

Aid for Trade in Asia, Private Sector Development, and the Asian Development Bank

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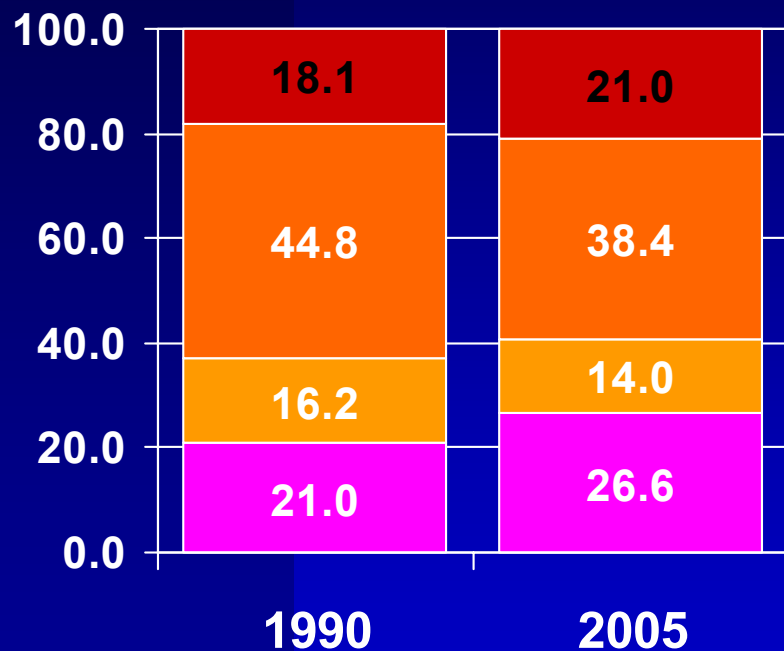
Asian Development Bank

Doha, 6 November 2006

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font on a dark blue square background.

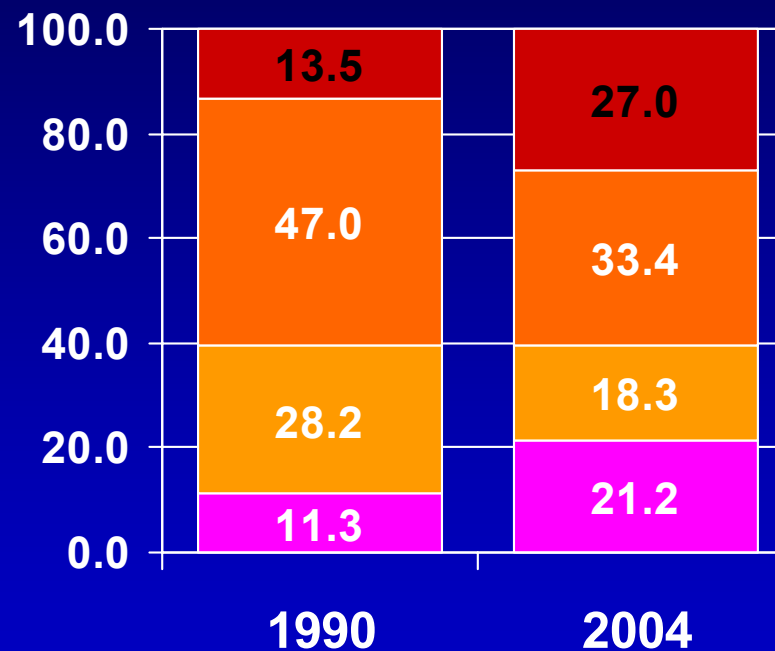
Trade and Investment in East Asia, EU and NAFTA

