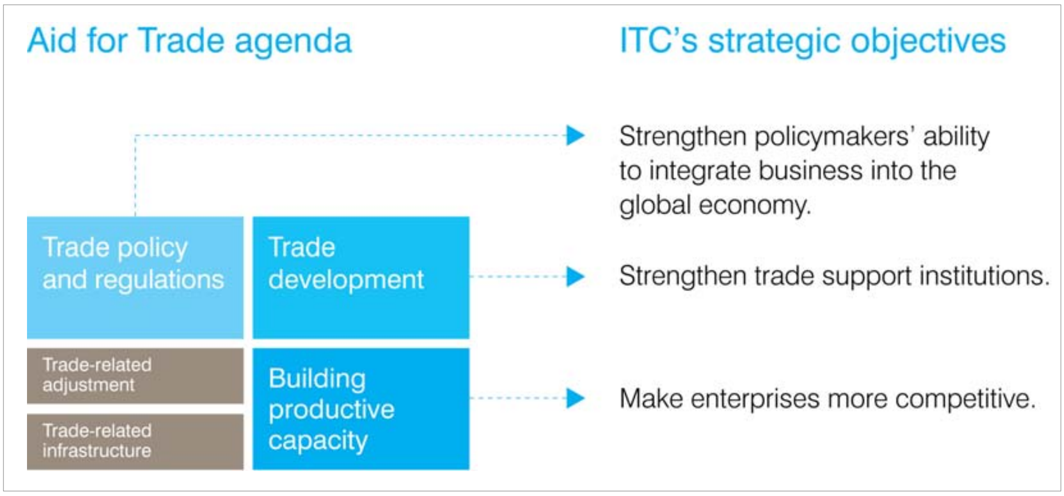
International Trade Centre

EXPORT IMPACT FOR GOOD

2ND AID FOR TRADE REVIEW FOR ASIA AND THE PACIFIC
28-29 MAY 2009 SIEM REAP, CAMBODIA

ITC: 100% AID FOR TRADE



DELIVERING ON ASIA'S PRIORITIES

The first Aid for Trade Regional Review for Asia and the Pacific (September 2007, Manila) set forth priorities for Aid for Trade:

- The need for outward orientated trade and investment policy incorporating public-private partnerships
- The need for greater regional cooperation, infrastructure, trade facilitation and trade finance
- Recognition of the diverse regional trade agenda and needs
- Country leadership driving relevance in the delivery of Aid for Trade in the region

A CHANGING ECONOMIC CONTEXT

The recommendations of the first Aid for Trade review were made in a favourable international context. World economic activity was its most vibrant in 40 years in the 2003-2007 period, enabling Asia and the Pacific to attain its best economic performance.

Today's context is radically different, and regional trade in both Asia and the Pacific has contracted sharply over recent months. Like elsewhere, the region suffers from a drop in trade due to a breakdown in global demand, an increase in market protectionism and the drying up of trade finance.

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- Financial vulnerability of ASEAN

The International Monetary Fund (IMF) revised its most recent growth forecast for ASEAN (Association of Southeast Asian Nations) down very sharply. While in April 2008 the real GDP growth outlook for the ASEAN region had been strongly positive, ranging between 3 to 8 per cent, the spring 2009 forecast ranges between -10 % for Singapore to +4% for Lao PDR. Growth in trade-dependent Singapore is most affected: its growth outlook was lowered by as much as 15 per cent, whereas for the other ASEAN member states the GDP expectations are down by some 3 to 9 per cent, leading overall to a zero-growth scenario for the region during 2009. The IMF also identifies ASEAN's financial vulnerability with respect to their foreign reserves – countries no longer holding a sufficient level of foreign reserves. Two indicators are used: either the country's holdings are not enough to cover 3 months of imports, or the draw down because of the crisis amounts already to more than half of month worth of imports. Cambodia, Indonesia, Lao PDR, Myanmar and the Philippines now experience medium-level financial vulnerability, while the others are still in the 'low-risk' category.

