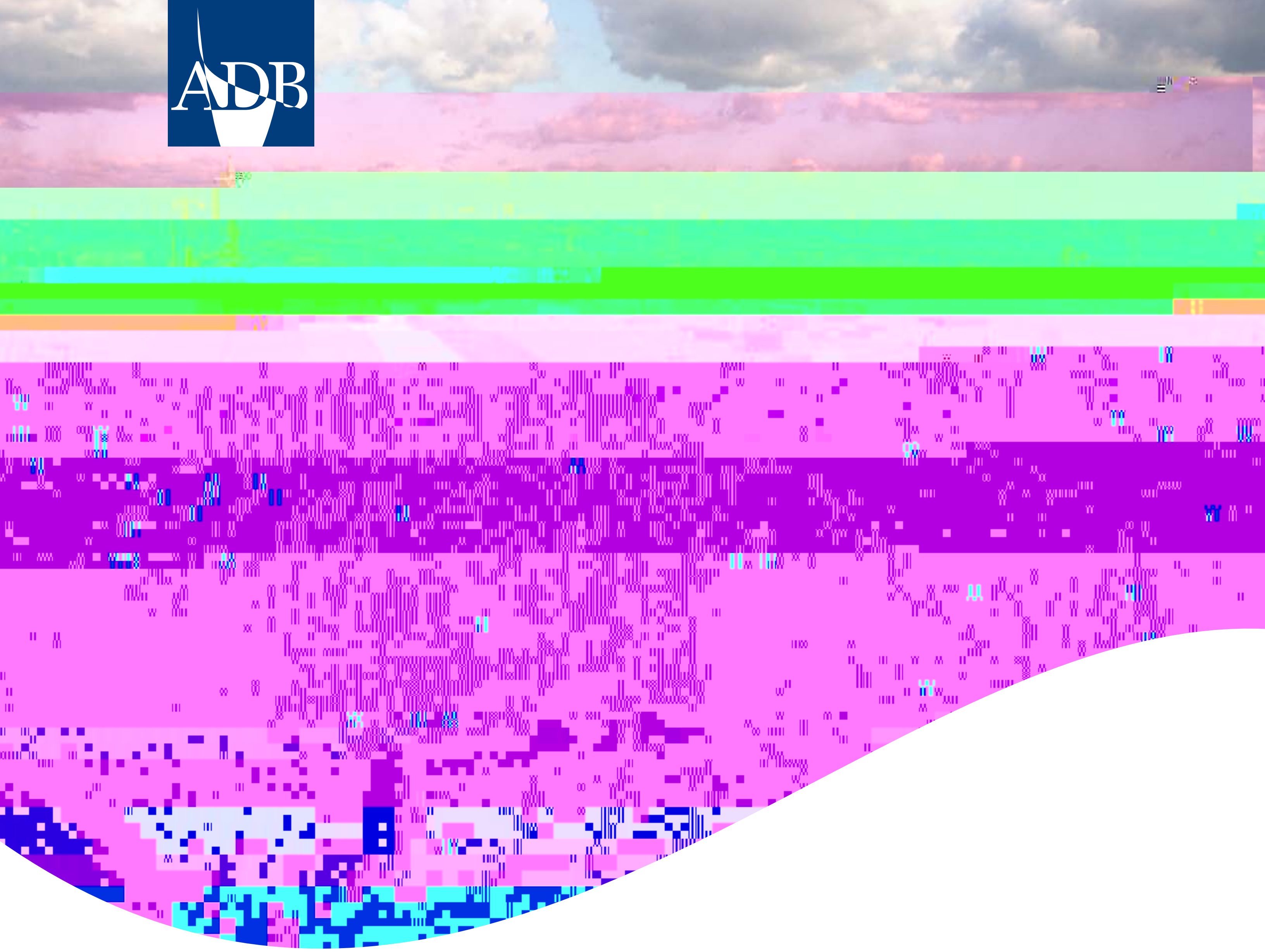

How ADB supports Aid for Trade

As Asia's main regional development partner, ADB has for over 40 years recognized the benefits of trade in its efforts to reduce poverty. Through its country-specific, region-

