



# Aid for Trade in Asia and the Pacific: An Update

Report to the Second Global Review on Aid for Trade

Asian Development Bank

## **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-wide, subregional, and multisectoral programs fostering cooperation, ADB's Aid for Trade-related activities carry forward the groundwork that has been laid in the region on trade reform, infrastructure development, capacity building, and trade facilitation. Under its Long-Term Strategic Framework for 2020, ADB follows three complementary agendas that support trade initiatives in the region: inclusive growth, environmentally sustainable growth, and regional integration.

ADB's views Aid for Trade on an integral part of regional cooperation and integration in the Asia-Pacific. Assistance usually takes the form of cross-border infrastructure and trade facilitation projects, and capacity-building under regionwide and subregional programs (such as ASEAN, GMS (Greater Mekong Subregion), and CAREC (Central Asia Regional Economic Cooperation)); and coordination with development partners. ADB has been active in the WTO-led Aid for Trade initiative, working as a member of the WTO Advisory Group, the Technical Working Group on global monitoring of Aid for Trade flows, and cohosting the Asia and the Pacific Regional Review Meeting on Aid for Trade in Manila in September 2007.

In March 2009, ADB and the WTO spearheaded the inception meeting of the RTG in Manila and co-hosted a Regional Meeting on Aid for Trade in Siem Reap in May 2009. The Siem Reap meeting was attended by representatives from around 150 donor, development and government agencies including ASEAN Trade Ministers, ADB President and WTO Director-General.

ADB is a natural platform for helping mobilize and channel Aid for Trade funds effectively. This can be done in three ways: increased lending to trade-related infrastructure at country, subregional or regional level; helping coordinate the many players of Aid for Trade as the secretariat to the Regional Technical Group for Asia and the Pacific, and sharing cross-border experience; and technical expertise on Aid for Trade type activities through various policy dialogues and knowledge products.



# **Aid for Trade in the Asia and the Pacific: An Update**

Report to the Second Global Review on Aid for Trade

Prepared by the Asian Development Bank

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Asian Development Bank

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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 and technical assistance projects, ADB can be expected to continue supporting infrastructure and trade-related projects to reduce connectivity bottlenecks and enhance trade competitiveness in the region, particularly among its poorest members, to sustain growth during the period of economic recovery and beyond.

This report provides an update on the WTO Aid for Trade initiative in Asia and the Pacific since the first Global Aid for Trade Review in November 2007. It covers the global economic crisis and evolving Aid for Trade needs in the region; a discussion of recent activities, focusing on those involving ADB; and next steps.

## **2. Global Economic Crisis and Aid for Trade Needs in Asia and the Pacific**

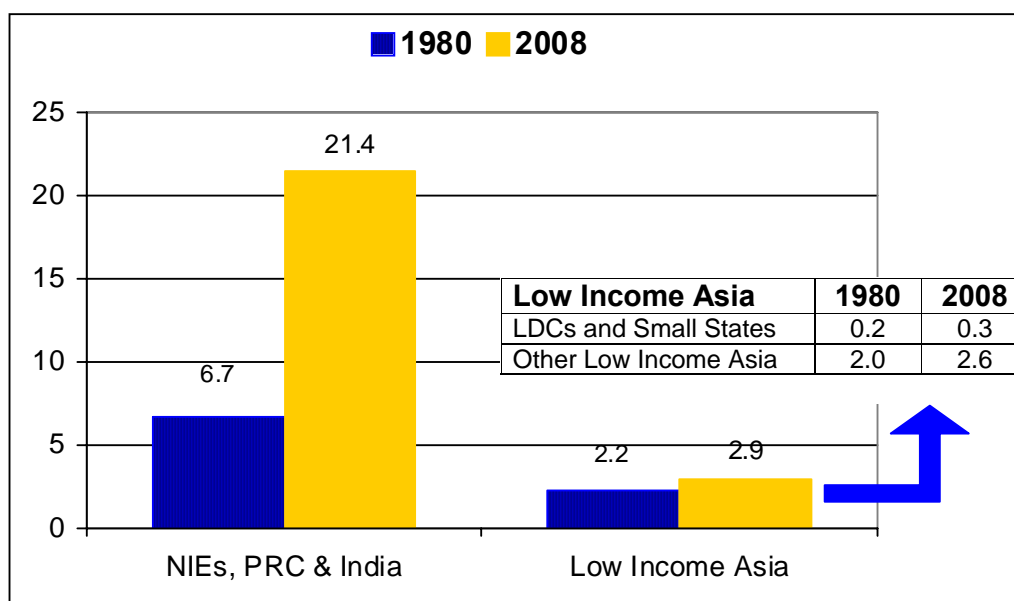
Globalization has been a driving force in helping shape the economic miracle of the Asia and Pacific region over the past several decades. Falling trade barriers, rapid technological progress, the spread of transnational corporations, declining costs of communications and logistics, and the growth of regional value chains and production networks have all contributed to the region's dynamic growth. It is clear that strong trade performance is increasingly linked with greater economic prosperity.

