The Development Dimension

Regional Perspectives on Aid for Trade

OECD

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Foreword

Increased trade of goods and services has played a big part in the enormous development progress we have seen over the past decades. China alone has lifted more than 600 million people out of poverty after they opened up their economy in the late 1970's and surged ahead to become the world's largest exporter. But there is still much progress to be made. Global incomes could be increased by USD 400 billion simply by improving trade rules. Aid for Trade has been a great success and contributed to increased trade in developing countries.

As we approach the deadline for the implementation for the Millennium Development Goals, it is becoming increasingly important to provide regional perspectives on the post 2015 development agenda. Progress achieved in the implementation of Millennium Development Goals has been mixed. We see that different regional circumstances require different approaches. The need to adapt global goals to regional and national ones will therefore be an important part of the new post 2015 sustainable development goals. This report on regional approaches to aid for trade is therefore timely and offers practical advice on how developing countries can set regional priorities and co-ordinate better with their neighbours. It is also important that development assistance providers align behind the priorities of developing country governments to promote regional integration. The beginning of a new railway connecting landlocked Burundi, Rwanda, South-Sudan and Uganda with the Kenyan port town of Mombasa is a great example. This Chinese funded project will cut transport costs in half, increase regional trade and improve access to the sea and global trade for four landlocked East African countries.

The same factors that contribute to higher trade costs also inhibit regional integration. While there is significant theoretical and empirical evidence to support the view that developing countries can accrue huge benefits from regional cooperation, the 'groundwork' of economic integration needs to be in place. This includes transport networks and other infrastructure, human-resource capacity, trade facilitation, and a trade-enabling environment for regional integration. In just five years, exports from Colombia, Mexico and the Central American countries increased by 50% as a result of regional efforts to improve infrastructure and regulatory frameworks. The USD 155 billion of added trade is more than the combined gross domestic products of Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua!

The degree to which countries can benefit from regional integration will be a function of whether they can effectively overcome such trade constraints. As regional development banks and regional economic commissions have long argued, there is a strong case for regionally focused Aid for Trade. For example, the case study on the Economic Community for West African States shows that African countries have for many years embraced a variety of bilateral and regional accords. Still, there is much room for improvement, with intra-African trade remaining well below its potential.

Studies have underlined that African countries could improve regional integration with measures related to hard and soft infrastructure, capacity, trade-related information and contacts, and trade facilitation related issues. Governments, it seems, also tend to be hesitant about funding projects if they are unable to capture all the benefits themselves. In addition, implementing regional strategies is complicated by membership of overlapping regional organisations, lack of implementation of regional agreements, poor articulation within national strategies and national and regional capacity constraints.

Yet when developing countries work together and donors support their efforts, the case studies and case stories in this book show that aid for trade initiatives can be effective. As we have seen in Asia and Latin-America, regional aid for trade programmes can help promote growth that embraces profits, people and planetary concerns. In the post 2015 development agenda, aid for trade will have a key role to play and in particular in addressing the constraints to regional integration and development.

Erik Solheim
Chair of the Development Assistance Committee

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Earlier drafts of the study were presented at several international conferences, from which the study team was able to receive extremely useful input. These conferences included the OECD Policy Dialogue on Aid for Trade (January 2013, Paris), the WTO Fourth Global Review of Aid for Trade (July 2013, Geneva), the Bali Trade and Investment Forum at the WTO Ninth Ministerial Meeting (December 2013, Bali), and the Experts Group Meeting on Regional Aid for Trade (December 2013, Bologna). The study benefitted greatly from ideas and suggestions from the very diverse views of participants at these meetings, including public officials from OECD, emerging-market, and other developing countries; international organisations; aid-related organisations; private-sector representatives; aid for trade experts; and NGOs.

The study also profited from the numerous stakeholders consultations undertaken in Africa, Latin America, Asia, Europe, and the United States for the project. Insights gleaned from these consultations proved to be invaluable. In particular, the study team would like to thank Steven Groff (ADB), Antoni Estevadeordal, (IDB), Joaquin Tres Viladomat (IDB), Ganeshan Wignaraja (ADBI), Alisa DiCarprio (ADB), Mia Mikic (ESCAP), Alfredo Perdiguero (ADB), Michael Roberts (WTO), Matthew Wilson (ITC), Luciana Garcia Nores (IDB), Lilia Mercedes Cordoba (APC-Colombia), Ramesh Subramaniam (ADB), Jerry Odotei (National Development Planning Commission, Ghana), Michael Assibi (Ministry of Foreign Affairs and Regional Integration, Ghana), Obideyi Gbenga (ECOWAS), Kolawale Sofola (ECOWAS), Victor Hugo Arellana (SIECA), Reinaldo Morales (OIRSA), Jesús del Barrio Mañas (UE), Rene Rivera (IICA), Walter Leyva (SICA), S.K. Alabo, Lydia Amartey Alain de Remes, Alejandro Guevara, Alejandro Sarasti, Alexandra Thorsberg, Ángel Alberto Arita, Carolina Ramirez Patiño, Diego Gonzalez, Fransico Olivett, Jorge Asturias, Juan Carlos Montufar, Laura Escalante, Maria L Ortiz, Martha Zamora, Moises Arquímedes, Regina Vargas, Sandra Orozco, Silvia Constain, and Maria Concepción Alvarez.

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Acronyms and abbreviations

AAEC	African Alliance for Electronic Commerce
ACE	ASEAN Competitiveness Enhancement
ACMECS	Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy
ACP	African, Caribbean and Pacific
ADA	Austria Development Agency
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AECID	Spanish Agency for International Development
AEM	ASEAN Economic Ministers
AFD	*Agence Française de Développement*
AfDB	African Development Bank
AFT	Aid for Trade
APC	Colombia's Presidential Cooperation Agency
APEC	Asia Pacific Economic Cooperation
APEC- EIP	Asia-Pacific Economic Cooperation – Economic Integration Program
APFIC	Asia-Pacific Fishery Commission
APRIS	ASEAN-EU Program for Regional Integration Support
ARIC	Asian Regional Integration Centre
ARISE	ASEAN Regional Integration Support by EU
ASEAN	Association of Southeast Asian Nations
ASTP	ASEAN Strategic Transport Plan
ATIP	ASEAN Air Transport Integration Project
ATPC	African Trade Policy Centre
AU	African Union
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BIMSTEC	Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation
BMZ	Federal Ministry for Economic Cooperation and Development

BOBLME	Bay of Bengal Large Marine Ecosystem
BPC	Building Productive Capacity
CACM	Central American Common Market
CAFTA	Central America Free Trade Agreement
CAN	Andean Community of Nations
CAREC	Central Asia Regional Economic Cooperation
CARICOM	Caribbean Community
CBD	Convention on Biological Diversity
CBTA	Cross Border Transport Agreement
CDC	Council for Development Cambodia
CEMAC	Central African Economic and Monetary Community
CEN-SAD	Community of Sahel-Saharan States
CEUCA	Customs and Economic Union of Central Africa
CIDA	Canadian International Development Agency
COBSEA	Coordinating Body on the Seas of East Asia
COMESA	Common Market for Eastern and Southern Africa
COMEX	Ministry of International Trade in Costa Rica
COMPASS	Institutional Capacity Building for ASEAN Monitoring and Statistics
CRS	Creditor Reporting System
CTI-CFF	Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security
CTMPAS	Coral Triangle Marine Protected Area System Framework and Action Plan
DDA	Doha Development Agenda
DFA	Department of Foreign Affairs
DFID	Department for International Development
DFQF	Duty-Free, Quota-Free
EAC	East African Community
EAFM	Ecosystem Approach to Fisheries Management
ECAP III	ASEAN Project on the Protection of Intellectual Property Rights
ECCAS	Economic Community of Central African States
ECOTECH	Economic and Technical
ECOWAP	ECOWAS Agricultural Policy
ECOWAS	Economic Community of West African States
EDF	European Development Fund

EEC	European Economic Community
EEZ	Exclusive Economic Zones
EFACT	Economics of Fisheries and Aquaculture in the Coral Triangle
EFTA	European Free Trade Association
EI	Economic Infrastructure
EPA	Economic Partnership Agreement
EPADP	EPA Development Programme
EU	European Union
EWEC	East-West Economic Corridor
ExPECT	Exports Promotion and Enterprise Competitiveness for Trade
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDDs	GMS Development Dialogues
GDP	Gross domestic product
GEF	Global Environmental Fund
GMS	Greater Mekong Subregion
ICT	Information and Communications Technology
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IGAD	Inter-Governmental Authority on Development
IICA	Inter-American Institute for Cooperation on Agriculture
IKI	International Climate Initiative
IMD	International Institute for Management Development
IMF	International Monetary Fund
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
INFOFISH	Intergovernmental Organization for Marketing Information and Technical Advisory Services for Fishery Products in the Asia-Pacific Region
INT	Information System on Trade Integration
IPRs	Intellectual property rights

IR&D	Industrial Research and Development Programme
ISRT	Inter-State Road Transport
ISRTTFP-WA	Inter–State Road Transport and Transit Facilitation Programme for West Africa
JICA	Japan International Cooperation Agency
LAIA	Latin American Integration Association
Lao PDR	Lao People's Democratic Republic
LICs	Low-income countries
LINK	Leaders Networking for Knowledge
MAP	Millennium Africa Recovery Plan
MDDA	Minister for Development of Disadvantaged Areas
MFAT	Ministry of Foregn Affairs and Trade
MGO	Minister of Government Office
MINDA	Mindanao Development Authority
MITI	Ministry of International Trade and Industry
MNPED	Ministry of National Planning and Economic Development
MNRE	Ministry of Natural Resources and Environment
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOIC	Ministry of Industry and Commerce
MOIT	Ministry of Industry and Trade
MOT	Ministry of Trade
MP	Mesoamerican Project
MPA	Marine Protected Area
MPAC	Master Plan on ASEAN Connectivity
MPI	Ministry of Planning and Investment
MPMD	Minister in the Prime Minister's Department
MPMO	Minister to the Prime Minister's Office
MRC	Mekong River Commission
MSMEs	Micro, Small and Medium Enterprises
MTI	Ministry of Trade and Industry
NAFTA	North American Free Trade Agreement
NAI	New African Initiative

NEPAD	New Partnership for Africa's Development
NESDB	National Economic and Social Development Board
NSEC	North-South Economic Corridor
NZ	New Zealand
OAU	Organisation of African Unity
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OFID	OPEC Fund For International Development
PIF	Pacific Islands Forum
PNG	Papua New Guinea
PPP	Phnom Penh Plan
PRC	People's Republic of China
PSAP	Strategic Action Program of the Pacific Small Island Developing States
RAfT	Regional Aid for Trade
RECs	Regional Economic Communities
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordinating Conference
SAFTA	South Asian Free Trade Agreement
SASEC	South Asia Subregional Economic Cooperation
SCP	Singapore Cooperation Programme
SDC	Swiss Agency for Cooperation and Development
SEAFDEC	Southeast Asian Fisheries Development Center
SEATRANET	Southeast Asia Trade Policy Training Network
SEC	Southern Economic Corridor
SECMA	Executive Secretariat of the Central American Monetary Council
SICA	Central American Integration System
SICOR	System for International Cooperation
SIECA	Secretariat for Central American Economic Integration
SME	Small and Medium Enterprise
SPC	Secretariat of the Pacific Community
SPREP	Secretariat of the Pacific Regional Environment Programme

SPS	Sanitary and Phytosanitary
SQAM	Standardisation, Quality Assurance, Accreditation and Metrology Programme
SSA	Sub-Saharan Africa
Taiwan ICDF	Taiwan International Cooperation and Development Fund
TPR	Trade Policy and Regulation
UEMOA	West African Economic and Monetary Union
UMA	Arab Maghreb Union
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNSECAP	United Nations Economic and Social Commission for Asia and the Pacific
US-AEP	US–Asia Environmental Partnership Program
USAID	United States Agency for International Development
USD	United States Dollars
VIP	Verde Island Passage
VPOA	Vientiane Plan of Action
VVF	Virtual Vertical Factories
WAAP	West African Agriculture Productivity Programme
WACIP	West African Common Industrial Policy
WA-EU	West Africa–European Union
WCPFC	Western and Central Pacific Fisheries Commission
WCPO	Western and Central Pacific Ocean
WET	Water Efficiency Team
WTO	World Trade Organization
WWF	World Wildlife Fund

Executive summary

Deepening economic integration via regional co-operation has emerged as a key priority in the reform strategies of most developing economies over the past decade. This is evidenced by the explosive growth in bilateral and regional trading agreements in which they now participate. Regional aid for trade can help developing countries spur regional economic integration, enhance competiveness, and plug into regional production networks. These production networks have been important drivers of international trade and foreign direct investment and are increasingly figuring prominently in the development strategies of developing economies.

Regional production networks are being facilitated to a large degree by regional economic co-operation; in fact, they are driving deep economic co-operation programmes from Southeast Asia to the Caribbean. Regional aid for trade is already contributing to this process. There are a number of studies that underscore the potential for regional aid for trade in supporting production networks not only in Asia but also in Africa. For example, a 2013 donor survey concludes that regional aid for trade has focused successfully on removing the binding constraints to regional integration and improving regional economic co-operation. This reality underscores the importance of the central tenet of aid for trade: infrastructure, trade facilitation, and creating a trade-enabling environment are essential for developing countries to benefit from trade liberalisation, be it within the context of a free-trade area, multilateral agreement, or unilateral approach.

Nevertheless, a regional approach to aid for trade is complex and more difficult to mainstream into national planning due to its multi-country nature. Cross-border infrastructural projects, for example, are hampered by many practical complications, from technical standards to financing issues. Negotiations can also be bogged down by poor inter-governmental communications and, sometimes, lack of trust across negotiating parties. In some instances, bringing in an "honest broker", such as a multilateral or regional development bank, as a participant is necessary in order to ensure smooth negotiations.

Moreover, implementing regional strategies are complicated by, *inter alia*, membership of overlapping regional organisations; lack of implementation of regional agreements; poor articulation within national strategies; and national and regional capacity constraints. While progress has been made in incorporating aid for trade in development planning more generally, mainstreaming regional aid for trade has proven to be more difficult.

National programmes will not normally consider activities with strong international externalities. Therefore, aid for trade programmes that are best implemented regionally may not take place because the benefits cannot be fully appropriated nationally. Externalities associated with regional initiatives also complicate programme development. For example, regional co-operation in transit is extremely important to land-locked countries needing sea access, but the country(s) through which the transit will flow may not be convinced that they will gain from such a project. Thus, most of the focus in the aid for trade initiative has been at the national level; instruments to support multi-country and regional programmes are much less developed.

Based on a rich set of experiences regarding regional aid for trade projects and programmes, the study finds that regional aid for trade offers great potential as a catalyst for growth, development and poverty reduction. While regional aid for trade flows have been rising, this study suggests that multi-country and regional aid for trade has been underfunded, yet offers an excellent "biggest bang for the ODA buck" opportunity.

Key lessons are:

1. Mainstreaming multi-country and regional aid for trade is essential in boosting regional economic integration and development, as well as in raising its profile and stakeholders' interest.
2. Regional aid for trade is insufficiently understood and appreciated in national line ministries and among stakeholders and this is a significant problem to mainstreaming regional aid for trade in national development plans.
3. Emphasising ownership on the part of stakeholders needs to be a high priority in order for regional projects to be successful.
4. Aligning the goals of donor and recipient countries, as well as associated stakeholders, is important particularly in the design-stage of regional aid for trade projects.
5. Involving the private sector more closely in regional aid for trade is often essential for success.
6. Institutional mechanisms are needed to ensure smooth in-country co-ordination for regional and sub-regional programmes.
7. While institutions related to regional co-operation and integration have emerged at sub-regional and regional levels, they require considerable capacity support, an area in which regional aid for trade can be particularly effective.
8. Sustainability should be an important consideration for most projects, particularly in the economic infrastructure category.
9. Improved information and data collection are necessary to improve efficiency, assessment, and promotion.
10. In order for multi-country and regional aid for trade to be effective, regulatory harmonisation is often required, which makes it both a challenge to regional aid for trade as well as increasing its potential to boost regional integration.

In conclusion, the study strongly endorses a greater emphasis on regional aid for trade as a means of improving regional economic integration and development prospects. While regional aid for trade faces many practical implementation challenges, experience has shown that associated problems are not insurmountable but do require thorough planning, careful project formulation, and prioritisation on the part of policy makers.

Overview

The case for regional aid for trade

Countries that have embraced an outward-oriented development strategy, with trade liberalisation at its heart, have not only outperformed inward-looking economies in terms of aggregate growth rates, but have also succeeded in lowering precipitously poverty rates and registering improvements in other social indicators. Accordingly, emerging and developing economies throughout the world have adopted commercial policy reforms that now underpin their economic development strategies. Competitiveness in global markets has never been more important for success. Yet, market failures and other binding constraints to trade – from infrastructural shortcomings to bureaucratic impediments – inhibit the ability of developing economies to exploit fully the benefits attendant in closer economic integration. Aid for trade has emerged as a cost-effective tool to overcome these binding constraints, strengthen recipient economies' ability to maximise benefits from specialisation, plug into international markets, and move up value chains, while providing support to facilitate structural adjustment and ensure that the benefits from structural change are widely shared.

Responses from regional organisations to the OECD/WTO survey for the *Third Global Review of Aid for Trade* highlights what they believe to be the most important impediments to trade, both in intra- and extra-regional contexts. In general, the survey reveals that competitiveness, limited export diversification and inadequate transport links are deemed to be the most important inhibitors of intra- and extra-regional trade, with significant overlap across these categories. Soft and hard infrastructure-related constraints appear in all regions, with trade finance and limited export diversification also being significant constraints for several regions. Standards and compliance issues emerge frequently in especially the external trade of most African sub-regional organisations and the Caribbean Community (CARICOM).

Deepening economic integration via regional economic co-operation has emerged as a prominent priority in the reform strategies of most developing economies over the past decade, as evidenced by the explosive growth in bilateral and regional trading agreements in which they now participate. Such co-operation can be bilateral, subregional, regional, or inter-regional; South-South or North-South; formal or informal. Whatever the modality, it is clear that developing countries are placing an increased emphasis on regional trade and investment, but with mixed results in practice. In Africa, for example, intra-regional trade has generally underperformed. Asia has been far more successful; it has been particularly active in negotiating new trade agreements – not only at the bilateral but also at the sub-regional and "mega-regional" levels – and is increasingly placing an emphasis on regional co-operation and integration as a means of boosting growth and promoting development.

Regional aid for trade can help developing economies plug into regional production networks, which have been instrumental in the successful experiences of many of these economies particularly in Asia. These production networks have been important drivers of international trade and foreign direct investment and have figured prominently in the development strategies of developing Asian economies and are rising in importance in other regions. Regional production networks are being facilitated to a large degree by regional economic co-operation; in fact, in Asia they are driving the economic co-operation process. In turn, they allow countries to participate in – and eventually move up – value chains, with pervasive salutary effects for socio-economic development, ranging from reducing poverty to emerging from the "middle-income trap". Hence, attracting and enhancing regional production networks have become explicit priorities of many developing-country regional organisations, from the Association of Southeast Asian Nations (ASEAN) to CARICOM.

Regional aid for trade is already contributing to this process. A number of case studies underscore the potential for regional aid for trade in supporting production networks not only in Asia but also in Africa. For example, the 2013 World Trade Organization-African Union-UN Economic Commission for Africa Survey of donors concludes that regional aid for trade has focused successfully on removing the binding constraints to regional integration and improving regional economic co-operation via improved hard and soft infrastructure. These same factors are essential in the creation of successful regional production networks.

Thus, the fact that Africa has been less successful in creating regional production networks has been an important factor behind their underperformance in terms of regional integration. The lack of intra-industry trade and insufficient development of production networks as impediments to closer regional integration were underscored in the AfDB's *Regional Integration Strategy Papers*. Clearly, African leaders are cognizant of these problems and have sought means to rectify them. For example, the African Union's *Action Plan for Boosting Intra-Regional Trade* (African Union 2012) identifies the constraints limiting intra-regional trade and proposes specific projects to remove them. It notes that, "African countries will trade more with each other if they upgrade their productive capacities in dynamic sectors of the economy and support the development of regional enterprises and value chains." (p. 8). It also prioritises programmes to increase FDI as a means of accomplishing this.

Donors have also been addressing these core binding constraints to intra-regional trade in Africa. The 2013 AU-WTO-UNECA survey of donor and African partner economies regarding regional co-operation and integration is instructive in this regard.

First, the donor questionnaire revealed that three-fourths of donor respondents were investing in transit corridors in Africa, and three-fourths of these indicated that their activities were based on both regional and corridor strategies. However, the most frequently-cited areas in which past assistance was focused were in the trade facilitation and trade policy categories. The aim of this assistance is, therefore, in large part to deepen regional integration by removing soft and hard infrastructural constraints.

Second, more than three-fourths said that the demand for assistance for regional trade programmes by partners had increased significantly since 2005, suggesting the perception of a rise in interest in developing regional co-operation programmes with donors. A large majority of these donors reported that they developed their regional strategies through consultations with regional economic communities, partner consultations, and/or needs assessment. Almost all donors note that their support has been aligned with various African Union trade initiatives, especially the African Productive Capacity Initiative and the African Productive Capacity Initiative and the Programme for Infrastructure Development in Africa.

Third, over 80% of donors have participated in pan-African projects to promote regional trade co-operation and integration, and over half of these reported involvements in various sub-regional initiatives as well, including EAC (63%), ECOWAS (56%), and SADC (50%).

Fourth, evaluations of donor programmes on regional trade co-operation suggest that they have been highly successful: about two-thirds found that these programmes lead to increased exports and trade, over two-fifths found that they led to increased economic growth and reduced poverty, and slightly over a third noted that the programmes had helped with export diversification.

The results of the donor survey, therefore, would suggest that regional aid for trade has been: *i)* focused on removing the binding constraints to regional integration and improving regional economic co-operation via improved hard and soft infrastructure; *ii)* directed at sub-regional and regional initiatives and developed in close co-operation with development partners; and *iii)* successful in spurring growth, reducing poverty, and diversifying the economy, i.e. the essential goals of regional co-operation.

The accompanying 2013 AU-WTO-UNECA *partner* survey collaborated many of these themes.[1] According to this survey, trade-related infrastructure and transport constitute key sectors in regional trade strategies, as do agriculture, trade in services, and services to support exports. Respondents also reported that their regional co-operation strategies were developed via consultation with donor-partners, regional partners, and needs assessment, but added consultation with the private sector (domestic and foreign) as an important participant in the process. The EU was cited as by far the most important source of assistance for regional trade integration.[2] However, the notion that backing for regional trade programmes since 2005 increased significantly was only supported by less than 10% of the respondents, with less than half noting that it had increased somewhat.

Priority sectors for regional co-operation were similar to those cited by the donors, but recipient countries appear to believe that donor support is less aligned with their own strategies, with only one-tenth saying they were well-aligned and only two-thirds saying they were moderately aligned. Two-thirds maintain that they had not requested help for African Union initiatives. The most important difficulties cited in implementing regional and/or sectoral trade strategies were the lack of implementation by regional partner countries – underscoring problems associated with regional public goods – and capacity constraints of the implementing ministry.

Evaluations of the programmes revealed similar results as in the donor survey, with increased economic growth, trade, and poverty reduction among the greatest successes. However, increasing aid for trade for regional funds was also listed as an important outcome of evaluations, with half saying that this had resulted, whereas less than 20% of the donors believed this to be the case.

Formal regional co-operation via bilateral and regional free-trade areas (FTAs) are neither a necessary nor a sufficient condition to achieve the intended result of deeper economic integration and enhanced competitiveness. For example, improvements in transport and other infrastructure will increase trade between neighbors with or without an FTA; policy changes in the area of trade facilitation are often included in FTAs but were also a key component of the "Bali package" concluded at the Ninth WTO Ministerial Meeting in December 2013. This reality underscores the importance of the central tenet of aid for trade: infrastructure, trade facilitation, and creating a trade-enabling environment are essential for developing countries to benefit from trade liberalisation, be it within the context of an FTA, multilateral agreement, or unilateral approach. Formal preferential agreements will contribute to growth, development and poverty reduction, but results will be conditional upon the "hard" and "soft" trade and investment infrastructure and the overall policy framework.

Nevertheless, a regional approach to aid for trade is complex and more difficult to mainstream into national planning due to its multi-country nature. Governments tend to be hesitant to devote resources to projects and programmes characterised by benefits that they are unable to capture fully themselves and deliver regional public goods (as opposed to national public goods). Cross-border infrastructural projects, for example, are hampered by many practical complications, from technical standards to financing issues. Negotiations can also be bogged down by poor inter-governmental communications and, sometimes, lack of trust across negotiating parties. In some instances, bringing in an "honest broker", such as a multilateral or regional development bank, as a participant is necessary in order to ensure smooth negotiations. Multilateral and regional development banks can also play a productive role as a convener of discussions regarding regional initiatives.

Moreover, implementing regional strategies are complicated by, *inter alia*, membership of overlapping regional organisations; lack of implementation of regional agreements; poor articulation within national strategies; and national and regional capacity constraints. While progress has been made in incorporating aid for trade in development planning more generally, mainstreaming regional aid for trade has proven to be more difficult.

Thus, as national programmes will not normally consider activities with strong international externalities, aid for trade programmes that are best implemented regionally may not take place because the benefits cannot be fully appropriated nationally. Externalities associated with regional initiatives also complicate programme development. For example, regional co-operation in transit is extremely important to land-locked countries needing sea access, but the country(s) through which the transit will flow may not be convinced that they will gain from such a project. Consequently, most of the focus in the aid for trade initiative has been at the national level; instruments to support multi-country and regional programmes are much less developed.

In short, there is a need to focus on how to best position aid for trade in a broader multi-dimensional context or variable geometry of intervention levels (i.e. national, multi-county, subregional, and regional). Such a positioning allows for a better understanding of how to further the regional integration agenda, in particular through strengthening the links between national, multi-country, and regional aid for trade diagnostics, strategies, policies, and implementation. This also provides increased insight into the optimal aid for trade intervention levels, sequencing issues, and good aid for trade practices to support multi-country and regional processes that promote sustainable economic growth and poverty reduction.

Given these challenges, the objectives of this study are essentially two-fold.

First, it assesses the importance of regional aid for trade in the wider development context. The study analyses how regional aid for trade contributes to the development process; identifies existing challenges facing developing economies as they endeavour to increase regional integration and underscore emerging opportunities; and it evaluates how effective regional and multi-country aid for trade has been thus far.

Second, it seeks to explore strategies as to how recipient countries can best mainstream regional aid for trade in development planning and how donor countries can partner with them in crafting the best possible aid for trade programmes and how these strategies can be implemented effectively.

The study builds on existing studies and offers new insights via case studies undertaken in the field and numerous stakeholders' consultations in Asia, Africa, and Latin America. It also benefitted from insights imparted at various conferences, including the OECD *Policy Dialogue on Aid for Trade* (January 2013, Paris), the *WTO Fourth Global Review of Aid for Trade* (July 2013, Geneva), the *Bali Trade and Investment Forum at the WTO Ninth Ministerial Meeting* (December 2013, Bali), and the *Experts Group Meeting on Regional Aid for Trade* (December 2013, Bologna).

Regional aid for trade flows

Some main conclusions of the first chapters of this study are: *i)* in the 21st century trade is essential to growth, development, and poverty reduction; *ii)* developing and emerging markets face a number of binding constraints to trade and require significant improvements in trade-enabling areas such as trade facilitation, capacity building, and hard and soft infrastructure in order to exploit effectively the international marketplace on the demand-side and, especially, improve efficiencies on the supply-side; *iii)* regional co-operation and integration have become increasingly important aspects of the international landscape of developing and emerging economies, particularly in the area of regional production networks; *iv)* regional co-operation and integration can generate important positive benefits to these economies; and *v)* regional aid for trade can play an important and, in some cases, critical role as a catalyst for regional integration. These conclusions beg the question as to the extent to which recipient and donor countries have thus far responded to this need for regional aid for trade.

While regional aid for trade flows are small compared to overall flows, they have been growing rapidly relative to the 2002-05 baseline. In 2011 they came to roughly USD 6 billion in disbursements and its share in total aid for trade has grown from about 9% in 2002-05 to 12% in 2006 and 15% in 2011. While total aid for trade flows grew by 72% over the 2006-11 period, regional and sub-regional aid for trade increased by an even more impressive 135%. Thus, the importance of regional aid for trade is rising in line with the increase in regional co-operation initiatives among developing countries.

The vast majority of these regional aid for trade flows are destined to building productive capacities followed by economic infrastructure. This is true for all regions. Studies focused on lifting the binding constraints to trade would certainly suggest that focusing on these areas is appropriate. Actual regional aid for trade projects have been quite diverse, from contributing to the development of transit corridors to export promotion and training.

Numbers are useful, but they only tell part of the story. Certainly, increasing disbursements do not necessarily guarantee better results. What matters is the *impact* of these aid flows on trade and development. An emphasis on impact of development assistance has been the top priority of the OECD, WTO, their member-governments, and other international organisations, as indicated by, for example, *the Paris Declaration on Aid Effectiveness*, *OECD-WTO Third Global Review of Aid for trade: Showing Results* and the *OECD High-Level Forum on Aid Effectiveness.* Impact assessments to date have been highly complimentary of aid for trade projects and programmes. Maximising the impact of regional aid for trade projects has received a top priority as well.

Designing, implementing and maximising returns from regional aid for trade

Consistent with the results-oriented approach, this study focuses on the multidimensional, practical challenges of designing strategies and implementing regional aid for trade projects and programmes. It surveys case stories accumulated by the OECD-WTO during their *Third Global Review of Aid for Trade* and presents new data, information and detail from three case studies and stakeholders meetings in Asia, Latin America, and Africa to get a better understanding of the actual experiences to date of regional aid for trade projects. It offers a rich set of experiences regarding regional aid for trade projects and programmes. On that basis the study finds that:

- Multi-country and regional aid for trade offers great potential as a catalyst for growth, development and poverty reduction and there are now many documented examples of regional aid for trade in action that underscore clearly that this has been the case in all regions of the world (*albeit* exhibiting different degrees of success);
- While multi-country and regional aid for trade flows have been rising in absolute terms and relative to other forms of aid for trade and development assistance, the analysis undertaken for this study, literature surveys, solicited opinions of donor and recipient country officials, other stakeholders, and experts *all* suggest that multi-country and regional aid for trade has been underfunded and offers an excellent "biggest bang for the ODA buck" opportunity, particularly in light of the growing interest in regional economic integration and co-operation; but
- Multi-country and regional aid for trade faces a variety of obstacles that inhibit its ability to reach its potential.

The final three chapters of the study summarise the results from the case studies undertaken for this project. The three sub-regions were chosen in order to ensure a broad sample of experiences from the developing world. Each has embraced regional co-operation as a means of boosting regional economic integration and global competitiveness, with varying degrees of success:

- ASEAN has been the most successful in this regard; indeed, it is arguably the most successful of any programme of regional co-operation in the world. Moreover, it has several sub-regional programmes attached to it that feature regional aid for trade in action.
- Mesoamerica is a smaller grouping of countries but also with ambitious goals of regional integration and co-operation. Many of its initiatives have similarly been supported by regional aid for trade, including with active contributions from the Inter-American Development Bank (IDB).
- Africa is characterised by the largest number of regional co-operation organisations but it has had the least success in boosting regional integration. To no small degree this has been due to high intra-regional trade costs, which in turn result from infrastructural shortcomings, inefficient bureaucracies at the border, and so forth. Using regional aid for trade to bring down these trade costs and boost regional economic integration, therefore, presents an important opportunity.

ECOWAS is one of the most important regional organisations in Africa and has an interesting track record with respect to regional aid for trade.

The chapters underscore the differences in regional integration and co-operation experiences across the globe, but also reveal a number of common opportunities and challenges in the implementation of regional aid for trade programmes, as summarised below.

Southeast Asia/ASEAN

Economic reform in ASEAN has been a priority in most ASEAN economies for the past thirty years. Through various waves of unilateral liberalisation and regional co-operation, the region has become more outward oriented and linked to global production networks. The transitional ASEAN economics – Cambodia, Myanmar, Lao PDR and Viet Nam – tend to place more value on regional co-operation and have received more national aid for trade funds, which has facilitated the improvement of trade and foreign direct investment links.

ASEAN has experienced successes in regional aid for trade programmes and projects despite weak demand articulation and a dearth of regional champions that align their national plans with economic integration efforts through, for example, the ASEAN Economic Community (AEC), which is a "stylized" common market – seeking free trade in goods, services, foreign direct investment, and skilled labour, as well as freer flows of capital – slated for completion in 2015. The case study argues that implementation of the AEC Blueprint requires a framework that combines trade reform issues for regional aid for trade with "Porter competitiveness forces" and the World Bank "quality of growth" drivers. Trade reform issues can be mapped out as seller and buyer concerns that link development problems (raising productivity, cutting production and transaction costs, fostering innovation) with reforms in customs, immigration, quarantine and security and market access (meeting demand for quality goods at competitive prices and delivered in timely manner). Porter's model fits these seller-buyer concerns as enterprises strategise to compete and at the same time co-operate at the regional level to create regional public goods (arising from good governance, reducing distortions favouring physical capital, correcting market failures, and strengthening regulation).

The simultaneous competition and co-operation strategies ("co-opetition") in ASEAN and East Asia are what capacity building efforts in regional aid for trade can best emphasise; still, trade policy and regulation have been given the least attention in ASEAN aid for trade programmes. Thus within ASEAN, the cultivation of regional public goods champions has becomes a major challenge. Such leadership is needed to stress ownership of projects, the buy-in of stakeholders (especially from the grassroots), the documentation and replication of best practices, and the mainstreaming in national development programmes of regional public goods partly through donor-partner co-ordination.