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1. Introduction

Increased trade has facilitated rapid economic expansion in Asia and the Pacific in recent decades. However, while many Asian economies have benefited tremendously from export-led growth, a group of smaller, low-income countries continues to lag behind. Economic underperformance among this group can be attributed to high trade costs resulting from insufficient infrastructure and a lack of economic competitiveness. The current global economic crisis has only exacerbated this divide within Asia by dimming the growth prospects for small and low-income countries that are dependent upon a narrow set of exports. In this context, the Asian Development Bank (ADB)'s support for a strategic approach to boosting trade can play a critical role in the region's short-term economic recovery and long-term development.

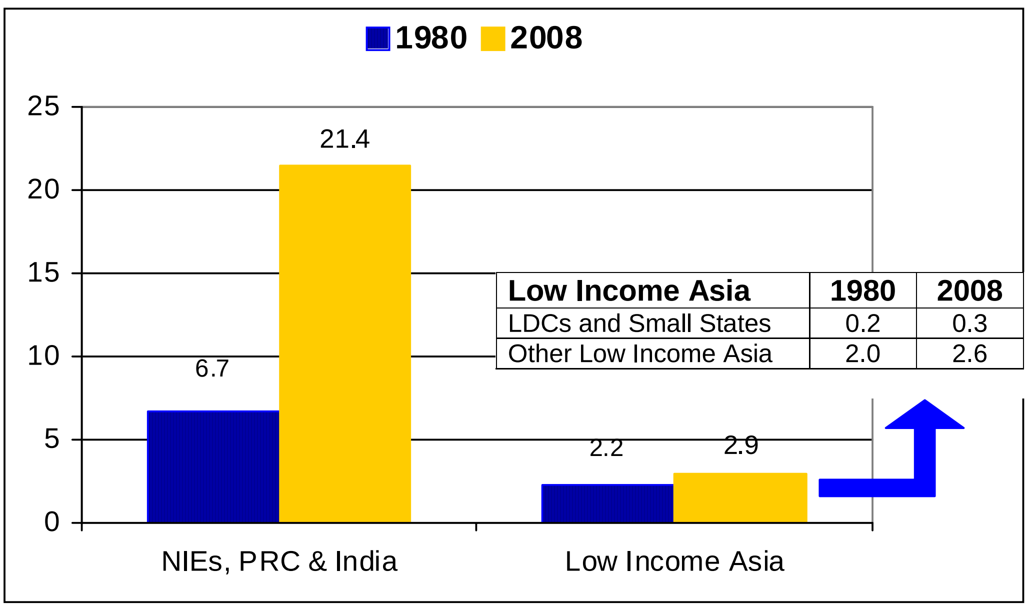
The Asia–Pacific Aid for Trade initiative dates to mid-2006 when ADB joined the World Trade Organization (WTO) process. Since then, ADB has been a member of the WTO Director-General's Advisory Group and co-hosted the Asia–Pacific Regional Review Meeting on Aid for Trade in Manila in September 2007. ADB support has also involved increased lending, facilitating a Regional Technical Group (RTG) on Aid for Trade in Asia and the Pacific, and research on good practices that highlights lessons learned. Through the RTG and ongoing lending

2.1 Two Faces of Trade in Asia and the Pacific

The development gaps across and within countries in Asia have led to mostly uneven economic gains. One group of economies enjoys robust growth built on outward-looking policies that encourage trade, while the other group of least developed countries (LDCs) sees potential for enhanced trade but still lags behind.

Underlying this stark contrast in economic growth and development is the marginal integration of the “other face” of Asia into the global trading system. Over the past several decades, smaller economies in Asia improved their total share of world exports only slightly from 2.2% in 1980 to 2.9% in 2008 (Figure 1). The situation is even bleaker among LDCs and small states, which have seen little improvement in boosting trade by only 0.1% of world trade over the period 1980–2008.

Figure 1: Two Faces of Trade: Share of World Exports (%)



Low Income Asia	1980	2008
LDCs and Small States	0.2	0.3
Other Low Income Asia	2.0	2.6

Note: Newly industrialized economies (NIEs) include Hong Kong, China; Republic of Korea; Malaysia; Singapore; Taipei,China; and Thailand.