## 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 (%)**



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-oriented growth have been shaken. Severe stress in the financial systems in developed countries has led to a domino effect around the world of shrinking credit, fiscal deprivation, and recoiling household wealth. These conditions, in turn, have precipitated a synchronized collapse in global demand of exports, a contraction that has pummelled countries across Asia and the Pacific (Table 1).

The spillover has been exacerbated by Asia's specialization in sectors hit by the crisis and its reliance on high- and medium-technology manufacturing exports—motor vehicles, electronic goods, and capital machinery—that have seen a retrenchment in demand.

**Table 1: Collapse of Exports (Value, % Change)**

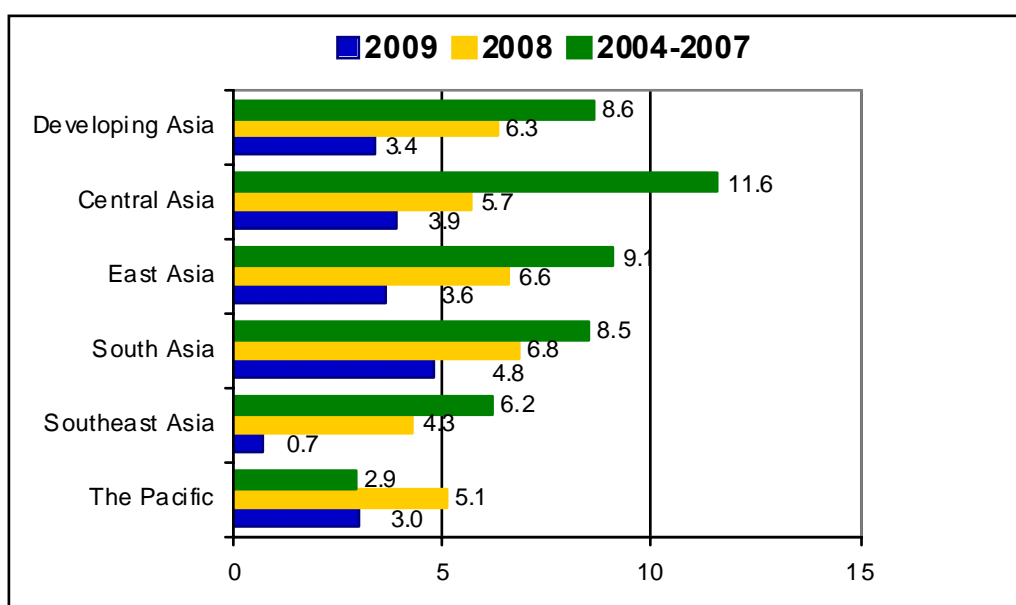
Country	2007	2008				2009 <sup>a</sup>
		Q1	Q2	Q3	Q4	Q1
World	15.1	22.1	25.2	21.0	-9.5	-29.1
People's Republic of China	25.7	21.4	22.4	23.0	4.3	-19.7
India	21.5	37.6	37.1	25.5	-12.8	-24.1
Malaysia	2.7	9.9	20.8	16.8	-7.5	-22.2
Thailand	7.4	13.5	16.5	23.7	-9.7	-16.2
Philippines	6.4	2.8	5.5	4.1	-22.3	-39.9
Viet Nam	23.8	28.7	31.8	37.6	5.7	3.4
Cambodia	14.1	97.2	45.8	5.3	-3.3	—
Lao People's Democratic Republic	12.1	36.2	15.7	42.7	4.9	—
Bangladesh	11.1	17.5	8.6	19.3	12.5	10.6
Pakistan	2.9	20.9	25.9	19.0	1.7	-17.9
Sri Lanka	18.0	9.3	6.8	5.4	-3.5	-10.7