- Trade vulnerability of ASEAN

The International Trade Centre (ITC) monitors annual trade flows through its continuously updated TradeMap and MacMap for all countries, as well as recording monthly and quarterly data for all major importing countries and many developing countries. ITC identifies two major determinants of ASEAN countries' vulnerability to trade shocks: the degree of their product diversification and their trade linkages with the OECD (Organisation for Economic Co-operation and Development) and Chinese markets. ITC research shows that Thailand, Indonesia, Philippines, Malaysia and Viet Nam are relatively well diversified, while Singapore, Cambodia, Myanmar, Lao PDR and Brunei are poorly diversified. The export relationship of ASEAN with the OECD and Chinese growth is assessed through elasticity estimates of long-term export time-series. High values, from a global perspective, indicate severe dependence on these markets and hence trade vulnerability in the present crisis scenario. Brunei, Cambodia, Lao PDR, Myanmar, Singapore and Viet Nam score high on one or both indicators and must be considered particularly vulnerable to the trade shocks generated by this crisis. Indonesia, Malaysia may be considered medium vulnerable, while the Philippines may be considered less vulnerable to the trade shock. Of course, other shocks may still render it vulnerable, in particular reduced remittances.

- Responding to vulnerability with diversification

Response to trade vulnerability may be two-fold: diversifying products and/or diversifying markets. Where product diversification is poor, such as in Cambodia, this will need to be addressed on a priority basis. Where linkages to the rapidly contracting import markets of the OECD and China are intensive, the country's geographical diversification options need to be weighed up. In this context, it has to be noted that ITC analysis reveals very limited progress in intra-ASEAN trade during the period 2003 to 2007, despite AFTA and other initiatives. While some countries have moved ahead significantly, including Indonesia, the overall share of intra-regional trade remained static at about a quarter of all exports.

Country	Share intra-trade with others-Asean in country's World trade (%): 2003	Share intra-trade with others-Asean in country's World trade (%): 2007
Brunei Darussalam	26.5	30.6
Cambodia	21.2	24.0
Indonesia	19.5	24.3
Lao's D.R	64.9	69.0
Malaysia	24.5	25.3
Myanmar	41.9	48.8
Philippines	17.5	19.8
Singapore	31.0	28.7
Thailand	18.9	19.6
Viet Nam	20.1	19.6
Total	24.5	24.8

INNOVATIVE APPROACHES TO POVERTY REDUCTION THROUGH TRADE

Building on the outcome of the Manila meeting, ITC – with its mandate of Trade- Related Technical Assistance – met with stakeholders and developed a number of new programmes in the region. Designed to enable more businesses from Asia-Pacific, with a particular focus on the ASEAN region, to compete in global markets, these programmes will provide a platform for the private sector to articulate its interests, assist SMEs to access credit, facilitate a smooth flow of products across borders and help poor producers gain foot in profitable markets abroad.

These activities are part of ITC's mandate, as the joint agency of the United Nations and the World Trade Organization that enables small business export success in developing countries.

- Business advocacy for regional trade

The key driver of the process of economic integration is that barriers to trade are identified and eliminated in a gradual sequence. The private sector should be especially engaged in this process as they most stake in this process. Moreover, the element of timing and sequence is vitally important for the private sector.

An important overarching element of a regional integration strategy is the need to create common policies to enable free mobility of goods, capital, labour and services within a specified region. It is necessary to implement a regional strategy for harmonisation and standardisation to ensure no differences between technical and safety regulations of members. This process will create winners and losers on regional, national and sectoral levels. The whole process is, therefore, important for the private sector as it bases its business decisions on expected or anticipated policy changes.

The implementation of the conceived policy changes is a major area of concern for many regional projects. The private sector needs to be vigilant about the implementation and enforcement of common policies in all member countries because differences can lead to competitive (dis)advantages and undermine the regions ability to integrate successfully. ITC plans to assist the private sector in monitoring the progress of regional integration by establishing regional business organisations so as to gather information, disseminate it to members, engage in advocacy to find most effective solutions to bring down barriers to trade.