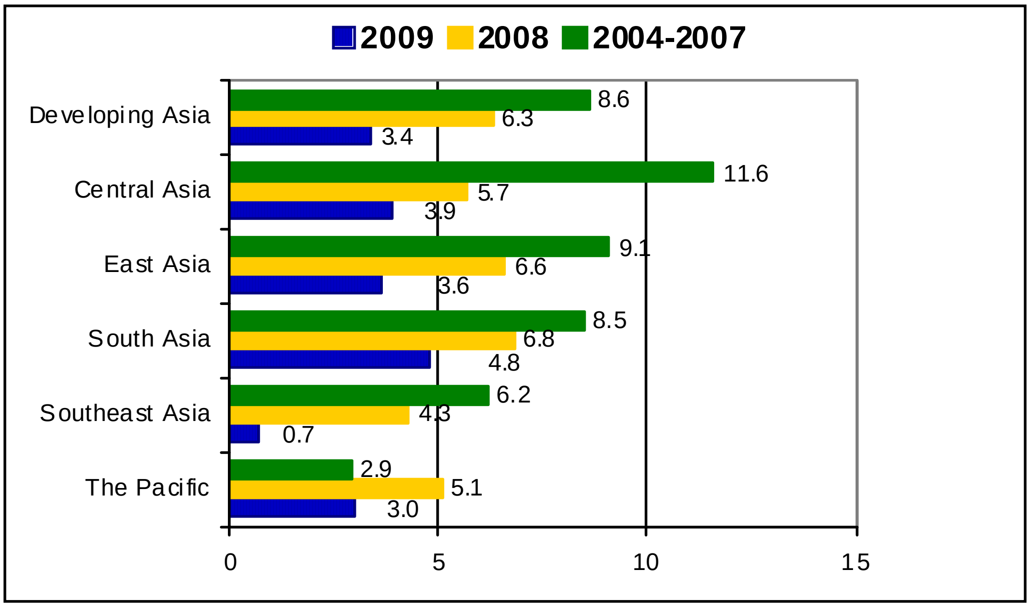
Source: ADB estimates based on *Direction of Trade* Statistics, International Monetary Fund, June 2009.

2.2 The Global Economic Crisis has Widened the Gap

As the global economic crisis has unfolded, the foundations of Asia's trade-

Overall growth in developing Asia stumbled from its impressive peak of 9.5% in 2007 to 6.3% in 2008 (Figure 2). In 2009, a further decline to 3.4% growth is expected. In East Asia overall, growth decelerated from 10.4% in 2007 to 6.6% in 2008. Forecasts in 2009 see a drop to growth of 3.6%, despite the relatively strong performance of the People's Republic of China (PRC). Growth in Southeast Asia was only 4.3% in 2008 and may fall to below 1.0% in 2009. Against this bleak backdrop, the Pacific subregion's growth of 5.1% in 2008 appears resilient, but as tourism receipts decline and commodity prices fall in 2009 the Pacific countries are expected to bear the full impact of the economic crisis.

Figure 2: GDP Growth Rates and Forecast of Developing Asia (by Region, % Per Year)



Source: *Asian Development Outlook 2009*, ADB.

The global crisis has reverberated throughout Asia and the fallout has had an incongruent impact across countries. While the first wave of the crisis hit industrialized and emerging markets through the collapse of trade channels, and business and consumer confidence, the full shock of the downturn is now rumbling through Asia's LDCs—the other face of trade in the region.

While high performers in the region were the first to suffer economic blows, they are less vulnerable and can weather shocks due to their strong external

developing Asia continue to live on less than $1.25 per day. While the global crisis has taken longer to ripple through low-income countries, it is now clear that the outlook for these economies has deteriorated sharply, making recovery even more challenging.