Two sub-regional case studies are analysed at length in the chapter to underscore how regional aid for trade is working in practice in Southeast Asia: The Greater Mekong Sub-region (GMS) and the Coral Triangle Initiative.

The Asian Development Bank (ADB) has been supporting trade-related activities even prior to the aid for trade initiative, including cross-border infrastructural projects, trade facilitation and customs modernisation, export promotion and diversification, and policy and institutional support for trade regimes. Until the AEC was launched in 2007, however, the ADB did not take regional approach in its operations regarding transport and energy. Now it is aligning them closely with the implementation of the AEC, including stepped-up regional co-operation initiatives in diverse areas such as logistics, trade, and economic corridors.

Economic corridors within the context of the GMS have succeeded in increasing agricultural growth in some Mekong provinces by upgrading roads in the East-West Economic Corridor and completing the Second Mekong International Bridge. In addition, it is now championing contract farming in Lao PDR for the Thai and Chinese markets (sugarcane, maize and cabbage). Through a leadership training programme for officials in the GMS, called the Phnom Penh Plan for Development Management, ADB has enhanced the capacity of middle- to high-level officials in areas related to competitiveness and inclusive growth.

The Coral Triangle Initiative integrates the fisheries industry with economic activities associated with valuable coral reefs, mangroves and associated natural habitats in this global center of marine biodiversity (leading to eco-tourism, drugs and vaccines development), as well as protection from tsunamis and storm surges. A roadmap for the six Southeast Asian countries forming the Coral Triangle Initiative addresses the near critical thresholds and fully exploited fish stocks facing the group through economic-technical co-operation; it is financed by several multilateral and bilateral donors. This initiative affects directly over 100 million people and thousands of micro, small and medium enterprises.

The capacity building requirement for the Coral Triangle implementation roadmap involves official, private-sector, ecological, and other socio-economic stakeholders; moreover, law enforcement, responsive judicial systems, co-ordinated intelligence, and active local government engagement are needed to managing the priority seascapes and marine protected areas. The case study finds that co-operative governance is a key challenge that regional aid for trade may be able to support. A best practice that emerges is the extensive use of indicators for an integrated framework requiring multisector approaches; seven integrated strategies are now being implemented with these indicators. Examples of co-ordination mechanisms are Business Advisory Councils that report to heads of governments during summits and co-ordinating with ministers prior to such meetings and strengthened secretariats that understand cross-disciplinary, diplomatic and inter- agency practices.

A review of case stories on regional aid for trade in the Asia-Pacific was also conducted as part of the Southeast Asia case study. Most aid for trade programmes focus on services and knowledge transfer through training programmes, seminars, and other fora. It appears that a regional context for aid for trade reveals a clear niche for the region-wide provision of education on industry techniques and trade policy. Classified in terms of trade reform issues, most of the binding constraints and lessons learnt from the cases are focused on behind-the-border related reforms. In addition, there is an emphasis on regional aid for trade projects that correct for market failures affecting human capital (e.g. women entrepreneurs in SMEs, trade policy courses offered by Singapore, New Zealand's seasonal unemployment programme, and ADB's Phnom Penh Plan for development managers).

Designing regional aid for trade creatively and efficiently from the grassroots level is one way of averting non-implementation by stakeholders. Anchoring regional aid for trade on quality of growth parameters of the World Bank is another way of stressing the impact of anti-corruption, regulatory reform, and more efficient use of human and natural resources on expected outputs and outcomes.

Africa/ECOWAS

As noted above, the African continent has been an active participant in the regionalism trend. Many regional and sub-regional economic communities were formed soon after political independence in the 1950s and 1960s with the objectives of co-operation and integration. The Organisation of African Unity (OAU) was formed in 1963 to serve as a vehicle through which the economic development of the African continent could be achieved. In 2002, it was renamed the African Union.

The need for sub-regional co-operation and integration resulted in the establishment of ECOWAS in 1975 to promote free trade and harmonise economic policies of member countries. Trade objectives are critical to the aspirations of ECOWAS. During its nearly four decades of existence, intra-regional trade in the West African sub-region has not improved significantly. There has been a lack of political will to enforce integration protocols; there are divided interests due to multiple and overlapping union memberships; multiple objectives are being pursued with a lack of harmonisation of sector policies; and there have been inadequate negotiations regarding distributive and equity issues.

In pursuance of its objective of promoting regional integration and intra-regional trade, ECOWAS is implementing a number multi-country and regional aid for trade projects. Aid for trade disbursements to the various regional co-operation communities in Africa has been rising in spite of the challenges posed by the global economic and financial crisis of 2008-09. Between 2009 and 2011, ECOWAS accounted for about a quarter of aid for trade disbursements to Africa. Ghana, Mali and Nigeria represent the main regional players in relation to aid for trade and account for about half of the aggregate flows to the ECOWAS region. Consistent with other regions, nearly all aid for trade disbursements to ECOWAS between 2006 and 2011 went into building productive capacity and development of economic infrastructure, underscoring the importance of these sectors in promoting integration and enhancing intra-regional and extra-regional trade.

An analysis of multi-country and regional aid for trade projects in ECOWAS shows that some of the projects are yielding good results while others have not seen as much progress. A peculiar difficulty of the study has been the unavailability of detailed information on the current status of most of the projects. Some level of success has been achieved in the area of road projects. For instance, the Lagos-Nouakchott "trans-coastal" and the Dakar-N'Djamena "trans-Sahelian" roads have achieved a completion rate of more than 80%. In spite of inherent problems, the transport facilitation projects have also achieved some level of success. Challenges still remain, though, especially in terms of funding. In the areas of productive capacity building, and trade policy and regulations, even though a number of projects are ongoing, it has been difficult to ascertain any clear impacts these projects have had or are having. In consonance with the need to show results in the implementation of aid for trade projects, it is imperative that periodic assessments of ECOWAS aid for trade projects be carried out.

In sum, given the objectives of aid for trade and the potential that multi-country and regional aid for trade projects can have for promoting regional integration and trade, donor support for such projects can yield meaningful results. In addition, a renewed commitment of member countries to regional aid for trade projects is required for successful implementation at the various national and sector levels.

While it is generally accepted that regional aid for trade can help achieve integration objectives, the case study notes that there are major impediments to creating a higher profile for regional aid for trade in ECOWAS. First, there is a generally low level of awareness of what constitutes aid for trade among key stakeholders in ECOWAS countries. For instance, stakeholder consultations in Ghana revealed a low level of appreciation of the concept of aid for trade even though respondents emphasised the potential of multi-country and regional aid for trade projects, particularly in the area of infrastructure, in promoting regional integration and intra-regional trade. Second, there is inadequate harmonisation and co-ordination of aid for trade at the ECOWAS level. Third, there is a lack of coherence of aid for trade across national and regional levels. These issues dovetail with the problems of mainstreaming, ownership and implementation as well as alignment of national, regional and donor objectives in regional aid for trade projects. Mainstreaming regional aid for trade could be constrained by divided interests due to multiple and overlapping membership of regional economic communities (e.g. ECOWAS and the West African Economic and Monetary Union, UEMOA, group). This complicates the harmonisation and co-ordination of policies and strategies.

Mainstreaming regional aid for trade also becomes problematic when national plans fail to incorporate regional strategies. Incorporating regional projects into national plans may be difficult in situations where some member countries are skeptical about their abilities to reap benefits commensurate with any financial commitments they make to regional projects. This is especially true in the absence of adequate negotiations of distributive and equity issues and compensation mechanisms. Colonial ties with particular donors or ideological differences could also stifle the implementation of regional aid for trade projects. Countries may therefore accord varying degrees of prioritisation to regional projects in their national plans. For instance, in the quest to facilitate trade in the ECOWAS region, various trans-national road projects have been commissioned with member countries. It has been difficult to have all countries commit to implementing their portions of the project, thereby reducing the impact the project is expected to have in promoting regional trade.

Lack of ownership constitutes a further constraint to regional aid for trade projects in ECOWAS. Low levels of ownership of multi-country and regional aid for trade projects in particular have been attributed to low levels of consultation and sensitisation at national levels. Earlier integration efforts by ECOWAS met with very little success because the peoples of the sub-region did not own the process. For several decades the integration agenda remained largely the integration of 'heads of state or their representatives' rather than grassroots integration in the respective countries. Recent initiatives endeavor to reverse this top-down approach.

A number of other major hurdles inhibit the implementation of regionally-centred initiatives. Problems of standardisation and harmonisation of indicators still persist in the implementation of regional projects, such as problems associated with differing vehicle standards, inspection requirements, and so forth, all of which were supposed to be harmonised under ECOWAS rules. Moreover, there is divergence between national and regional goals, making it difficult to align regional and national goals. This is often compounded by multiple memberships of regional economic groupings with different objectives. It is difficult to co-ordinate donors at national levels in aid for trade projects because of the different objectives donors pursue and the different monitoring and evaluation mechanisms used by donors. At the regional level, co-ordination of donors is even more difficult given the divergences between national and regional goals. This problem is more difficult when countries have to deal with different aid for trade projects from multiple donor countries. Often times, the technical expertise to properly fuse all these projects into a coherent regional development agenda may be lacking, making the projects stand-alone projects and therefore ineffective.

Mesoamerica

Mesoamerica, composed of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Colombia and Mexico, is an increasingly active region within the global international trade architecture. In this context, commercial integration plays a key role in the region's development prospects. Over the past decade, regional and multilateral co-operation, along with an active participation of Mesoamerica in a series of regional economic organisations such as the Latin American Integration Association (LAIA), CARICOM, and the Central American Common Market (CACM), has promoted trade-policy reforms while enhancing the participation of the region in the global marketplace. Mesoamerican exports have increased continuously over this period, rising from USD 334.3 billion in 2007 to USD 489.3 billion in 2012. Currently, all countries are linked via a trade agreement with at least one other regional partner. There are eight FTAs and six preferential agreements in force within Mesoamerica. Further, these countries are members of 28 existing FTAs with 58 countries outside of Mesoamerica and 12 preferential agreements with 22 countries around the world.

Even though globalisation heightens competition, Mesoamerica is still far from being a world-class competitive region, particularly with respect to export capacity. The *Global Competitiveness Report (2012-2013)* ranks Mesoamerican countries in the range of 40 to 108 out of 144 countries in terms of competitiveness. While roads are scarce, density is low, and border-crossings fall short of what would be desirable, its levels are similar to other regions in Latin America. Railroad infrastructure is also scarce and underdeveloped. Marine transportation in Mesoamerica is led by the global and historical importance of the Panama Canal.

The aid for trade initiative has been relevant to Mesoamerica since 2007 and projects are co-ordinated across different regional and national institutions. There is no specific domestic agency that directly handles aid for trade and as a consequence each nation has its own aid for trade strategy, based on each country's national development agenda. In 2011, 30 donors made commitments to Mesoamerican countries, 27 in economic infrastructure (USD 1.98 billion), 30 in building productive capacity (USD 2.48 billion) and 20 in trade policy and regulations (USD 191million). Commitments from the United States, the IDB special fund, the World Bank-IDA fund, France and Japan add up to 75% of economic infrastructure commitments. Commitments from Spain and Germany are for the most part directed to building productive capacity projects, which along with the United States, EU institutions, the IDB and Japan, add up to USD 1.84 billion, or 74% of total commitments in this sector. EU institutions are the most important donor in the area of trade policy and regulations projects, committing a total of USD 93.6 million from 2007 to 2011 (around 50%), while the United States, Finland and IDB contribute about two-fifths of total flows to that sector (USD 80 million). Aid for trade is focused mostly on building productive capacity in most countries and within Mesoamerica, Colombia receives the most aid for trade (USD 1 026 million), followed by Nicaragua (USD 972 million) and Honduras (USD 798 million). However, relative to population, Belize receives the most while Mexico receives the least.

A total of 58 ongoing regional and multi-country aid for trade projects involving the Mesoamerican countries were identified as part of this case study: 12 in economic infrastructure, 31 in building productive capacity and 15 in trade policy and regulation.

Commitments for economic infrastructure projects added up to a total of USD 14.2 million, USD 13.3 million of which are devoted to the Mesoamerican Integration and Development Project (a proposal developed to strengthen regional integration and to promote economic and social development of the participating countries with the objective of improving socio-economic progress). Aid for trade projects related to technical co-operation within the economic infrastructure framework have been successful in helping advance the development of key projects. Despite this success, aid directed at technical co-operation does not necessarily correlate with the implementation of the actual infrastructure related to the project. Co-ordination of economic infrastructure projects is smoother in Central America, from Guatemala to Panama. Mexico has made important steps to develop its southern border but it still prefers to look north to the United States. Colombia has a strong geographical issue when trying to physically connect itself with Panama and, from there on, to the rest of Northern Mesoamerica. As a consequence, aid focused on bringing together Central America is likely to be more effective than attempts to co-ordinate efforts with its southern and northern border countries: Colombia and Mexico.

The building productive capacity projects, whose investments come to USD 85.9 million, are diversified in various areas in Mesoamerica, although Mexico and Colombia are less involved in this area. Central American countries have stakes in 96% of all building productive capacity projects. Primarily, projects are oriented to Guatemala, Honduras, El Salvador and Nicaragua. As part of the North Triangle, or “Trifinio region”, Guatemala, El Salvador and Honduras, also share projects involving tourism and SME competitiveness.

Projects categorised under trade policy and regulation, with a total cost of USD 50.2 million approved in commitments, concentrate on projects that seek to ease border crossing between participating countries, for the most part those in Central America. Other projects’ objectives are to update customs codes and norms, and develop an institutional framework for a regional competition policy in Central America.

Overall, the case study finds that no significant overlap in the projects aimed at the Mesoamerican region is in evidence. Projects cover different sectors that range from SMEs to fishing; from sanitary and phytosanitary measures to poverty-reduction-related projects. Aligned nicely with the aid for trade initiative´s objectives, most of the projects are central in promoting competitiveness in the context of the various trade agreements signed by Mesoamerican countries.

In Central America, but also in Colombia, a common issue is the need to develop infrastructure as way to gain competitiveness in global markets. Recognising scale issues, Colombia, Costa Rica, El Salvador and Nicaragua promote SME producers as vehicles to drive the countries´ presence in regional and world markets. Mexico, given its strong neighbours in North America, recognises in its development plan that trade liberalisation must work hand-in-hand with policies that promote competitiveness of its economic agents. In general, the effectiveness of regional and multi-country projects seems to depend on how similar or different the countries involved are.

As mentioned above, no significant overlap in regional aid for trade projects aimed at the Mesoamerican region is found. Challenges are strongly related to the need to develop infrastructure, improve border-crossing between countries and build human capital able enough to support the requirements of a developing region. A number of specific issues arise in certain projects such as those that try to implement regional norms, rules or standards. These projects are subject to each country’s laws and it is not clear that there is a well-developed strategy to guarantee cross-country enforcement. Nevertheless, donors and partners are aware of this issue and there are a number of projects to provide technical co-operation in order to aid in its implementation. These projects are useful and have been successful but, ultimately, changes in regulations and standards depend on non-technical policy makers.

Sustainability, understood generally as the engagement of local level institutions and individuals in the project design and implementation, is another element to consider. Aid for trade is, for the most part, sustainable in Mesoamerica. Local agents actively participate in the project even if they are unaware that they are aid for trade projects. However, if sustainability is understood as the ability of donors to continue to support the project over time, then it seems to be an issue related mostly to building productive capacity projects. Infrastructure projects tend to use aid for trade funds for technical studies. The actual construction, however, has to be done by the government or, in the case of regional/multi-country projects, by more than one government. Given that these types of projects tend to require large financial needs, it is relatively common to experience significant delays.

In a number of countries, domestic agencies receiving aid are not aware that resources flow from the aid for trade initiative. For instance, in stakeholders' consultations conduced for this study, it was found that in Colombia, the Presidential Cooperation Agency is unaware of the projects that are funded with aid for trade resources, despite that fact that they monitor project status and the sources of the funds channelled to the projects. As a consequence there is no direct way to verify the efficient use of aid for trade resources in a given project. A similar case applies to the Mexican Development International Cooperation Agency. A notable exception is the Mesoamerican project, which controls its aid for trade funds despite managing significant funding beyond aid for trade.

Finally, in order to better gauge the impact of regional aid for trade at the micro level, there needs to be more up-to-date information at the project level. In order to facilitate assessment, it is important to improve the rich dataset that is already available, which would ease the micro level analysis across countries. Overall, although the case study finds that regional aid for trade has hitherto been effective, a stronger co-ordination of multi-country and regional projects could generate a number of externalities that could be commonly utilised in order to promote regional economic integration and economic growth while exploiting the full potential of Mesoamerica's commercial integration.

Key lessons

In sum, the key lessons that emerge for designing strategies and implementing effective regional aid for trade projects and programmes include:

1. Mainstreaming multi-country and regional aid for trade is essential in improving the effectiveness of regional aid for trade in boosting regional economic integration and economic development, as well as in raising its profile and stakeholders' interest.
2. Emphasising ownership on the part of stakeholders needs to be a high priority in order for regional projects to be successful.

3. Aligning the goals of donor and recipient countries, as well as associated stakeholders, is important particularly in the design-stage of regional aid for trade projects.
4. There is a need to develop institutional mechanisms to ensure smooth in-country co-ordination for regional and sub-regional programmes.
5. The private sector needs to be more closely involved in regional aid for trade projects than has generally been the case to date.
6. Capacity constraints can be detrimental to the implementation of regional aid for trade, particularly in the context of projects that include countries at varying levels of economic development.
7. While different projects have different goals, sustainability should be an important consideration for most projects, particularly in the economic infrastructure category.
8. Improved information and data on multi-country and regional aid for trade projects are necessary to improve efficiency, assessment, and promotion.
9. While institutions related to regional co-operation and integration have emerged at sub-regional and regional levels, they require considerable support, suggesting a clear role for regional aid for trade, which has already proven to be effective in supporting these institutions.
10. Regional aid for trade is insufficiently understood and appreciated in national line ministries and among stakeholders and this is a significant problem to mainstreaming regional aid for trade in national development plans.
11. In order for multi-country and regional aid for trade to be effective, regulatory harmonisation is often required, which makes it both a challenge to regional aid for trade as well as increasing its potential to boost regional integration.

In sum, the study strongly endorses a greater emphasis on regional aid for trade as a means of improving regional economic integration and development prospects. While regional aid for trade faces many practical implementation challenges, experience has shown that associated problems are not insurmountable but do require thorough planning, careful project formulation, and prioritisation on the part of policy makers.

Notes

1. While the response rate to the partner questionnaire was fairly good with 30 countries responding, many of the questions only included a fraction of the total, with most questions having only about five respondents.
2. OECD (2009), Chapter 2, gives a good overview of EU assistance to African countries in implementing EPAs.

Chapter 1

Regional aid for trade in a broader context

This chapter examines the diagnostics of regional aid for trade in the context of regional economic integration and economic development. It considers how aid for trade can help lift the binding constraints to trade, and in particular how regional aid for trade can enhance trade performance and foster regional and global economic integration. It also shows how regional aid for trade can help support the regional economic co-operation initiatives that have become such an important part of the commercial policy strategies of developing economies in recent years. In addition, the chapter analyses how regional aid for trade can support the "nuts and bolts" of regional integration, including through transit corridors, trade facilitation, and a trade-enabling environment.

Introduction

There is general consensus in the economic literature that strong links exist between trade, economic growth, and poverty reduction.[1] Countries that have embraced an outward-oriented development strategy, with trade liberalisation at its heart, have not only outperformed inward-looking economies in terms of aggregate growth rates, but have also succeeded in lowering precipitously poverty rates and registering improvements in other social indicators. The People's Republic of China is an excellent example: since it began its "Four Modernisations" programme in the late 1970s, gradually opening up to trade and foreign investment, it has been the world's fastest growing major country and propelled itself from a predominantly autarkic economy into the world's largest exporter and second largest economy. Poverty fell *pari passu* with rising growth; the recent World Bank poverty update (World Bank, 2012) relates that 660 million Chinese have risen out of absolute poverty since 1981. Trade played a critical role in this phenomenal success story.

There are many channels through which trade leads to growth, and trade-induced growth leads to poverty reduction (see, for example, OECD, 2009). Indeed, exports act as the vehicle through which countries exploit their comparative advantage industries, employ their resources more efficiently and profitably – labour is the most abundant resource in most developing countries – improve overall efficiency and labour productivity, and tap international markets. These factors expand demand, spur consumption, and reduce risks associated with reliance on the domestic market. They also increase employment in labour-intensive sectors and raise wages and standards of living. Imports permit countries to gain access to a wider range of goods and services and allow local firms to benefit from more, cheaper and newer technologies that increase productivity and competitiveness (OECD 2011a). Stimulating the private sector, trade creates jobs and fosters learning, which in turn help to attract foreign direct investment (FDI) flows and new opportunities for production and exports.

Nevertheless, trade liberalisation is not a "magic wand" by which developing-country governments are guaranteed economic prosperity. While trade does lead to growth, its effectiveness is critically a function of having the soft and hard infrastructure in place to exploit global markets. Such infrastructure doesn't appear overnight; it requires forward-looking, practical, and effective planning and implementation. Adequate financial resources to support short- and long-term projects are also essential to success. Recognising this reality, WTO members, as part of the Doha Development Agenda (DDA), committed themselves to assist particularly low-income countries (LICs) through development assistance targeted explicitly at improving trade performance. Thus was born the idea of "Aid for Trade."

As reviewed extensively in the OECD-WTO *Third Global Review of Aid for Trade 2011: Showing Results* (OECD/WTO, 2011a), aid for trade has hitherto made great progress in mobilising resources to overcome supply-side constraints and infrastructural bottlenecks. This process is "demand driven," with recipient countries increasingly mainstreaming aid for trade in their development planning. As the DDA strives to profit from the momentum created at the 2013 WTO Ministerial with the "Bali package", which included some aspects of trade facilitation, agriculture, and development-related issues, aid for trade can play a key role, as it continues in a concrete way to support development via multilateral co-operation.

The *Third Global Review of Aid for Trade 2011* highlights a promising but challenging area that has so far been insufficiently tapped: *regional* approaches to aid for trade. Indeed, the trade agenda of developing countries is increasingly being pursued through regional economic integration and co-operation efforts. In many developing regions, particularly in Africa, small, fragmented markets have impeded trade and competitiveness. Regional co-operation is one way in which these markets can be enlarged, specialisation can emerge, production networks can be tapped, and risks can be shared. There is ample evidence from the developing world that market-driven regional co-operation can support growth and development through these channels.

Prioritising trade as an engine of economic growth and poverty reduction is best achieved when trade is embedded in broader development strategies. Multi-country and regionally-focused aid for trade can help developing countries benefit from existing and emerging trade opportunities. In addition to multidimensional aid-for-trade programmes well-nested in national planning, a regional diagnosis of trade-related binding constraints and policies to ease them, supported by national, multi-country and regional strategies, can greatly augment the impact. In fact, many competitiveness challenges are regional in nature. For instance, the trade performance of landlocked countries depends on the quality of the infrastructure in neighboring countries. This implies that national, multi-country and regional aid-for-trade strategies should be intimately linked in national planning efforts.

Yet, while the rationale for regional aid for trade is undisputed, many practical challenges remain. National programmes will not normally consider activities with strong international externalities. Consequently, aid-for-trade programmes that are best implemented regionally may not take place because the benefits cannot be fully appropriated nationally. Externalities associated with regional initiatives also complicate programme development. For example, regional co-operation in transit is extremely important to land-locked countries needing sea access, but the country(s) through which the transit will flow may not be convinced that they will gain from such a project. Consequently, most of the focus in the aid-for- trade initiative has been at the national level; instruments to support multi-country and regional programmes are much less developed.

Moreover, effective multi-country or regional mechanisms are likely to differ substantially from national programmes. For example, multi-country or regional infrastructure projects, such as transport corridors, require strong multi-dimensional co-ordination mechanisms. Such necessities beg a number of key questions, such as: how can knowledge on trade (development) policies be co-ordinated at a regional level? How can a system of regional, WTO-compatible, trade rules be developed, implemented, and sustained in order to enhance regional competitiveness? How can practical issues, such as customs, sanitary, and phytosanitary (SPS)-related considerations be effectively tackled? Further, the experience of regional organisations, notably in Africa, affirms that the political engagement in integration programmes does not always translate into practical actions to implement agreed commitments. This is compounded by regional integration schemes with overlapping membership, particularly in Africa but increasingly in Asia and Latin America.

Answering these and other related questions requires a deeper understanding of how to raise the profile of regional trade-related binding constraints in national development strategies (i.e. diagnostics), how to achieve better coherence between national and regional trade-related objectives (i.e. strategies), and how to ensure that regional strategies are effectively developed and implemented (i.e. implementation). It is clear that the national approach cannot simply be transferred to the multi-country or regional level, where a host of specific issues apply. In particular, a key challenge is the typically limited capacity of regional organisations to identify binding trade-related constraints and formulate project proposals that are viable and supported by their members.

Consequently, there is a need to study how to best position aid for trade in a broader multi-dimensional context or variable geometry of intervention levels (i.e. national, multi-county, subregional, and regional). Such a positioning would allow a better understanding of how to further the regional integration agenda, in particular through strengthening the links between national, multi-country, and regional aid-for-trade diagnostics, strategies, policies, and implementation. This would also provide enhanced insight into the optimal aid-for-trade intervention levels, sequencing issues, and good aid-for-trade practices to support multi-country and regional processes that promote sustainable economic growth and poverty reduction.

The OECD has already undertaken significant work on how to make aid for trade more effective. In particular, three OECD publications speak to how aid for trade can be rendered more beneficial for aid recipients. *Trade for Growth and Poverty Reduction* (OECD, 2011b) explains how aid for trade can foster economic growth and reduce poverty. The report also describes the diagnostic tools available, evaluates their strengths and weaknesses, and suggests a dynamic framework to guide the sequencing of reform and donor support. Furthermore, *Estimating the constraints to trade of developing countries* (Hallaert et al., 2011) identifies and quantifies the severity of binding constraints to trade expansion in developing countries and highlights the importance of complementary policies that will maximise the impact of trade reforms on trade and economic growth. Lastly, *Strengthening accountability in aid for trade* (OECD, 2011a) looks at what the trade and development community needs to know about aid-for-trade results, what past evaluations of programmes and projects reveal about trade outcomes and impacts, and how the trade and development community can improve the performance of aid-for-trade interventions.

Coupled with WTO and OECD work on regional integration, these studies provide a solid basis for expanding the research agenda and suggesting evidence-based approaches to strengthening the multi-country and regional component of the Aid for Trade Initiative, building on the WTO Task Force recommendations. The goal of this study is to consider these issues from the perspective of regional dimensions of aid for trade.

In this chapter, issues related to the "diagnostics" of regional aid for trade in the broader trade and development context are considered. It starts with a review of the economics of aid for trade, including how it can be used to lift the binding constraints to trade. This is followed by analysis of how regional aid for trade can buttress regional co-operation initiatives in developing economies and serve as a catalyst to foster regional economic integration and development. This last section also considers issues related to the "nuts and bolts" of regional integration, including transit corridors, trade facilitation, and the need for a trade-enabling micro and macro environment.

The economics of aid for trade

Improving the efficiency of public spending in general and development assistance in particular has become a high priority for OECD countries and its partner countries alike. Especially in recent years, the "shadow value" of public expenditures is recognised as being high for all countries, and donor and recipient countries have rightly placed a strong emphasis on apportioning resources effectively. This is certainly true for development assistance, especially in light of some literature that questions the effectiveness of aid.[2]

Thus, it is essential that a convincing case be made for allocating these scarce resources to aid for trade at all levels. As noted in OECD (2010b), in the face of the worst global economic crisis in the post-war period, "it is important to show that aid for trade is working."[3] This section sets out to do just this. It first considers the links between trade, structural change and development. Second, the binding constraints to international trade that prevent developing economies from getting the most out of plugging into the international marketplace are reviewed. Having focused on the importance of international trade to development and how aid for trade can promote developing-country goals by lifting constraints in the development process, the study considers the case for regional aid for trade in the following section.

Trade, structural change and development

Trade promotes production efficiency through, *inter alia*, specialisation, technology transfer, and relatively cheaper and increased variety of productive inputs and consumer goods. The openness of markets to competition can provide a powerful incentive for the allocation of resources toward their most productive use. Openness helps economies to compete by not only offering new opportunities for sales (i.e. exports) but also making the widest range of inputs at the highest quality and lowest prices available to producers (OECD 2011b). According to the World Bank, in the 1990s per capita real income grew more than three times faster for those developing countries that lowered trade barriers (5.0% per year) than for other developing countries (1.4% per year).[4] And, while openness to trade can lead to short-run contractionary effects on employment, it also allows for a faster recovery: an economy that is more open is also more agile and adaptable because it is less constrained by the limits of domestic demand. Singapore, which is among the most open economies in the world, is an excellent case in point. In the first quarter of 2009 its economy contracted by 9% and by the first quarter of 2010 it was expanding by 17%.

Comparative advantage continues to be a key driver of international trade (OECD, 2011b). It is propelled by both traditional channels (i.e. changing endowments of factors of production) as well as policy-related channels. Thus, structural adjustment policies that facilitate adjustment toward an economy's dynamic comparative advantage are also likely to improve its long-run competitive prospects. Policies that work against comparative advantage, however, are likely to lead to opposite results. We focus on this key point below.

A substantial body of experience with "export promotion" (EP) and "import substitution industrialisation" (ISI) approaches to trade policy provides contrasting examples.[5] The EP approach refers to a set of trade- and trade-related policies designed to ensure that the incentives to export faced by producers balance with incentives to produce for the domestic market (import-substitution). EP's key point is to create a neutral trade regime and let the economy find its own comparative advantages and facilitate structural change in the direction of efficiency. This can be accomplished either via an open trade regime or one that compensates for any import protection by offering incentives for export (e.g. via subsidies). The Singapore and Hong Kong, China experiences are consistent with the former; those of Japan and South Korea are consistent with the latter. It should be noted, however, that with tighter rules on export-related subsidies and incentives beginning in the 1980s (and use of administrative actions to counter them), the only option for an EP regime tends to be in the area of openness.

The ISI approach takes exactly the opposite approach. It suggests that developing economies need to embrace protectionism in order to break away from the dominance of "core" (developed) economies and diversify production to include a broad range of goods, rather than be "locked in" to the production of a few, natural-resource-based goods. Hence, EP and ISI differ in that one embraces comparative advantage whereas the other rejects it.

Economic results strongly demonstrate the success of the EP model. Irwin (2002) underscores how the successful development experiences of major economies like the United States in the 19th century, often attributed to an ISI strategy, is misinterpreted: growth happened *despite* high protection in certain sectors. Especially since World War II, there is a high correlation between openness and economic growth performance. OECD countries have long embraced EP, and developing economies, particularly in Asia, that have moved from ISI to EP have fared far better than those that have retained ISI. These economies were not "locked into" the production of a few primary good products but rather industrialised beginning with the exports of labour-intensive manufactured products before working their way up to the production of more sophisticated, skill-intensive goods along the value chain. Indeed, while almost all economies – developed and developing – continue to protect parts of their economies, this tends to be due to political reasons rather than confidence in some alternative model of development. The G-20 declarations, made by key developed and developing countries, clearly recognise the need for trade policies based on EP.

Embracing comparative advantage does not mean rejecting the role of policy. On the contrary, policy makers can often reduce the costs of adjustment and increase its speed by *supporting* efficient structural change. Japan is an excellent case in point. The government had a key role to play in the Japanese economy in the 1950s and 1960s, but its most successful policies related to what we might call "complementary policies," such as investments in gender-neutral education, training, and infrastructure (World Bank, 1993). When Japan was a labour-abundant country in these early years, it exported labour-intensive goods. As capital accumulated and its economic structure changed, so did its export mix. The approach proved to be extremely effective in ensuring full employment and economic efficiency.

The earlier experience of Brazil might offer an opposite example. In the 1960s and 1970s, it enthusiastically embraced ISI and exhibited a number of strong growth years. But ultimately the inefficiencies created by its ISI model proved counterproductive. By attempting to contradict comparative advantage through protecting capital-intensive sectors (e.g. automobiles) in this labour abundant country, it essentially favoured capital over labour and manufactures over agriculture, resulting in inefficiency, high unemployment, one of the worse income distributions of any large country, and severe poverty. With its economic reforms in the 1980s and 1990s, Brazil, too, adopted an EP approach, with significant success.

The policy recommendations that emerge from this approach are two-fold. On one hand, it argues for wide-ranging liberalisation of international trade and investment flows to take advantage of the economy's comparative advantage and facilitate movement up production value chains. On the other hand, the approach suggests policies to facilitate adjustment in labour and capital markets in order to enable resources to move smoothly to new areas of economic activity. It also emphasises investments in public infrastructure –

physical and institutional – that can support the shift into new areas of economic activity consistent with an economy's evolving factor endowments and factor prices.

The trade liberalisation part of this policy mix creates larger markets for competitive firms and new opportunities for investment. It raises incomes in the long run through its impact on an economy's overall productivity. Importantly its benefits derive from trade generally – that is, from both exports and imports – by improving the allocation of productive factors and expanding the consumption opportunities available to households (OECD 2011b).

The broad case for liberalisation holds regardless of whether other countries also liberalise. Still, a group of economies can be better off by liberalising together, that is, via concerted unilateral liberalisation, bilateral and regional trading agreements (discussed at length in the next section), and multilateral approaches. Liberalisation enhances the efficiency and competitiveness of an economy by creating an environment in which it exploits its comparative advantage. But the degree of protection in other economies also matters. For example, if a country has inherent comparative advantage in agricultural products, the market access provided by other countries for its agricultural exports will affect the degree to which it can specialise and improve its terms of trade, and thus benefit from its liberalisation programme. Comparative advantage is dictated by international relative prices; therefore, the protective structure in foreign countries is relevant to the potential for exploiting comparative advantage. Thus, countries have a strong incentive to co-operate in reducing barriers to economic interchange at many levels, including multilateral and regional/bilateral levels, as well as in concerted fashion.