<sup>a</sup> First quarter figures are estimates using latest available data. Data for PRC are actual values. "—" indicates data not available.

Source: ADB estimates based on national sources (CEIC database accessed March 2009) and Direction of Trade Statistics, International Monetary Fund, January 2009.

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.

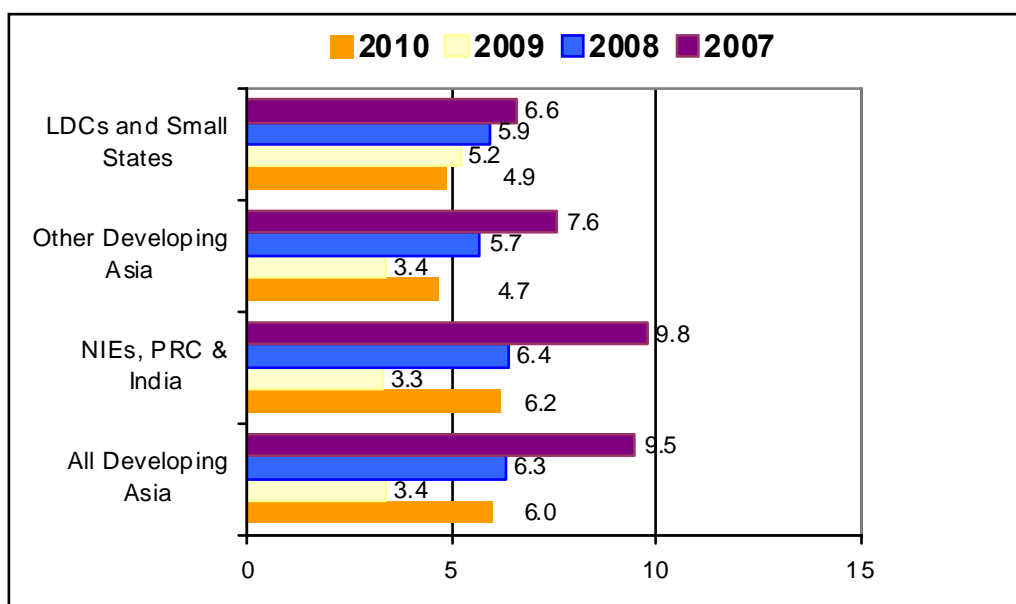
The global crisis has reverberated throughout Asia and the fallout has had an incongruent impact across countries. While the first wave of the crisis hit industrialized and emerging markets through the collapse of trade channels, and business and consumer confidence, the full shock of the downturn is 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

positions. For Asia's more vulnerable group of countries, high trade-to-gross domestic product (GDP) ratios and the concentration of exports in a narrow range of commodities or services, which are sensitive to external conditions, have left them in perilous positions. This group of low-income Asian countries has traditionally lagged in both trade and growth performance, and deserves special attention.

The crisis has also worsened the growth and recovery prospects for low-income Asian countries. While the downturn has impaired GDP growth rates across the region, among low-income Asian countries, particularly LDCs and small states, economic positions are even more uncertain. Growth forecasts for recovery among LDCs and small states are dismal, falling further in 2010 to 4.9%. In contrast, the stronger countries are predicted to see rebounds (Figure 3).

**Figure 3: GDP Growth Rates and Forecasts for the Two Faces of Asia  
(% Per Year)**



Note: 2009 and 2010 are ADB forecasts. For definitions of these groupings, see ADB (2007).

Source: Staff estimates based on *Asian Development Outlook 2009*, ADB.