2.3 The Case for More and Enhanced Aid for Trade

The underperformance of LDCs and small states in Asia and the Pacific, and the reasons that they are more at risk from the crisis, can be attributed to the following:

High Trade Costs

Generally, economic underperformance is directly correlated with high trade costs. As tariff and quantitative restrictions on trade are progressively reduced, other trade costs can arise from regulatory burden, inadequate hard and soft infrastructure, and generally inefficient customs procedures and logistics. For example, in the NIEs, PRC, and India, it costs an average of $608[1] to export a 20’ container compared with an average cost of $1,029 in LDCs and small states, and $1,855 in other developing countries. This huge gap in trade efficiency is also evident in logistics, production technology, marketing, and other export-related capabilities.

Rising Infrastructure Demands

Many LDCs and small countries in Asia and the Pacific are either landlocked, required to traverse huge swathes of ocean to market their goods, or have to contend with small and fragmented markets. The situation has been made worse by declining exports and massive worker lay-offs due to the economic crisis. There is, therefore, the need to supplement overseas demand with domestic demand through greater consumption and investment. This requires more regional infrastructure geared towards supporting Asian production networks and regional supply chains, and mitigating the medium-term consequences of the economic downturn.

Slow Progress to Competitiveness

The market size of LDCs and small states makes it even more difficult to compete in international markets. Their limited resource base allows them to produce a narrow and limited range of goods and services. In addition,

[1] In this report, “$” refers to US dollars.

their human resource base is sparse and focused on tourism or agriculture-based industries. Opportunities for diversification are also limited and single-commodity producers are particularly vulnerable to global price fluctuations. Some small economies have been reliant on preferential market access for their exports or on foreign aid for meeting their foreign exchange requirements. These countries are disproportionately affected by the recession and more vulnerable to the threats of protectionism, including the tightening of non-tariff barriers.

The Stakes for Asia and the Pacific could not be higher

A region is only as strong as its weakest link. Asia's stake in its own recovery will depend on its capacity to assist not only its dynamic members, but also its ability to marshal support for its poorest and most vulnerable members. Inclusive recovery and growth will lead to a stable, cohesive, and productive Asia and the Pacific, which will contribute to economic progress both regionally and globally.

It is clear that the countries comprising the other face of Asia have lagged in trade performance and economic development. Aid for Trade is required to help close the gap in trading capacity with high performers and to strengthen trading capacity so that LDCs and small states can benefit from increased participation in global trade once recovery commences. Aid for Trade is vital for economic recovery and in preparing countries for long-term development and structural change.

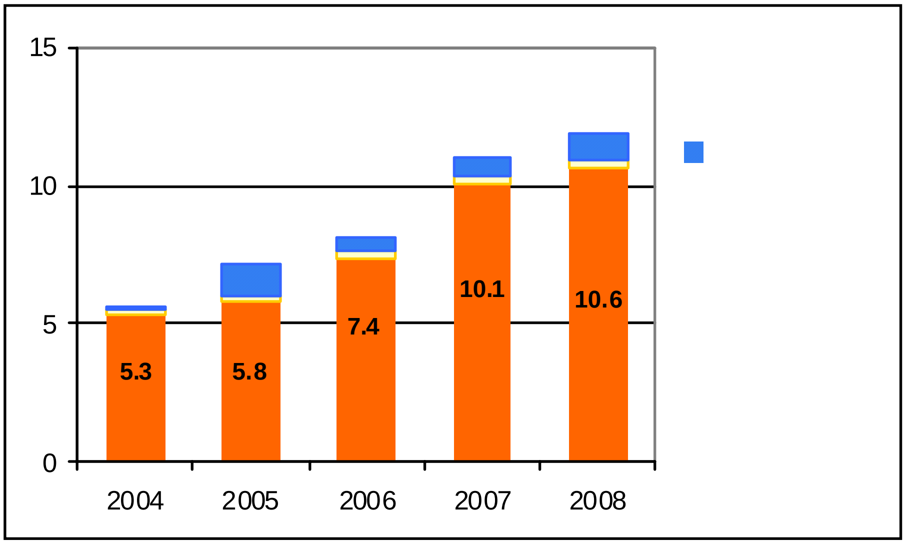
3. An Update on Recent Aid for Trade Activities

3.1 Asian Development Bank Operations

Figure 4 shows the growth of ADB's lending and non-lending activities from 2004 to 2008. Approved loans have more than doubled from $5.2 billion in 2004 to $10.6 billion in 2008. Grants and technical assistance projects have also expanded from less than $300,000 in 2004 to around $1 billion in 2008.