Share in World Exports, in %



■ East Asia (15)
 ■ NAFTA
■ EU-25
 ■ Others

Share in FDI Inflows, in %

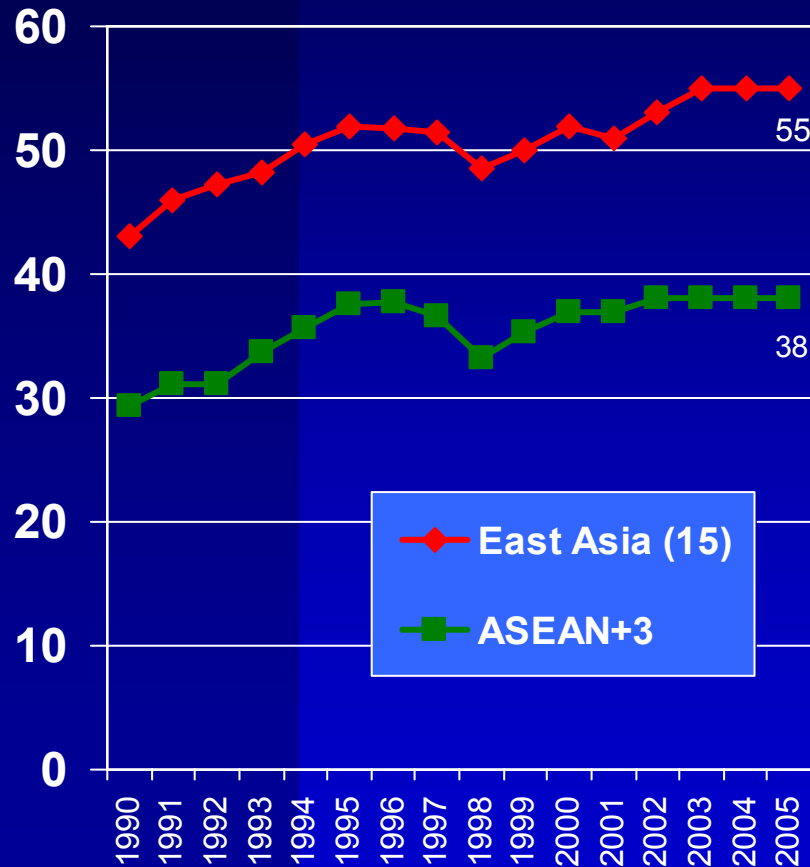


■ East Asia (15)
 ■ NAFTA
■ EU-25
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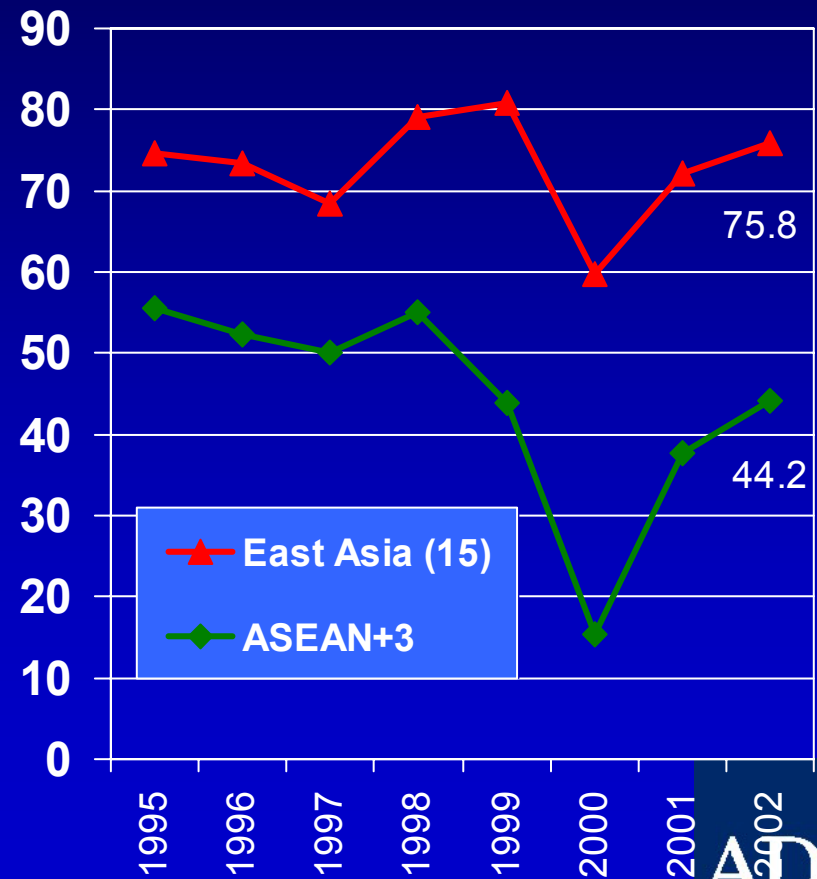
East Asia (15) includes the 10 ASEAN countries, Japan, Korea, China, Hong Kong, China and Taipei, China
 Source of data: UNCTAD Database

Increased Intra-Regional Trade and FDI

Intra-Regional Exports, in %



Intra-Regional FDI Flows, in %



Source of data: IMF Direction of Trade Statistics and UNCTAD

Drivers of Market-Led Integration in East Asia

East Asian economies have come ever closer together due to:

- Economic openness
- Improved physical connectivity
- IT revolution
- Multinational corporations' global business activities with the spread of vertically integrated production networks
- Rapid growth of large emerging market economies, particularly China

Lesson 1.

Combine Incentive & Supply-Side Policies

INCENTIVE

- ✓ Prudent macro-management:
- ✓ Outward-orientated trade regime
- ✓ Aggressive FDI promotion
- ✓ Streamlined procedures for trade & investment
- ✓ Strong domestic competition policies

SUPPLY-SIDE

- ✓ Investments in skills
- ✓ Excellent technology support
- ✓ Sound financial regulation & domestic saving promotion
- ✓ Efficient/competitive traditional & ICT infrastructure
- ✓ A public/private institution to manage national strategy

Lesson 2.