Infrastructure plays an important role in the success of trade and investment liberalisation. Lin (2010) argues that appropriate infrastructure development is essential for exploiting comparative advantage at certain stages of development. For example, good access to electric power, ports and roads is essential for building large-scale, efficient metal-working and construction industries. In South Korea, ports developed in part for the military efforts associated with the Korean War played an important role in laying the foundations of a leading shipbuilding industry. There are important unmet needs for physical infrastructure in virtually all developing economies and some developed ones, as analysed, for example, in OECD 2011b.[6] At the same time, institutional infrastructure is essential for advanced, knowledge-based industries. Education, good communications systems and intellectual property protection are key elements of the infrastructure required for success in telecommunications services and business process outsourcing.

The framework that emerges from these efforts is pragmatic in intent and highlights the structural policies that are required to complement trade liberalisation in the development process within the context of comparative advantage. The associated recommendations are eclectic – ranging from efforts to identify key areas of market failure and "complementary policies" to policy experiments to improve the commercial policy regime. The goal of this work is to strengthen an economy's ability to maximise benefits attendant from specialising in comparative advantage industries, plug into global production networks and move up the value chain, while providing support to facilitate structural adjustment and ensure that the benefits from structural change are widely shared. The tools it recommends are in turn based on strategies that can be (and often have been) implemented by governments subject to the usual political, informational and capacity constraints. Clearly, aid for trade has an important role to play in this regard.

Binding constraints to trade

That developing countries faced special problems in the form of market failures and development externalities has been appreciated since the birth of development economics over a half-century ago. But, as discussed above, inaccurate conclusions were often drawn from this realisation, i.e. that developing economies should resist trade. Rather, modern theoretical and empirical analysis emphasises that the key to growth and development is more effective integration with the global marketplace, rather than resistance of it. Hence, overcoming market failures and binding constraints to trade needs to be top priorities for developing-country governments and their development partners. Using empirical analysis to identify these constraints, including ascertaining which are the most binding, thus became a logical next step.

The OECD, WTO, World Bank, and their partner international organisations and governments have undertaken many studies related to identifying binding constraints to trade, estimating the benefits of removing them, and offering recommendations in terms of optimal design, sequencing, and good practices in related policy formation. In general, the consensus from this work is that most developing countries do face significant obstacles in terms of taking advantage of the international marketplace due to a wide variety of microeconomic (e.g. infrastructural problems, energy shortages, trade-facilitation constraints, human-capacity-related issues, other market failures), macroeconomic (e.g. acute inflation, problems related to foreign exchange and the exchange rate), and financial (e.g. trade finance) inhibitors. Development assistance designed to tackle these constraints, including aid for trade, has proven to be effective in helping reduce their negative effect on trade potential.

For example, Hallaert, Cavazos, and Kang (2011) at the OECD endeavour to identify the key binding constraints to trade facing developing countries in general, as well as in country groups, using cutting-edge empirical techniques. They find, *inter alia*, that: (1) reliability of electricity is the most binding constraint to trade in developing economies; (2) lack of access to credit is significant but only for imports, not exports; (3) as expected, transport issues pose significant problems for developing economies, but they find that it is the availability rather than the quality of infrastructure that seems to matter most; and (4) policies that are complementary to trade, such as education, the general business environment, macroeconomic stability, and governance, are important to success, as they influence trade via investment, labour productivity, and labour participation. It concludes that aid for trade does boost growth in developing countries via the trade channel, including both exports and imports.

Karingi and Leyaro (2009)[7] employ various econometric approaches to test whether aid for trade has been working in Africa. They conclude that, indeed, it has: they derive, for example, a statistically-significant and positive relationship between aid for trade and logistical performance, export diversity, and trade competitiveness overall.

The OECD-WTO publication (OECD/WTO, 2011b), *Aid for Trade and LDCs: Starting to Show Results*, reviews a number of additional studies that underscore how aid for trade has improved trade performance by lifting binding constraints, particularly in LICs. Several examples include: a USAID study on capacity building calculates that a USD 1 increase in development assistance in LICs leads to an increase in developing country exports of USD 42 two years later; the Commonwealth Secretariat estimates that a doubling of aid to trade facilitation leads to a decrease in the cost of importing by 5% and an increase of exports by 3.5%; and the Economic Commission for Africa estimates that a 10% increase in aid for trade reduces exporting costs by 1.1%.

In short, the gains attendant in the removal of binding constraints to trade are large, and development assistance in general and aid for trade in particular have revealed themselves to be effective vehicles in reducing these constraints, and in doing so improving prospects for growth, development and poverty reduction. In what follows, these issues are considered from the regional perspective.

Why regional aid for trade matters in fostering development

The above sections underscore the key role of trade in successful development strategies and highlight the plethora of problems faced by developing economies in the development process. While the economics of regional co-operation tend to be common to both developed and developing economies, the latter require special consideration in the context of formal regional accords. For example, one cannot expect markets in LICs to respond to changes in, say, tariffs and non-tariff barriers in the same way that other countries do, without regard to the institutional frameworks, infrastructure and the policy environment that characterise them. A facilitating macroeconomic and microeconomic policy regime, hard infrastructure, and sufficient human capacity need to be in place in order to ensure success. Indeed, the potential gains to developing and emerging economies of regional integration and co-operation can be equal to or greater than those that accrue to developed countries, provided that governments adopt an accommodating policy framework and forward-looking planning to prepare the economy appropriately. The role of regional aid for trade to facilitate regional co-operation is evident in this process.

In this section, we consider some of the more salient policy-relevant implications of bilateral and regional economic co-operation for emerging and developing economies. We begin with a discussion of regional co-operation and development in the context of the multilateral trading system, followed by a topology of economic effects inherent in regional co-operation. Finally, we consider how regional aid for trade can support the process of regional co-operation in spurring growth and development.

Regionalism and development

Relative to previous negotiating rounds, the DDA has been characterised by far greater participation of developing countries. This has served to raise their expectations as to what they hope to receive from developed countries in terms of liberalisation of hitherto sacrosanct sectors of interest to them – particularly labour-intensive products and agriculture, including market access but especially export subsidies. The result has been perceived "North-South" tension at this round of negotiations, something that has been in evidence even before the DDA was launched in November 2001, for example, at the calamitous Seattle WTO Ministerial meeting in 1999.

In reality the situation is far more complex. Developing countries have become more active at the DDA because the vast majority of them have now embraced outward-oriented policies and depend on the international marketplace for continued and enhanced growth and development. In the past, these countries were not active at GATT rounds, as they would generally "free-ride" on commitments between developed countries from which they also received most-favoured-nation (MFN) benefits. The cost of this approach became evident in time; sectors that were being liberalised were of principal interest to developed, rather than developing, countries. In order to include comparative-advantage sectors of the developing countries, a pro-active stance at the

WTO was, of course, necessary. The G-20 group of developing countries is just one expression of this new approach. However, much of its agenda can be considered "global" rather than merely "North-South," as various developed countries can be listed among the supporters of many (so-called) developing country positions, and vice versa.

Slow progress at the DDA may be one reason for the proliferation of regional agreements involving developing economies, particularly accords between developed and developing countries. The ambitious DDA agenda, from both developed- and developing-country viewpoints, could be more easily managed bilaterally or between a small group of countries than in the context of an organisation comprised of 159 highly divergent economies. Hence, it is no mystery as to why many of the new bilateral/regional agreements are between developed and developing countries: what is needed to integrate global markets, from non-tariff barriers to behind-the-border impediments, may be very difficult to achieve in the context of the WTO and its diverse membership. These difficulties at the WTO were on display at the Ninth WTO Ministerial Meeting in Indonesia in December 2013; while the "mini-package" that was produced was an important step forward – particularly given the fact that the DDA has been in the works for over a decade – the fact that only a few economies were able to block the accord until the last minute despite the fact that the issues were all development-focused (trade facilitation, agriculture, and other development-related areas) testifies to the negotiating difficulties that are attendant in such a diverse organisation.

In some ways, the supposed "North-South" conflict at the WTO is really a sign of maturity. Over the 1950s-1970s period, most trading arrangements were between countries at similar levels of economic development. North-South accords were mainly in the form of non-reciprocal preferences extended by developed to developing countries (e.g. through the Generalized System of Preferences, or GSP), association agreements, and/or extension of colonial preferences. The North American Free Trade Area (NAFTA), which began implementation in 1994, was the first significant preferential trading arrangement between developed countries and a major developing economy. Since then, many such agreements have been negotiated and implemented. Indeed, most new agreements are between developed and developing countries, or developing countries themselves ("South-South").

The WTO understands well the opportunities and challenges that this regionalism trend poses to the global trading system.[8] Thus, Member Countries have vowed to adopt policies that ensure that these agreements do not contradict the WTO goal of open global trade and investment and keep regionalism as consistent with multilateralism as possible. Indeed, while Article XXIV of the GATT/WTO does put some restrictions on what can be done in regional trading agreements involving developed countries, these rules are broad, relatively vague, and loose. Besides, developing countries, by virtue of the "Enabling Clause," are not even bound by the mild exigencies of Article XXIV.

In any event, despite the important results from the Bali Ministerial a successful DDA "single undertaking" continues to be a distant proposition. Hence, we can safely assume that the *status quo* will continue for some time. As of 31 July, 2013, the WTO reports that, counting goods and services separately, it has received 575 notifications of regional trading arrangements (RTAs, defined by the WTO to be a reciprocal trading agreement between two or more countries), with 379 in force.[9] This notifications number is up from 300 at the end of 2005 and 130 at the beginning of 1995 (Plummer 2007). Developing countries, especially in Africa and Asia but also in Latin American and elsewhere, have become extremely active in the regionalism movement.[10] Hence, it is important to understand what the anticipated effects of these economic co-operation agreements would be. We do this (briefly) in the next subsection, followed by analysis of how regional aid for trade can help maximise the benefits of regional economic integration and co-operation.

Static and dynamic effects of regional co-operation

The ramifications of regional co-operation for growth and development can be categorised according to "static" and "dynamic" effects, including implications for commercial policy in developing economies. . To begin, static or "price-induced" effects of economic co-operation refer to changes in output, production and employed caused by preferential tariff (and non-tariff) liberalisation. Free-trade areas (FTAs) remove discrimination between partner countries and domestic firms, leading to a positive productive efficiency effect akin to multilateral liberalisation ("trade creation") and, perhaps, greater investment flows to take advantage of lower barriers to trade among partners and potential synergies ("investment creation"). However, since FTAs grant preferences to partners beyond what is accorded to non-members of the group, they introduce a distortion between partner and non-partner firms, discriminating in favour of the former and to the detriment of the latter ("trade diversion"). Ultimately, trade diversion results in a negative terms of trade effect in that it will lead to a country's purchasing imports from a higher-cost source, representing a loss to efficiency. It also has a negative effect on the excluded-partners' exports. Moreover, the greater the degree of discrimination inherent in an FTA, the greater the potential for "investment diversion" in which foreign direct investment (FDI) flows to a country merely to take advantage of protected regional access. Rules of origin that are necessary to the proper functioning of an FTA can also lead to investment diversion.

Thus, FTAs are referred to as "second-best" due to these potential trade and investment diversion effects, which would not result in the context of multilateral liberalisation under the "first best" (i.e. non-discriminatory) liberalisation under the aegis of the WTO. However, and as noted above, FTAs are becoming more common in large part because they are much easier to manage in terms of membership and provide greater potential for liberalisation among like-minded, self-selected countries. If the FTA generates sufficient gains in aggregate income, it could also lead to positive spill-over effects for non-partners that could compensate for trade and investment diversion.[11]

As developing countries tend to trade more with developed countries and typically are more dependent on trade in general (i.e. trade to GDP is higher), the recent FTA trend, particularly when members are developed and developing economies, has been a source of concern in the developing world due to the potential for discrimination. For example, the 1989 FTA between Canada and the United States did not cause significant trade diversion from developing-country markets, as 70% of trade across the United States and Canada was already tariff-free and the composition of exports of the two countries did not overlap much with most developing-country exports. However, when the FTA was expanded to include Mexico in 1994, it created significant potential for trade and investment diversion to the detriment of other developing countries. Moreover, the regionalism trend has created significant problems of "preference erosion," in which developing countries that used to receive preferential treatment in developed-country markets (e.g. via the GSP, the EU Everything-but-Arms, or the US African Trade and Opportunities Act) find that their advantages erode as the developed-country partner negotiates various bilateral arrangements.

Still, the static effects of FTAs tend to create one-time changes in the allocation of resources; more significant will likely be the "dynamic effects," which build up over time and, hence, have medium- and long-term implications. Because dynamic effects may be more substantial and pervasive, it is useful to identify what they are and how they affect a country's welfare. Several of the most important dynamic effects in the context of FTAs include: economies of scale and variety, technology transfer and FDI, and structural policy change and reform, as well as competitiveness and long-run growth effects.

Economies of scale

The definition of economies of scale is a reduction in average costs as output expands. Economies of scale may occur because of improved technical efficiency in large-scale production, more capability to spread administrative costs and overhead over a bigger operation, bulk discounts from suppliers, or better logistics because of bigger volumes. Economies of scale exist in the production of some agricultural, natural resource intensive, and manufacturing sectors, as well as services sectors. By creating a larger market for firms operating in partner countries, an FTA allows producers to take advantage of a larger customer base and, hence, produce at a lower average cost on all sales. Firms will even be able to lower prices for existing customers. As a result, these firms will become more competitive not only at home but also in foreign markets. Customers in each member country will also enjoy more variety in the goods they can purchase because the larger market created by the FTA allows firms to sell in more markets and, given economies of scale, introduce new varieties that were too costly and unprofitable before the FTA. As developing economies are typically constrained by their own market size – coupled with the fact that protection in the world's major markets is often higher on labour-intensive exports and agriculture – reaping economies of scale from an FTA, particularly with a developed-country partner, can potentially lead to significant improvements in competitiveness.

Technology transfer

Foreign direct investment is an important means of transferring technology and know-how from developed to developing countries and, hence, has always been an important developing-country motivation in entering into accords with developed economies. Bilateral and regional FTA formation attracts such long-term, risk-sharing investment flows by creating a more integrated marketplace within which multinational corporations can enjoy a regional division of labour with low transaction costs and exploit economies of scale.

The link between FDI and technology transfer has been firmly established. It is one of the primary reasons why many developing economies are actively seeking FDI inflows, including through unilateral and concerted trade liberalisation as well as FTAs. This has become particularly important in the context of the "new" global industrial organisation in which global and regional production networks are becoming increasingly important (ADB 2010). These production networks are especially relevant to development in LICs, who can use them to plug into the international marketplace in ways that were not previously possible. We discuss these more at length below.

The relationship between trade and technology transfer is less well known than that of FDI and technology transfer, or at least less well appreciated. Through trade liberalisation, countries are also able to stimulate technological development. For example, trade leads to the adaptations of new technologies from abroad by increasing the potential for success in using these technologies to crack foreign markets; in addition, increased competition forces domestic firms to place a higher priority on creating their own or importing new technologies. The potential gains to developing countries from FTAs are clear.

Moreover, to best take advantage of these new technologies, countries find that they must establish strong intellectual property protection laws complemented by enforcement mechanisms. Indeed, technology transfer is significantly inhibited without an attractive, protective environment in which multinationals can operate and in which domestic firms can invest in new innovations. Formal FTAs can help in creating a strong underlying framework for the protection of intellectual property and peer pressure in the implementation of associated laws. When developing countries team up with developed countries in an FTA, they are also able to encourage technology transfer specifically, either through internal promotional means (e.g. in terms of training facilities, regional research and academic institutes, research consortia) or in jointly devising means to bring in appropriate technologies from abroad.

Commercial policy reform

Free-trade areas have traditionally focused on commercial policy at the border, but, increasingly, they are effecting deeper integration by addressing behind-the-border measures. Examples include: quality standards; complex measures specific to the service sectors; laws related to corporate and public governance; customs procedures; the national treatment of partner-country investors; competition policy, including the reform of state-owned enterprises; and other sensitive sectors with important links to the rest of the economy. The inclusion of these nontraditional areas in modern FTAs shows how instrumental these agreements have become in shaping and harmonising national economic policies of members. FTAs allow like-minded countries to address these nontraditional areas that improve the business environment by reducing costs, leveling the playing field for foreign investors, and pushing policy reforms toward best practices. Doing so at the multilateral level would be extremely difficult if not impossible because of diverse interests. Understanding the importance of these non-traditional areas in spurring growth and development, the Association of Southeast Asian Nations (ASEAN) launched its ASEAN Economic Community programme in 2007, slated for completion in 2015.

Regional co-operation and integration

In order for regional co-operation – or any trade policy innovation – to spur successfully regional integration, some essential pre-conditions need to be place. First, the impact will depend on the soundness of its member countries' domestic economic policies. Few firms will be able to benefit from preferential trading if there is macroeconomic instability, weak property rights, corruption, or opaque tax laws and business regulations. An FTA typically spurs some reform in domestic economic policy, but the initial economic policy configuration has to be sufficiently conducive for growth if the FTA is to succeed in the first place.

Second, the success of an FTA will also depend on the efficiency of transport and other infrastructure, measures related to trade facilitation, and other mechanisms that produce a trade-enabling environment. For example, to realise benefits from the FTA, the transport and logistics networks between member countries need to have enough capacity to handle increased trade volumes. Landlocked countries in particular depend critically on the quality of the infrastructure in neighbouring countries. Developing countries are actively pursuing FTAs to increase regional integration. But FTAs are neither a necessary nor a sufficient condition to achieve this result. Improvements in transport and other infrastructure will increase trade between neighbors with or without an FTA; policy changes in the area of trade facilitation in general are often included in FTAs.

This underscores the importance of the central tenet of the aid for trade: infrastructure, trade facilitation, and creating a trade-enabling environment are essential for developing countries to benefit from trade liberalisation, be it within the context of an FTA, multilateral, or unilateral. Formal preferential agreements will contribute to development through the effects discussed above, but results will be conditional upon the "hard" and "soft" infrastructure and the policy framework. In the next subsection, how specific bilateral and regional co-operation can spur regional economic integration on the ground is considered. This analysis will allow for a better picture of not only the potential contribution of regional aid for trade but also areas in which it might best be targeted.

Transit and transport corridors

Transit/transport corridors constitute excellent examples of the advantages FTAs and other forms of regional economic co-operation to developing member economies, as by their very nature they are regional in scope. They are generally understood to be physical routes that connect two or more areas and allow for the flow of people and goods between or along the route. These corridors can serve to connect different areas of a single country, or they can connect sub-regions and regions. They are composed of roads, railways, bridges, and port access. They can be developed to increase trade within a region, provide access to landlocked countries, and create international access to trade in goods by connecting a region to ports. Transit/transport corridors are particularly important to trade and growth prospects of landlocked countries.

High transport costs undermine potential gains from trade liberalisation and can negate the price effects of reductions in tariffs and non-tariff barriers via FTAs. As such, they limit the ability of economies to take advantage of the global marketplace and participate in production networks in particular. Their significance in impeding trade resonates throughout the trade literature. For example, Limao and Venables (2001) estimates that the quality of infrastructure in developing economies account for 40-60% of the variation in transport costs, and a 10% drop in transport costs subsequently increases trade by nearly 25%. Thus, a focus on transit corridors in aid for trade programmes in particular is well-merited.

Early attention to transport issues was most heavily focused on the development and improvement of physical infrastructure such as roads, railways, and bridges. More recently, projects and programmes aiming to improve transport corridors have expanded to include measures that serve to remove bottlenecks at border crossings and decrease transit time and costs directly and indirectly via, e.g. harmonisation of border controls, improvements in technology and communication, reduction in required paperwork, and improved efficiency of government agencies and border agents.

While most of these projects have been national in nature, taking a regional approach to developing transit corridors would arguably be far more efficient. However, it is politically difficult to so (OECD 2010b). Countries bear different shares of the corridor and its project costs, so there exist asymmetric incentives to expend limited funds and resources on the corridor over domestic projects, particularly when projecting which country "gains the most" is often highly disputed. This is a particularly salient issue in the case of landlocked economies; it makes impeccable economic sense that infrastructure should be developed to facilitate access to the sea, but the countries through which these connections take place need to be convinced that these projects will benefit them as well. In this sense, the role of an "honest broker", such as a multilateral or regional development bank, can help overcome this problem. A good example of this would be the role of the Asian Development Bank in the Greater Mekong Subregion (GMS), in which it has invested heavily and plays the role of honest broker (the ASEAN case study in Chapter 4 gives a detailed review of the GMS).

Tangible benefits of using a regional approach in place of a series of national approaches can range from standardisation of construction of rail lines, which would allow rail cars from each of the countries within the region to use the rail lines along the corridor, to the development of regional weight standards. OECD (2010a, Chapter 2) illustrates how organisations of regional co-operation have worked with donor and partner governments to improve cross-border transport links as a strategic plan to boost regional economic integration. Further, as noted by Kuroda et al. (2007), "No matter how good roads are, they are of little use if traffic is held up at the borders" (Kuroda et al., 2007: 246) In order to maximise the impact that infrastructure has on trade, there must also be harmonisation of regulations and systems and co-operation among governments to ensure swift access across borders.

There have been many successful regional aid for trade projects that have addressed these issues, as detailed in subsequent chapters and in the Annex to Chapter 3. One interesting example regards the Beitbridge and Chirundu border crossings in Africa. At the Beitbridge Border, it was estimated that the costs associated with the waiting time was approximately USD 29.3 million for southbound traffic and USD 35 million for northbound traffic annually.[12] The inefficiencies of both of these crossings had previously been found to cost trucking companies alone USD 3.5 million annually, which was the equivalent of a nearly 25% surcharge on transport costs along the corridor. Aid for trade programmes have been designed for these crossings addressing both physical infrastructure and related trade facilitation issues to improve services at the borders and decrease waiting times.

Another example is the GMS, which has been particularly active in this regard, with a number of programmes in place to better connect the sub-region via better infrastructure and trade facilitation measures to reduce transit time along the corridors. The Cross Border Transport Agreement was implemented in the context of the GMS and addresses a number of cross-border transport facilitation issues such as customs inspection, movement of persons, transit traffic, and road and bridge design standards, as well as the construction and rehabilitation of infrastructure. The results of this programme include an agreement among Viet Nam, Lao PDR, and Thailand to issue licenses to 500 trucks from each country that will allow movement of goods by these trucks across borders, decreasing the losses as a result of the need for transshipment at the borders, simplifying customs procedures at borders, and other cost-saving benefits. The project has resulted in decreased waiting times at borders, shorter travel times along the roads, an increase in vehicle crossings at the relevant borders as well as an increase in trade value passing through those borders.

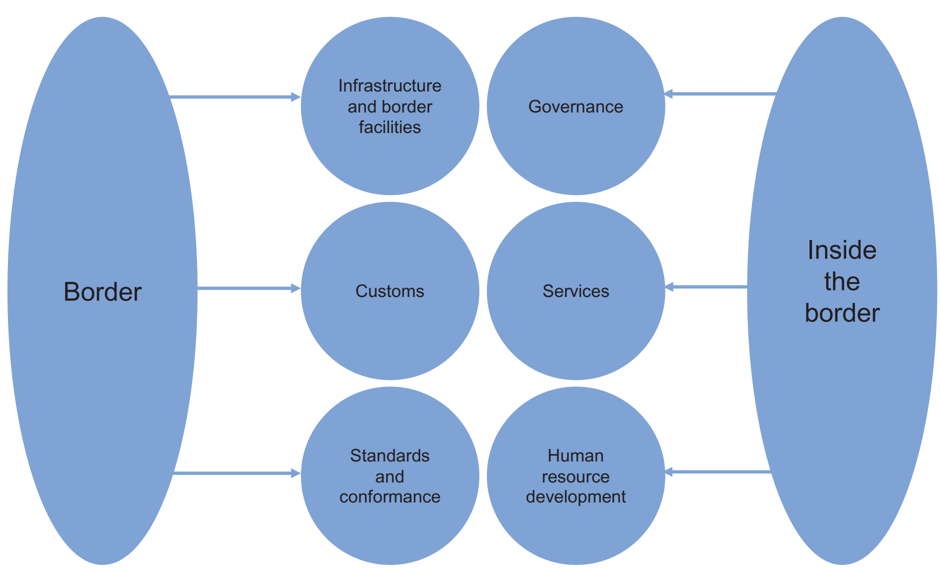
While regional approaches to improvement of transport corridors have been shown to help decrease significantly transit time and trade costs more quickly and efficiently than individual, non-harmonised national plans can, they do pose a particular set of challenges that each programme needs to overcome. For example, even if governments express commitment to these programmes, the number of agencies and ministries involved in each participating country and the need in some cases for legislation to be passed does create difficult impediments to project success. With the Chirundu one-stop border, for example, in spite of having signed the bilateral Agreement on the Establishment and Implementation of the Chirundu *OSBP* in 2007, it took an additional two years for Zambia to pass the Zambia OSBP Control Act to establish the one-stop border post. These problems are by no means insurmountable, but it is important to recognise and anticipate them, as well as ensure that projects and programmes include reasonable time frames and expectations.

Trade facilitation

Although there is no internationally agreed upon definition of "trade facilitation", the term is commonly understood as the "simplification" of practices involved in the movement of goods across borders with a specific aim to reduce trade transaction costs. Trade facilitation is distinct from other issues in international trade because of its focus on *efficient* processes (UNDP, 2007). Measures geared towards enhancing trade facilitation are vital to countries' trade and development strategies: they allow for a realisation of trade expansion that would otherwise be stunted because of non-tariff and behind-the-border barriers.

Since its inclusion in the DDA, the common understanding of trade facilitation has evolved to include both "border" and "behind the border" practices. Border practices generally refer to the logistics of moving goods through ports and processing customs documentation associated with bilateral trade (Wilson *et al.*, 2002). In contrast, behind the border practices refer to the specific environment in which trade transactions take place. They include domestic laws and policies and government/institutional structures, as well as telecommunications and e-business services to support border practices. Figure 1.1 distinguishes between border and behind the border trade facilitation, and categorises trade facilitation practices into six different policy areas: infrastructure and border facilities; customs; standards and conformance; governance; services; and human resource development.

Figure 1.1. **Border and inside the border trade facilitation areas**



Infrastructure and border facilities typically encompass customs efficiency, port efficiency, transport, storage, handling, physical inspection, and telecommunications (necessary for efficient business information dissemination). Customs regard procedures directly related to import/export. Standards and conformance relate to varying degrees to which exporting countries meet/conform to standards requirements of importing countries. This can be considered both border and behind the border trade facilitation. Governance covers increasing institutional transparency, reducing incentives for corrupt practices, and increasing penalties for non-compliance with rules and regulation. Good governance is central to trade facilitation because it ensures implementation of rules, regulations, and investment automated customs systems. Services typically include banking, insurance, e-business and legal services, all of which are essential support mechanisms to international trade and the efficient functioning of border activities. Finally, human resource development includes areas such as information exchange and enforcement of rules. It is critical to enabling implementation of trade facilitation measures.

There exists extensive empirical evidence that trade facilitation increases trade considerably. For example, using an econometric gravity model approach, APEC (2004) and Kim *et al.* (2004) focus on the effects of improvements in customs environments in APEC economies. These studies highlight that better customs procedures boost intra-APEC imports (APEC, 2004) in addition to total imports (Kim et al., 2004). Specifically, Kim et al. (2004) concludes that a 50% improvement in customs procedures performance increases imports by 1.7 to 3.4% in industrialised APEC economies, 2.0% to 4.5% in newly-industrialised APEC economies, and 7.7 to 13.5% in industrialising APEC economies.

More recently, Moïsé *et al.* (2011) construct 12 trade facilitation indicators for 25 OECD member countries plus Hong Kong, China. Their indicators are largely based on the WTO Draft Consolidated Negotiating Text on trade facilitation.[12] Through application of a gravity model, they conclude that trade facilitation efforts are especially important for manufactured goods. The indicators that have the greatest impact on trade volumes are those for advanced rulings, fees and charges, and automation and formalities procedures.

Regionally, port efficiency constitutes a key factor in promoting South Asian and APEC trade. For intra-African trade, customs procedures and regulatory environments prove more important. Wilson and Otsuki (2007) evaluates the impact of trade facilitation measures in South Asia. Their findings, drawn through gravity model analysis, reveal that the total estimated gain from capacity building in South Asia in trade facilitation could raise intra-regional trade by 60%. The most important trade facilitation areas pertinent to South Asia are capacity building in information technology and service-sector infrastructure, followed by capacity building in air and maritime port efficiency. The estimated gains to trade derived from both of these trade facilitation areas outweigh those from customs efficiency. However, the importance of synergies between all four areas is stressed.

In terms of aid for trade directed at trade facilitation ("aid for trade facilitation"), Königer, Busse and Hoekstra (2011) employs an econometric model to gauge the impact of aid for trade and aid for trade facilitation on the trade costs for the period 2004 to 2009, including 99 developing countries. They find that development assistance has been successful in reducing trade costs and that the trade facilitation component of aid for trade has been most effective. Calì and Velde (2009) comes to a similar conclusion, calculating that aid for trade facilitation significantly reduces the cost of trading, with an increase of

USD 1 million in the trade facilitation component of aid for trade reducing export costs by 2.5% to 6%.

Many of the projects included in the case stories and case studies reviewed in this study relate to the potential benefits from regional trade facilitation. Several exemplary ones are featured below. Perhaps the most obvious argument in favour of regional trade facilitation initiatives relates to geography, given that many trade costs are regionally determined. Regional trade facilitation initiatives in this area include sharing of border facilities or regional harmonisation and co-operation to address duplication (arising because of differing standards across countries) and friction costs (for example inefficient time usage because of repeated loading and unloading of commodities).

In the aid for trade context, a pertinent example of border sharing is the Beitbridge Efficiency Management System (a UK-funded project launched in May 2009 amongst COMESA-EAC-SADC countries[13]), which aims to reduce congestion, increase operational efficiency, reduce waiting times, and lower transaction costs at the Beitbridge border crossing. Despite slower implementation than initially planned, reduction in transaction costs and wait times upon implementation are expected to be significant.

The International Transit of Goods (TIM) project, launched in 2008 by the Inter-American Development Bank, also exhibits how aid has been used to engender harmonisation of border processes. The project, which targets the El Amatillo border crossing between Honduras and El Salvador, implemented an electronic system with a single document for border transit used to simplify and harmonise time-consuming processes. An 87% reduction in El Amatillo border crossing times have been reported, from an average of 62 to an average of 8 minutes, in addition to decreases in required paperwork. TIM has also improved the traceability of goods through the border, collection of tax revenues, and risk analysis estimates. The project's success led to the initiation of similar projects at other border crossings within the region through additional funding of USD million 950 000: to Mexico, Guatemala, Nicaragua, Costa Rica, and Panama.

Another example of an inter-regional programme aimed at easing cross-border trade through reductions in required documentation is the German-funded pre-customs single window (PCSW) programme in Kirgizstan. The PCSW, which was initiated in 2005, aims to reduce administrative barriers to trade through eliminating cumbersome and multiple form completion requirements. After the setup of the PCSW, reported improvements in cross-border trade in 2006 included a 60% reduction in the number of forms required for trade in Kirgizstan, and almost 50% in Tajikistan (form 13 to 7). As was the case for TIM, PCSW's success spurred similar projects within the region, e.g. in January 2011, the EU granted Tajikistan Euro 2 million to build a PCSW.

One example of an efficiency-oriented regional trade facilitation programme is the UK-funded non-tariff barrier (NTB) reporting and monitoring mechanism. This initiative brings together COMESA-EAC-SADC countries to implement a web-based NTB reporting, monitoring, and elimination mechanism with concrete timelines for the removal of NTBs, thus increasing regional efficiencies. It involves both the public and private sector to determine the process of NTB elimination, outlines the time periods for the stages of elimination, and resolves the reported barriers.

The UK-funded COMESA-EAC-SADC Trade and Transport Facilitation Programme (CTTTFP) is a prime example of a regional initiative that aims at boosting competitiveness throughout the region through regulatory co-operation. The programme, which was established in 2006, aims to cluster initiatives of each regional economic community to improve overall customs, immigration, and transport procedures. This subsequently lowers the cost of doing business in the region.

Trade-enabling environment

As in the case of trade facilitation, there is no consensus definition of the term 'trade-enabling environment' ('TEE'). At its broadest, the term would appear to be synonymous with the *raison d'être* of the Aid for Trade Initiative itself, that is, to create an environment in developing countries that allows trade and its accompanying benefits to flourish, from good governance to capacity building. The *World Economic Forum Enabling Trade Index* narrows down the subject by constructing four "sub-indexes" composed of various elements: Market access; border administration (efficiency of customs administration, efficiency of import-export procedures, transparency of border administration); transport and communications infrastructure (availability and quality of transport infrastructure, availability and quality of transport services, availability and use of information and communication technology, ICT); and business environment (regulatory environment, physical security).

Market access is a primary target of aid for trade and border administration (under trade facilitation) and transport and communication infrastructure (under transit corridors) are covered at length above. Hence, from the literature a few significant elements that are omitted from this list might be added, both of which fall into a category of what might be called 'trade-supporting infrastructure', namely, availability and quality of financial services and availability and quality of utility services. These are particularly relevant to the "building productive capacity" category of aid for trade. Financial services include, among other things: access to credit, insurance, foreign exchange, corporate advisory, and investment services. Utility services encompass water, electricity, gas, and waste management services. For the purposes of this study, these latter categories are defined as regionally harmonised policies that facilitate regional economic integration.