Following the April 2009 meeting of the G20 in London, ADB's general capital increase was approved, tripling its capital base. With these resources, ADB intends to frontload a portion of Asian Development Fund (ADF) operations and will use $400 million from the ADF liquidity reserve, providing a total of $3.4 billion in new resources to ADF countries in 2009. Assistance will be ramped up to $32 billion over 2009–2010 from the $22 billion during 2007–2008, to mitigate the most severe effects of the crisis. ADB has also proposed a Countercyclical Support Facility of $3 billion to fund fast-disbursing crisis assistance and maintain credit flows to the real economy. The facility would help offset the diminished external credit available to DMCs; sustain growth; and improve macroeconomic conditions by expanding domestic demand and production, and strengthening social protection, facilitating trade, and protecting employment from fresh external shocks. Overall, ADB is expected to continue its interventions on infrastructure and trade-related projects and expand trade finance, guarantees, private sector investment, and technical assistance programs.

Figure 4: ADB Lending, Grants, and Technical Assistance[a] (2004–2008 (US$ Billion)



many sectors, including transport and trade. As of December 2008, the

Nam at Bavet, including minor improvements to other transport sections. The Phnom Penh–Ho Chi Minh City highway represented the primary segment of the GMS Southern Economic Corridor linking Thailand, Cambodia, and Viet Nam. The total value of trade passing through the Bavet–Moc Bai border crossing post increased by about 41% per annum between 2003 and 2006. The number of people crossing the border increased at an average annual rate of 53% during the same period, while the number of vehicles crossing the border increased at an average annual rate of 38%. Travel time from Phnom Penh to Bavet has been reduced by 30%. Along Route Number 1, there has been substantial ribbon development, including residences, buildings, and shops. At the Bavet border post, the increase in traffic from Viet Nam—both passenger and goods—has led to the establishment of commercial and leisure facilities, including several casinos and hotels that attract large numbers of tourists. Ancillary services, such as restaurants and gas stations, have likewise mushroomed along the road. An industrial park close to Bavet has opened, providing employment ogot–74(aoa.35iusp(nt ocr0.9(hD0.0001 TD

Central Asia Regional Economic Cooperation (CAREC) Program

CAREC is an ADB–supported initiative to encourage economic cooperation in Central Asia. Since 1997, the program has focused on regional initiatives in transport, energy, trade facilitation, and trade policy that are critical to improving the economic performance of the region and the livelihoods of its people, especially the poor. Participating countries in CAREC are Azerbaijan, the PRC (Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. CAREC is also an alliance of multilateral institutions actively promoting economic cooperation in the subregion, including ADB, European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), United Nations Development Programme (UNDP), and World Bank.

Box 2: CAREC Projects

Almaty–Bishkek Regional Road Rehabilitation

This project aims to develop an integrated and efficient transport system to projects highlight the building block approach and regional perspective of the CAREC Program.

Regional Power Transmission Interconnection Project

This project will tap Tajikistan's power surplus to meet serious shortfalls in

Pan-Asian Integration: Linking East and South Asia (ADB, March 2009) examines the growing trade ties between Asia's two main subregions and estimates the potential gains and losses from widening those linkages. The study finds that consolidation of FTAs improves economic welfare compared to bilateral agreements—estimating that a broad Pan Asian agreement covering goods, services, and trade costs, and involving East and South Asian economies, could offer significant welfare gains to global income of about $261 billion. All East and South Asian members of such an agreement could benefit from closer subregional cooperation, with a negligible negative impact on outside trade partners such as the European Union (EU) and the United States (US).

Recommendations for maximizing the benefits of trade and integration include: lowering trade and non-tariff barriers further, increasing investment in trade-related infrastructure, pushing for additional trade liberalization and de-regulation as part of a wider program of economic reforms, and consolidating FTAs into broader region-wide arrangements. Stronger economic ties and more open trade regimes between East and South Asia can be stabilizing forces against future shocks by boosting trade and investment, and bolstering inter-regional collaboration.