The other face of Asia will also suffer large social costs. An ADB study estimates that more than 60 million individuals, who would have been lifted out of extreme poverty in 2009 had the region's trend of high growth rates continued, will remain mired in poverty instead. ADB estimates that as many as 900 million people in

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<sup>1</sup> 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,

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<sup>1</sup> 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**

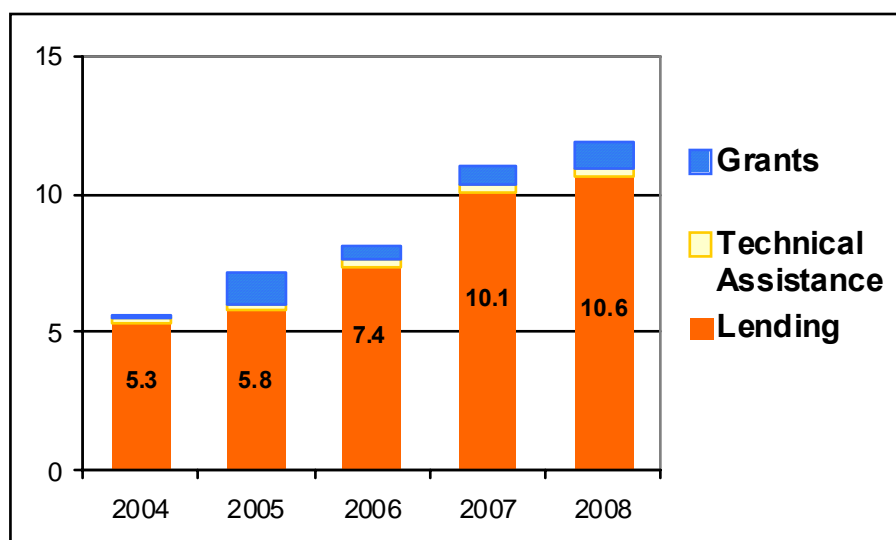
### **3.1 Asian Development Bank Operations**

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<sup>a</sup>  
(2004–2008 (US\$ Billion))**



<sup>a</sup> Based on approved loans, technical assistance (TA), and grants. Lending includes Asian Development Fund (ADF)+ Ordinary Capital Resources (OCR).

Source: ADB

## Successful Trade-Related Projects: Highlights of ADB's Work

### Greater Mekong Subregion (GMS) Program

Work on the GMS program is targeted at the heart of the Association of Southeast Asian Nations' (ASEAN) least developed regions and will help integrate marginalized economies into regional and international markets. Started in 1992, the GMS program is one of ADB's flagship initiatives supporting trade and economic development in ASEAN's underdeveloped subregions comprising Cambodia, the PRC, Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. It focuses on financing and providing technical support to subregional projects across

many sectors, including transport and trade. As of December 2008, the GMS program had helped launch 41 investment projects and 179 technical assistance projects—the bulk of which are dedicated to building economic corridors and expanding strategic transport nodes for better connectivity for trade and economic development. The 41 GMS projects cost an estimated \$11 billion, of which ADB has: (i) extended loans amounting to \$3.8 billion; (ii) generated \$4 billion in co-financing; and (iii) mobilized a total of \$208 million of grant resources, of which \$94.1 million has been provided by ADB, to finance 179 technical assistance projects.

An integral part of the GMS program is the building of priority economic corridors—a signature approach to regional development based on linking infrastructure design to production and trade potentials to maximize economic benefits from infrastructure investments. ADB envisions a GMS subregion that is covered by grids and rings of economic corridors, integrating and interconnecting dynamic markets, and production centers. Infrastructure development is a key facet of building economic corridors. Priority infrastructure projects worth around \$10 billion have either been completed or are being implemented. Among these priority corridors are the North-South Corridor, Southern Corridor (which involves the Phnom Pehn-Ho Chi Minh City highway) and the East-West Corridor that will eventually extend from the Andaman Sea to Da Nang, Viet Nam.