Financial services play a critical role in both enabling and facilitating trade. Ready access to credit can make or break trading enterprises, especially those involving complex value chains where delivery of intermediate inputs faces potential unreliability, or the timing of payments is heavily staggered. Small-scale trading enterprises also usually lack sufficient capital and resources to expand without access to formal credit. Replacing the usury of informal credit markets with the lower, more predictable rates in formal credit markets lifts a great burden from the smallest enterprises.

Sophisticated market instruments benefit enterprises by dampening sector-specific risk, whereas more ordinary insurance services can help to reduce market-level security and political risk as well; again, it is the poorest traders who are least able to bear risk by themselves and would thus benefit from access to such services. The lack of availability of such services to trading intermediaries as well as those directly involved in import-export businesses is an especially important bottleneck to clear.

Access to reliable utility services is critical in the production process of many tradable products, as well as for purposes of supply chain management, storage, and administration. In particular, access to electricity and water are critical in supporting trade in innumerable ways, e.g. allowing vehicles to be maintained and repaired, enabling information and communication technology services, sanitary cleaning of agricultural produce, and so forth. As noted above, Hallaert, Cavazos, and Kang (2011) estimates that access to electricity is the most significant binding constraint to trade in developing economies.

At a regional-level TEE seeks to regionally harmonise policies that facilitate regional economic integration. The challenge to policy makers and other stakeholders in the development process is to consider how these particular services sectors can become more integrated at the regional level. The most compelling areas in enabling regional trade are arguably: *i)* reducing and eventually removing border and behind the border barriers to trade at the regional level; *ii)* harmonising the regulation by national governments within these sectors at the regional level; and *iii)* deepening cross-border co-operation in developing trade-enabling infrastructure.

At a practical level, assuming there is broad political commitment for regional trade liberalisation, the difficulty in this first element is increasingly with behind the border barriers, which are often the products of ingrained governmental process and practices rather than necessarily deliberate attempts to frustrate trade. Here, as with the second element, there is significant overlap with issues regarding the regulatory environment (as discussed in further detail below).

Within these trade-enabling services sectors, it is the third element in which there is significant scope for region-specific gains. In the transit/transport sector, the benefit of co-operation is evident; as noted above, there is little point in upgrading cross-border highway infrastructure on only one side of the border, and co-operation is critical rather than merely desirable. This same general principle can be applied within the utility, information and communication technology, and security services sectors, and to a lesser extent in the financial sector. An analogy can be made to Kremer's O-Ring Theory[14] where tasks in trade are spread across the entire cross-border value chain. Broadening of the market base to the regional level also allows greater economies of scale and the room for more specialised sector and firm-specific services to develop.

With respect to the regulatory environment, how regulations are implemented and enforced constitute major behind the border barriers to trade. The regulatory environment is a persistent element in any analysis of TEE, being pervasive in both its reach and cross-cutting effect upon trade. As a matter of course, the process by which the government seeks to regulate the services sectors that support trade, market access and border administration has an important bearing on success in trade.

Mutual recognition of accreditations, registrations, certifications, and the like, has long been the remit of the International Organization for Standardization, whose work details the intricacies and benefits of standardisation in the production of goods and service-delivery to international trade. Adopting a regional approach to standardisation and harmonisation can be a good springboard for pooling limited and specific knowledge, and co-ordinating implementation of improved standards and reciprocal recognition of standards, with an aim to both increase interregional interoperability in international trade and gain access to extra-regional markets.

Regarding tractable approaches to gauging the TEE of developing (and developed) economies, the World Bank's *Ease of Doing Business Index* provides some useful indicators in a comparative context, including business costs associated with such diverse areas as, e.g. starting a business, dealing with construction permits, registering property, protecting investors, enforcing contracts, and resolving insolvency.

In terms of regional economic integration, the focus needs to be on the intraregional ease, availability, accessibility, and transparency of these processes, including: pooling highly technical knowledge on standardisation at the regional-level and adopting regional-level implementation with these standards; establishing regional-level processes that can actively and meaningfully address recurring behind-the-border trade barriers and ease of doing business issues; and providing appropriate transparency and improving the simplicity of government processes that affect the general ease of doing business.

Conclusions

Regional economic integration is important to the success of development policy strategies of emerging markets and developing economies, especially LICs, and regional economic co-operation can facilitate trade integration at the bilateral, sub-regional, and regional levels. The potential for improved efficiency, market access, and economic dynamism via co-operation is great; the potential modalities of co-operation are myriad, from more informal piecemeal agreements on improving customs efficiency to formal FTAs. While multilateral co-operation via the WTO needs to be pre-eminent, given the complications associated with deep economic integration measures in the context of an extremely-diverse WTO membership, regional FTAs can be effective compliments to the WTO, provided that these arrangements are outward-oriented. The empirical literature underscores the potential for gains from well-structured FTAs.

This chapter provides the broader context in which to evaluate how regional aid for trade can support the commercial strategies of developing economies. It underscores the long-established link between trade and economic dynamism, but notes that developing economies must overcome binding constraints to trade in order to tap the attendant benefits of globalisation. Regional economic integration is an important part of the globalisation process of developing countries; yet, despite the potential of regional integration in this process, developing regions have often underperformed. Regional economic co-operation is being adopted as a means of rectifying this problem, but binding constraints to trade, including shortcomings in the "nuts and bolts" of integration via transit and transport systems, trade facilitation, and an effective trade-enabling environment, limit the potential success of these regional accords and multilateral liberalisation. Regional aid for trade can help. The next chapter considers more in-depth how regional aid for trade can help achieve the goals of regional co-operation, particularly in the context of regional production networks and value chains.

Notes

1. There are many surveys of these links, but perhaps the most exhaustive is Winters et al. (2004).
2. For example, Burnside and Dollar (2000).
3. www.oecd.org/dac/aidfortrade/45581702.pdf.
4. As cited in OECD (2010a).
5. The policy experiences of Asia with the former and Latin American might be identified with this latter. Such attribution is, of course, simplistic: there were many Asian economies that embraced ISI at some point, and many Latin American economies have embraced EP. Still, at key points in their

industrialisation/development paths we might argue that Asian chose EP and Latin America ISI.

6. This work underscores that infrastructure, in particular electricity, constitutes a key binding constraint on international trade.

7. Karingi and Leyaro (2009).

8. See, for example, WTO (2011).

9. www.wto.org/english/tratop_e/region_e/region_e.htm, accessed 8 January 2014.

10. For a list of these, updated to 13 January, 2013, see www.wto.org/english/tratop_e/region_e/region_e.htm .

11. For example, Petri et al. (2012) estimate that an FTA between ASEAN, China, South Korea, Japan and India would actually benefit Europe, with the resulting growth and terms of trade effects overwhelming the trade diversion effect.

12. Their analysis excludes an indicator for infrastructure quality.

13. Respectively the Common Market for Eastern and Southern Africa, the East African Community and Southern African Development Community.

14. See pp. 551-575, Michael Kremer, 'The O-Ring Theory of Economic Development', The Quarterly Journal of Economics, Vol. 108, No. 3, August 1993.

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Chapter 2

How aid for trade facilitates regional co-operation

This chapter considers how regional aid for trade can affect regional economic integration by facilitating trade and investment links at the microeconomic level. In particular, it considers how regional aid for trade can help developing economies enhance economic integration and benefit from regional production networks, which have become important drivers of regional and global economic integration in recent years and promise to be increasingly critical to development prospects in the future. Using surveys and case stories from Asia, Latin America and Africa, it shows that regional aid for trade has, indeed, been effective to date in attaining these goals. However, the scale of these initiatives has been limited; the chapter closes with a review of trends in regional aid for trade flows in the overall development assistance context.

Introduction

From the analysis in Chapter 1 it is clear that there is an abundance of strong incentives for developing economies to pursue liberalisation through multilateral and regional co-operative channels. In today's context the regional approach prevails. Traditionally, developing economies have placed an emphasis on co-operation with their major trading partners in the developed world. For example, African countries have been linked to Europe via colonial preferences, the ACP "Lomé accords", and more recently the Economic Partnership Agreements following the Cotonou Agreement. There are many FTAs between the United States and Canada and the rest of the Americas, including NAFTA; bilateral FTAs with individual economies in Latin America; and the US-Caribbean Basin Initiative. Japan and Korea have FTAs with all ten members of ASEAN.

Nevertheless, South-South co-operation has increased significantly in recent years, including via bilateral and regional FTAs. Most of these have been undertaken with neighbours sharing the same geography, but a number of FTAs between emerging and developing economies are inter-regional.[1] In the past, South-South FTAs tended to focus on promoting ISI at the regional level. Examples include the Latin American Free-Trade Area (LAFTA) in the 1960s and 1970s and the original agreements on ASEAN economic co-operation in the 1970s. Neither of these approaches succeeded: LAFTA's attempt at regionally-based ISI collapsed in large part because special interests objected to liberalisation in general – be it multilateral, regional or unilateral – and ASEAN's goals in the 1970s and early-mid 1980s tended to be more political than economic in origin. Indeed, ASEAN's attempts at inward-looking co-operation never really materialised (beginning in the late 1980s, the region embraced trade and investment liberalisation, and outward-oriented economic co-operation followed).

The form of economic co-operation in the 1990s changed significantly together with the overall commercial policy approaches of developing economies, which focused increasingly on international trade. As noted by Bhagwati (2004) in his book, *In Defense of Globalisation*, with only slight hyperbole, beginning in the 1990s, developed and developing countries seem to change places in terms of their openness to the international marketplace: before then, developed countries pushed for globalisation and developing countries resisted, whereas afterwards the opposite became true. While one might argue that developed countries have also been active in promoting globalisation (though obviously not as much as Professor Bhagwati would like), it is clear that outward-orientation is a policy objective of most emerging and developing economies. And regional co-operation, be it with developed or developing country partners, is being used increasingly as a means of promoting this deepening link with the global marketplace.

The goal of regional co-operation should not be merely to raise the trade shares of countries within the grouping. Rather, it should be economic integration as a means of improving efficiency and productivity. An FTA or customs union in which members agreed to ban all imports from the outside would raise the trade share of the group to 100% but would lead to economic disaster. Moreover, with respect to South-South co-operation, the smaller market size of the partners and similar factor endowments suggest that trade shares may not be high even in a very successful FTA. For example, ASEAN is arguably the most successful South-South agreement in place today. Yet, intra-ASEAN trade only comes to 25% of total trade, even more than 20 years after the signing of the ASEAN FTA (AFTA) in 1992. Still, if one controls for size (something called in the economics literature a "double density" measure or "gravity" coefficient) the region trades approximately four times more with itself than one would expect if they were just randomly-distributed countries. And ASEAN co-operation has succeeded in plugging its member economies into many regional production networks, which in turn have propelled trade, FDI, and growth.

The above discussion of the potential economic benefits of regional co-operation suggests that, if properly formulated, it can be effective in enhancing efficiency and productivity. Most likely, an outward-oriented South-South FTA will increase intra-regional trade and, perhaps, investment. This is particularly the case if barriers to trade among the concerned economies are high and various trade-related synergies untapped. But the agreement could be successful even if this does not happen. If the agreement boosts investor confidence, brings in FDI, and stimulates production chains, it may be that there will be little change in intra-regional trade and perhaps a fall in intra-regional investment, but the accord could still improve economic prospects for all partner countries. Estimates of the potential benefits of the ASEAN Economic Community, which would create an outward-oriented single market and production base in Southeast Asia by removing many border-related and behind-the-border bottlenecks to regional integration, suggest that welfare to the region's 600 million citizens could rise by up to 5.3% relative to the baseline – an effect that is even greater than the anticipated gains estimated for the EU's Single Market Programme – but this would happen without any significant change in intra-regional trade shares (Petri et al., 2012).

Still, as noted in Chapter 1, for developing economies to attain the benefits of regional integration and co-operation, they must address a variety of market failures and constraints. If not, even a modern, outward-oriented agreement could lead to disappointing results. For example, African countries for many years have embraced a plethora of bilateral and regional accords, but the results have been disappointing, with intra-African trade remaining well below potential. Studies have underscored that the reason why African countries underperform in terms of regional integration is because the essential underlying facilitating tools of economic integration are not in place, including measures related to hard and soft infrastructure, capacity, trade-related information and contacts, and trade-facilitation-related issues. Many of these areas fall within the usual targets of aid for trade, but as mentioned above and discussed more at length in the case studies and case stories, the multi-country nature of these accords complicates their resolution.

This is where regional aid for trade can play an important role. As noted throughout this study, there are many areas in which regional aid for trade can address bottlenecks to closer bilateral and regional integration, be it in the context of a formal regional accord or otherwise. Regional aid for trade can contribute to the identification of promising regional projects, help in their design, and contribute to their implementation, in partnership with participating governments and other potential stakeholders, including the private sector. Perhaps even more than other forms of aid for trade, the multi-country dimension of regional co-operation requires that regional aid for trade projects emphasise strong "buy in" from stakeholders as well as ownership.

This chapter first considers how regional aid for trade can affect economic integration via the most important source driving economic integration in developing economies today: regional production networks. Second, it reviews how regional aid for trade has actually contributed to regional integration via production networks and similar forms of industrial organisation, with analysis informed by surveys, questionnaires, and case stories. Finally, the chapter situates regional aid for trade in the broader aid for trade and development assistance context by reviewing in-depth recent trends in regional aid for trade flows.

Boosting value chains via regional aid for trade

The relatively new approach to industrial organisation through value chains is proving to be effective in bringing developing economies, including LICs, into international production processes and allowing them to benefit from the international marketplace. In the past, LICs were left out of the globalisation process, as their dominate factor of production is unskilled labour possessing a narrow skill set. Prior to the creation of regional production networks, they tended to be excluded from the FDI-trade nexus. However, via production fragmentation, LICs are able to supply inputs at the lowest end of the value chain; over time, participation in these networks has important knock-on effects, with technological and skill spillovers that allow LICs to move up the value chain.

Viet Nam is an excellent case in point. When it began its liberalisation process in 1986 ("*doi moi*"), it was a country suffering from a poverty rate of over 40% and only unskilled labour to offer production networks. Beginning with participation in value chains at the lowest level in the 1990s, its work force has sharpened and diversified its skill set, which in turn has permitted the country to move up the value chain, especially in the agro-food, textile and even electronics sectors. From one of the poorest countries in the world just a generation earlier, the country has now joined the middle-income group. This experience and that of other countries in ASEAN has led the organisation to place production networks high on the agenda of its efforts to close development gaps, e.g. as a key component of the "more equitable economic region" pillar of the ASEAN Economic Community.

But how successful emerging and developing economies are in plugging into these production networks and advancing along the value chain depends critically on how easy it is for firms to engage the country's resources in the production process. Barriers to trade, bureaucratic bottlenecks, and infrastructural deficiencies serve to reduce the attractiveness of countries as production spokes in the wheel of these production networks. The trend towards regional integration, which has become a key component of the international commercial policy landscape, was in no small degree motivated by the need to reduce barriers to production networks. It also underscores the importance of a regional aid for trade focus.

The economics of regional production networks

As discussed above, the potential gains to developing and emerging economies of regional co-operation can be large, provided that governments adopt an accommodating policy framework and planning to prepare the economy appropriately. Moreover, FTAs can be inward- or outward-oriented, and the success of the grouping will depend on which path is followed. Indeed, trade diversion is especially problematic for production networks, which depend upon lowest-cost sourcing. This constitutes a key reason why the regionalism movement backed by production networks should remain open and outward-oriented; trade diversion is anathema to the effective organisation of value chains. It also provides a strong incentive to keep rules of origin – which are essential in FTAs to avoid "trade deflection"[2] – liberal, simple, and symmetric.

Moreover, the greater the degree of discrimination inherent in an FTA, the greater the potential for "investment diversion" in which FDI flows to a country merely to take advantage of protected regional access. This "tariff hopping" FDI was once promoted extensively in developed and developing economies alike to try to lure increased investment flows. But such an approach is increasingly problematic today for production networks, which thrive when markets are open, not closed. Indeed, the rising importance of production networks might not only explain why FTAs and other forms of regional co-operation are increasingly open in nature but why barriers to trade and investment have been falling globally. The cost of isolating one's economy from the international marketplace was always high, but is increasingly so in a truly globalised economy (OECD, 2012).[3]

In addition, value chains amplify the costs of tariff barriers. Even low tariff barriers across a region can inhibit value chains because they are cumulative. Enterprises downstream have to pay tariffs on their inputs as well as on the value of their exports, raising geometrically costs of the production network (OECD, 2013). This magnification of protection along the value chain also holds for NTBs and behind-the-border impediments. Hence, the efficiency effect of regional FTAs tends to be greater in the context of production networks. The role of regional aid for trade to facilitate production networks and the goals of regional co-operation are evident in this process.

Trade and investment creation resulting from regional co-operation are highly relevant to production networks. By reducing barriers to trade and investment within the region, multinational corporations (MNCs) are able to organise production according to the respective comparative advantages of member-countries. They are able to create these networks via a number of channels, from FDI to licensing and contracting. These MNCs then engage in fragmented trade along value chains, increasing intra-regional trade and integration. FDI inflows from within and outside the region rise, and with greater FDI inflows come the myriad potential benefits to host economies, including increased employment, risk-sharing capital, foreign exchange, technological spillovers, and other productivity-enhancing knock-on effects. A regional presence allows MNCs to minimise transport costs and benefit from lower trade costs within a regional co-operation framework. This regional co-operation framework, in turn, is an important gateway to greater multilateral liberalisation.

Regional production networks boost trade performance of the country, and create a demand for trade-enhancing measures to boost efficiency through, for example, trade facilitation and better soft and hard infrastructure. Participating in these regional networks allows for ready-made external markets for local production and has a "learning by doing" effect on local firms as the economy opens up to regional and global markets. FDI inflows and other forms of interaction with MNCs generate important spillovers to the economy that tend to accelerate moving up the value chain. In other words, production networks make use of each economy's comparative advantages to boost productivity and cut costs, while bolstering investment and technology transfer, plugging LICs into the global economy in ways that would have been impossible two decades ago. Via production fragmentation, MNCs allocate labour-intensive segments to low-wage economies, resulting in rapidly growing intra-industry trade in parts and components along the value chain.

Regional co-operation holds especially significant opportunities for small LICs, which, as mentioned earlier, in the past have been generally excluded from the FDI-trade link. As such, regional co-operation serves as a stepping stone for deeper integration into wider regional and global markets and facilitates moving up value chains. Viet Nam, for example, benefitted from its accession to ASEAN in 1995 by adopting an increasingly liberal trade and investment regime through the ASEAN Free-trade Area (AFTA) and the ASEAN Investment Area programmes, allowing it to participate along with its more developed partners in various production networks. This led to increased globalisation of the economy, higher inflows of FDI, technology spillovers, increased employment of its labour force and decreased poverty. Over time, it began to move up the value chain. It hopes to replicate these successes via participation in mega-regional economic co-operation accords in the Asia-Pacific region, discussed below. The Vietnamese success in this regard has had an important demonstration effect on other transitional economies in the region; Cambodia has been imitating Viet Nam's success in recent years and Myanmar, whose political opening in 2012 has been followed by an enthusiastic embrace of outward-oriented economic reforms, is counting on integration into production networks as a critical future source of FDI, employment, and poverty reduction in natural-resource and manufacturing sectors.

Indeed, Southeast Asia has been particularly successful in attracting regional production networks due to its differences in wage and labour productivity levels across member-states, which facilitates benefits from value chains; regional trade and investment liberalisation through such initiatives as the ASEAN Free-trade Area (AFTA) and the AEC; increasingly-competitive soft and hard trade infrastructure, such as efficient maritime ports, national "single windows" for customs under the ASEAN Single Window programme, and several industrial "growth triangles" (in many ways similar to export processing zones); and increasingly-strong intra-regional and international links that result in lower production and logistics costs (Plummer and Chia, 2009; Athukorala, 2010).

For example, ASEAN began to create a dynamic trade sector in the early 1980s, via trade and FDI liberalisation and investments in trade-related infrastructure. The reform programme led to major change in the structure of trade, from a dominance of natural-resource and agricultural products to manufactures. In this latter sector, the most significant changes took place in machinery and transport equipment (SITC 7). Within this sector, by far the biggest change has been for thermionic valves (SITC 776), whose export value rose from USD 12 billion in 1990 to USD 120 billion in 2006, accounting for 16% of ASEAN's total exports of USD 759 billion (Plummer and Chia, 2009). ASEAN exports nearly one-third of the world's thermionic valves (USD 379 billion), which include television picture tubes; other electrical valves and tubes; diodes, transistors, and similar semiconductors; electronic microcircuits; and Piezo-electric crystals. In other words, these exports are part of an electronics value-chain in which ASEAN forms a key link. The fact that imports of SITC 776 came to USD 100 billion testifies to this. A main goal of the AEC is to repeat this success in attracting value chains in other areas as well. It also offers an example of success to other developing regions.

Regionalism and production networks in developing economies

The above analysis highlighted the importance of regional co-operation in facilitating the participation of developing economies in value chains, as well as the necessary complementary policies to support the process. Lowering trade and investment barriers via regional trading arrangements reduces transactions costs associated with fragmented trade and, hence, enables the creation of regional value chains. WTO (2011), for example, uses a gravity model to capture the effects of deeper economic co-operation accords on production-network-related trade, and estimates that they increase trade among partner countries by almost 35 percentage points. It is also easier to promote deep reforms in the context of regional agreements, as they are typically composed of a smaller set of like-minded countries and they tend to preclude "free-riding". Even "special and differential" treatment in FTAs is increasingly expressing itself in the form of longer transition periods rather than derogations from policy reform exigencies.

Regional co-operation in Asia: A vehicle to promote value chains

East Asia has been by far the most active – and successful – region in mobilising regional co-operation as a means of promoting fragmented trade and production networks. Most Asian FTAs have been bilateral in nature, which as noted earlier tend to be easier to negotiate than, say, larger memberships or deeper accords such as customs unions. Moreover, a majority of these FTAs are with economies outside of Asia. A great deal of empirical work has been done on production networks and fragmented trade in the region.[4]

The driving force behind regional co-operation in East Asia is market-based; FTAs are being sought in large part as a means to increase FDI flows to deepen existing production chains and promote new ones. As noted above, the region has been very successful in this regard; intra-regional trade and investment flows have been rising significantly over time, to the point that regional trade now constitutes more than half of total trade. However, if one computes trade on a value-added basis, intra-regional trade comes to significantly less than half (ADB 2008). In other words, the growing role of regional production networks leads to "double counting" of (nominal) intra-regional trade flows. This conclusion can also be gleaned from the OECD-WTO TiVA database for selected countries; for example, in nominal terms, the People's Republic of China became Japan's most important trading partner in 2007, but in part this is because of the rising importance of China in Japanese-led production networks. According to TiVA, in value-added terms the United States continues to be Japan's most important trading partner.

While the vast majority of empirical studies on bilateral FTAs in Asia would suggest that these accords have had (or will have) a positive effect on welfare of their member states, they clearly have important shortcomings: since the driving force behind Asian regionalism pertains to fostering regional production networks, bilateral FTAs will always tend to fall well short of potential. Regional FTAs would be needed to optimise value chains and lower costs associated with, for example, rules of origin (via "cumulation"), create regional intellectual property standards, adopt regional trade facilitation measures, and so forth. It is important to note that these policies are "first best", as all countries benefit, not merely partners countries.

Recognising these constraints, Asian governments have now launched negotiations to create mega-regional accords, namely, the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP), a trend which has been called the "new regionalism" in Asia (Petri et al., 2012). As each would constitute approximately 40% of global trade, they will be highly significant new institutions in the global economy and will serve to undo many of the much-maligned inefficiencies associated with the FTA "spaghetti bowl".

The TPP agreement negotiations were launched in 2008 and the 19th round of negotiations took place in August 2013. The TPP builds on a high-quality FTA between four small, open economies (Brunei Darussalam, Singapore, New Zealand and Chile), known as the “P4,” and in addition to these negotiating parties the TPP includes the United States, Australia, Malaysia, Viet Nam, Peru, Canada, Mexico, and, as of July 2013, Japan. South Korea is currently undertaking preliminary talks with TPP countries with a view possibly to join.. .

The TPP is distinct in terms of not only large differences in levels of development but also its ambitions to become a modern, “21st Century” agreement that would embrace a wide-variety of areas, including border and non-border barriers to trade in goods and services, FDI, intellectual property protection, trade facilitation, competition policy, and even sections on science and technology and small- and medium-sized enterprises. All of these areas are pertinent to production networks.

The RCEP is a much more recent initiative; it was launched in November 2012. It is the first major initiative that has been spearheaded by ASEAN as part of its strategy of “ASEAN Centrality”; indeed, membership in RCEP is open only to economies that have an existing FTA with ASEAN, that this, China, Japan, South Korea, Australia, New Zealand, and India. It, too, is intended to be a “high quality” agreement, though its focus on being more “flexible” than the TPP – as well as its membership – suggests that it will be less comprehensive. The leaders of RCEP have given themselves until 2015 to complete an agreement.

Empirical studies suggest that these regional accords will have large effects on regional economic growth to no small degree due to the effect that the TPP and RCEP will have on FDI inflows and outflows, that is, in enhancing production networks. For example, Petri et al. (2012) use an advanced CGE modeling approach to estimate the economic impact of the RCEP and the TPP as pathways to an APEC-sponsored Free Trade Area of the Asia-Pacific (FTAAP) in 2025.[5] They estimate large gains for both tracks: the effects on the world economy would be small initially but by 2025 the annual welfare gains would rise to USD 223 billion on the TPP track, USD 499 billion on both tracks, and USD 1.9 trillion with an FTAAP, or almost 2% of global GDP. Interestingly, the biggest gains accrue when the two tracks are consolidated; in effect, this results from both China and the United States being included in the same agreement.

“Deep” regional co-operation that includes removing border and non-border impediments to trade has supported the integration process across East Asia, motivated by production networks. The stress placed on services liberalisation in the context of the AEC and RCEP is indicative of this priority to attract production networks; as is clear from the TiVA database, international trade in services as a percent of value added is much larger in terms of value added (50%) than seemed to be the case in terms of nominal trade (around 30%). The large difference is explained in large part by the prominent role that the services sector plays in supporting international production networks. Accordingly, East Asian policy makers are now prioritising services.

It is important to note that these initiatives are often framed in the context of the need to reduce the costs of intra-regional interchange *not* as a means of raising intra-regional trade shares as a goal in itself but rather to attract production networks, which in turn usually have the effect of raising intra-regional trade but not always (intra-regional trade in ASEAN has only risen from 20% of total trade when AFTA was signed to about 25% today). But success in this regard should be measured by the effects on lowering costs, rising competitiveness, and attracting FDI, which have been a hallmark of the ASEAN success story over the past generation.

Regional co-operation in Africa: Attempts to develop new networks of integration

Africa has been just as busy as Asia in formulating FTAs and even deeper forms of integration, such as customs unions (e.g. the Southern African Customs Union, or SACU, and the Economic Community of West African States, or ECOWAS) and even monetary union (e.g. West African Economic and Monetary Union, known by its French acronym, UEMOA). Extensive surveys of these initiatives and plans for the future can be found in the African Development Bank's Regional Integration Strategy Papers for various regions[6] as well as in the ECOWAS case study (Chapter 5). And like Asia, Africa has considered integrating its many FTAs via a "continental" or "pan-African" FTA, which began to be actively discussed at the 6th Ordinary Session of the AU Ministers of Trade in 2010. However, a major difference between the Asian and African experiences is that the former has been far more effective in boosting intra-regional trade: intra-regional trade in Africa comes to only about 10% of total trade.

The superior performance of Asia in increasing intra-regional trade relates in part to the structure of production: African economies tend to engage more in inter-commodity trade (e.g. natural resource exports for imports of manufactures) whereas Asia's export structure is much more diversified and is increasingly characterised by intra-industry trade, including fragmented trade via production networks. But at early stages of development, most Asian economies also began with inter-industry trade; diversification proceeds as countries develop and move up value chains. In addition, like Africa, intra-regional trade in Asia has been hampered in the past by connectivity issues; Southeast Asian nations have been prioritising and placing significant resources into enhancing cross-border road and rail links, bridges and "soft" infrastructure in order to lower the cost of intra-regional interchange through transit corridors and other initiatives, with considerable success.[7]

The fact that Africa has not been able to create regional production chains has been an important factor behind its underperformance in terms of regional integration. The lack of intra-industry trade and insufficient development of production networks as impediments to closer regional integration was underscored in the AfDB's Regional Integration Strategy Papers. Clearly, African leaders are cognizant of these problems and have sought means to rectify them. For example, the African Union's Action Plan for Boosting Intra-Regional Trade (African Union 2012) identifies the constraints limiting intra-regional trade and proposes specific projects to remove them. It notes that, "African countries will trade more with each other if they upgrade their productive capacities in dynamic sectors of the economy and support the development of regional enterprises and value chains." (p. 8). It also prioritises programmes to increase FDI and develop regional enterprises and value chains.

Donors have also been addressing these core binding constraints to intra-regional trade in Africa. The 2013 AU-WTO-UNECA Survey of donor and African partner economies regarding regional co-operation and integration is instructive in this regard. First, the donor questionnaire revealed that three-fourths of donor respondents were investing in transit corridors in Africa, and three-fourths of these indicated that their activities were based on both regional and corridor strategies. However, the most frequently cited areas in which past assistance was focused were in the trade facilitation and trade policy categories. The aim of this assistance is, therefore, in large part to deepen regional integration by removing soft and hard infrastructural constraints.

Second, more than three-fourths said that the demand for assistance for regional trade programmes by partners had increased significantly since 2005, suggesting the perception of a rise in interest in developing regional co-operation programmes with donors ("triangular co-operation"). A large majority of these donors reported that they developed their regional strategies through consultations with regional economic communities, partner consultations, and/or needs assessment. Almost all donors note that their support has been aligned with various AU trade initiatives, especially the African Productive Capacity Initiative (approximately 90%) and the Programme for Infrastructure Development in Africa (two-thirds).

Third, over 80% of donors have participated in pan-African projects to promote regional trade co-operation and integration, and over half of these reported involvements in various sub-regional initiatives as well, including EAC (63%), ECOWAS (56%), and SADC (50%).

Fourth, evaluations of donor programmes on regional trade co-operation suggest that these programmes have been highly successful: about two-thirds found that these programmes lead to increased exports and trade, over two-fifths found that they led to increased economic growth and reduced poverty, and slightly over a third noted that the programmes had helped with export diversification.

The results of the donor survey, therefore, would suggest that regional aid for trade has been: *i)* focused on removing the binding constraints to regional integration and improving regional economic co-operation via improved hard and soft infrastructure; *ii)* directed at sub-regional and regional initiatives and developed in close co-operation with development partners; and *iii)* successful in spurring growth, reducing poverty, and diversifying the economy, i.e. the essential goals of regional co-operation.

The accompanying 2013 AU-WTO-UNECA Survey of *partner countries* collaborated many of these themes.[8] According to this survey, trade-related infrastructure and transport constitute key sectors in regional trade strategies, as do agriculture, trade in services, and services to support exports. Respondents also reported that their regional co-operation strategies were developed via consultation with donor-partners, regional partners, and needs assessment, but added consultation with the private sector (domestic and foreign) as an important participant in the process. The EU was cited as by far the most important source of assistance for regional trade integration.[9] However, the notion that backing for regional trade programmes since 2005 increased significantly was only supported by less than 10% of the respondents, with less than half noting that it had increased somewhat.

Priority sectors for regional co-operation were similar to those cited by the donors, but recipient countries appear to believe that donor support is less aligned with their own strategies, with only one-tenth saying they were well-aligned and only two-thirds saying they were moderately aligned. Two-thirds maintain that they had not requested help for AU initiatives. The most important difficulties in implementing regional and/or sectoral trade strategies cited were the lack of implementation by regional partner countries – underscoring problems associated with regional public goods – and capacity constraints of the implementing ministry. Evaluations of the programmes revealed similar results as in the donor survey, with increased economic growth, trade, and poverty reduction among the greatest successes. However, increasing aid for trade for regional funds was also listed as an important result of the evaluations, with half agreeing that this had been the case, whereas less than 20% of the donors believed it to be true.

In short, while regional co-operation can be an important protagonist of regional trade in Africa, as noted earlier supporting "soft" and "hard" infrastructure and other complementary policies need to be in place in order to achieve results. This is an important reason why the many attempts at formal economic co-operation have yet to have substantial effects on regional integration. Hence, the 2013 AU-WTO-UNECA Surveys suggest that regional aid for trade has been effective but much more can be done.

Regional co-operation efforts in the Caribbean and Central America

The Caribbean Community (CARICOM) is an organisation made up of 15 member states and dependencies. As is noted at length in the Mesoamerican case study in Chapter 6, the Caribbean has a long tradition of economic co-operation: CARICOM evolved from the Caribbean Community and Common Market (1973) into the CARICOM Single Market and Economy, which went into effect in 2006. While the sub-region is small with only about 17 million people, its integration objectives have been ambitious: The CARICOM Single Market and Economy is essentially a unified market with a common external tariff, free flow of goods, services, labour and capital.[10] Together with the Dominican Republic CARICOM is linked to the EU via an Economic Partnership agreement, which began in 2013. It also has a (stylized) FTA with the United States (the Caribbean Basin Initiative, CBI).

The CARICOM has already been active in using regional aid for trade in order to foster regional integration and strengthen co-operation. In December 2012, it launched the Caribbean Community Regional Aid for Trade Strategy 2013-2015, which outlines its regional aid for trade priorities and objectives over the next few years. It notes that, despite the best of intentions in terms of economic co-operation, its intra-regional economic interaction is operating at less than 50% of what it could – and should – be. It notes that, "the Region's efforts to carve out a trade-led economic growth path have been beset by poor economic infrastructure, low and declining competitiveness, weak institutions, fragmented production systems and limited productive capacity," that is, many of measures noted above that can be addressed by effectively-targeted aid for trade. Indeed, using regional aid for trade to increase value-added in production is a salient priority in the Strategy.