- Trade finance for SME competitiveness

In the difficult context of the financial crisis, the ultimate objective of the ITC's Trade Finance programme is to enhance access to affordable finance for SMEs in developing countries. To do so, ITC fosters closer collaboration between the business community, Trade Support Institutions (TSIs), Financial Institutions (Fis) and other international organisations.

In this context, ITC and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) are consolidating their existing partnership by developing an SME Finance program. The training programme is to be hosted by ADFIAP and conducted in partnership with the International Institute for Trade and Development (ITD, Bangkok). The programme aims at building the capacity of SME managers in financial management to enable them to better access Trade Finance and adopt sound financial management practices. The programme will also serve as a forum to exchange ideas and best practices between members of the ADFIAP group and to facilitate dialogue between banks, TSIs and SMEs. The programme will equip ADFIAP members and staff of selected TSIs in providing support, diagnosis and training services to SMEs.

- Facilitating a smooth flow of products across borders

Many types of administrative government bodies - for example the border control agencies for security and customs - are involved in the flow of goods or services across borders. However, their ability to view the trade community as partner clients is often non-existent in the reflex reactions of mistrust, repetitious procedures, and seemingly pointless permissions, documents and signatures. ITC plans an initial Trade Facilitation project in Lao PDR and Cambodia to ensure knowledge transfer sessions and training on how to improve client service without reducing legitimate security concerns. These sessions help organizations become client-centric, to quicken reliable trade procedures, improve compliance and provide sustainable consistency.

The scope of the project could be subsequently widened to institutionalise local and/or national action based consultation for the identification and tackling of operational obstacles that are in the way of efficient trade transactions in and out of Lao PDR and Cambodia. This would be supported through a scheme to certify holistic service providers in both countries.

- Connecting poor producers to markets

Building on the success of the Cambodia silk strategy, since 2007 ITC assists poor rural weavers in Lao PDR to enhance production and marketing of high quality silk products, thus meeting foreign market requirements and increasing the weavers' income. Together with the Lao Handicraft Association, ITC works with four pilot weaver communities in Champassak Province. Based on Lao weaving techniques and capacities, new designs have been created, which are marketed though three new sales outlets. Lao weavers enhanced consistency and quality of their products and deepened their knowledge on silk processing and marketing though a study tour to Siem Reap, Cambodia. As a direct effect of the project, the income of the project's first 50 weaver families has been increased significantly.

In Viet Nam ITC is partnering with four other UN organizations to support the development of the craft sector in Viet Nam. The five UN organizations, including, besides ITC, UNIDO, ITC, FAO, ILO and UNCTAD will each bring in their tools and core competence on SME promotion, empowering grassroots producers and smallholder farmer development. The programme aims to increase income and employment opportunities for raw material growers/collectors and grassroots producers of handicrafts and small furniture, targeting 4,450 poor households in four northern provinces of Viet Nam. The approach is to develop better integrated, pro-poor, and environmentally sustainable “green” value chains, enabling poor growers, collectors and producers to improve their products and to link them to more profitable markets.

In Cambodia, a new partnership between the Ministry of Women’s Affairs (MOWA), UNDP and ITC seeks to enhance sustainable livelihoods through the generation of employment and higher income for women and women producers groups from Kampong Speu, one of the poorest provinces in Cambodia. The ‘Partnership for Gender Equity’ (PGE) programme also aims to enhance enterprise level export competitiveness in selected sectors with special emphasis on women-owned enterprises in Kampong Speu province. In close collaboration with MOWA’s Women’s Development Centre, ITC will strengthen the production capacity of women craft producers’ groups and build sustainable linkages with the market. In addition, the PGE programme will build the national capacity for provision of business support services to support women entrepreneurs from Kampong Speu Province.

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