### **Box 1: GMS Economic Corridors**

#### **GMS North-South Corridor**

The GMS North-South Transport Corridor, which links PRC and Thailand through Lao PDR, is a good example of what can be achieved. In 1997, it took 3 days for goods to move across one 270 km section of dirt track along the corridor in Lao PDR. Today that same trip takes 4 hours, with a large increase in commercial traffic, thanks to a \$90 million project—equally funded by ADB, PRC, and Thailand. Most important, last year's per capita GDP in impoverished Luang Nantha province in Laos—where the highway passes—was double that of 2003. Water, sanitation, and other community needs were covered in the project as well to ensure sustainability.

#### **Southern Economic Corridor**

Financed by an ADB loan approved in 1998 with a combined amount of \$140 million (\$40 million for Cambodia and \$100 million for Viet Nam—with the governments of the two countries providing the rest of the combined total project cost of \$197 million), the project involved the reconstruction of 105 kilometers (km) of Route Number 1 in Cambodia from Neak Leoung to the border with Viet



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 opportunities for the local residents. New industrial areas have also been built near the project roads. One of these industrial areas employs over 10,000 people and is planning to expand its activities to a new site.

### **East–West Transport Corridor**

This is the second major GMS subregional transport project, which seeks to improve the central corridor linking Da Nang in Viet Nam with Tak in Myanmar, thereby expanding the market for transit and bilateral trade among three countries—Thailand, Viet Nam, and Lao PDR. The project's objectives include: i) reconstructing an 83 km highway link between the Thailand and Lao PDR border, and Dong Ha (National Highway 9); (ii) rehabilitating a 105.8 km stretch of highway between Dansavanh (Lao PDR) and the Lao Bao (Viet Nam) border crossing (Route National 9); and (iii) mitigating nonphysical barriers to the movement of goods and people across borders. The immediate impact of infrastructure development has been dramatic. Average vehicle speeds increased and the average travel time between Kaysone Phomvihane and Dansavanh has dropped from 10–12 hours to 4 hours, while the travel time between Dong Ha and Lao Bao was cut from 4 hours to 2 hours. On both sides, border clearance time has been reduced and is more efficient than before. Average trade value through Lao Bao has escalated and crossing trade value peaked at \$148.5 million in 2007. Industrial estates are developing in Lao Bao and Dong Ha, and more such boom towns are being planned. Increased connectivity has also led to an expansion of the tourism and services sectors, which account for a major part of increased traffic between Thailand and Lao PDR. The movement of people has increased significantly from around 95,000 in 2000–2001 to almost 274,000 in 2007. The project features a feeder road component to enable improvements to Route National 9 that will connect once-isolated communities from Lao PDR to the hinterlands of Kaysone Phomvihane Province, and alleviate poverty along the corridor. These access roads now reach 101 villages with a population of about 45,513, linking people and communities, and bolstering livelihoods.

### **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.

Inadequate roads are bottlenecks in the fast-growing economies of Central Asia. CAREC's six multilateral partners funded a total of \$609.1 million in loans and \$8.1 million in grants for the transport sector during 2005–2007. The main transport investments include the completion of road projects in Azerbaijan, Kazakhstan, Kyrgyz Republic and Tajikistan; and major new road projects in the Kyrgyz Republic, Mongolia, and Azerbaijan. Railway projects are undertaken in Azerbaijan, Kazakhstan, and Uzbekistan. The grant projects largely aimed to address the necessary planning for development of the transport sector, and progress in streamlining soft infrastructure. Work has also started on rehabilitating one major 2,000 km-plus highway across Kazakhstan, which will link the PRC and Russia. This \$18.7 billion project seeks to upgrade and expand the Silk Road network that has historically joined East and West.

ADB financing (OCR and ADF) for the CAREC program over the period 2006–2008 totaled \$943 million. Technical assistance from the same period amounted to \$16.3 billion.