The Central American Common Market (CACM) was established in 1960 and includes Guatemala, Honduras, El Salvador, Nicaragua, and, since 1962, Costa Rica. According to SICE, the CACM is "is presently somewhere between an almost perfect free trade area and an imperfect customs union."[11] Although larger than CARICOM, CACM is a group of small economies that has succeeded in increasing intra-regional trade but its economic integration patterns continue to be dominated by countries outside the region.

Central American countries use a variety of institutions to execute, manage, co-ordinate and evaluate regional projects related to economic co-operation. For instance, regional co-operation projects involving Guatemala, Belize, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama are managed by the Central American Integration System (SICA). As a regional institution in charge of regional integration, SICA is also involved in executing and managing international co-operation projects, including regional aid for trade. It has in place supporting secretariats that directly execute aid for trade-related projects. There are other institutions linked to SICA, such as the Foundation for Micro and Small Enterprise Competitiveness, that manage, execute and in some cases administer funds for regional projects involving small and medium firms.

There are a number of examples of regional aid for trade projects that support regional co-operation and integration. Successful projects include the "organization of sustainable tourism in the Trifinio Region" project, involving El Salvador, Guatemala and Honduras; the "regional strategy for regulation and supervision of the Central American stock market" project, which is now in its final phase and seeks to define the regulatory standards that should lead to an efficient and modern regional capital market involving Costa Rica, El Salvador and Panama; and the "innovative access to markets for small producers programme" project, also in its final phase, which includes El Salvador, Guatemala, Honduras and Nicaragua and seeks to reduce poverty by involving the private sector in the development process.

The Inter-American Development Bank (IDB) has been an active partner in supporting regional economic co-operation in the Caribbean and Central America since the beginning of the aid for trade initiative. Between 2008 and 2012 in co-ordination with beneficiary countries and development co-operation partners, the IDB provided a significant amount of financial resources to regional aid for trade projects. The IDB has used concessional and non-concessional financial and non-financial instruments from member countries to address trade-related, supply-side constraints at the national and regional levels, including grants, capacity-building activities, targeted investment loans, and, in the context of the Trade Finance Facilitation Program (TFFP), credit lines for financing international trade activities.

The IDB has three grant instruments that are fundamental in implementing its integration strategy under the aid for trade framework:

1. The IDB Aid for Trade Fund launched in 2008 to help the public and private sectors in Latin American and the Caribbean to integrate and benefit from the global economy, used for technical assistance projects regarding trade policy, services, agricultural standards and trade facilitation.
2. The Fund for Financing Technical Cooperation for Initiatives for Regional Infrastructure Integration (FIRII), created in 2005 to promote integration of physical infrastructure across borders, including the Mesoamerican Project.
3. The Regional Infrastructure Integration Fund (RIIF), which provides financial incentives for the preparation of strategic infrastructure integration in projects in Latin America and the Caribbean that complement the other funds. It has three thematic pillars: *i)* aid the development and harmonisation of regional regulatory frameworks; *ii)* strengthen institutional capacities for regional and global integration; and *iii)* support the preparation of physical infrastructure projects with a regional impact.

What do partners report as main challenges?

Responses from regional organisations to the OECD/WTO survey highlighted what they believe to be the most important impediments to trade, both in intra- and extra-regional contexts. The results are summarised in Table 2.1. In general, the survey reveals that competitiveness, limited export diversification and inadequate transport links are deemed to be the most significant impediments to intra- and extra-regional trade, with considerable overlap across the two categories. Soft and hard infrastructure-related issues appear across all regions, with trade finance and limited export diversification also being significant constraints for several regions, and standards and compliance issues appear frequently in especially the external trade of most African sub-regional organisations and CARICOM.

In addition, the responses highlight differences in perception between organisations even in the same region. For example, the three regional economic communities whose membership spans West African states answered quite differently regarding the most important constraints to intra-regional trade. The regulatory environment was a key constraint to intra-regional trade according to ECOWAS, and external trade for the Northern Corridor Transit Transport Coordination Authority (TTCA-NC), but this was not the case for SADC (or the Organisation of Eastern Caribbean States, OECS). Limited access to trade finance was significant for intra-regional trade for SADC and OECS and external trade for the latter. Competitiveness figured highly everywhere except in the case of ECOWAS. In addition, the cost of transport services was important for ECOWAS but not the other regional groupings. It is difficult to explain these differences in perception, but perhaps it is an interpretation problem; for example, the costs of transport services raise costs and reduce competitiveness.

In any event, according to the questionnaire the most important constraints affecting intra- and extra-regional trade pertain to trade-related policies and trade facilitation, trade finance, transport links, limited export diversification, and low regional demand. As is clear from the 2013 WTO-AU-UNECA surveys and the regional case stories (see elsewhere in this chapter), regional aid for trade has proven to be effective in addressing all these issues, with the exception of trade finance.

Table 2.1. **Overview of constraints to intra- and extra-regional trade**

Regional organisation	Most important constraints	
	Intra-regional trade	Extra-regional trade
CARICOM	– Competitiveness – Limited export diversification	– Competitiveness – Limited export diversification – Inadequate transport links – Standards compliance
CEN-SAD	– Low regional demand – Competitiveness – Limited export diversification	– Low regional demand – Competitiveness – Cost of export
ECOWAS	– Regulatory environment of doing business – Inadequate transport links – Cost of transport services – Limited access to trade finance	– Competitiveness – Limited export diversification – Standards compliance
OECS	– Competitiveness – Inadequate transport links – Limited access to trade finance – Standards compliance	– Competitiveness – Inadequate transport links – Limited access to trade finance – Standards compliance
SADC	– Low regional demand – Competitiveness – Limited export diversification – Inadequate transport links – Customs and border procedures – Informal restrictions	– Competitiveness – Limited export diversification – Cost of export – Customs and border procedures – Informal restrictions
TTCA-NC	– Competitiveness – Regulatory environment for doing business – Inadequate transport links – Standards compliance – Customs and border procedures – Informal restrictions	– Competitiveness – Limited export diversification – Inadequate transport links – Cost of export – Access to trade finance – Standards compliance – Customs and border procedures – Informal restrictions
UEMOA	– Standards compliance	– Standards compliance

Source: results from OECD-WTO questionnaire.

The promotion of regional production networks has great potential to address these constraints. First, as noted above, attracting these networks requires a strong priority attached to lowering costs at and behind the border, which is where these revealed impediments lie. Second, production networks themselves allow for diversification of exports particularly as countries begin to move up the value chain.

Case stories of regional aid for trade promoting value chains

The above analysis stresses the critical importance of international trade and FDI in development strategies, and how production networks have been a key factor in deepening the integration process and trade-FDI links. Regional production networks are driving the economic co-operation process (i.e. the "flag is following trade", rather than "trade following the flag" as in the past). In turn, these production networks allow countries to participate in – and eventually move up – value chains, with pervasive salutary effects for socio-economic development, ranging from reducing poverty to emerging from the "middle-income trap".

Each of the projects included in the OECD-WTO case stories and the case studies in this study has a direct or indirect bearing on improving prospects for integration into value chains. However, there were also several case stories that identified the promotion of value chains as their primary purpose.

For example, the Exports Promotion & Enterprise Competitiveness for Trade (ExPECT) Initiative, directed by ECOWAS, was launched in 2010 to develop and promote high export potential value chains. The EXPECT programme was designed to ensure the region's ownership and the sustainability of PACT II (Programme for Building African Capacity for Trade). The Initiative aims to create and strengthen the technical, managerial and institutional structures and capacities to help achieve the region's trade-related development agenda in the area of value chains. Thus far, the project has led to a large financial commitment from the ECOWAS Commission and ICT/PACT II for implementation support for 2011-13; the development of a results-based 2011 work plan developed by ECOWAS-10; and a mango value chain analysis that involved both the private and public sectors from the region in order to develop a regional mango strategy, among others. In 2011, the programme was scaled up to include implementation of clusters to increase SME competitiveness in the EXPECT-selected value chains for mango, cashew and palm oil; validation of the regional mango strategy at the national level, and completion of the process for a second good; and the first ECOWAS Export Actors Forum to discuss priorities for export value chain development and competitiveness.

In sum, the analysis in the subsection suggests that:

- regional production networks are becoming increasingly important to the success of the trade agenda of developing economies
- participating in regional production networks can serve to reduce poverty, increase employment, and eventually help countries move up the value chain
- outward-oriented regional economic co-operation can be used as an effective strategy to promote integration into value chains and enhance regional integration
- regional aid for trade can be an efficient protagonist of regional integration and value chains.

Meeting the regional challenge: Situating regional aid for trade in overall flows

The analysis in Chapters 1 and 2, *inter alia*, comes to the following conclusions: trade is essential to growth, development, and poverty reduction; developing and emerging markets face a number of binding constraints to trade and require significant improvements in trade-enabling areas such as trade facilitation, capacity building, and hard and soft infrastructure in order to exploit effectively the international marketplace on the demand-side and, especially, improve efficiencies on the supply-side; regional co-operation and integration have become increasingly important aspects of the international landscape of developing and emerging economies, particularly in the area of regional production networks; regional co-operation and integration can generate important positive benefits to these economies; and regional aid for trade can play an important and, in some cases, critical role as a catalyst for regional integration.

These conclusions beg the question as to the extent to which recipient and donor countries have thus far responded to this need for regional aid for trade. How have regional aid-for-trade flows fared in terms of growth in aggregate (nominal) flows? How have they fared relative to overall aid-for-trade flows? Which sectors are receiving the most regional aid-for-trade flows? And have there been significant regional differences in the distribution of aid-for-trade flows at the regional level?

This section looks at regional aid for trade "by numbers" using data from the OECD-DAC Credit Reporting System (CRS) Aid Activity database. It maps and analyses changes in regional aid-for-trade flows in absolute and relative terms and reviews which sectors have been receiving the most regional aid for trade. Consistent with other OECD/WTO aid-for-trade studies, average flows over the period 2002-05 are used as the benchmark. The review shows that regional aid-for-trade flows have been increasing over time but not to the extent one would expect given the rising importance of regional integration and co-operation in developing countries. Regional aid for trade has the potential to do much more.

After completing these diagnostics, Chapter 3 focuses on how to augment aid for trade flows and improve performance and considers how countries can best mainstream regional aid for trade in national planning. A few *caveats* are in order before beginning. First, it is not always clear whether a specific aid flow should be categorised as aid for trade (as opposed to some other form of aid) and it is sometimes equally difficult to ascertain if an aid flow is regional or not. The study does the best it can employing CRS conventions. Second, in the mapping and analysis below, references are to disbursement data, rather than commitments. This is because the former tend to be more economically meaningful. However, commitments data do offer useful information about policy intentions; hence, although the analytical focus is on disbursement, the corresponding charts on commitments are included in the annex.

Global aid for trade flows

The world has been hit by two major crises over the past 5 years. First, what is being called the "Great Recession" began with a financial crisis in the United States in 2008.[12] Second, the European Sovereign Debt Crisis began in earnest in 2010, i.e. just as the global economy seemed to be rebounding from the Great Recession. These two shocks have been extremely costly to OECD economies in terms of lost economic growth, rising unemployment, and a deterioration of social indicators in some countries. While 2014 commenced with hopeful signs of recovery in the United States and some countries in the

Eurozone, prospects are still uncertain, with unemployment continuing to rise in key economies.[13] Importantly, the two crises have combined to create severe fiscal problems throughout the OECD: the United States has run up fiscal deficits of over USD 1 trillion *per annum* for the past four years; Japan continues to have by far the highest debt-to-GDP ratio in the OECD at over 200%; and the European Debt Crisis needs no elaboration. The result has been pressure to cut back on government spending throughout the OECD, including with respect to development assistance. Nevertheless, OECD governments were able to protect their ODA disbursements: Total net ODA from the DAC fell from USD 123 billion in 2005 to USD 107 billion in 2007, but then rebounded to USD 128 billion in 2010 before falling slightly to USD 125 billion in 2011, coming to 0.31% of GDP of DAC countries. [14]

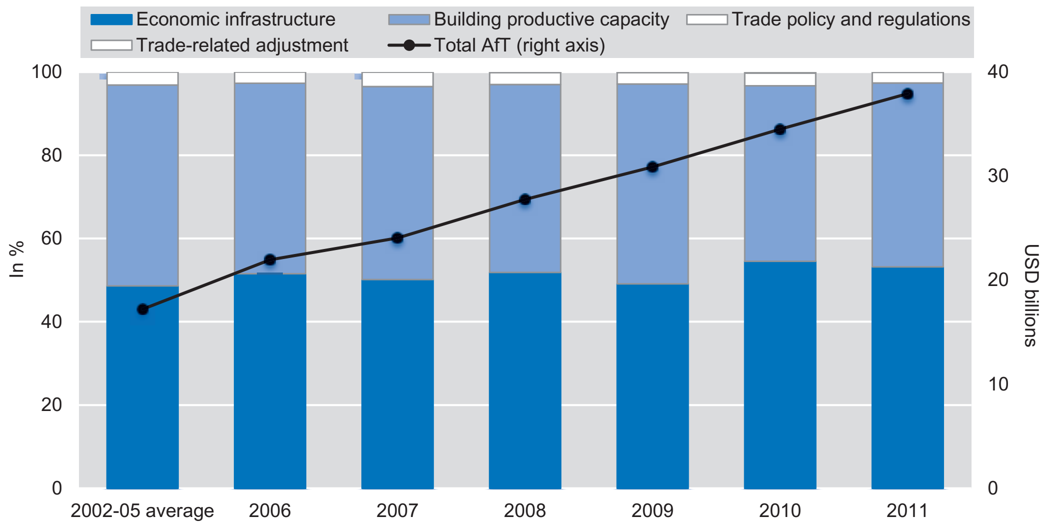
Total aid-for-trade flows have also been rising over time (Figure 2.1). Perhaps this shouldn't be surprising, given that it the Aid for Trade Initiative is relatively new. However, the rapid increase in aid-for-trade disbursements attests to the fact that DAC countries have been convinced of its overall effectiveness, as documented in OECD/WTO publications *Aid for Trade at a Glance*. From an average of about USD 17 billion over the 2002-05 period, flows more than doubled to nearly USD 38 billion in 2011. As also shown in Figure 2.1, there have been changes in the sectoral distribution of these flows: while over 2002-05 "economic infrastructure" and "building productive capacity" roughly took equal shares (and together 97% of the total), in 2011 disbursements on economic infrastructure increased relative to building productive capacity. The shares of "trade policy and regulations" and "trade-related assistance" have remained at nearly the same level over time and continue to constitute a very small slice of the aid-for-trade pie.

Although regional and sub-regional aid for trade – as defined in CRS – constitutes a relatively small share of total aid-for-trade flows, it has been rising impressively. In 2002-05, total disbursements under regional and sub-regional aid for trade came to USD 1.5 billion (on average). In 2011 they rose to USD 6 billion. Hence, the share of regional and sub-regional aid for trade in total aid for trade has grown significantly from about 9% in 2002-05, reaching a high of 17.5% in 2008 and nearly 16% in 2011. While total aid-for-trade flows grew by 72% over the 2006-11 period, regional and sub-regional aid for trade increased by an impressive 135%.

At the sectoral level, there are significant differences in regional and sub-regional aid-for-trade flows compared to overall aid for trade. Since aid for trade has been monitored, building productive capacity has always been by far the most important component of regional and sub-regional aid for trade. The share of disbursements to this sector remained fairly stable over the period 2002-09, in the range of 69-74%. However, building productive capacity experienced a decline of roughly 18 percentage points from 2009 to 2010, mostly in favour of economic infrastructure and, to a lesser extent, trade policy and regulations. Economic infrastructure accounts for a much larger share of disbursements at the global level (between 48 and 54%) than at the regional and sub-regional level (between 14% and 20% over 2002-09 and nearly 29% in 2011). As in the case of total aid for trade, trade policy regulations comprise a relatively small share of total and regional and sub-regional aid-for-trade disbursements and in both cases trends have remained stable over the period 2002–2010, representing roughly 3% and 10% of flows, respectively. Trade-related adjustment as a share of total disbursements is negligible in both cases.

Figure 2.1. **Share of total aid for trade disbursements, by sector**

In % (left axis) and USD billions (2011 constant, right axis)

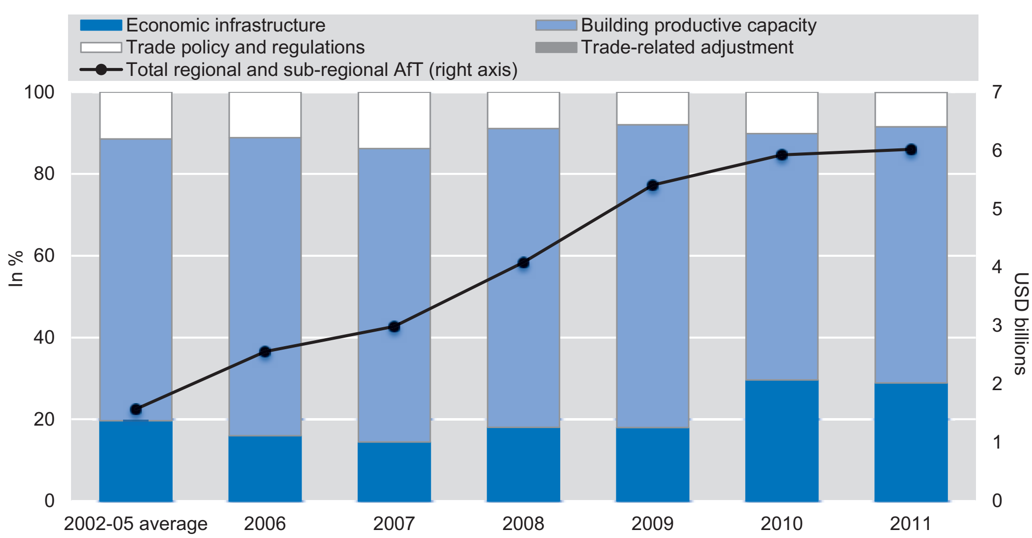


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.2. **Share of regional and sub-regional aid for trade disbursements, by sector**

In % (left axis) and USD billions (2011 constant, right axis)



Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

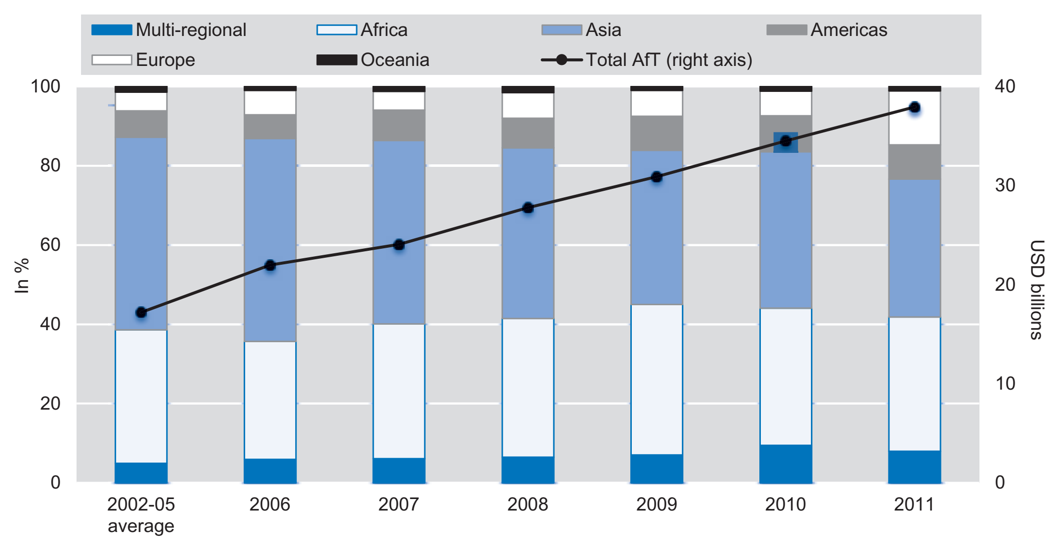
Regional aid for trade flows

The distribution of aid-for-trade disbursements differs widely across the total and regional and sub-regional categories, as one would expect given the nature of regional and sub-regional flows (Figures 2.3 and 2.4). The starkest difference is predictably found in the multi-regional category, which constituted over 50% of regional and sub-regional flows but only 5-9% of total aid-for-trade disbursements. The multi-regional category reflects projects related to: South-South co-operation, which as noted above, has been increasing in importance in recent years; and multi-country aid-for-trade flows allocated to countries with similar needs but not determined by geography. In total aid-for-trade flows, Asia has always been the largest recipient, but its share has been falling over time, from about 50% in 2006 to 35% in 2011.

In comparison, at the regional and sub-regional level, the share of aid-for-trade disbursed to Africa ranged from three to four times that disbursed to Asia (with the exception of 2006), rising to 5 times the share disbursed to Asia in 2013 – shares of regional and sub-regional aid-for-trade disbursements range from 4 to 16% in Asia compared to 15-42% in Africa. This is no doubt a reflection of the many bilateral and sub-regional regional trading agreements, including but not limited to FTAs, that have been increasing in number in Africa in recent years.[15] Asia, in contrast, has been somewhat less active in this regard. Regionalism in Asia frequently involves agreements with developed and/or emerging markets whereas African initiatives have been based primarily on South-South co-operation. Still, the large differences are surprising. The share of disbursements to Europe, the Americas, and Oceania are relatively small and similar in size at both total aid-for-trade and regional and sub-regional levels, even though fluctuations in disbursements within regions tend to be larger at the former level.

Figure 2.3. **Share of total aid for trade disbursements, by region**

In % (left axis) and USD billions (2011 constant, right axis)



Note: Data extracted 5 December 2013.

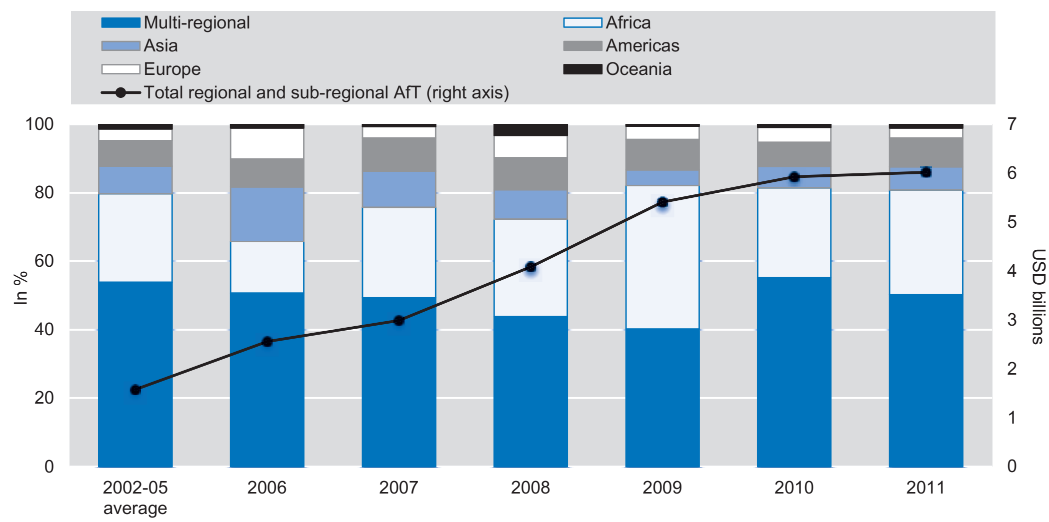
Source: OECD-DAC, *Aid activities database* (CRS).

Details on regional shares of total aid for trade flows

For all regions, economic infrastructure and building productive capacity are the most important sectors at both the aggregate and regional level; trade policy and regulations and trade-related adjustment are negligible by comparison in all regions (see Figure 2.5). The distribution between aid categories differs, however, depending on the region in question. For Africa, aid-for-trade disbursements to economic infrastructure and building productive capacity are fairly evenly distributed, whereas the former is more important than the latter in Asia, Europe, and Oceania. In the Americas, aid-for-trade disbursements to building productive capacity outweigh those to economic infrastructure.

Figure 2.4. **Share of regional and sub-regional aid for trade disbursements, by region**

In % (left axis) and USD billions (2011 constant, right axis)

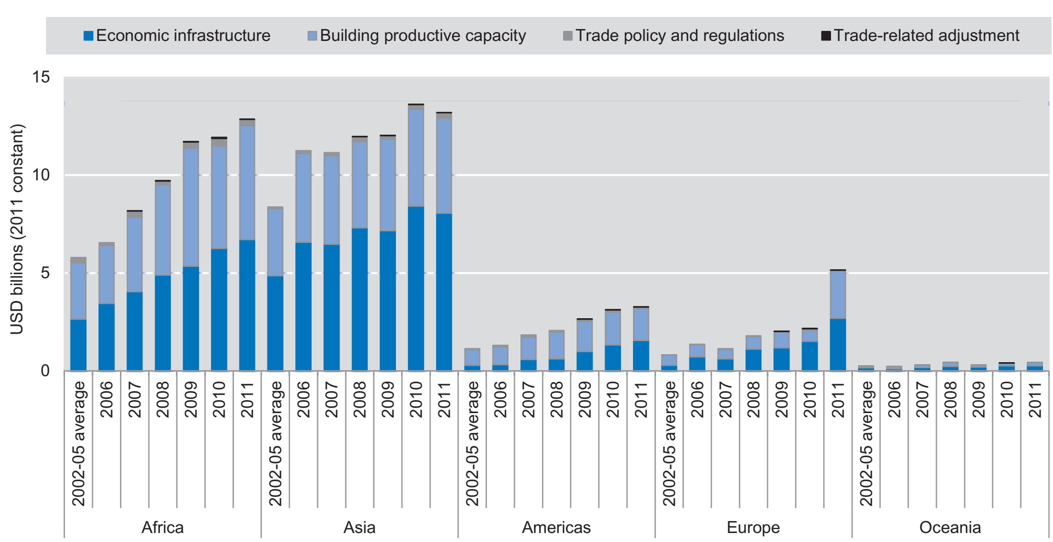


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.5. **Total aid for trade disbursements, by region and category**

USD billions (2011 constant)



Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

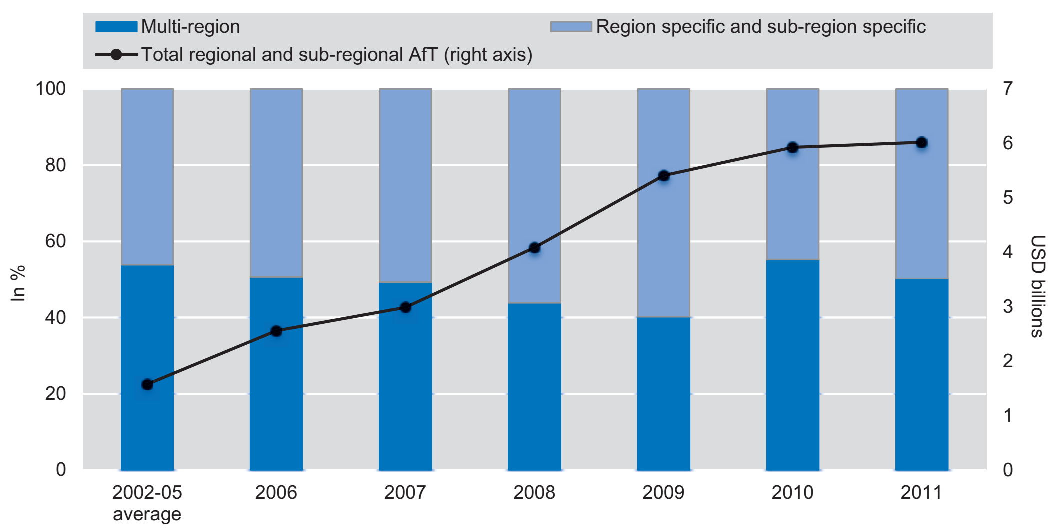
Regional and sub-regional aid for trade

Figure 2.6 breaks down regional and sub-regional aid-for-trade flows into "multi-region" and "region and sub-region specific" categories. In 2011, the distribution was roughly equal. This is consistent with the 2002-05 benchmark years but in contrast to the 2008-09 period when region and sub-region specific flows received a greater share, in the range of 56-60%.

Figure 2.7 highlights that, of the region and sub region specific disbursements, Asia consistently received the smallest share as a percentage of total regional and sub-regional aid-for-trade flows, between 1% and 4%. In 2011, Europe also accounted for approximately 3%, with the other regions accounting for roughly 15% each. While Asia and the Americas experienced few fluctuations in their share, Europe, Africa, and Oceania have varied significantly throughout the period.

Figure 2.6. **Regional and sub-regional aid for trade disbursements, by regional category**

In % (left axis) and USD billions (2011 constant, right axis)



Note: Data extracted 5 December 2013.

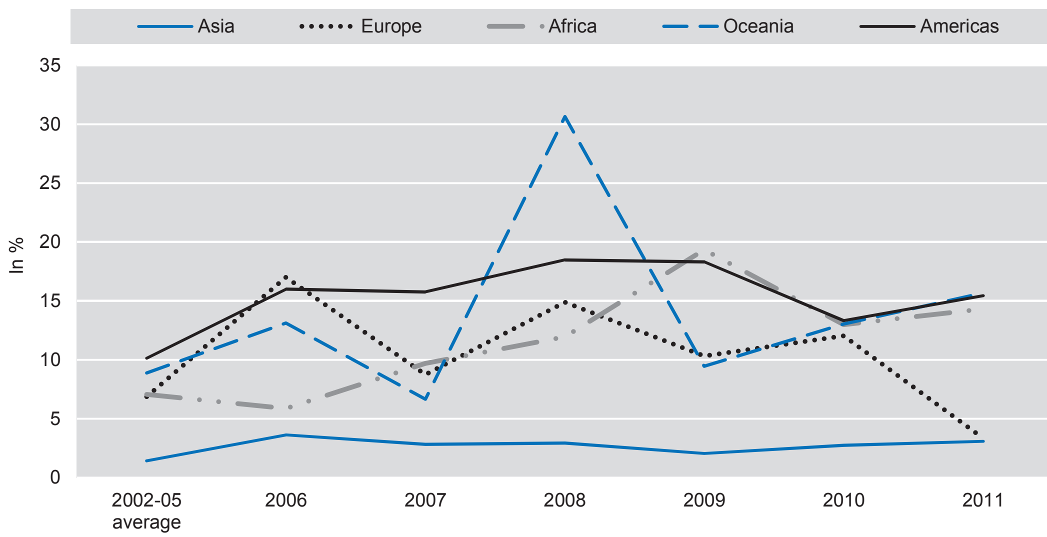
Source: OECD-DAC, *Aid activities database* (CRS).

In sum, total and regional and sub-regional aid for trade flows have continued to grow over the past decade, despite the many fiscal challenges facing OECD countries. The share of regional and sub-regional aid for trade in total aid for trade flows has been growing over time, rising to nearly 16% in 2011. Nevertheless, with an aggregate value of less than USD 6 billion, regional aid for trade continues to be relatively small, particularly given its potential noted above.

The composition of these flows has changed somewhat over time, but the building productive capacity and economic infrastructure sectors have consistently dominated all types of flows, with the former being the most important at the regional and sub-regional level and the latter at the total level. The literature on "binding constraints to trade" summarised above would certainly suggest that the focus on building productive capacity and economic infrastructure is well-merited, and case studies and the case studies display a number of successful projects in these areas. Still, as reviewed above, trade-facilitation-related areas, more efficient and practical accommodating policies, and facilitating structural change are increasingly important to successful development strategies in general and regional co-operation and integration in particular. Hence, there is ample room for greater attention to the trade policy and regulations – particularly in light of the Bali WTO agreement in December 2013 – and the trade-related adjustment categories.

Figure 2.7. **Share of region specific and sub-region specific aid for trade disbursements**

In % of total regional and sub-regional aid for trade



Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Numbers are useful, but they only tell part of the story. Certainly, increasing disbursements does not necessarily guarantee better results. There needs to be a strong emphasis on the *effectiveness* of aid. Indeed, the DAC has placed an increasing stress on getting "the biggest bang for the buck" through improved results from development assistance. The Paris Declaration on Aid Effectiveness (2005) aims at creating a "practical, action-oriented roadmap to improve the quality of aid and its impact on development".[16] It stresses the principles of ownership, alignment of objectives, harmonisation, results and mutual accountability.

Consistent with this results-oriented approach, Chapters 3-6 focus on the multidimensional, practical aspects of designing strategies and implementing regional aid for trade projects and programmes. Given the complicated nature of implementation issues related to regional aid for trade, this requires input from a wide-variety of sources and stakeholders. The study reviews existing case stories and other sources of practical input on regional aid for trade projects; surveys the literature on the complications associated with mainstreaming regional aid for trade in national development plans; canvasses the views of stakeholders in recipient and donor countries; and carried out regional stakeholder consultations in order to get a complete picture of how to best create and implement practical, high-impact regional aid for trade projects.

Notes

1. All agreements that have been notified to the WTO can be found at: www.wto.org/english/tratop_e/region_e/region_e.htm.

2. "Trade deflection" refers to the possibility of non-member economies' diverting exports to the lowest-tariff country in an FTA.

3. A formal approach to this changing reality was developed in the "endogenous tariff" literature.

4. Kimura and Obashi (2011) offers an extensive survey of the literature.

5. In the actual Petri et al. (2012) publication, the RCEPT calculations only include the "ASEAN+3" economies, that is, ASEAN, China, Japan, and South Korea; and the TPP simulations do not include the three members that have joined over the past year, i.e. Canada, Mexico and Japan. However, the website supporting the book (www.asiapacifictrade.org) includes numbers for RCEPT ("ASEAN+6") and the TPP 12.