Use Cluster Policies But Sparingly

- Incentive & supply-side policies to increase the competitiveness of given industrial activities
- Under unique conditions, the East Asian Tigers used cluster policies to “engineer shifts in comparative advantage over time” but these may not apply today
- Some lessons for cluster policies in latecomers:
 - Choice of activities should be guided by “near future” comparative advantage rather than long-term comparative advantage,
 - Interventions should be at a broad industry-level rather than firm-level,
 - Interventions should be strictly time-bound,
 - Clearly defined performance measures should be used to evaluate the success of interventions
 - Interventions should be bound by WTO rules

Lesson 3.

Strong Private Sector Role in Strategy

- **Plug information gaps:**
 - Participate in national policy-making bodies & international trade negotiations
 - Undertake confidence surveys & sectoral studies
- **Augment government capabilities:**
 - Second staff to key government agencies
 - Contribute to FDI promotion
- **Help weak firms to help themselves:**
 - Set up industry-specific training institutions
 - Carry out productivity benchmarking exercises & quality awareness programmes
 - Engage in sub-contracting & supplier linkages

ADB Developing Member Countries

Least Developed Countries	Small States	Other Developing Member Countries	
Afghanistan	Cook Islands	Armenia	Singapore**
Bangladesh	Fiji Islands	Azerbaijan	Sri Lanka
Bhutan	Marshall Islands	Brunei	Taipei, China**
Cambodia	Micronesia	PRC	Tajikistan
Kiribati *	Nauru	Hong Kong, China**	Thailand
Lao PDR	Palau	India	Turkmenistan
Maldives *	Papua New Guinea	Indonesia	Uzbekistan
Myanmar	Tonga	Kazakhstan	Viet Nam
Nepal		Malaysia	
Samoa *		Mongolia	
Solomon Islands *		Pakistan	
Timor-Leste *		Philippines	
Tuvalu *		Korea**	
Vanuatu *		Kyrgyz Republic	

**Also Small States*

*** Non-borrowers*

ADB's Experience

- Well before “Aid for Trade”, ADB’s regional cooperation programs have been active in trade-related projects in:
 - Greater Mekong Subregion (GMS)
 - Central Asia Regional Cooperation Program (CAREC)
 - The Pacific
- Major trade-related projects have included:
 - Cross-border infrastructure (transport)
 - National infrastructure with cross-border significance
 - Trade facilitation and customs modernization
 - Export promotion and diversification
 - Enhancing SME trade and finance
 - Institutional support for trade regimes
- Recent research on Doha Round Outcomes (ADB, 2006)

Greater Mekong Subregion (GMS)

Gaps

- Limited physical connectivity
- Infrastructure gaps
- Variable transit times
- Lack of SME competitiveness
- Limited capacity for analysis & policy making

Projects to Close Gaps

- Economic corridors
- Road, rail and airport projects
- Trade facilitation
- Improving investment climate
- Analytical capacity building on trade policy

Central Asia: Landlocked Economies

Gaps

- Notable trade barriers
- High transport and logistic costs
- Long transit times
- Limited capability for trade policy making & negotiations

Projects to Close Gaps

- Building regional transport corridors
- Customs modernization & capacity building
- Capacity building on trade policy

The Pacific: Small & Geographically Dispersed

Gaps

- Smallness of economic size & population
- Physical isolation and dispersion
- Weak private sector activity
- Limited capacity

Projects to Close Gaps

- Improving aviation safety
- Improving investment climate
- Strengthening financial sector advice
- Livelihoods project to foster diversification

Regional Cooperation and Integration and "Aid for Trade"

- ADB's RCI Strategy: 4 Pillars
 - (1) Cross-border infrastructure and associated software
 - (2) Trade & investment cooperation & integration
 - (3) Monetary & financial cooperation and integration
 - (4) Cooperation in regional public goods
- "Aid for Trade" related to 1st, 2nd (& 3rd) pillars
- Research & capacity building on trade
 - Studies on costs and benefits of Asian regional trade arrangements (FTAs/EPAs)
 - Case studies on rules of origin and Asian "noodle bowl" effects
 - Capacity building for trade liberalization, policymaking for structural reforms, designing/negotiating effective FTAs/EPAs

The Way Forward

- Large room exists for the “Aid for Trade” initiative at ADB.
- The Regional Cooperation and Integration (RCI) Strategy can be an instrumental tool, connecting its cross-border infrastructure (1st) pillar with the trade and investment (2nd) pillar.
- The monetary and financial (3rd) pillar can be important through the mobilization of massive Asian savings for Asian cross-border infrastructure investment.
- ADB is willing to be actively involved with the WTO, World Bank, OECD, RDBs & others.

For more information:
Asia Regional Integration Center website
www.aric.adb.org

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