## **Box 2: CAREC Projects**

### **Almaty–Bishkek Regional Road Rehabilitation**

This project aims to develop an integrated and efficient transport system to support sustainable economic growth and poverty reduction. The 245-km road between Almaty, Kazakhstan and Bishkek, Kyrgyz Republic is a key link between the two countries' respective business centers. The project rehabilitated 204 km of the road in Kazakhstan, and 41 km in the Kyrgyz Republic, supported improvements of customs facilities at the Akzhol–Chu border crossing, and purchased road maintenance equipment for Kazakhstan. The improvements have cut travel times in half: what used to be a 6-hour journey in summer, and even longer in winter, now takes between 2.5 and 3 hours. Easier access to Almaty, a bustling regional finance hub, creates new opportunities for Kyrgyz Republic citizens and businesses. During the summer of 2006, about 1 million international tourists visited Issyk-Kul Lake in the Kyrgyz Republic, up from about 300,000 a year earlier. More importantly, trade between Kazakhstan and the Kyrgyz Republic at the Akzhol–Chu border crossing on the Almaty–Bishkek road increased by an average annual rate of 38% from 2000 to 2007. (A portion of this increase could also be attributed to growth in the national economies.)

### **Regional Trade Facilitation and Customs Modernization**

In October 2002, ADB approved two loans (\$15 million for the Kyrgyz Republic and \$10 million for Tajikistan) as part of the Regional Trade Facilitation and Customs Cooperation Program. This program contributed to institutional development in both countries through improved organizational structure of customs administration, better human resource policies, and the introduction of feedback mechanisms for the public. Additional support was also granted to the Kyrgyz Republic and Tajikistan in the form of project loans amounting to \$7.5 million and \$10.7 million equivalent, respectively. The core components of these loans are to develop a unified automated information system and border-post infrastructure for the customs administrations of the two countries.

### **Southern Transport Corridor Road Rehabilitation Project**

This project rehabilitates sections of road between the cities of Osh, Sary Tash, and Irkeshtam in the Kyrgyz Republic. The improvements will revitalize the transport network from the PRC's rapidly expanding economy, through the Kyrgyz Republic, and on to Uzbekistan. The project will reduce the cost of road transport and promote economic growth by increasing opportunities for regional trade and cooperation. The Osh–Sary Tash–Irkeshtam road connects to the Osh–Bishkek road, which is a vital national transport corridor for the Kyrgyz Republic, as well as to a link to the Bishkek–Almaty road. These interconnecting

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 neighboring Afghanistan. The project involves the construction of a 220 kilovolt (kv) double-circuit transmission line linking the hydropower stations on Tajikistan's Vakhsh River to Kunduz in Afghanistan and, ultimately, Kabul. The total net economic benefits from the project are estimated to be \$114 million, split almost evenly between the two countries.

### **Trade Finance Facilitation Program**

The \$150 million program was launched in 2004 to provide finance and guarantees in conjunction with international and developing member country banks to support trade transactions in developing nations. Trade can be a key tool for boosting economic growth and reducing poverty by creating jobs and attracting private capital.

Realizing that access to trade finance in times of crisis is vital to cushioning the shock of the global economic downturn on international trade, ADB has expanded the Trade Finance Facilitation program to US\$1 billion. Through leveraging with partner banks, this move is expected to generate up to \$15 billion in much-needed trade support by the end of 2013.

By the end of 2008, the program had supported nearly 1,200 international trade transactions worth more than \$578 million in nine countries in Asia, without incurring any losses or problem loans. The program's volume of transactions soared by 570% in 2008 after a 78% increase in 2007. ADB expects the program to be used more widely in countries where it is already active and to be used in at least three more countries by the end of 2009. Currently, 72 international banks and 60 DMC banks are participating in the program. ADB expects the number of participating DMC banks to rise to 100 by the end of 2009.

## **3.2 Research Supporting Aid for Trade**

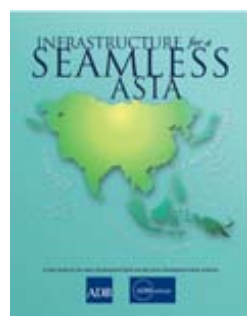
### **Vision of a Seamless Asia**

Not only is there a development gap across Asia, but there is also a clear geographical divide. From Azerbaijan to the Solomon Islands, there are vast expanses of Asia that remain remote, isolated, and, in some cases,

landlocked. In places where infrastructure connections are good, such as in East Asia, trade has boomed. But for those countries where connections remain poor, such as within South Asia, intraregional trade remains low. As other barriers to trade have fallen, including tariffs and related trade policy restrictions, the deficiencies in infrastructure have become more costly. ADB recognizes the enormous untapped economic potential of a fully integrated region that links inland and distant regions and countries by building better connections across Asia and to the rest of the world. By reducing these connectivity bottlenecks, the development gaps between Asia's relatively thriving coastal areas and struggling inland areas will be narrowed.