Future Research

South Asia Strategic Framework for Aid for Trade Road Map. The approved technical assistance involves a pilot study that aims to operationalize Aid for Trade in South Asia, particularly on LDCs— Nepal, Bhutan, and Bangladesh. The road map aims to produce the ADB's Aid for Trade business plan for South Asia, enhance in-country institutional capacity and assist to implement the proposed road map. The business plan will prioritize interventions based on their combined economic impacts— taking into account spatial complementarities and economic spillovers like building productive capacities for service and production networks and investing in trade-related infrastructure— thereby maximizing the economic impact in terms of growth, employment, and structural change for higher trade competitiveness of South Asian LDCs. The South Asia Strategic Framework for Aid for Trade will help narrow the gap between the "two faces of Asia" and will contribute to aiding the response of LDCs in the wake of the global Twþhade
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3.3 Regional Technical Group for Asia and the Pacific: Providing Regional Ownership of Aid for Trade

The formation of the Regional Technical Group is a key milestone in the 2009 Aid for Trade Roadmap for Asia and the Pacific. As a recommendation from the Manila meeting in September 2007 and the First Global Aid for Trade Review Meeting in Geneva in November 2007, the RTG represents the culmination of region-wide dialogue on moving Aid for Trade forward and helping formulate an integrated approach to operationalizing Aid for Trade in the Asia and Pacific region.

RTG membership comprises 12 members from the WTO, ADB, other development agencies in the region, and donor and recipient countries involved in formulating Aid for Trade policies. The RTG serves as the coordinating body and a regional forum for:

- discussing Aid for Trade issues and proposals, sharing good practices, and taking stock of available analytical work on Aid for Trade in the region;

- building partnerships among actors and stakeholders; and

- formulating an integrated approach to operationalizing Aid for Trade in the medium-term and in line with the Paris Principles on Aid Effectiveness.

The RTG held its inception meeting on 3 March 2009 at ADB Headquarters in Manila. The key messages to emerge from that meeting include:

- The Aid for Trade initiative has become even more relevant in light of efforts to mitigate the negative effects of the economic downturn. Developing countries, particularly LDCs and small states, need Aid for Trade to weather the unfolding crisis and prepare their economies for long-term development and structural adjustment.

- Aid for Trade is most relevant for countries in the region disproportionately affected by the recession. These are mainly the small-sized, low-resource-endowed countries. In addition,

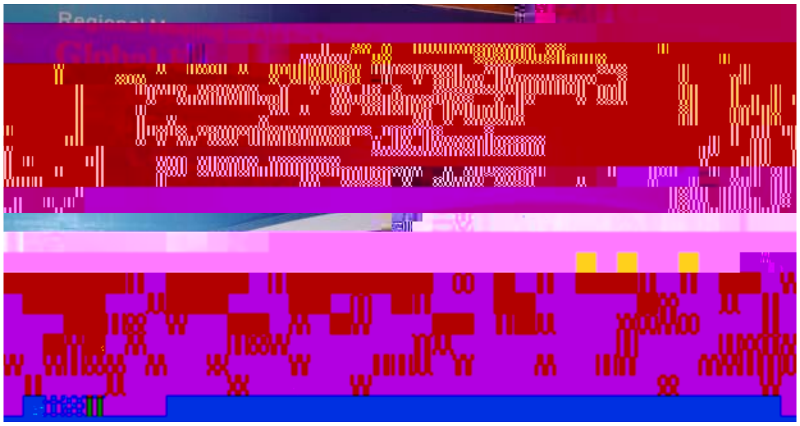
    - emerging signs of protectionism are a cause of concern, particularly for small-sized countries in the region, which are dependent on trade for income and growth;

- trade policy development is key in small, low-income countries facing a shortage of human resources; and

- Aid for Trade must be receptive to the specific circumstances of small, low-income countries.