6. Available at: www.afdb.org/en.

7. See, for example, ADB-ADBI (2013).

8. While the response rate to the partner questionnaire was fairly good with 30 countries responding, many of the questions only included a fraction of the total, with most questions having only about five respondents.

9. OECD (2009), Chapter 2, gives a good overview of EU assistance to African countries in implementing EPAs.

10. For details on the Single Market and Economic, see: www.caricom.org/jsp/single_market/single_market_index.jsp?menu=csme.

11. www.sice.oas.org/SICA/bkgrd_e.asp.

12. There is no consensus as to when the Great Recession began. Most cite the financial fallout of the collapse of Lehman Brothers in September 2008; others, however, suggest that the fall of Bear Stearns in March 2008 would be more appropriate.

13. For example, at the end of 2013, unemployment in Italy rose to 12.7%, the highest level in 36 years, and youth employment increased to 41%.

14. OECD Aid Statistics, www.oecd.org/dac/aidstatistics/final2011oda.htm, and http://webnet.oecd.org/dcdgraphs/ODAGNI, accessed 11 January 2013.

15. See, for example, surveys of these initiatives at the African Union's website: www.au.int/en.

16. www.oecd.org/dac/aideffectiveness/parisdeclarationandaccraagendaforaction.htm.

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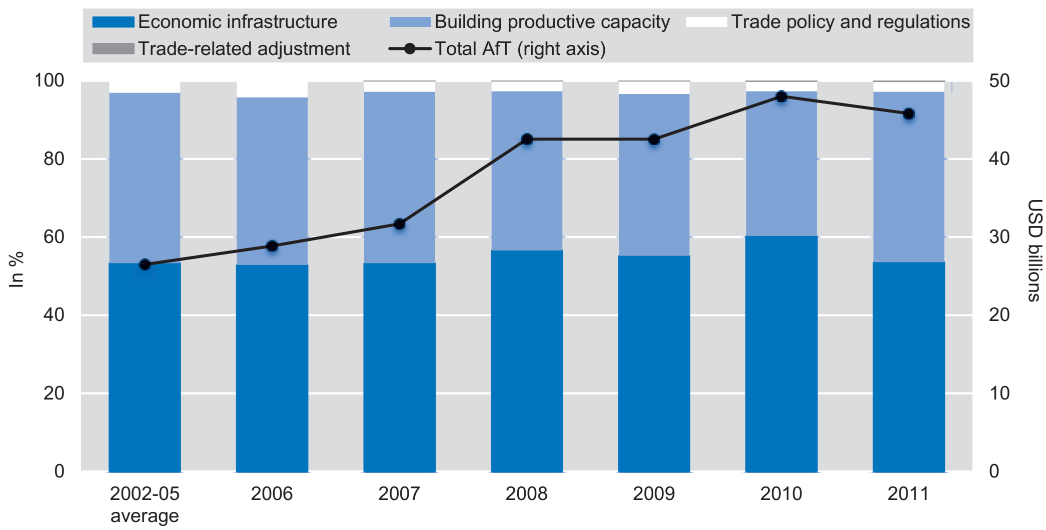
Petri, Peter A., Michael G. Plummer and Fan Zhai (2012), "The economic impact of the ASEAN Economic Community: An applied general equilibrium approach", *Asian Economic Journal*, Vol. 26, No. 2, pp. 93-118.

Annex 2.A1
Regional aid for trade flows by commitments

Figure 2.A1.1. **Share of total aid for trade commitments, by sector**

In % (left axis) and USD billions (2011 constant, right axis)

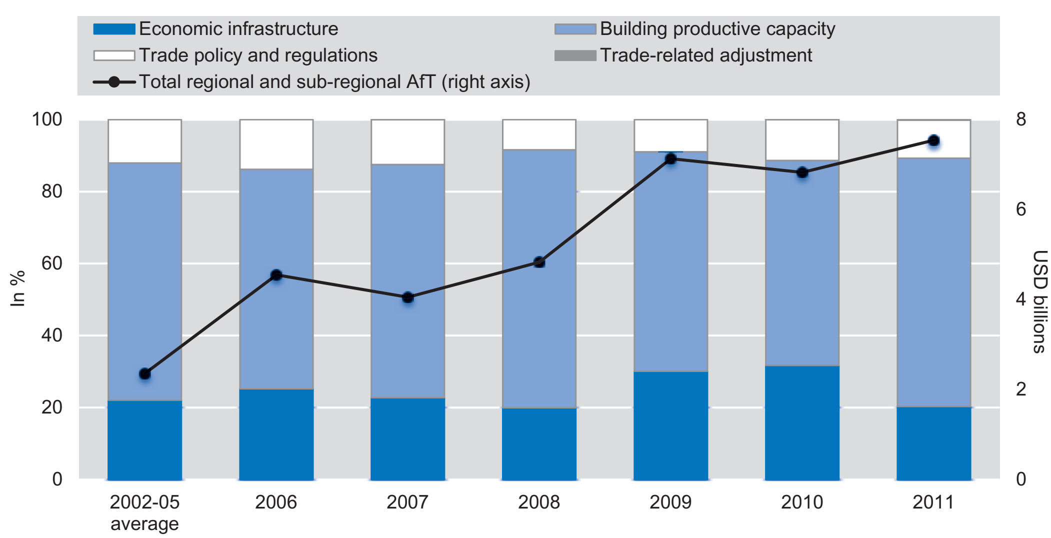


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS)

Figure 2.A1.2. **Share of regional and sub-regional aid for trade commitments, by sector**

In % (left axis) and USD billions (2011 constant, right axis)

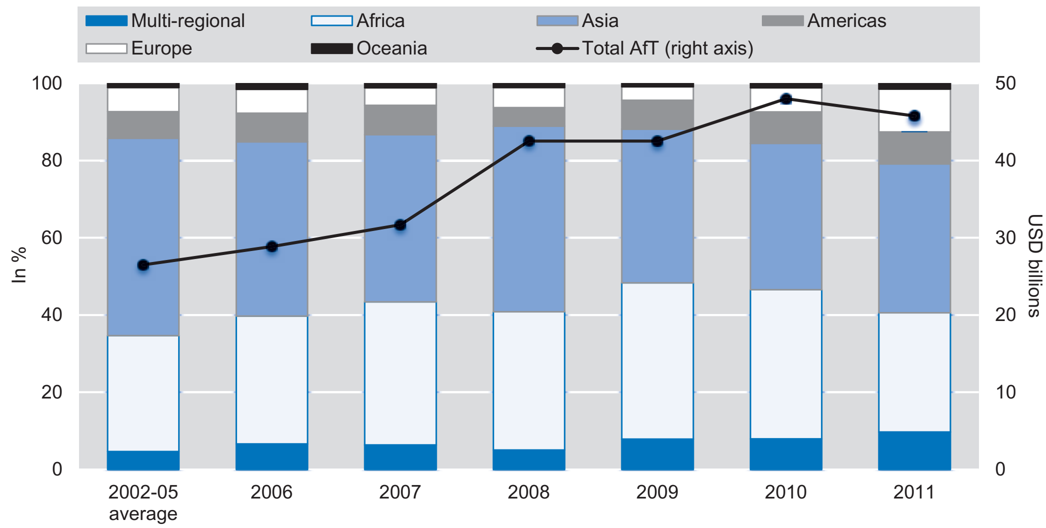


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.A1.3. **Share of total aid for trade commitments, by region**

In % (left axis) and USD billions (2011 constant, right axis)

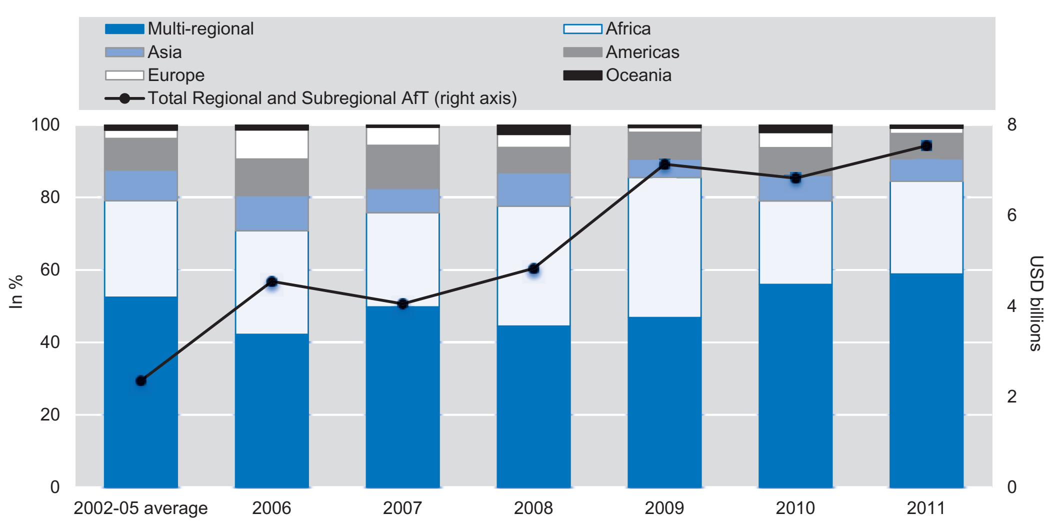


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.A1.4. **Share of regional and sub-regional aid for trade commitments, by region**

In % (left axis) and USD billions (2011 constant, right axis)

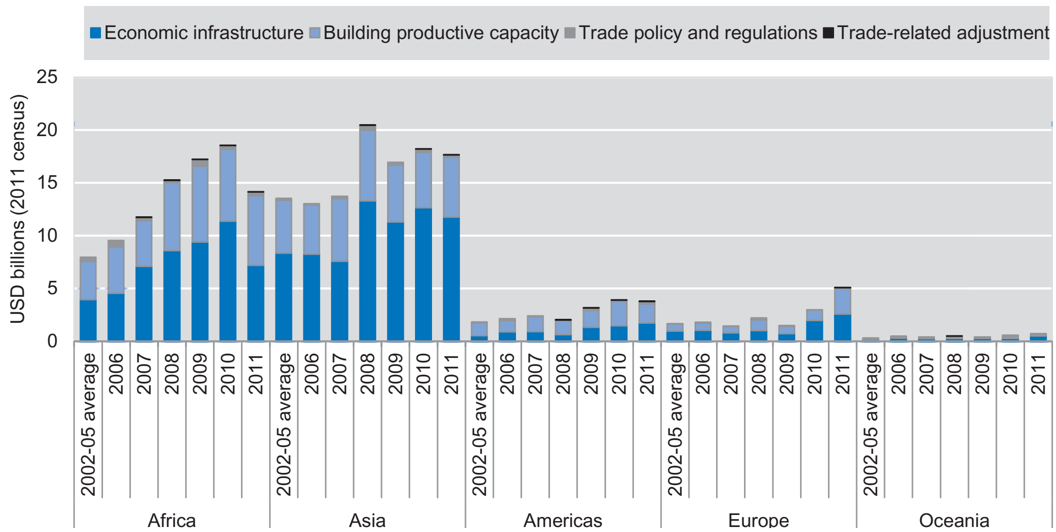


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.A1.5. **Total aid for trade commitments, by region and sector**

USD billions (2011 constant)

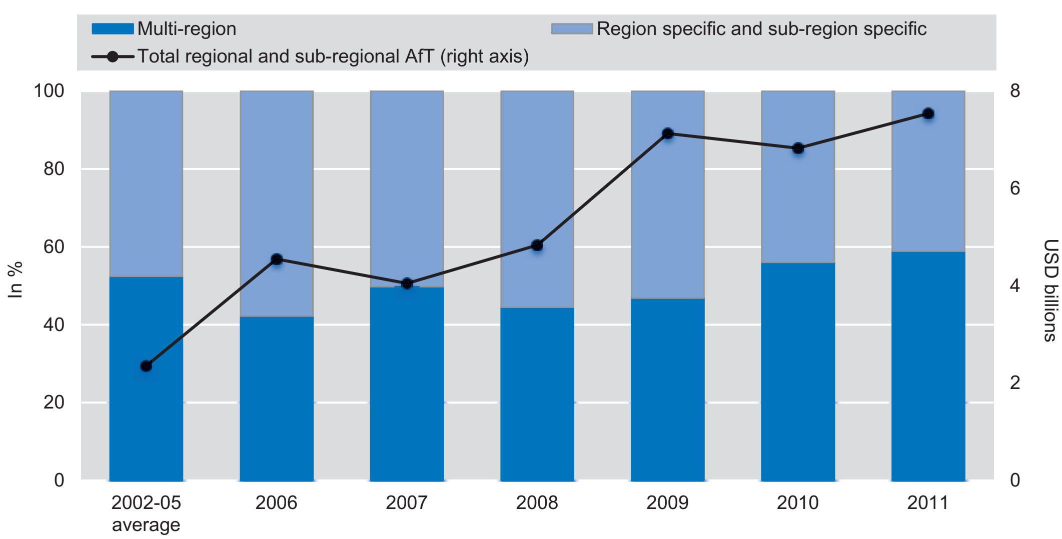


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.A1.6. **Regional and sub-regional aid for trade commitments, by region**

In % (left axis) and USD billions (2011 constant, right axis)

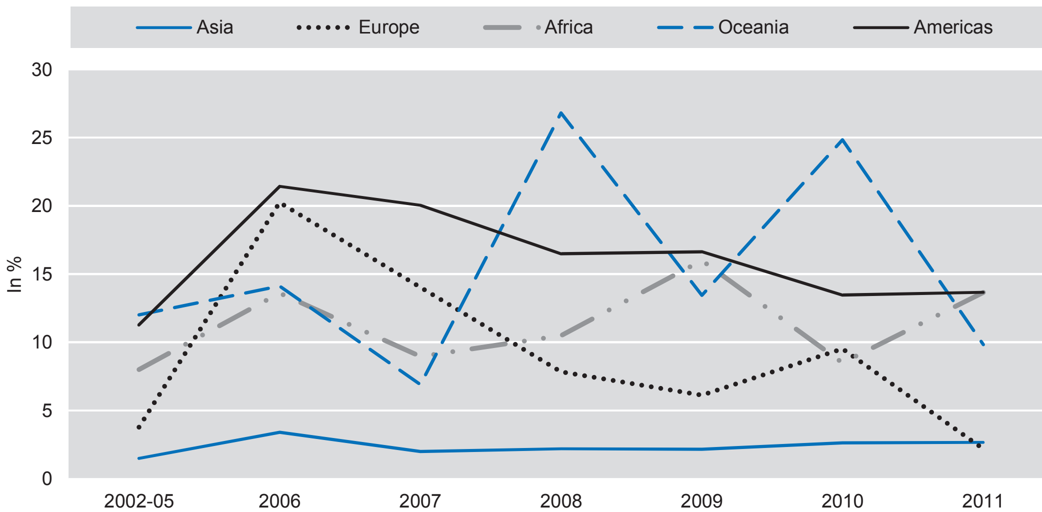


Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Figure 2.A1.7. **Share of region specific and sub-region specific aid for trade commitments**

In % of total aid for trade



Note: Data extracted 5 December 2013.

Source: OECD-DAC, *Aid activities database* (CRS).

Chapter 3

Strategies for mainstreaming regional aid for trade

This chapter studies the insights gained from the case stories undertaken for the Global Review of Aid for Trade 2011, the three case studies undertaken for this study (and included in Chapters 4-6), stakeholders consultations, and expert group meetings in order to delineate "best practices" in designing, mainstreaming and implementing regional aid for trade. While there is a good deal of regional diversity at the sub-regional level, a number of common threads emerge, including that regional aid for trade has, in fact, been to date effective in all regions and continues to have great potential for using efficiently development assistance resources, but that it is underfunded and faces a variety of obstacles that need to be overcome, from a stronger stress on ownership to inclusion of the private sector in regional aid for trade initiatives.

Introduction

A strong case in favour of regional aid for trade is made in Chapters 1 and 2. However, the chapters also stressed that the potential of regional aid for trade requires effective development planning in which regional projects are mainstreamed effectively in national development programmes. Herein lies the crux of the problem; it is often difficult for national governments to devote scarce financial resources to projects with strong externalities but whose benefits cannot be appropriated nationally. This is an issue akin to the type of problem that comes up quite frequently in 'public choice' decisions. For example, there are strong reasons for countries to control greenhouse gases; yet, doing so can be expensive and the benefits from related actions are often medium-long term in nature and benefits are shared globally. Theory would predict in such a case that governments would underinvest in such mitigation and, alas, this has been the case globally. So it is with regional aid for trade. Consequently, most of the focus in the aid for trade initiative has been at the national level, as underscored in the review of aid for trade flows at the end of Chapter 2. Instruments to support multi-country and regional programmes are much less well developed and funded.

National planning authorities have increasingly included trade in their development planning priorities, and aid for trade has been a part of this trend. However, incorporating regional initiatives is more complicated, and devoting resources to regional plans – where they exist – are well behind policy initiatives to expand regional co-operation and integration. The goal of this chapter is to devise effective ways to develop strategies and mainstream regional aid for trade into national development planning in order to maximise its impact, deepen regional co-operation, and expand regional integration.

The chapter starts by studying the regional case stories that were carried out as part of the Global Review of Aid for Trade 2011 (a full review of multi-country and regional case stories is provided in the annex to Chapter 3). The next *s*ection surveys the main conclusions from the case studies of ASEAN, ECOWAS, and Mesoamerica undertaken for this study, offering new insights from field research and myriad stakeholder consultations in each region, as well as several conferences at international fora and expert-group meetings. After that the chapter summarises and synthesises conclusions and lessons learnt from the case stories, case studies, and stakeholders consultations. Hence, this chapter offers a good sense of how regional aid for trade can be designed creatively and efficiently and then mainstreamed into national development plans so as to maximise the impact from resources devoted to it.

Regional aid for trade summary and synthesis of the case stories

In July 2010, the OECD and WTO solicited case stories for the Global Review of Aid for Trade 2011 from interested stakeholders. The goal was to document the experiences and lessons learnt from aid-for-trade policies implemented by donor countries, international organisations, multinational and regional development banks, and other interested organisations, with the aim of developing a deeper understanding of actual aid-for-trade projects, learning from their strengths, and taking note of their weaknesses. Approximately 269 case stories were recorded, including 34 from LICs, providing a rich documentation of how these initiatives are working 'on the ground'[1].

About 10% of the case stories submitted could be classified as multi-country or regional aid for trade projects, somewhat less than the share of regional aid for trade in total aid-for-trade flows in 2010. The results from all multi-country and regional aid for trade case stories are summarised in the annex to this chapter but some of the more interesting projects (for the purposes of the study) are analysed below. They are classified according to the sector under which they fall in the CRS classification (see Chapter 2): Economic Infrastructure; Building Productive Capacity; and Trade Policy and Regulations.[2]

Once again it is important to underscore a few *caveats* before beginning. First, it should be noted that projects can often significantly overlap across more than one category. For example, economic infrastructure projects inevitably require accompanying efforts in capacity-building in order to sustainably maintain the infrastructure. This is not a problem, however; what is of greatest interest is the multi-country/regional nature of the project itself. Second, these are case *stories* as opposed to case *studies*; that is, they tend to be descriptive and informational rather than analytical. Moreover, while the case stories of the Global Review are often revealing and informative, the responses vary considerably in terms of their detail and descriptive insights, and often there are gaps in the information provided in the questionnaires. However, despite these inevitable shortcomings, the case stories are effective in showcasing the types of multi-country and regional aid for trade projects that have been undertaken thus far, highlighting successes and challenges, and offering lessons for the future. The results of the study's three case studies are summarised at the end of this chapter.

Economic infrastructure

Insufficient economic infrastructure is one of the key binding constraints to trade faced by emerging and developing economies, and LICs in particular. Poor economic infrastructure is one reason why developing countries tend to do poorly in the World Bank's "Doing Business in the World" survey; infrastructural bottlenecks, red tape, inefficient and idiosyncratic customs, and dilapidated 'hard' infrastructure reduce efficiency, increase costs, raise prices to consumers, and prevent the country from taking full advantage of international trade.

Problems related to economic infrastructure are, of course, significant in reducing productivity and efficiency at the national level, but associated inefficiencies and costs are compounded when engaging in international trade. Obstacles related to economic infrastructure explain why, for example, intra-regional trade in Africa has underperformed considerably (African Union, *Action Plan for Boosting Intra-regional Trade*). It is fitting that this category attracts the largest share of total aid for trade flows and the second largest for regional aid for trade.

From the case stories, it is clear that regional aid for trade-related economic infrastructure projects and programmes must unavoidably rely upon close multi-national co-ordination, and this creates a veritable web of various government agencies and external stakeholders whose relationships need to be closely managed, requiring a careful balancing of their political and economic interests. Gaining traction with so many stakeholders and maintaining momentum is difficult, increasing the importance of high-level political commitment and support. Sometimes the limited availability of competent local companies who can adhere to the construction standards expected from donors creates a dilemma about whether to use local or international suppliers, a concomitant issue of cost, and, if significant capacity-building of local suppliers is not a component of the project, the danger of scope-creep. Economic infrastructure invariably requires some form of ongoing funding and accompanying capacity-building measures in order to ensure that they are managed effectively and sustainably into the future, but also to fully realise the potential gain that can be delivered by removing bottlenecks, developing critical transport corridors, and strengthening information and communication technology backbones.

Chirundu One Stop Border Post[3]

Chirundu is a border post on the Zambezi River between Zambia and Zimbabwe. It is the busiest border crossing in Zambia, being the preferred point of entry for commercial traffic originating from South Africa and other southern African countries, as well as to and from central and eastern Africa. On a typical day Chirundu was handling an average of 270 trucks a day, and was characterised by great congestion, duplicated administration, and long delays in the processing of goods and people. Average transit times for northbound traffic ranged between 26 and 46 hours, while transit times for southbound traffic ranged from 6 hours to 17 hours. In addition to issues of poor infrastructure, there were over twenty government agencies across both sides of the border attempting to enforce individually legislation related to transit at the time the programme began in 2009.

The aim of the programme was to improve efficiency in border management and operations to reduce the time and cost of crossing the border by combining the activities of the Zambian and Zimbabwean border agencies, redesigning border infrastructure and establishing a Common Control Zone. As a result of the project, a new road and bridge have been constructed at the border, and new commercial and passenger terminals have been built. Larger volumes of traffic can now be handled more quickly and efficiently, revenue collection and passenger traffic have increased, and fraud has decreased.

The programme created committees at the bi-national, national, and sub-national levels in order to deal with legal matters, reach agreements on facilities and customs procedures, and achieve inter-operability with communication and information technology. Additionally, inter-agency and bi-national organisational structures were created in order to manage the border post in the future. Sequencing was occasionally an issue, with the construction of some facilities being undertaken before any accompanying systems or procedures had been established. The strong support of both governments was a key factor in the success of the programme, although bringing all stakeholders on board from so many government agencies as well as facilitating co-ordination between them all posed constant, major challenges to the project.

Almaty-Bishkek Regional Road Rehabilitation Project

The aim of the project was to rehabilitate 226 kilometers of regional roads that connect the capital cities of Almaty in Kazakhstan and Bishkek in Kyrgyzstan in order to support trade and economic growth. Co-financed by the Asian Development Bank and the European Bank for Reconstruction and Development, the project also funded the improvement of customs facilities at the Akzhol-Chu border crossing, provided road maintenance equipment to Kazakhstan, supported the development of a Cross Border Agreement between Kazakhstan and Uzbekistan, and offered technical assistance regarding areas related to implementation of the Agreement.[4] The trade of goods at Akzhol-Chu has increased by 38% from 2000 to 2007, at least in part due to the road rehabilitation and customs improvements.

The Ministries of Transportation of the two countries were responsible for implementation of the project, including procurement and implementation of contracts, with two supervision consultants appointed. There were significant delays in the project's implementation caused by lack of capacity in procurement, postponements in disbursements caused by delays in signing the Cross Border Agreement, and concerns about the quality of work performed by contractors.

Building productive capacity

From the case stories, it is clear that engaging and mobilising the private sector is key but also a constant challenge when building regional productive capacity.[5] Moreover, being able to successfully co-ordinate so many stakeholders in the implementation of project activities again emerges as a salient challenge, underscoring that projects need to give a high priority to ownership. As one case story highlighted:

> It is critical for Aid for Trade programmes supported by donors to ensure [that] from the inception, [there is] a proper shift of ownership of results and responsibilities to regional institutions and actors, highlighting their role and contribution to what is perceived as successes in the making.[6]

Similarly, being able to effectively communicate both the relevance and potential benefits of building productive capacity projects to the private sector is an effective way to promote their engagement and create their 'buy-in'. Recognising the constraints facing the private sector in being able to participate in too many initiatives at once is important in setting realistic schedules of project deliverables and to avoid stakeholder 'fatigue'. Projects thus need to strike the proper balance between flexibility of timing and approach while managing to maintain a focus on outcomes.

Caribbean Rum Sector Program

Beginning in 2002, the initial Caribbean Rum Program was intended to run for four years, but was then extended and reached completion in 2010. The European Union financed Euro 70 million of the programme and Euro 75 million was co-financed by the rum sector. The purpose of the programme was to increase competitiveness within the sector against external lower-cost producers, as well as to move toward higher value products. The programme was successful, resulting in: the introduction of new brands into the EU market; 11 energy and conservation projects; the undertaking of 20 waste treatment projects; a EUR 68 million investment by companies in the region towards capital projects; and a 140% increase in tourist visits to rum facilities. In addition, since 2003 there has been a 20% increase in female employment in the sector and a 40% increase (or USD 250 million) in tax revenue from participating producers. Interestingly, another result related to increased interaction between CARICOM producers and those in the Dominican Republic and Haiti, which has helped to increase their collective bargaining power as well as the development of a Caribbean rum brand.

The programme worked closely with the private sectors in each of the CARICOM member states, including stakeholders in the sector in both the development of the programme and in its implementation. The original four-year time frame of the programme was considered too short for its objectives, which was problematic as many of the projects required studies prior to investment and implementation. Had the problem been originally planned for eight years (rather than four plus four), firms may have been able to plan more effectively. Moreover, the initial co-financing requirements were considered to be too high, preventing the full utilisation of the programme until they were successfully adjusted downwards. However, perhaps this is to be expected given that the programme was new and innovative, requiring a tatonnement process in negotiations. Further, the sequencing of projects was also a challenge because firms were required to undertake many different large projects simultaneously, but with limited financial and human resources. The flexibility of the donor in the timing and funding of the project, as well as in the project approval process, use of grant funds, and ability to bypass certain requirements with using particular suppliers, were all cited as the key factors to the success of the programme.

Exports Promotion & Enterprise Competitiveness for Trade

ExPECT was launched in 2010 to develop and promote non-oil value chains. The promoted value chains were chosen for their high export potential and their potential for regional integration within ECOWAS. With a combination of the International Trade Centre (ITC) market analysis tools and the advice of ECOWAS experts, five high export potential value chains were selected for support (mangos, cashews, palm oil, sesame, and shea nuts). With support from the ITC, the programme created and strengthened the technical, managerial and institutional structures and capacities required to reinforce the competitiveness of these value chains, as well as to empower SMEs operating within them. This required the development of export strategies, appropriate entrepreneurial skills and knowledge, and establishing sustainable public-private partnerships for the empowerment of value chain actors.

A particularly significant outcome to date was the creation of 'ECOWAS-TEN', a trade and enterprise experts' network that has been registered and inserted into the networks of 14 country focal points. It has since begun conducting research, including a participative value chain analysis of the mango industry that has involved private value chain actors and public support institutions from around the region that aims to inform the regional mango value chain strategy.

The programme faced challenges in engaging the private sector, especially in developing trust and common understanding between the public and private sectors regarding the potential benefits of export value chain development. Another challenge was to ensure that co-ordination between activities sponsored by different donors remained effective and created genuine synergies. The availability and reliability of trade-related, regionally consolidated data were also cited as constraints.

Ensuring the mobilisation of committed private sector actors ('champions') from the programme's inception was critical to its success, as was a systematic follow-up of the regional-level export strategies at the country-level. Similarly, the facilitative leadership provided by the ECOWAS Commission was essential to success, as well as the devolution of responsibility for implementation, and monitoring and evaluation of programme activities to value chain actors.

Trade policy and regulations

As noted in Chapter 2, the trade policy and regulations sector is relatively small compared to economic infrastructure and building productive capacity. It includes projects related to trade policy and administrative management; trade facilitation; regional trading agreements; multilateral trade negotiations; trade education and training; and tourism policy and administrative management.[7] In other words, this sector considers part of the "soft" infrastructure for regional co-operation and integration.

It is an extremely important area these days. Trade has become increasing complex, particularly in the new era of globalisation in which trade-related issues are pervasive. Multilateral trade negotiations under the DDA, for example, have become complicated and often quite technical, as this round deals with far more numerous and detailed areas than has been the case in the past. The complicated negotiations at the Bali WTO Ministerial in December 2013 and the difficulties now being encountered in fleshing out the details testify to this. The rapid increase in the number of regional co-operation accords – both between developed-developing and South-South – have also increased demands on negotiators.

Hence, regional aid for trade in the “trade policy and regulations” area can be important in facilitating intra- and inter-regional trade via improvements in policy design, capacity building in trade policy, and trade facilitation. While at present the allocation of regional aid for trade to trade policy and regulations is not high, it has great potential for the future, particularly as new configurations of regional trade arrangements emerge, e.g. the proposal for a pan-African FTA and the decision in November 2012 to launch a Regional Comprehensive Economic Partnership (RCEP) between 16 countries in Asia. Moreover, the potential gains from greater trade facilitation in multi-country and regional contexts will also render this area increasingly attractive in terms of aid for trade. As is clear from the case stories, projects falling under this category have already achieved significant results.

Institutional capacity building for trade policy: Lessons in sustainability

Founded in 1981, the OECS is an intergovernmental organisation comprising of seven eastern Caribbean nations: Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines; and two associate members. While the organisation plays many roles, a central concern is the economic harmonisation and integration of its membership.

The Economic Affairs Division has oversight of OECS trade policy. At the beginning of the project, the capacity of the Division was significantly constrained by the limited resources available to it, and thus was not able to focus effectively on issues relating to international trade. The staff dedicated to trade policy grew from less than one in 2000, when the programme began, to six individuals – three of whom are dedicated to WTO negotiations – by the end of the programme in 2006. Technical and financial support was provided by CIDA to allow the OECS to mainstream trade into its regional development strategy, creating a co-ordinating mechanism for managing regional trade affairs, developing a regional trade policy framework, and helping to create a stronger OECS presence in trade negotiations.

A critical element within the programme of institutional capacity building was the Trade Policy Project (TPP) which began in 1999 and was implemented starting in 2000. The project emphasised a strong co-ordinating presence at the OECS, supported by a mechanism that involved stakeholders in each of the member states. Activities involved the training of public and private sector officials; technical studies that included sector-specific research, legal analysis and development of policy frameworks; compliance with multilateral commitments; and support for negotiators to be present at key meetings.

Directly or indirectly, three bodies that manage trade policy have been created within the OECS as a result of TPP recommendations: *i)* the Trade Policy Unit (TPU), which assists member states to develop and implement trade policy; *ii)* the Trade Negotiations Group, which consists of trade officials and representatives of the private sector who then meet to provide guidance on trade policy issues; and *iii)* the Geneva Technical Mission, created by the OECS and supported by the TPP to increase participation in multilateral discussions. The TPU has led to regional submissions to the WTO and the development of harmonised offers in services and goods in bilateral negotiations.

A problem encountered by the project was the difficulty in engaging the private sector in its activities. This was not a question of funding since money was earmarked specifically to secure private sector representation. Therefore, the important lesson was that funding is not always enough to stimulate engagement. Another concern was many OECS members lacked the national funds to provide ongoing support to the various institutional capacity-building initiatives. While additional funds have been provided by the European Development Fund, the future of the mission is uncertain due to difficulties in sourcing long-term funding arrangements.

Support and endorsement for the programme directly from the OECS Heads of Government signaled a level of commitment that engendered high level of confidence in the donors, but also caused the project to be anchored within the regional secretariat, granting it direct links within the OECS organisational structure and the organisation's co-ordinating hub. Flexibility in responding to changing priorities of the OECS trade agenda was another component of the project's success.

Establishing a regional non-tariff barrier reporting and monitoring mechanism

Financed by DFID, this programme brought together the Common Market for Eastern and Southern Africa, the East African Community, and the South African Development Community to implement a web-based reporting system on non-tariff barriers, which includes a monitoring mechanism with concrete timelines for the removal of these barriers. The three regional economic communities had previously identified the non-tariff barriers, having already attempted to facilitate their removal prior to the programme. The information is available to government officials, the private sector, the secretariats of the regional economic communities, and academic researchers, all with differentiated levels of access.

National Monitoring Committees comprised of members from both the public and private sectors have been established at the national level. These Committees are responsible for determining the process by which the non-tariff barriers will be eliminated, setting out timelines for each stage of elimination, and also attempting to resolve any reported intransigence. The key challenges include closing the gaps in national-level implementation of regional policy, as member states often put off implementing certain aspects of policy in order to avoid implementation costs. Pursuing a particular course of action is complicated by the bureaucratic need to receive endorsement at a meeting of the regional economic communities for each and every case. In addition, member states often lack the financial and technical resources to remove the non-tariff barriers themselves – as such, a balance between the regional approach and the needs of member states is an imminently practical constraint.

Conclusions

The WTO Task Force on Aid for Trade considered regional integration as an area which could deliver particularly high returns to developing economies. Specifically it recommended that the international community should:

1. Strengthen the diagnosis of regional, sub-regional and cross-border needs; costing of related projects; preparation of project proposals; and the co-ordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes.

2. Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms, including those at the multilateral and regional levels, before considering new mechanisms. Any solution should involve all relevant stakeholders and give priority to existing regional integration programmes that lack funding.
3. Explore the merits of establishing a Regional Aid for Trade Committee, comprising sub-regional and regional organisations and financial institutions, to oversee the implementation of the sub-regional and regional dimensions of aid for trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation.

To what degree would the analysis in this study support these recommendations and suggest that these goals have been met? It is difficult to generalise regarding the experiences of regional aid for trade projects and programmes, as they are so diverse in terms of their objectives, contextual situation, country composition, and size. Still, according to the relevant empirical research evaluating regional aid for trade in the literature; the case-story projects and programmes reviewed above and in the annex to this chapter; the case studies prepared for this study; and a wider variety of stakeholder consultations undertaken throughout the world; it would appear that recommendations (1) and (2) have been met, and while there does not yet exist a Regional Aid for Trade Committee *per se*, similar regional and sub-regional institutions have emerged in Africa, Asia, and Latin America.

Indeed, while case studies and stakeholder consultations undertaken for this study offer a rich set of experiences regarding regional aid for trade projects and programmes, there does seem to be consensus that:

- multi-country and regional aid for trade offers great potential as a catalyst for growth, development and poverty reduction
- there are now documented many actual examples of regional aid for trade in action that underscore clearly that this has been the case in all regions of the world (*albeit* exhibiting different degrees of success)
- while multi-country and regional aid for trade flows have been rising in absolute terms and relative to other forms of aid for trade and development assistance, the analysis undertaken for this study, literature surveys, solicited opinions of donor- and recipient country officials, other stakeholders, and experts *all* suggest that multi-country and regional aid for trade has been underfunded and offers an excellent "biggest band for the ODA buck" opportunity, particularly in light of the growing interest in regional economic integration and co-operation, but
- multi-country and regional aid for trade faces a variety of obstacles that inhibit its ability to reach its potential.

This section identifies where these problems lie and delineates lessons learnt from experience to date as to how future regional aid for trade projects and programmes might be designed to maximise interest, impact, and outcomes. While these lessons are drawn from the full report as well as the stakeholders' consultations, the analysis mainly relies on the study's case studies to give examples as to where the difficulties lie and how they might be overcome. More details can be found in Chapters 4-6.

Mainstreaming multi-country and regional aid for trade is essential in improving the effectiveness of regional aid for trade in boosting regional economic integration and economic development, as well as in raising its profile and stakeholders' interest.

This important point has been stressed in the literature, case studies, stakeholders' consultations and the case stories. But incorporating regional projects into national plans is especially difficult in situations in which some member countries are skeptical about their abilities to reap benefits commensurate with any financial commitments they make to regional projects, especially in the absence of adequate negotiations of distributive and equity issues and compensation mechanisms.

It was noted in the ECOWAS study that colonial ties with particular donors can also inhibit the effective realisation of regional aid for trade projects. For instance, in the quest to facilitate trade in the ECOWAS region, various trans-national road projects have been commissioned with member countries, which were required to ensure the implementation of country segments. There have been many instances in which it has been difficult to have all countries commit to implementing their portions of the project, thereby reducing its impact in promoting regional trade.

To rectify this problem, the inclusion of an "honest broker" in regional projects – e.g. multilateral or regional development banks – has shown to work in certain circumstances. It has been particularly effective in the case of the GMS, where the ADB has played the role of the honest broker, as well as in the many regional projects spearheaded by the IDB.

In addition, the low level of understanding of what constitutes regional aid for trade and what benefits can be realised from a regionally-focused aid for trade strategy (discussed below) make it difficult for any regional and/or national plans to strategically focus on regional aid for trade. In addition, in Africa mainstreaming regional aid for trade can be constrained by multiple and overlapping membership of regional co-operation initiatives (e.g. ECOWAS and UEMOA), rendering negotiation, harmonisation and co-ordination of policies and strategies especially difficult in the absence of a lead regional co-ordinating institution. Again, the usefulness of an "honest broker" is evident in this context.

Further, the ECOWAS case study noted a lack of coherence between aid for trade approaches at the national and regional levels. Differences exist in the degree of prioritisation accorded regional projects at the national level across countries. This asymmetry leads to challenges associated with mainstreaming, ownership and effective implementation of projects, as well as possibly creating a misalignment between national, regional and donor objectives in regional aid for trade projects.

Finally, mainstreaming and implementation difficulties in multi-country and regional aid for trade projects arise when there is divergence between national and regional goals due to different stages of economic development and capacity in the region. Countries particularly in ASEAN and Mesoamerica are at different stages of development. As a result some countries are especially skeptical of their ability to appropriate fully the benefits of pursuing regional strategies.

Emphasising ownership on the part of stakeholders needs to be a high priority in order for regional projects to be successful.

Case studies, case stories, and stakeholder consultations all stress that a lack of ownership constrains the effective implementation of all aid for trade projects, but this is particularly a problem in the case of multi-country and regional aid for trade projects, given their very nature of including a complicated array of interests. Low levels of consultation and sensitisation at national levels have been blamed on disappointing outcomes of regional aid for trade projects particularly in Africa and Mesoamerica.

The ECOWAS case study argues that sub-regional integration in ECOWAS and regional integration in Africa more generally have generated disappointing impacts due to the fact that the affected peoples of the sub-region and region did not feel that they owned the processes. For several decades the integration agenda remained largely the integration of 'heads of states or their representatives' rather than integration of the peoples of the respective countries, a complaint that has also been leveled in ASEAN. Such an approach did not – and cannot – achieve the desired results. Recognising this shortcoming, policy makers and stakeholders are more frequently designing and implementing projects with an clear sense of the importance of ownership and ensuring that the peoples of the region and make them feel part of the integration process. ASEAN leaders have made this an explicit priority in regional co-operation initiatives and this people-centered emphasis is being embraced at the project level as well.

Ownership is also key in highlighting the expected benefits of regional policies and programmes to beneficiary countries or on regional platforms. Countries and associated stakeholders must be involved and engaged at all levels, from planning and formulation to implementation and ex-post evaluation. In this general context, traditional ties may make a difference in promoting project and programme ownership and co-operation. For example, the Mesoamerican case study stressed that in Central America, particularly the Spanish-speaking countries, ownership issues and co-operation in general tends to be easier than with the rest of Mesoamerica. Co-operation is easier between Belize and the Caribbean, whereas Mexico´s main focus is on the United States and Colombia is more connected with the Andean Region. Thus, regional aid for trade projects were perceived to exhibit greater ownership and receptiveness in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and, in some cases, Panama, than in Belize, Mexico or Colombia. In this sense, much of regional aid for trade takes advantage of the Central American connection originating in strong historical and geographical ties as well as its preexisting institutions, whereas Mexico and particularly Colombia are *a priori* less attached to other Mesoamerican countries.

Develop institutional mechanisms to ensure smooth in-country co-ordination for regional and sub-regional programmes.

Improved co-ordination mechanisms allow countries to develop an integrated approach in identifying and implementing regional projects with great potential to support positive impacts on the poor and underserved segments of the region's societies. In most regions, a more integrated structure to manage the various regional and sub-regional commitments of partner countries could streamline efforts among various government ministries and agencies involved in managing regional and sub-regional projects and commitments, and ensure that these commitments are in line with the priorities of the countries' national development plans and strategies.

The case studies offer useful examples of co-ordination challenges in regional projects. While "honest brokers" (discussed below) consult with the governments of developing countries in identifying promising projects for sub-regional co-operation, the multitude of regional and sub-regional programmes committed to by member governments sometimes leads to the inefficient management of commitments and projects, and even possible deviation from identified national priorities.

For example, while information networking and co-ordination already exist among sub-regional programmes – such as the GMS and sub-regional "growth triangles" – and at the regional level in ASEAN, no formal mechanisms are currently available to reinforce this co-ordination on the ground. ASEAN and the sub-regional programmes could complement each other, as these sub-regional initiatives support the main goals of ASEAN economic integration, including in the context of the AEC. In effect, the sub-regional programmes can serve as building-blocks toward a larger regional vision.

The ADB ran a series of training programmes for officials in the GMS to address this concern. The Phnom Penh Plan (PPP) for Development Management has trained thousands of GMS officials in over 100 learning programmes over the past eight years on leadership, sector development, economic corridor strategies, and cross-cutting themes. These were organised with over two dozen capacity-development partners and training institutions from within and outside the GMS. GMS officials were exposed to trans-boundary situations in the GMS through field visits in the East-West and North-South Economic Corridors, and many policy makers were sent to universities in Europe and the United States for further training.

Involve the private sector more closely in regional aid for trade projects.

All case studies underscored shortcomings in this regard. Since the private sector is a primary actor in trade activities, engaging it in regional aid for trade projects is essential to the success of many regional projects. Feedback from the private sector, e.g. with respect to bottlenecks and how to overcome them, co-financing, and others forms of inclusion could enhance the development imprint of existing projects and create opportunities for new ones. Enhancing private-sector involvement in regional aid for trade projects is particularly attractive in an era of fiscal restraint in donor economies.

Examples abound regarding the potential returns from greater private-sector involvement. Ikea, the world-renowned furniture chain, is helping the Mae Fah Luang Foundation under Thailand Royal patronage design exportable products from natural resources in the Golden Triangle. Comprised of Northern Thailand, Southern Lao PDR, Myanmar, and Chinese borders regions, this area has been notorious for decades in producing heroin for illegal global trade. The Foundation's Doi Tung Development Project is helping replant with coffee, rubber, and even macadamia nuts, which are now exported. The project has won the support of other donors and private firms like Ikea in partnering with local villagers for sustainable livelihoods.

Other types of co-ordination difficulties arise eventually when the private sector is involved in a project, particularly when dealing with building productive capacity, e.g. in the case of the project, "organization of sustainable tourism in the Trifinio Region". According to project reports there is neither interest nor provisions available for the expected financial contributions' of entrepreneur associations. Of particular relevance are claims that the Micro and Small Firms Association in the Trifinio region is not participating actively in the project and is not using its services, creating a significant deterrent to the project's success. Still, the project has been effective in strengthening private business associations with technical assistance on sustainable tourism management.

Finally, it is important to note that the private sector is largely uninformed about aid for trade in general and regional aid for trade in particular. This is an important theme that came up at the Policy Dialogue on Aid for Trade in January 2013, the Global Review on Aid for Trade in July 2013, and the Export Group Meeting in December 2013, as well as in the stakeholders' consultations.

Capacity constraints can be detrimental to the implementation of regional aid for trade, particularly in the context of projects including countries at varying levels of economic development.

The importance of capacity constraints was another area emphasised in stakeholder consultations and in the case studies. Recognising this, the ADB emphasises not only development of cross-border physical infrastructure but also in harnessing the soft-side of cross-border trade, including customs and standards, and skills training of government officials to negotiate and manage regional and sub-regional commitments, and implement projects. Interventions similar to ADB's Phnom Penh Plan, which aims to build the capacity of officials and institutions involved in regional co-operation, were said to be particularly promising. While there are numerous Asia-Pacific regional aid for trade programmes in knowledge transfer through training programmes, capacity building has not been among the priorities given to ASEAN in terms of funding commitments, a problem to which the case stories and the ASEAN case study attest.

Innovative approaches are being spearheaded. For example, the ADB emphasises in its Phnom Penh Plan for Development Management Program capacity building in leadership for GMS officials, anticipating that this is critical to hasten the utilisation of the infrastructure they have heavily invested in. Hence, together with several other donors, the ADB has set up a training programme under this Programme. The ASEAN case study notes that participants have come up with creative tourism project proposals catering to niche markets (eco-tourism in a biodiversity corridor, ethnic/heritage tourism, adventure tourism, cultural tourism) and building productive capacity in agricultural enterprises like contract farming, processing of fruits and vegetables, and livestock husbandry.

In addition, a common concern is that despite the success of projects at the local level, it is difficult to develop an agenda in which individual benefits are translated in benefits to the regional economy. A case in point is the "innovative access to markets for small producers" project. It seeks to reduce poverty for small producers along the value chain by improving the production process and generating sufficient scale when exporting. The project's objectives are, thus, focused on improving the income of small producers in the Central America region by enhancing the productive capacity domestically. However, according to personnel involved for the Mesoamerca case study, there exist a series of bottlenecks that impede the project's success. For instance, the management ability of some private organisations involved is more heterogeneous than expected: some producers' organisations have lower managerial ability than others thus affecting the project's effective implementation. There is also concern as to how efficiently the production is marketed and distributed.

The project, “institutional and normative framework for a regional competition policy,” also requires each Central American country’s individual participation to achieve a regional goal. It consists of the adoption of a regional competitive policy that contributes to the strengthening of the Central American Common Market by eliminating entrance barriers and reducing anticompetitive practices. However, domestic competition agencies in the participant countries seem to have problems assigning personnel in order to advance the project’s objectives in line with its neighbors. Moreover, there is no institutional guarantee that, once the project is finished, each country will continue to apply the regional framework.

In addition, the need to increase quantity and quality of skilled human capital in both the private and public sectors is apparent in all regions. For example, the “technology innovation strategy for mitigating food price impact in Central America” project seeks higher productivity and competitiveness in the agricultural sector by promoting regional abilities through the creation of technology and innovation consortiums. While it has great potential particularly for value chains, the project requires more skilled human capital than is currently available in order to be effective; these bottlenecks have delayed implementation and inhibited success, according to stakeholders’ consultations.

While different projects have different goals, sustainability should be an important consideration for most projects, particularly in the economic infrastructure category.

The case stories reviewed above suggest that to maximise impact, regional aid for trade projects need to have a long-term plan, rather than just being a one-off project. Hence, a view toward the long-term needs to be taken even in the design of projects that start as short-term projects. Of course, this depends on the project, some of which clearly have a specific purpose that does not require a long-term vision. For example, in Mesoamerica regional aid for trade projects have often been used as feasibility and related studies for larger infrastructure projects.

Sustainability is especially important in projects focused on regional public goods. For example, as is noted in the ASEAN case study, enhancing marine resources in the Coral Triangle in Southeast Asia and the Pacific through conservation and development efforts at both national and regional levels is politically, ecologically, socio-culturally, economically and financially viable and sustainable. However, the sustainability of the Coral Triangle Initiative depends on addressing certain challenges requiring significant political commitment of stakeholders in the six participating governments – Indonesia, Malaysia, Papua New Guinea, the Philippines, Timor Leste, and the Solomon Islands – in diverse areas such as: law enforcement, strengthening of capacities and capabilities, facilitating accessibility and responsiveness of the judicial system and an improved co-ordination of intelligence, allocation of key human and financial resources to achieve marine conservation outcomes and active engagement by local government units lying along the Coral Triangle. Overlapping authorities and mandates, fragmented jurisdictions, insufficient co-ordination and institutional conflict have also become features of Coral Triangle governance that have inhibited effectiveness.

Improve information and data on multi-country and regional aid for trade projects to strengthen efficiency, assessment, and promotion.

The lack of good data at the micro level on regional aid for trade projects was a common complaint particularly in the cases of ECOWAS and Mesoamerica. The ECOWAS case study notes that many regional aid for trade projects are yielding important results, but this is not the case with other programmes. Tracking some of these projects and programmes has been difficult given the unavailability of detailed information on their current status. For example, in the area of productive capacity building and trade policy and regulations, even though a number of projects are on-going in ECOWAS, it has been difficult to ascertain any clear impacts these projects have had or are having due to paucity of information and data. Given the need to undertake effective evaluation and show results in the implementation of regional aid for trade projects, the ECOWAS case study underscored that this was a significant shortcoming.

The same conclusion was reached in the case of Mesoamerica. The case study suggests that regional aid for trade initiatives have, for the most part, been effective and have achieved their goals, despite the fact that contributions have been relatively small. But it stresses that, due to data limitations, quantifying the contribution of regional aid for trade projects is challenging. It underscores that organised and easy-to-use datasets are keys to evaluating the impact of aid. Throughout the case study, it was found that project codes are not the same across countries, making it difficult to work systematically with data particularly in the context of evaluation of multi-country or regional projects. Hence, in order to facilitate assessment, it underscores the importance of improving on the rich dataset that is already available, which would ease the micro level analysis across countries.

While institutions related to regional co-operation and integration have emerged at sub-regional and regional levels, they require considerable support, suggesting a clear role for regional aid for trade.

The recommendations of the WTO Task Force on Aid for Trade stressed the importance of improving and strengthening existing mechanisms at all levels and to give priority to existing regional integration programmes that lack funding. All case studies noted the importance of institutional capacity – at regional and national levels – and leadership for successful regional economic integration and co-operation programmes, and identified regional aid for trade as a promising vehicle of support. In addition to a co-ordinating role, strong secretariats are needed for effective monitoring and evaluation of cross-country activities, with or without the use of outsourced experts. For example, in the case study of ASEAN, it was noted that the pharmaceutical drugs research network required close co-operation with non-scientists at the later stages of the R&D value chain. When national research institutions partner with private biotechnology companies on the way to clinical trials and commercialisation, using the services of intellectual property lawyers, IT-savvy knowledge management experts, and professional managers who can co-ordinate communities of practice are of the essence.

The EU has been effective in strengthening the institutional capacity of the ASEAN Secretariat via the EU APRIS programmes, which focus on institution building, training and exchange of experts, as well as sharing its expertise on the nuts-and-bolts of regional integration. The United States has also contributed in this regard via its sponsorship of the ASEAN-US Technical Assistance and Training Facility, and Japan is contributing to cutting-edge research on regional integration via the Economic Research Institute for ASEAN and East Asia (ERIA).

Co-ordination seems easier in Central America because regional institutions channel foreign aid. Given the way that some of these institutions are structured, alignment with regional development strategies is more likely, and we found this to be the case. Such alignment is closer to domestic development strategies in the rest of Mesoamerica and, hence, easier, but it still faces challenges. An example is the interconnection between Panama and Colombia which, despite a well-structured regional technical co-operation AFT project, is still pending due to co-ordination problems on the part of both countries.

In ECOWAS, there is need for a regional co-ordinating body on regional aid for trade to ensure that development priorities are pursued effectively. Stakeholder consultations at the ECOWAS Commission revealed the importance of the ECOWAS Aid for Trade Expert Working Group, a result of collaboration between the ECOWAS Commission, the United Nations Economic Commission for Africa, the African Development Bank and the WTO. The key objectives of this group are to create greater awareness about regional aid for trade, develop and adopt a common ECOWAS aid for trade framework, and co-ordinate with donors. This Expert Group holds periodic meetings with the view to creating greater awareness of aid for trade in ECOWAS. The ECOWAS Aid for Trade Expert Working Group therefore could serve as a co-ordinating body for regional aid for trade, in line with the WTO's recommendation to work with existing institutions.

The Mesoamerican case study shows that it has been relatively successful in developing regional strategies based on the region's integration agenda. Still, SICA is a plurilateral organisation whose funding depends significantly on aid from the EU and Central American countries' quotas. Problems have arisen in the case of the latter countries' funding, as in certain cases some countries have not been able to pay their quotas. This problem has reduced effectiveness.

Regional aid for trade is insufficiently understood and appreciated in national line ministries and among stakeholders and this is a significant problem to mainstreaming regional aid for trade in national development plans.

This problem was emphasised in all case studies and emerged frequently in stakeholder consultations and related conferences, including the Expert Meeting on Regional Aid for Trade. The ECOWAS case study underscored that a lack of awareness constituted a major impediment to creating a higher profile for regional aid for trade projects at the national level in ECOWAS member-countries. Indeed, in interviews, it was clear that there was a generally low level of awareness of what constitutes aid for trade in general among many key stakeholders in ECOWAS member-countries. For instance, stakeholder consultations in Ghana with some key government departments revealed a low level of appreciation of the concept of AFT even though respondents emphasised the potential of multi-country and regional aid for trade projects, particularly infrastructure projects, in promoting regional integration and intra-regional trade.

In the Mesoamerican consultations, in Colombia the Presidential Cooperation Agency was found to be unaware of the projects that are funded with aid for trade resources, despite that fact that they monitor project status and the sources of the funds channeled to the projects. As a consequence there is no direct way to verify the efficient use of aid for trade resources in a given project. A similar case applies to the Mexican Development International Cooperation Agency. A notable exception is the Mesoamerican project, which controls its aid for trade funds despite managing significant funding beyond aid for trade.

In fact, in Mexico and Colombia more generally, government officials are fairly ignorant of regional aid for trade projects. This is also true regarding officials in Central America, albeit on a smaller scale. Arguably this situation is to no small degree a function of how aid for trade is structured: Officials tend to recognise those agencies that directly manage the project funds with little regard for how the projects originate upstream. This problem also has a bearing on impact assessment: It is difficult to measure the impact of regional aid for trade when there is a lack of information on the part of participants on the demand and supple sides.

In order for multi-country and regional aid for trade to be effective, regulatory harmonisation is often required, which makes it both a challenge to regional aid for trade as well as increasing its potential to boost regional integration.

As noted above, Africa is a region that has performed relatively poorly in terms of regional integration, despite an above-average number of regional co-operation organisations in place. In addition to the lack of an infrastructure for integration, differences in standards and regulations constitute important impediments. For example, the ECOWAS Treaty requires member states to "take appropriate measures to harmonise and standardise their Customs regulations and procedures to ensure the effective application of the provisions" and "facilitate the movement of goods and services across their frontiers." However there are several hurdles to movement of transport across the region, including differing vehicle standards, inspection requirements, and axle weight limits, all of which were supposed to be harmonised already. Although not totally developed, the construction of the West African road network is among the most significant achievements of ECOWAS integration. In contrast, trade facilitation projects have achieved lower levels of success.

While the degree of economic integration is greater in ASEAN than in the case of ECOWAS, economic integration in Southeast Asia is also hampered significantly by differences in standards and regulations, despite a stress on the need for harmonisation. The AEC has provisions to move in this direction but it finds this to be quite challenging; even high-priority areas such as the ASEAN Single Window for customs is behind schedule. As has been seen in the case of the GMS, regional aid for trade can be very effective in enhancing harmonisation.

Other challenges are related to co-ordination difficulties between different countries despite their interest and involvement in the project. For instance, the "climate change vulnerability of hydropower systems in Central America" had implementation issues given that local institutions involved in each country had to work with climatic models not specifically adapted to the region. Moreover, it turns out that data on each other's weather stations were only available under confidentiality agreements, which in turn required high levels of co-ordination among the different participants involved. The multi-country nature of the project had ownership problems in the sense that for a period of time it was not clear which energy ministry would lead and co-ordinate the project. On top of this, there was a lack of sufficient personnel with the required technical abilities.

Further, the "regional strategy for regulation and supervision of the Central American stock market" project, which includes Costa Rica, El Salvador and Panama as participating countries, is designed to create a unique and stronger stock market regulation system. The required technical co-operation has flowed properly and the project has managed to study and identify regional standards and to propose prospective action plans. Implementing proposed regulation, however, is being delayed because it requires each nation's Congress to approve it and ensure that the required reforms are implemented. Beyond the time required by any legislative process, co-ordinating the eventual implementation of the new framework represents an additional challenge because norms and regulations vary significantly across countries.

Notes

1. These case stories can be found at: www.oecd.org/aidfortrade/casestories.htm.

2. While there is an additional sector, trade-related adjustment – there was only one case story under this category. Indeed, as noted in Chapter 2, regional aid for trade flows to that sector, as well as trade policies and regulations, are minimal.

3. Many other development agencies were also involved in this particular project, but the findings here are derived from FINIDA's Aid for Trade case story submission.

4. These additional outputs were funded through the European Union's Transport Corridor Europe-Caucasus-Asia Program.

5. In the CRS database, building productive capacity includes projects related to banking and financial services; business and other services; and agriculture, forestry and fishing.

6. ExPECT project, OECD Case Story, available at: www.oecd.org/aidfortrade/47479782.pdf.

7. In the CRS database, it also includes trade-related adjustment, but as noted above, this component is negligible in size in terms of Regional Aid for Trade flows and there is only one relevant project, included in the annex.

Annex 3.A1
Multi-country and regional aid for trade projects

Economic infrastructure

Chirundu One Stop Border Post (Finland)

This programme sought to remedy issues of cross-border trade between Zimbabwe and Zambia at the Chirundu border crossing. Chirundu is the busiest port in Zambia and one of the most used border crossings in Eastern and Southern Africa. In addition to the poor infrastructure, there were over twenty government agencies in total for both governments, separately enforcing legislation at the time this programme began. The aim of the programme was to improve efficiency in border management and operations in order to reduce the time and cost of crossing the border. This was pursued by combining the Zambian and Zimbabwean border agencies, which required the redesign of border infrastructure and the establishment of a Common Control Zone, creating a one-stop border crossing. As a result of the project, a new road and bridge have been constructed at the border, as well as new commercial and passenger terminals. Larger volumes of traffic can now be handled more quickly and more efficiently. There has been an increase in revenues collected, an increase in passenger traffic, and a decrease in fraud.

The programme was funded by Finland and the UK and supplemented by technical and financial support from partners at the national, regional, and international level. Activities included the creation of a joint steering committee, national committees in both countries, and four sub-committees to deal with procedures, legal matters, facilities and information and communication technology. Additionally, inter-agency committees of the heads of government agencies that operated at the border were established, as has an inter-agency structure between Zambian and Zimbabwean agencies. The strong support of both governments was a key factor in the programme's success. However, bringing all stakeholders on board from the relevant government agencies posed a particular challenge to this project. Sequencing also became an issue at times, including in the construction of buildings – some of which were constructed independently of systems and procedures – and thus required adjustment.

Improving service delivery and reducing clearing times at Beitbridge Border Post (United Kingdom)

The Beitbridge border crossing was identified by the COMESA, ESA and SADC "Tripartite" as an important border crossing on the North-South Corridor with problems that required attention. This led to the design of the Beitrbidge Efficiency Management System, launched in May 2009, which aims to reduce congestion, increase operational efficiency, reduce waiting times, and lower transaction costs at the border crossing. This is part of a larger COMESA-ESA-SADC goal of enhancing regional economic integration.

The SADC Secretariat plays the co-ordinating role on behalf of the Tripartite, and government officials from Zimbabwe and South Africa work under an institutional framework that brings together all the border control agencies and private sector operators. This framework consists of a Joint Border Operations Committee, a Task Team, a Steering Committee, and a Ministerial Committee. Programme implementation has been slow and is significantly behind schedule, but the reduction in transaction costs and wait-times upon implementation are expected to be significant. The main challenges to implementation include the lack of a formal mandate from the Cabinet level in one of the countries and delays in the clearance of the main Memorandum of Understanding through both countries' legal and regulatory systems.

Improving service delivery and reducing clearing times at Chirundu Border Post (United Kingdom)

The programme to convert Chirundu into a one-stop border post (OSBP) was in the planning and implementing stages for about 10-15 years, with initially only the Japanese involved. DfID became a partner in 2007 through the Regional Trade Facilitation Program (which later became the TradeMark Southern Africa programme). The Chirundu one-stop border post was officially opened in December 2009. The programme is managed by the COMESA Secretariat on behalf of the COMESA-EAC-SADC Tripartite and is co-ordinated by the ministries responsible for trade in Zambia and the ministry responsible for regional integration and international co-operation in Zimbabwe. The purpose of the programme is to lower the costs of cross-border transactions by reducing the time taken to cross the border through working in a sequenced and harmonised way. Waiting times were reduced from 4-5 days to a maximum of 2 days.

National steering committees in each of the countries were created to feed into the Joint Steering Committee, allowing the public and private sectors in each country to reach a consensus at the national level before engaging at the bilateral level. Ministers and civil servants in each of the two countries were continuously engaged in order to ensure full awareness of the benefits and challenges to the OSBP.

Three-party South-South co-operation: Using Senegalese knowledge and experience to improve trade administration systems in Central Asia (Germany)

In this inter-regional programme designed to share best practices, the Kyrgyz government used the Senegalese experience to introduce a pre-customs single window (PCSW). The programme is planned to run from 2005-14 with a total funding of EUR 16.5 million. In 2007, the programme focused on making progress in Kyrgyzstan to then use the country as an example to others in the region. The programme has already affected a number of efficiencies – for example, since 2006, the number of forms required for trade in Kyrgyzstan has decreased by 60%; and in Tajikistan the number of required forms has decreased from 13 to 7, and the time for a 20-foot container to reach a sea port has decreased by one day. Knowledge and lessons from this project have subsequently been used within the region as well as in Central America. In January 2011, the EU granted Tajikistan EUR 2 million to build a PCSW following a government request endorsed by the President. In that month, the President of Uzbekistan also announced a PCSW to promote exports in the country's official economic development plan to be implemented by 2015.

An important factor in the success of the programme was the strong coalition between the lead ministry and the donors, with common objectives that were clear and were based on reliable economic studies. The programme used improvement in rankings in the

World Bank Ease of Doing Business report as a goal because of the importance these rankings have to the governments involved, but additionally to provide the programme with metrics by which the degree of success could be easily determined. In 2006, in order to garner widespread support for the project, the team from the Germany's GIZ undertook a study to demonstrate to the governments in the region the macroeconomic impacts of removing the more cumbersome administrative trade barriers. The ultimate aim of the programme is to have three Central Asian countries with PCSWs implemented by 2014.

The Kyrgyz government was responsible for selecting the lead government implementing agency (the Ministry of Economic Regulation) and created a team of local stakeholders and experts to create the concept for the single window. In 2008, the president of Kyrgyzstan issued a decree to create a PCSW. The President's support and involvement in the process helped overcome challenges within the ministries and with local officials, who were often hesitant to implement changes.

NEPA-CEB Interconnection Project (African Development Bank)

This project funded the interconnecting of the National Electric Power Authority (NEPA) in Nigeria and that of the Communaute Electrique du Benin (CEB), which serves Togo and Benin, in order to cheaply supply power to Togo and Benin while also creating revenue for Nigeria. It was jointly financed by the African Development Bank, the Banque Ouest Africaine de Developpement (BOAD), the Economic Community of West African States (ECOWAS), the Federal Government of Nigeria (FGN), and the Communaute Electrique du Benin (CEB). The project was designed to be expanded into a larger regional project, with the transmission line to be later extended to Togo, Ghana, and Côte d'Ivoire, with another line extending to Senegal and Mauritania.

The project assumed that efficient power distribution companies would emerge from sector institutional reforms, but this only occurred in Togo and Benin, but not in Nigeria. Contractor issues posed problems to the project, as did the lack of full stakeholder attendance at meetings, causing delays to implementation. Training for staff at the power stations was provided, but was not sufficient. Finally, BOAD and ECOWAS, the project co-financiers, did not make explicit efforts to harmonise instruments and approaches, and donors preferred to use their own systems and focus on only their portion of the project. In spite of these issues, the project was successfully completed and Togo and Benin have benefitted from a reliable source of electricity, and Nigeria has an additional source of income through energy exports.

International Transit of Goods (TIM) (Inter-American Development Bank)

In 2008, the Inter-American Development Bank designed and implemented the International Transit of Goods (TIM) project in El Amatillo, the border crossing between Honduras and El Salvador with the highest volume of trade in Central America. TIM is an electronic system used at the border to simplify and harmonise border processes and creating a single electronic document for border transit. The success of the project led to requests for expansion to Mexico, Guatemala, Nicaragua, Costa Rica, and Panama. The budget for the initial design and implementation was through a USD 2 million non-reimbursable technical co-operation scheme, with an additional USD 950 000 to expand the project to other border crossing in Honduras, El Salvador, Mexico, Guatemala, Nicaragua, Costa Rica, and Panama. The TIM project reduced border crossing times at El Amatillo from an average of 62 minutes to 8 minutes, an 87% reduction in border crossing time, in addition to a reduction in paperwork required. It has also, among other things, increased the traceability of goods through the border, increasing tax revenues, and improved the quality and predictability of risk analysis of goods crossing the border.

Problems encountered included communicating and co-ordinating with the large number of organisations and agencies involved, and reluctance to adopt the necessary changes to implement TIM. Support from high levels and close co-ordination with government officials and trade specialists on the ground were cited as critical factors to success.

Almaty-Bishkek Regional Road Rehabilitation Project (Asian Development Bank)

This project aimed at the rehabilitation of 226 kilometre of regional road connecting Almaty, Kazakhstan and Bishkek, Kyrgyz Republic in order to support trade and economic growth and was co-financed by the Asian Development Bank and the European Bank for Reconstruction and Development. Additionally, the project funded the improvement of customs facilities at the Akzhol-Chu border, provided road maintenance equipment to Kazakhstan, the development of a Cross Border Agreement (CBA), and technical assistance to advice in the implementation of the CBA. The trade of goods at the Akzhol-Chu border crossing has increased 38% from 2000 to 2007, at least in some part due to the road rehabilitation and customs improvements.

The ministries of transportation of the two countries were responsible for implementation of the project, including procurement and implementation of contracts, with two supervision consultants appointed. Problems encountered included significant delays in project completion resulting from a lack of capacity in procurement procedures, delays in loan disbursements caused by a delay in signing the CBA, poor contractor performance, and high turnovers.

Truck Shipment without Transshipment along East-West Corridor (Japan)

The aim of this project is to increase regional trade through decreasing barriers to trade at the borders, specifically through agreement and implementation on the Cross Border Transport Agreement. As a result of this programme, Viet Nam, Lao PDR and Thailand have reached an agreement where each country had licenses for 500 trucks for cross border transport without transshipment. This programme has attracted attention in other regions, including from the Government of Mozambique for the Nacala Corridor, which links the country with Malawi and Zambia. The Government of Mozambique has requested assistance from Japan and Viet Nam in the formulation and implementation of this plan.