Against the backdrop of the economic downturn, an even bigger case for infrastructure improvements can be made. The competitiveness of Asia's trade—and of its increasingly sophisticated production networks—depends on efficient, fast, reliable, and seamless infrastructure connections. The pattern of Asia's development highlights this. Its thriving firms cluster in an arc of enterprise along coastlines that are close to international ports and airports. Other outposts dotted throughout the region trade by air or through fiber optic cable, bypassing shoddy roads and railways.

The inadequacies of Asia's infrastructure networks are one significant cause for Asia's development gaps. While the region's infrastructure is world class in some places, it is below the global average on the whole. Rapid growth in recent years has also put severe pressure on this patchy infrastructure, particularly in transport and energy, and also in communications. Upgrading and expanding infrastructure networks can jumpstart an economic recovery by deepening domestic and intraregional trade, and sparking new channels of growth to supplement the export-led model focused on external markets. An Asia connected by a world-class and environment-friendly infrastructure network will enjoy enhanced trade, increased competitiveness, and sustained economic growth beyond the recovery.



*Infrastructure for a Seamless Asia* (ADB, May 2009) is a flagship study targeted to policymakers on meeting the region's infrastructure needs through regional cooperation. The study provides guidance on implementing regional infrastructure projects, with an eye on the benefits of infrastructure investments and financing requirements, offering pragmatic solutions to strengthening cross-border connectivity. Its scope includes ADB's 44 DMCs, Japan, and

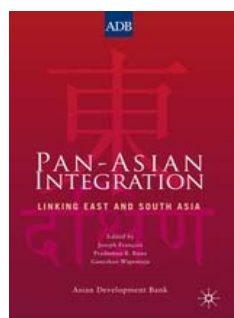
Brunei Darussalam, and examines the specific sectors of transport, energy, and telecommunications. Both “hard” infrastructure—equipment, facilities, physical networks—and “soft” infrastructure—policy, regulatory, and institutional frameworks—are covered.

The study makes the case that the Asia and Pacific region needs to invest about \$750 billion per year in infrastructure during the period 2010–2020 (\$290 billion in specific regional infrastructure projects and a total of \$8 trillion in national infrastructure). The study identifies 21 high-priority subregional projects that could be implemented by 2015 at a cost of \$15 billion. Such investments in Asia’s transport, communications, and energy infrastructure could boost developing Asia’s real income in 2020 by \$1.616 trillion, which is equivalent to 10% of developing Asia’s GDP, with much bigger gains for countries that trade more and those whose infrastructure needs are particularly pressing.

### **PRC and India as Growth Poles for the Region**

Over the longer term, the full benefits of Asia’s size and diversity can be realized only by creating a single Asian market where goods, services, and capital can move freely and seamlessly. This market requires not only infrastructure networks, but also a seamless policy environment that provides connections to both regional and global markets. A seamless Asia cannot be realized without taking into account its two largest subregions—East Asia and South Asia. The pace of trade and investment integration between the two subregions has been driven by the rise of the PRC and India as regional growth poles, deepening regional production networks, falling trade barriers and logistics costs, and the spread of free trade agreements (FTAs).

FTAs are now gaining more attention as countries turn to them as trade policy instruments. Between East Asia and South Asia, there are around 20 cross-regional FTAs at different stages of implementation. *Infrastructure for a Seamless Asia* contends that FTAs can be valuable at a time when the Doha trade talks have faltered and protectionist sentiment is on the rise, but notes that such agreements need to be widened beyond goods to include services, investment, and technology if they are to be effective stepping stones towards broader multilateral trade deals. If designed in the spirit of openness and in line with WTO principles, FTA can be critical to staunching economic isolationism and plunging trade activity.