Stewardship of the RTG under Japan and Cambodia was announced at the regional meeting on Aid for Trade on 28–29 May 2009 in Siem Reap, Cambodia. The announcement symbolized RTG's ownership by donor countries and DMCs, and highlighted the committed partnership between them.

Over the period 2009–2010, the RTG will meet periodically to develop and fine-tune a medium-term work program that will consider Aid for Trade developments



Ministerial Panel (left to right). Katsuhiro Shinohara, Ambassador Extraordinary and Plenipotentiary of Japan to Cambodia; Nam Viyaketh, Minister of Industry and Commerce, Lao PDR; Pascal Lamy, Director General, WTO; Haruhiko Kuroda, President, ADB; Cham Prasidh, Senior Minister, Ministry of Commerce, Cambodia; and Nguyen Cam Tu, Vice Minister, Minister of Industry and Trade, Viet Nam.

The focus of dialogue among these key stakeholders included the progress of the Aid for Trade initiative in the region, the impact of the global economic slowdown on export-led growth strategies of ASEAN economies, the role that Aid for Trade can play at national and regional levels, and innovative approaches to infrastructure development and regional cooperation. The meeting convened to consolidate messages and themes on Aid for Trade issues in Asia and the Pacific to be presented at the Second Global Review Meeting in Geneva in July 2009.

The 2-day regional meeting was conducted in two segments: a high-level and technical-level segment.

- The high-level segment covered two sessions: an opening session and a panel discussion. The welcome and keynote addresses of Mr. Haruhiko Kuroda, ADB President; Mr. Pascal Lamy, WTO Director General; and H.E. Cham Prasidh, Senior Minister and Minister of Commerce of Cambodia were delivered in the opening session. They called for more support for the Aid for Trade initiative to help the region weather the current crisis and to counter rising protectionism. The second session, which was co-chaired by President Kuroda and Director General Lamy, discussed the way forward and relevant messages for the Global Review. The panel comprised one ASEAN trade minister and two vice ministers; and the Japanese Ambassador to Cambodia, Mr. Katsuhiro Shinohara. Ministers from Cambodia, Lao PDR, and Viet Nam noted the importance of instituting temporary cushioning measures (e.g., subsidized training, tax breaks, and credit for industrial restructuring) to counter protectionist pressures. Increased development assistance for trade-led development

- The fourth technical session looked at ways that trade has been mainstreamed into national development strategies. The panel emphasized that Aid for Trade strategies should follow the Paris Principles on Aid Effectiveness and be country-owned and -driven.

Key Messages

The regional meeting generated dialogue on a variety of trade-related issues and affirmed that Aid for Trade is a critical lynchpin in the road forward for a sustainable and inclusive recovery.

The conference developed the following key messages on Aid for Trade from the ASEAN experience:

- Export-oriented ASEAN has taken a hit from the global economic crisis, with aggregate GDP decelerating to less than 1% in 2009. Even more at risk from weakening trade performance and rising protectionist measures are ASEAN's smaller economies. Countries such as Lao PDR and Cambodia are expected to suffer the most from declining exports because of their narrow export base.

- The slowdown in trade and growth has incurred social costs as well. As a result of the downturn, developing Asia, particularly the smaller countries in ASEAN, have seen a rise in unemployment and job losses. Falling employment and income levels will further dampen consumption and thus domestic demand. In addition, because women make up the majority of low-end global supply chains in labor-intensive, export-oriented sectors—such as garments and textiles, electronics, and tourism—they are particularly vulnerable.

- While the downturn has battered countries, the consensus strongly points to a bright outlook for ASEAN to regain its footing as Asia's production hub and engine of growth. For this to happen, ASEAN must maintain its openness, increase intraregional trade, and invest in trade-related infrastructure and capacity to meet an eventual upswing in global demand. ASEAN members must also alight in innovative directions, focusing on new growth models that emphasize increasing domestic demand and enhancing intraregional trade to supplement traditional export-led growth.

- Reigniting growth in a balanced way, through external and intraregional markets, means ramping up domestic supply chains and production networks. Infrastructure investment provides the building blocks to catalyze deepening trade networks. Enhancing connectivity through

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