms – may lead to hard law;
 - ❖ Focus on interoperability and coherence;
 - ❖ New issues can be added.
- DEPA is an open plurilateral: New members welcome to join
- The DEPA offers the greatest potential as:
 - ❖ A “building block” to broader outcomes (to WTO agreement and/or FTAs).
 - ❖ An opportunity for developing country participants to help write the rules.

DEPA Broad Categories of Groups of Issues



Facilitate end-to-end trade

Data flows; No data localization; E-payments
E-invoicing; Paperless trade;
Express shipments; Logistics
Standards



Trust

Personal info protection;
Trust Marks; Online
consumer protection;
Cybersecurity; Safe online
environment



Innovation and agility

FinTech, RegTech; Digital identities;
Data innovation; Data sharing;
Sandboxes; Open government data



Inclusion

SMEs, incl. SME Dialogue; Women;
Indigenous Peoples; Enabling
environment; Access to information;
Government procurement

Aid for trade and the future of digital trade rules

DEPA/DEA-style model to achieve to achieve greater coherence overall ?

- May streamline trade rules across the region or but may equally struggle to build sufficient critical mass.
- Some DEPA Elements could be included in the revision of existing agreements or negotiation of new ones. E.g. CPTPP, ASEAN-Australia-New Zealand FTA and the US “Indo-Pacific Economic Framework”.
- How these individual DEA models or upgraded free trade agreements will interact with other agreements?
 - ❖ E.g. RCEP exceptions clause in the e-commerce chapter for data flows and data localization is more flexible than in CPTPP

The role of Aid for Trade in helping developing countries engage in the digital economy

- Only 0.4% of aid for trade goes to digital economy issues
- Support economies in achieving digital connectivity and infrastructure, technology access, and digital literacy and skills.
- Identify regulatory heterogeneity, ways to promote cooperation, coherence and transparency of the regulatory settings
 - ❖ Serious risk to growth and employment in MSMEs, who are least able to absorb the high fixed trade costs of regulatory heterogeneity and barriers

Policy recommendations – Reorienting Aid for Trade

- **Building Technical Tools and Knowledge to Support Policy Dialogue and Awareness Raising**
 - i. Assessing the incremental value of regional trade agreements and digital agreements
 - ii. Building mechanism for notification of utilization rates, database, and user-friendly rules of origin
 - iii. Exploring new models and other key areas for regional trade agreements

- **Country-Specific Technical Assistance and Capacity Building**
 - i. Trade policy making for graduating LDCs
 - ii. A regional website targeted at small and medium-sized enterprise users
 - iii. Digital trade policy
 - iv. Domestic regulatory settings for the digital economy
 - v. Capacity building in other trade-related matters

- **Trade-Related Adjustment Assistance**
 - i. Financial assistance to graduating LDCs
 - ii. Assistance to developing countries suffering from trade diversion

resilience
digital agreements
refocus
modernize
economic growth
post-COVID-19 recovery
regional trade agreements
sustainable development goals

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JULY 2022

ASIAN DEVELOPMENT BANK

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Thank you very much for your attention!

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As the COVID-19 pandemic has slashed economic growth through Asia and triggered new trade challenges, the region is addressing to ensure inclusive growth.

Annexes

Cross-border Services trade (Mode 1) is most “pandemic-proof”

Mode 1 (Cross-border trade): many digitally deliverable services, plus transport

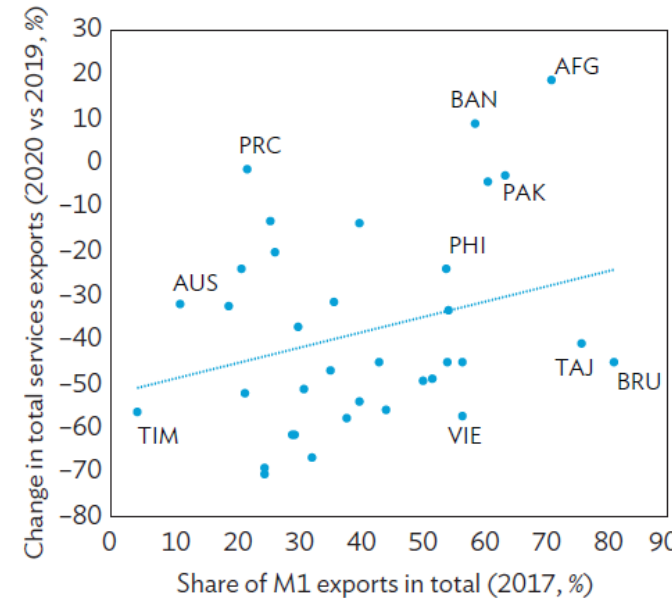
Mode 2 (Consumption abroad): tourism, travel

Mode 3 (Commercial presence): Supply through a foreign affiliate

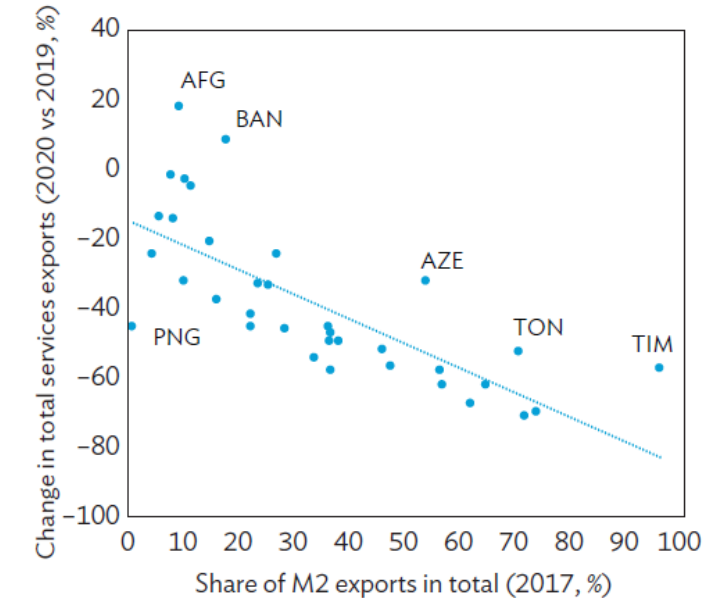
Mode 4 (Presence of natural persons): In-person delivery via a temporary presence in the market

- Modes of supply that minimize interpersonal interactions have performed better:
 - Compare Mode 1 (digitally delivered services) to Mode 2/4 (e.g. tourism, in-person supply)

Shares of Mode 1 and Mode 2 Exports Relative to the Decline in Value of Overall Services Exports in 2020



- YoY_X (2019-2020, %) as a function of M1_X_share (2017, %)
- Linear (YoY_X (2019-2020, %) as a function of M1_X_share (2017, %))



- YoY_X (2019-2020, %) as a function of M2_X_share (2017, %)
- Linear (YoY_X (2019-2020, %) as a function of M2_X_share (2017, %))

AFG = Afghanistan; AUS = Australia; AZE = Azerbaijan; BAN = Bangladesh; BRU = Brunei Darussalam; PAK = Pakistan; PHI = Philippines; PNG = Papua New Guinea; PRC = People’s Republic of China; TAJ = Tajikistan; TIM = Timor-Leste; TON = Tonga; VIE = Viet Nam.

Source: World Trade Organization Trade in Services database, quoted in Shingal and Agarwal (2021).