*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 economic crisis.



### **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.



WTO Director-General Pascal Lamy and ADB President Haruhiko Kuroda discuss Aid for Trade in Asia and the Pacific.

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 globally and in the region, and the adjustments to approaches needed in response to evolving global, regional, and country-specific economic developments.

### **3.4 Regional Meeting on Aid for Trade: "Global Financial Crisis, Export-Led Growth and Aid for Trade: Focus on the ASEAN Experience", 28–29 May 2009, Siem Reap, Cambodia**

#### **Objectives and Discussions**

Around 150 participants from ASEAN member countries and elsewhere attended the Siem Reap Regional Meeting, including five trade ministers and deputy ministers; three heads of international organizations; four ambassadors; and senior representatives from government, donor agencies, and the private sector.



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

was identified as being more relevant than ever to mitigate the negative effects of the global economic crisis on ASEAN economies, particularly the newer and smaller ASEAN economies.



Technical panel on "Global Financial Crisis, Implications and Responses."



Around 150 senior-level participants attended.

- The technical-level segment comprised four interactive panels:
  - The first technical panel covered trade-related issues in ASEAN against the background of the global economic crisis. Export-oriented ASEAN economies have taken a hit from the global economic crisis. ASEAN's smaller economies are most at risk from weakening trade performance and rising protectionist measures. Countries should refrain from taking protectionist measures to significantly contribute to the world economy through open regionalism and growth. The panel emphasized the role of Aid for Trade, particularly in supporting infrastructure development and moving toward sustainable, inclusive economic recovery.
  - The second technical panel examined South–South cooperation and regional approaches to Aid for Trade. The panel underscored the need for increased bilateral and regional assistance within ASEAN to help narrow development gaps. They also stressed that intraregional investment in trade-related projects is a 'win–win' situation and mutual benefits are key to the sustainability of programs.
  - The third technical session brought together representatives from the private sector. Case studies were presented of successful public–private partnerships in trade-related initiatives and new ways to facilitate an active role for business in expanding regional and global trade.

- 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

investment in economic corridors and other forms of hard and soft trade-related infrastructure will help realize the vision of a seamless Asia and narrow development gaps so that all economies can benefit from trade-led growth.

- Greater forms of collaboration—from public–private partnerships to closer cooperation among developing economies in the forms of bilateral, trilateral, and regional assistance—are crucial to strengthening the Aid for Trade initiative.
- Mainstreaming trade in national development strategies and focusing on trade as the primary operational priority can help to reinforce ownership of Aid for Trade strategies by recipients.

#### **4. Next Steps**

While the expansion of regional and global trade in recent decades has led to rapid economic growth in Asia and the Pacific, a number of the region's smaller, low-income countries have remained underdeveloped and over-dependent on a narrow export base. The global economic crisis has only dampened their prospects for long-term economic development. ADB support to the Aid for Trade initiative has taken on new urgency in light of the economic downturn as it offers a means to support long-term development through increased regional trade competitiveness based on a seamless policy environment and integrated modern infrastructure.

There are many recent accomplishments to build upon in the area of trade-driven growth, as outlined in this report, including trade reform, infrastructure development, trade capacity building, trade finance, and public–private partnerships. ADB will continue to collaborate with global and regional development partners in carrying forward the Aid for Trade initiative as it moves toward implementation and resource mobilization. In the medium term, it is envisaged that such collaborative support could be channelled in three ways: (i) increased operations in trade-related areas, particularly cross-border infrastructure, trade facilitation, and trade finance; (ii) coordination of the work of the RTG, co-chaired by Cambodia and Japan; and (iii) sharing of cross-border experience and technical expertise on trade-related activities through policy dialogues and studies. The May 2009 regional meeting on Aid for Trade in Siem Reap, Cambodia and the formation of the RTG have provided the impetus needed for the region's development partners and developing member countries to continue their collaborative efforts to strengthen trade in order to boost economic growth and reduce poverty in Asia and the Pacific.

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## 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 substantially 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: 1.8 billion people who live on less than \$2 a day, with 903 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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