Building productive capacity

Caribbean Rum Sector Program (CARICOM)

The programme began in 2002 and was initially intended to run for four years, but was extended and completed in 2010, with EUR 70 million from the EU and co-financed with EUR 75 million from the rum sector. The purpose of the programme was to assist the rum sector in increasing competitiveness against lower-cost producers and to move toward higher value products. The programme was very successful: it resulted in the introduction of new brands in the EU market; 11 energy and conservation projects; the undertaking of 20 waste treatment projects; EUR 68 million invested by companies in the region for capital projects; and a 140% increase in tourist visits to rum facilities. In addition, there has been a 20% increase in female employment in the sector and a 40% increase (or USD 250 million) in tax revenue from participating producers, both since 2003. The study also cites an increased interaction between CARICOM producers and those in the Dominican Republic and Haiti, which has helped increase bargaining power as well as the development of a Caribbean rum brand.

The programme worked with the private-sector in each of the CARICOM member states and included stakeholders in the sector in the development of the programme and its implementation. The time frame of the programme was initially considered too short, which was problematic in that many of the projects required studies prior to investment and implementation. The initial co-financing requirements were also too high initially and prevented full utilisation of the programme, but were successfully adjusted downward. Sequencing of projects was thus also a challenge because firms were forced to undertake many different activities at once, and yet possessed limited financial and human resources to undertake such large projects simultaneously. Flexibility on the part of the donor, as noted above as well as in the project approval process, use of grant funds, and ability to bypass certain requirements with using particular suppliers, were key factors in the success of the project.

The Caribbean Aid for Trade and Regional Integration Trust Fund (CARTFund): A mechanism for delivering aid for trade support to CARICOM and CARIFORM states (CARICOM)

The CARTFund was established in 2009, with an original GBP 5 million contribution from DfID followed by another GBP 5 million committed in March 2010 with the extension of the programme through December 2012. It is administered by the Caribbean Development Bank (CDB), overseen by a Steering Committee with members from DfID, CARICOM and CARIFORUM. The purpose of the programme is to be a demand-driven mechanism to support Caribbean implementation of the Economic Partnership Agreement with Europe and the CARICOM Single Market and Economy. By 2011, 18 projects had been approved in 8 CARIFORUM states, of which 5 were regional and 13 national projects, accounting for approximately 70% of available funding and demand surpassing funding. Projects were required to be over USD 100 000, and have a duration of no more than two and a half years. Project proposals were initially screened by the CDB before being submitted to the Steering Committee. The projects funded were executed by government entities, regional institutions and private sector entities.

The proposals received were not of the calibre that allowed for immediate selection; technical assistance and interaction with the CDB were required. This process increased operating costs and delayed the start of projects, which was particularly problematic given the short time horizon. Additionally, most of the applicants did not have the capacity to make use of the funds awarded immediately as a result of issues related to institutional structures, physical environment, counterpart responsibilities, or procurement practices.

The establishment of the fund in itself is notable as it is a joint effort with DfID, CARIFORUM, CARICOM, and the CDB to co-ordinate their efforts and to allow for the flexibility and local ownership necessary for success. The second call for projects in 2010 generated 73 new requests for a total of USD 37 million, demonstrating the responsiveness of regional actors to this programme.

OAS professional Masters in International Trade Policy (MITP) at the University of the West Indies, Cave Hill Campus, Barbados (OAS)

The MITP programme was designed in collaboration with the Organization of American State (OAS) Trade Capacity Building Project for the Caribbean with funding from CIDA. The OAS, the University of the West Indies, the Government of Barbados and other governments in the region have provided scholarships for the MITP, increasing access to the programme for students from different countries in the region. The programme began in August 2004 with 28 students from 13 CARICOM countries. At the time of the case study, approximately 150 students had enrolled and 100 matriculated. Students have included a senator; the head of the Barbados Small Business Association; a Comptroller of Customs; Directors of foreign trade divisions; diplomats; heads of private sector organisations; lawyers; and representatives of regional bodies. Certain modules within the programme are open to the public and a certificate course for the private sector has been created. The programme includes a three-month practical attachment that has allowed it to quickly address local human resource needs. Other countries have become interested in learning more about the programme, and a presentation was made to the Association of Colombian Universities about developing a similar programme. Hence, the programme does appear to be having important positive knock-on effects.

Third Country Training Programme, "Artificial Insemination on Dairy Cattle" (Indonesia and JICA, Japan)

This programme was undertaken by Indonesia's Ministry of Agriculture, in co-operation with the Japan International Cooperation Agency (JICA). This programme is a direct result of the 1986-2002 programme, the Artificial Technical Assistance Project, which was run with JICA and the Government of Indonesia to transfer Japanese knowledge about artificial insemination on dairy cattle to Indonesia. After the completion of this project, the Indonesian Ministry of Agriculture committed to passing on the information gained and lessons learnt to other countries. The Ministry of Agriculture has set up the Training Course on Artificial Insemination on Dairy Cattle for Developing Countries, through Japan's Third Country Training Program, and participants now include Indonesia, Cambodia, the Lao PDR, Viet Nam, the Philippines, Malaysia, Thailand, Timor Leste, Bangladesh, India, Sri Lanka, Mongolia, Fiji, Papua New Guinea, Kenya, Sudan, Zimbabwe, Afghanistan, Myanmar, and the Republic of Yemen.

The programme aims to improve understanding of insemination, breeding programmes, and slaughtering practices to improve livestock in developing countries. By December 2010, the programme had trained 5 984 participants, of whom, 77 were international trainees.

OAS Intellectual Property Value Capture Export Strategy (OAS)

Using an approach that was considered successful in other regions, this project acts to increase awareness of domestic and regional actors of potential increases in export income through the use of intellectual property strategies. In the first phase, a scoping study that evaluated eight Caribbean products in Belize, Granada, and Jamaica that have potential for increased export income through IP-based strategies was undertaken by a group of regional stakeholders that included the Caribbean Association of Industries and Commerce (CAIC), Caribbean Export, the Office of Trade Negotiations of the CARICOM Secretariat, the OECS Secretariat Export Development Unit, Light Years IP, and the OAS Department of Economic Development, Trade and Tourism. Three of the products/countries with the most potential were selected. The next phase will include IP value capture training of producers and stakeholders of the three products; a permanent IP value capture training module, which will start as part of the Masters in International Trade Policy programme at the University of the West Indies and will be open to the private sector; implementation of the IP value capture strategy in the three countries; and creation of an institutional IP value capture model methodology for export development agencies in the Caribbean.

Key to the success of this programme is the involvement of both local and regional stakeholders in selecting the products; the inclusion of the private sector in the process and in the training module; the sequencing of the programme within each of the phases; and the final output of the methodology that can be used within the Caribbean to support additional products, as well as in other regions.

Programme for Building African Capacity for Trade (PACT) (Canada)

PACT was implemented by the ITC, the Trade Facilitation Office Canada, and African organisations. A USD 8 million contribution by CIDA supported PACT I from 2003-07 and its objective of expanding and diversifying exports in the recipient African countries and building SME export capacity. The programme focused on training in export readiness and information and communications technology based delivery of market information, expert advice on market readiness, and market access missions. The programme was implemented over four years and in two phases. The first phase lasted less than a year and focused on Ghana, Senegal, South Africa, and Tanzania. The second phase was the full scale programme, continuing in the initial countries while adding Ethiopia, Mali, and Mozambique.

The programme resulted in an increase in exports to Europe, which included small farmers in Africa gaining access to European markets, and Canada. Additionally, the programme facilitated the introduction and export of the Design Africa brand in home furnishing products to the EU, Canada, and the US. Furthermore, Access! African Businesswomen in International Trade provided export training and business counseling for women. At least 100 entrepreneurs completed two years of export preparedness seminars in the initial four countries and were selected to participate in trade missions and/or attend trade fairs. Of those, the study reports 50-60% established business linkages with a distributor in the importing country, and 20% actually received orders or were in the process of doing so.

Difficulties faced by the programme included the initial time horizon being too short and expectations of results might have been higher than was reasonably possible. These issues were taken into account in PACT II, where the programme was behind a group marketing plan that allowed Ghanaian farmers to access the European export market through a farmers’ co-operative the included 600 small farmers. ACCESS! included a comprehensive training methodology that was designed by the ITC and TFOC and was offered in four languages and made use of local counterparts and trainers. While the training and post-training mentoring offered through this programme were effective, it was found be insufficient for participants needs, rather ongoing mentoring and advice and market exposure missions are necessary to allow the programme to be fully effective. PACT I was scaled up into a regional PACT II programme.

Establishing a Regional Quality Infrastructure (QI) in the East African Community (EAC) (Germany)

The purpose of the project is to improve the regional quality infrastructure (QI), which involves standardisation, quality assurance, accreditation, and testing. The project, which runs from 2004-13 with a budget of EUR 4.3 million, began working on the establishment of a regional QI that was compatible with the WTO requirements. A Standards, Quality, Metrology, Testing Act was passed in the EAC in 2007 and establishes the framework for harmonisation of standards and co-ordination of activities. The programme's activities included advising the EAC Secretariat and the management of QI institutions, short-term training courses and study visits, facilitating the exchange of experience in the region and integrating regional QI institutions into supra-regional associations.

A regional QI system was created nearly from scratch: 1 100 standards were harmonised, though they have not been fully adopted at national levels; a pool of trained assessors for the accreditation of medical, testing and calibration laboratories was created, and an East African Accreditation Board was established in 2009; capacities for regional harmonisation of inspection procedures and product certification have been developed; and metrology laboratories have improved in all EAC countries. In addition, the East African Metrology Structure and the East African Accreditation Board were integrated into their broader African counterparts.

The QI institutions and the various EAC member states have good working relationships, which have been key to the programme and facilitated knowledge transfer. The East African QI organisations are involved in broader African organisations, allowing them to benefit from larger regional organisations and experience. National industrial development priorities were in conflict with EAC integration principles at times, posing challenges to the programme. Though regional legislation exists, member countries would often delay or reject implementation of the SQMT Act at the national level. This was not the result of a lack of political will but rather because of short-term priorities that are lobbied for by the national industrial sector, which can impede the realisation of medium and long-term goals. The private sector has also not fully come on board to support regional standards and QI set-up in the region. Stakeholder involvement will be used more extensively in the third phase to bring both the public and private sectors on board.

Caribbean Trade and Private Sector Development Programme (CTPSD) – Phase II Caribbean Export Component (EU)

The Caribbean Export Development Agency ("Caribbean Export"), a regional export and trade promotion agency, received EUR 6.8 million in funding from the EU for the second phase of the CTPSD programme, to support the private sector on the signing of the EU and CARIFORUM Economic Partnership Agreement. The programme was implemented over two and a half years, ending in December 2010, and was governed by a Board of Directors that consisted of members of the public and private sectors and was accountable to the CARIFORUM Council of Ministers. From 2008-10, during the calls for proposals, approximately 197 companies and Business Support Organizations (BSOs) were awarded grants, totaling approximately EUR 2.6 million. In 2006 a regional forum for BSOs was convened from CARICOM and Overseas Countries and Territories; from this, priority sectors were chosen. Caribbean Export then supported export expansion in these target sectors by providing direct funding to firms and BSOs for competitiveness improvements. Regional training for business and networking were other important components of the programme.

The programme's aim was to work at the regional level to use the regional organisations to more effectively achieve the goals of strengthening export capacities within the region. Involving Caribbean Export as a partner was key to the success of the programme, as it was an established regional organisation prior to the programme and already had important partnerships with public and private sector BSOs at the regional level. The use of a "Contribution Agreement" allowed the Caribbean Export Development Agency to channel the funds through its own financial procedures while managing the project.

The regional aspect of the programme also led to challenges, beginning with – but not limited to – language issues and large differences in the degree to which countries responded to the call for proposals. Grants were offered as reimbursements for expenses already incurred, but this did not account for the difficulties many businesses have in obtaining loans locally and prevented businesses that the programme aimed to assist from participating.

Brazilian Cooperation Agency of the Ministry of External Relations (ABC/MRE)/Project Cotton-4 (Brazil)

This Brazilian funded project aims to improve the cotton industries of the Cotton-4 (C4) countries (Benin, Burkina Faso, Chad, and Mali) through introducing Brazilian cotton varieties to these countries for crossing, integrating crop management techniques, and organising a more profitable supply chain. A regional experimental station was set up in Mali, where multiple varieties of cotton have been planted, where harvests in 2009 and 2010 were higher than the national average.

Problems encountered include inappropriate crop management techniques, limited and expensive technology that is unaffordable for local farmers, high turnover in C4 institutions, and poor communication systems.

Exports Promotion & Enterprise Competitiveness for Trade (ExPECT) Initiative (ECOWAS)

ExPECT was launched in 2010 to develop and promote high export potential value chains. The EXPECT programme was designed to ensure the region's ownership and the sustainability of PACT II (Programme for Building African Capacity for Trade). The Initiative aims to create and strengthen the technical, managerial and institutional structures and capacities to institute the region's trade development agenda. Thus far, the project has led to a financial commitment of USD 3 million from the ECOWAS Commission and ICT/PACT II for implementation support for 2011-13; the development of a results-based 2011 workplan developed by ECOWAS-10; and a mango value chain analysis that involved both the private and public sector from the region in order to develop a regional mango strategy, among others.

In 2011, the programme was to be scaled up to include implementation of clusters to increase SME competitiveness in the EXPECT-selected value chains for mango, cashew and palm oil; validation of the regional mango strategy at the national level and completion of the process for a second good; and the first ECOWAS Export Actors Forum to discuss priorities for export value chain development and competitiveness.

Challenges faced by the programme included difficulties in involving the private sector and co-ordination among activities and programmes that were sponsored by different donors, and availability and quality of data. The story also notes that a clear leader institution is necessary.

Trade for Development Centre: Producer Support Programme (Belgium)

The Trade for Development Centre (TDC) was a multi-regional programme created in 2009 to implement activities related to the two areas of intervention: institutional support and support to agricultural enterprises and SMEs. The Producer Support Program focused on increasing market access and improving levels of professionalism. Producer organisations engaged in Fair or Sustainable Trade submitted project proposals that aimed to improve market access. Activities financed were those that strengthen organisational capacities and technical and production skills of the producers. Grants ranged from EUR 30 000-150 000 with projects running from one to three years.

The programme assisted groups of producers within individual countries. Two successes noted in the case story included support to the development of a co-operative of small and artisanal miners of gold in La Paz, the world's first certified Fairtrade/Fairmined mining co-operative, and improving the quality of rice in Benin for increased export. Through this programme, it was determined that a financial support programme is not sufficient to support the needs of less well-established organisations, and so the intention is to transition into becoming a business support programme. This would allow a greater number of organisations to benefit from the programme through receiving technical business support services in addition to financial support.

The Regional Trade Policy Course (Singapore)

With the WTO, Singapore offered four three-month annual Regional Trade Policy Courses for the Asia-Pacific region from 2007-10. Initially planned for three years, the course was extended to a fourth, and trained 100 participants – mainly senior trade policy officials – from over 25 economies in the region. The programme aimed to build capacity through increasing participants' understanding of trade policy matters and understanding of the WTO, trade law, and trade negotiations. The course involved interaction with approximately forty WTO staff and regional experts, and classroom work was supplemented by visits to relevant sites in Singapore.

The Empowerment of Western and Central African Cotton Producers: A Sectoral Approach on Cotton (Switzerland)

Aiming to improve market access for West African cotton producers, the Swiss State Secretariat for Economic Affairs created this programme. The programme consisted of two initiatives: (1) the "Cotton Initiative," to assist the "Cotton Four" countries (Benin, Burkina Faso, Mali and Chad) in pushing to end trade-distorting cotton subsidies at the Doha Round negotiations, and (2) the Organic Cotton Program, to create sustainable value chains and fair trade and organic certification. The programme used regular exchanges among the C-4 ministers and Geneva representatives to ensure full co-operation of the delegations. The project allowed the four countries to have a stronger presence in WTO negotiations. Additionally, having access to high levels of each of the governments allowed the programme to avoid being bogged down at lower bureaucratic levels and assured a high level of attention.

Project for the Development of Fishing Capacities in the Gulf of Fonseca, Coalition of Municipalities of the South of Honduras (Spain)

The project ran from June 2004 until December 2011 with a total amount of funding of USD 3 million from the Spanish Agency for International Development Cooperation and the regional government of Galicia to foster sustainable fishing in the Gulf of Fonseca in Central America. The programme resulted in: (1) greater regulation of the fishing sector; (2) 20 alternative products to traditional fishing; (3) strengthened institutional capacities; (4) reductions in the felling of mangrove trees, which resulted from the installation of stoves in the fishermen's houses; (5) an improved statistical system; and (6) assistance to some of the fishing associations of the region in defining their legal status.

Distance learning course and on-site Workshop on Negotiations of International Investment Agreements for Latin America and Caribbean Countries (Spain)

A EUR 80 000 contribution from Spain set up the Train for Trade course, a programme organised in two parts. The first part was a distance-learning course in which 48 people participated. In the second phase, 25 people were selected from this group to participate in the on-site workshop in the Dominican Republic. The two modules of the on-site course consisted of International Investment Agreements and International Devices for Dispute Settlement.

Recognised Seasonal Employer (RSE) Worker Pilot Training Programme "Vakameasina – Learning for Pacific Growth" (New Zealand)

The programme is a pilot training programme for 312 Pacific workers in order to increase the benefits of a seasonal migration scheme for Pacific workers. The focus of the training was on developing English literacy, numeracy and financial literacy skills. The pilot was implemented in two regions of New Zealand between November 2009 and September 2010.

Trade policy and regulations

The establishment of the Caribbean Agricultural Health and Food Safety Agency (CAHFSA) and a regional SPS regime (CARICOM)

This case study concerns the establishment of CAHFSA and a regional SPS regime to implement and harmonise agricultural health and food safety standards to meet international standards and increase inter-regional and international agricultural trade flows. All CARICOM member states and associate members were involved. Results included the entry into force of a legal agreement establishing CAHFSA; the completion of a feasibility study; the partial completion of an SPS assessment study; delivery of a Strategic Plan and Programme of Work; and training initiatives to develop local expertise. Much of the early project activities involved garnering agreement across the region, which in turn is dependent on agreement among domestic actors across ministries and fields. This continues to be a significant challenge for the project, particularly for the CARICOM Secretariat, which led the project.

The CARICOM Secretariat consulted with member states and other stakeholders to gain agreement on the legal framework. Progress in the development of supporting legislation is reported to be lacking. Regional and international donors have also been involved in the drafting of model legislation that will need to be agreed upon by the member states as well as supporting training initiatives and offering technical assistance. The number of different ministries and agencies which are involved at the national and regional levels have proven to be challenging to this programme, though this has not made success impossible.

The amount of funding received was not specified, but difficulties in resource mobilisation and Member States' financial constraints were cited as major hurdles in the development of the Agency, which was noted to require approximately USD 700 000 to become fully operational.

Strengthening the Official Sanitary System of Agricultural Goods for Export Markets in CARICOM Member States (OAS)

The Government of Chile, through the Secretariat of the OAS, offered to share their Sanitary and Phytosanitary Standards (SPS) management rules and practices with the CARICOM countries. The first phase of the programme focused on designing the training programme and the exchange of best practices with Chile's Agricultural and Livestock Service (SAG), the CARICOM Secretariat and the Secretariat of the Organization of Eastern Caribbean States (OECS), in consultation with officials of the SPS area in CARICOM countries. This included a workshop to identify the priority needs of the OECS for input into the development of the training programme and an initial exchange of SPS best practices. A capacity building plan was developed that included three study tours to Chile to study border inspection systems, laboratory systems and procedures and systems for collaboration among the agencies involved in animal health, plant health and food safety. Officials responsible for the SPS systems of 6 CARICOM countries participated in the first country visit and the Dominican Republic requested and sent an official to join the other CARICOM representatives in another visit, assisting those responsible for SPS in the region beyond just the CARICOM member states. The visits were tailored specifically to participant needs, with different participants attending site visits that were applicable to their country needs. This programme demonstrates the effectiveness of South-South co-operation.

Institutional capacity building for trade policy – Lessons in sustainability (Organization of Eastern Caribbean States, OECS)

The OECS' Economic Affairs Division has oversight of the Secretariat's trade policy but in the past did not have sufficient resources to focus effectively on trade affairs. The staff dedicated to trade policy grew from less than one in 2000, when the Trade Policy Project (TPP) programme began, to six individuals – 3 of whom dedicated to WTO negotiations – by the end of the programme in 2006. Technical and financial support was provided by CIDA to allow the OECS to mainstream trade into its regional development strategy, create a co-ordinating mechanism for managing trade affairs in the region, develop a regional trade policy framework and help create a stronger presence in negotiations.

The TPP emphasised a strong co-ordinating presence at the OECS, supported by another mechanism that involved stakeholders in member states. Activities involved training of public and private-sector officials; technical studies that included sector-specific research, legal analysis and development of policy frameworks; compliance with multilateral commitments; and supporting negotiator presence at key meetings. Three institutions for the management of trade policy have been created as a result of TPP recommendation: the Trade Policy Unit (TPU) within the EAD, to assist member states in developing and implementing trade policy; the Trade Negotiations Group, which consists of trade officials and members of the private-sector who meet to provide guidance on trade policy issues; and the Geneva Technical Mission, which was not a direct result of the TPP but was created by the OECS to increase participation in multilateral discussions. The TPU has led to regional submissions to the WTO and the development of harmonised offers in services and goods in bilateral negotiations.

Problems encountered include difficulties in engaging the private sector. Within this programme, funding was secured specifically for private sector representation, but involving this sector still posed challenges, perhaps offering an important lesson that funding is not enough to ensure involvement of this sector. Further, many OECS members lack the national funds to support these programmes, so without donor willingness to commit funding for these types of projects on a longer-term or the ability to secure funds from additional donors, which the TPU and GTM have achieved, many of the outcomes of this and similar programmes are not sustainable. The programme has led to an improvement in internal procedures and has benefited from political endorsement at the highest national levels and ownership.

The Hub Spokes Project: Lessons in best practices for donor support for trade capacity building (OECS)

The Hub and Spokes project, which began in 2005, is part of the larger facility, TradeCom, which is an all-ACP programme. The total budget of the larger programme was EUR 54.5 million, of which EUR 50 million was contributed by the European Commission through the European Development Fund. The Hub and Spokes component of the fund was overseen by the Commonwealth Secretariat and l'*Organisation de la Francophonie* (OIF). The project funded one regional trade policy advisor (RTPA, or the "Hub") and one trade policy analyst (TPA, or a "Spoke") and two additional trade policy analysts ("Spokes"), based in Dominica and St. Vincent and the Grenadines. With a time frame that spanned 2005-10, the goals of the project included: (1) an increase in participation of African, Caribbean, and Pacific Island (ACP) nations in trade negotiations through technical assistance and training at the national and regional levels; and (2) mainstreaming of trade policies in development strategies. The main focus of activities were the negotiations and implementation of the CARIFORUM-EPA and the WTO and CARICOM-Canada negotiations. Member state needs were identified and formulated in needs assessment papers before the project began, and work plans were formulated at 6-month intervals and were demand-driven, to allow the programme to adapt to changing needs at the national and regional levels.

The project was modeled after one developed by the Overseas Development Institute (ODI), where recently graduated professionals were sent to ministries and other institutions in developing countries. The programme was considered successful in part due to its demand-driven nature, which addressed the region and member states' needs, as well as the RTPA and the TPA integration within the organisations. The establishment of consultative networks also allowed the private sector's needs and knowledge to be taken into account throughout the programme. As part of this programme, 46 meetings, workshops, conferences and consultations occurred regarding trade policy and negotiations; over 1 555 beneficiaries in the public and private sectors have been reached; and technical support and analysis have been offered to trade officials to assist in negotiation and trade policy implementation.

Lack of involvement of the private sector is here again noted as a challenge faced, with lack of private sector organisations and limited resources allocated at the secretariats to work with those organisations that do exist. Lack of current and accurate economic data also posed a challenge to this project, and the programme included training in data collection and a means to provide member states with the data collected. National consultations were conducted to include the private sector, with the degrees of involvement varying based on the member country. However, it was an effective means of incorporating the needs of the private sector in the absence of private sector organisations. It was also noted in this study that budgetary support for means to involve the private sector through the creation of consultative networks and to assign trade economists to work with the private sector is important to the success of these types of programmes.

The EDF (European Development Fund) Funded Commonwealth Secretariat Trade Policy Formulation, Negotiation and Implementation ("Hub and Spokes") Project (CARICOM)

The project supports ACP country involvement in international trade negotiations by building capacity to formulate, negotiate and implement trade policies. The programme was co-sponsored by the European Commission (EC), the Commonwealth Secretariat (ComSec) and the Agence Intergouvernementale de la Francophonie (AIF), with each of the three having responsibilities in different regions. The EC provided over EUR 10 million, ComSec over EUR 4 million and the AIF approximately EUR 3 million. As of June 2010, it was estimated that 1 769 people in CARICOM states (excluding the OECS) and 1 069 people in the OECS had been trained, exceeding the target of 2 000 for the entire ACP. The project was originally set to end in 2010, but was extended to June 2012 with an additional EUR 4.5 million from the EC. Total expenditures within the Caribbean region as of the time of the case study was EUR 1 million, which accounted for approximately 40% of the budget allocated to the entire ACP region by the project. Of the funds spent in the region, 40% was on trade policy formulation, and 35% on initiatives to help exploit market opportunities. Hubs were made available to regional organisations, and at the peak of the programme in 2009 there were 29 'spokes'. Under the Caribbean Hub and Spokes project, two Regional Trade Policy Advisors ('hubs') and 8 trade policy analysts ('spokes') were assigned to the region.

Among the successes marked by the project, the assigned RTPA and TPA compiles a comprehensive Draft Trade Policy and Strategy for Trinidad and Tobago for 2011-2015, which was to be examined by the CARICOM Secretariat for consideration to be used in developing a harmonised regional trade policy. Additionally workshops and working groups were created assist in the implementation of WTO agreements and requirements.

Key to the success of the project has been the consultative approach used when formulating policies that included all relevant stakeholders. This led to a high degree of mainstreaming of these policies into national development and trade negotiation strategies, and allowed the project to be guided by the needs of the CARICOM Secretariat while being flexible to account for the different needs of the member states. Country-specific frameworks were developed using a bottom-up approach that involved stakeholders in the private and public sectors. When necessary, collaboration with national, regional and multilateral actors was used to support the capacity building needs of the member states and the region. Third party funding and technical collaboration, including through the WTO, were also used to supplement programme funding and expand positive outcomes.

Presentation of case studies of the Commission of the West African and Monetary Union (WAEMU) for Trade Policy Capacity Building "Hub and Spokes" (WAEMU)

Implemented in 2006 at the request of the APC with the financial support of the *Organisation Internationale de la Francophonie* (OIF), the programme places an RTPA within the West African Economic and Monetary Union (WAEMU) and TPAs placed within the member states' Ministries of Trade. The project has been extended beyond the December 2010 end date and was continuing as of the writing of the case story. The objectives of the programme include increasing participation of the ACP countries in international trade negotiations and, in particular, the Economic Partnership Agreements (EPA) negotiations with the EU, as well as enhancing capacity for the development, negotiation and implementation of trade policy to support development and poverty reduction. The programme also supported the EC in bringing together national trade policy committees to create a Regional Advisory Committee for trade negotiations, and organised regional workshops – composed of 40 participants from the 8 member states – on various themes to increase awareness of trade policy issues among the public and private sectors. Two countries previously without national committees on trade negotiations established them as a result of these meetings. The case story also cites as results an increased awareness of regional trade issues, enhanced numbers and capacity of regional trade negotiators, increased involvement of the private sector in the formulation of national trade policies, and better co-ordination of trade policy across WAEMU.

The TPAs and the RTPAs were all of ACP country origins, which was an cited as an important factor in the success of the project. The presence of the TPAs and the RTPAs allowed for harmonisation of the policies between the two levels as the final work plan was based on inputs from the members and is decided at the regional level. Continuing challenges include barriers to intra-regional trade, sometimes intentionally created for budgetary reasons; difficulties with co-ordination in national and regional trade capacity building due to a lack of clear guidelines; and weak institutional linkages between advisors at the national and regional levels.

CAFTA-DR Sanitary and Phytosanitary Trade Capacity Building Program (United States)

From 2005, and with funding from the US Agency for International Development (USAID), the USDA Foreign Agriculture Service worked on this programme with Honduras, Nicaragua, El Salvador, Guatemala, Costa Rica and the Dominican Republic. The programme provides technical assistance to increase competitiveness of the countries and the region in agricultural trade through focusing on improving laboratory capacities, improving food safety, and animal and plant health. Funded with approximately USD 6.5 million from 2005-11, the case study reports that SPS capacity building activities resulting from the project have generated over USD 100 million in exports to the United States since 2006. Over 4 300 individuals from the private and public sectors were trained, and over 1 000 firms benefitted from demand-driven technical assistance.

At the regional level, outcomes included harmonisation of laboratory procedures and standardisation of testing methods, a harmonised regulation on microbiological residue standards for food, an increase in the number of dairy plants exporting to the United States from 4 to 26, and a decrease in labeling detentions for regional exports from 68% to less than 10%. Lessons learnt from the programme include the need to work more closely with regional organisations to leave a more stable legacy of local knowledge, as well as designing training programmes with a view toward promoting regional harmonisation. Some challenges in reaching programme goals were identified, including that of national priorities not always being in sync and that trade aid is often bundled with general programme assistance rather than targeted to SPS capacity building.

Regional Trade Facilitation Implemented by the African Trade Hubs (USAID)

The study focuses on the work of the African Trade Hubs in providing assistance to modernise and increase the efficiency of custom procedures and implementing and monitoring Regional Economic Community (REC) trade protocols. A second goal of the programme aimed to help RECs and other African institutions enhance regional integration in order to make the region more attractive to investment and strengthen institutions that will aid international trade. Activities since 2005 have included introducing the single administrative customs document in Southern Africa, implementing a digital data exchange system between Malawi and Tanzania, and helping to advance the implementation of major REC protocols in each of the three African Hubs. Between 2008 and 2009, the Hubs have reported trade expansion that includes a USD 11 million increase in trade under the African Growth and Opportunities Agreement (AGOA) in the East African Hub, a USD 40 million increase in AGOA exports in the Southern African Hub and an additional USD 20 million increase in AGOA exports in the West Africa Trade hub.

The Hubs were designed to address regional issues and to allow funding to assist those countries with which USAID did not have a bilateral relationship. Major stakeholders, the RECs and other donors were invited to participate in the Hub work planning process to ensure alignment among priorities and work. The Hubs also worked closely with donors to minimise overlap. In many cases, the Hubs have designed systems and procedures that the RECs continue to operationalise without direct donor assistance. Priorities in designing the Hubs included that they provide demand driven-technical assistance, ensure compatibility with local partner priorities, identify activities that would maximise likelihood of success within shorter time frames, and aim for sustainability over the long term.

Three types of problems were noted: organisational, human-resource related, and the institutional constraints facing the RECs. Specifically, these included difficulties in the process of achieving buy-in from the governments involved and reaching agreement on the direction and pace of adopting new procedures and technology. In working with the RECs, it was also difficult for the RECs to determine which member states were not in compliance and the reason for the non-compliance, and there was disagreement about what degree of authority the RECs should have over member states. The story credits the Hubs' regional focus, successful implementation of the operating priorities, and the skills makeup of the staff as allowing for the programme's success in spite of the problems encountered. Lessons learnt include a programming process that is demand-driven, flexible and responsive; bringing in and having the commitment of regional stakeholders; understanding the constraints and incentives of the other institutions involved; and pilot-testing interventions and integrating performance monitoring.

The COMESA-EAC-SADC Comprehensive Tripartite Trade and Transport Facilitation Programme (CTTTFP) (United Kingdom)

The CTTTFP is a series of initiatives from three different Regional Economic Communities (RECs) – COMESA (Common Market for Eastern and Southern Africa), EAC (East African Community) and SADC (Southern African Development

Community) – that were combined into a single integrated trade facilitation programme that prioritised trade and transport facilitation programmes to lower costs of doing business in the region and improve the competitiveness of products. This programme resulted out of the awareness that most of the countries in Eastern and Southern Africa have memberships in multiple RECs and thus can have conflicting commitments to implement programmes. Established in 2006, it includes customs, immigration and transport procedure harmonisation, and air transport liberalisation and was set to be rolled out in a pilot programme in the North-South Corridor in 2011.

The implementation of the programme is organised such that it first identifies each of the trade facilitation measures in use by each of the RECs and then finds agreement on which measures should be the standard ones. Next, it consults with stakeholders regarding these standards, seeks financing, and creates a steering committee to oversee necessary studies and address implementation issues. The final step is to identify other corridors where CTTTFP can be implemented.

The difficulty in harmonising trade facilitation instruments among the RECs and agreeing on common standards proved challenging, and the overlap in donor support on trade facilitation projects also reduced efficiency of the programme. To address the latter programme, DfID was given the role of lead co-ordinator for donor support to the programmes being implemented by CTTTFP to ensure donor co-ordination.

Trade Policy Training Centre in Africa (TRAPCA) (Sweden)

The Trade Policy Training Center in Africa (TRAPCA) is designed to build trade capacity in LDCs and the creation of a high-quality institution for trade policy training. It was set up as an independent unit within the Eastern and Southern African Management Institute (ESAMI) in 2006. ESAMI is an intergovernmental management institute that is owned by ten African member states. The budget for the first five-year period of 2005-10 was MSEK109, of which approximately 90% was provided by SIDA. The faculty is global and mainly from LDCs or low-income sub-Saharan countries. TRAPCA works with several regional and global trade-related organisations. Having ESAMI as the owner of the programme allowed SIDA to make use of an already established regional partner and to avoid bias against a national partner, ensuring the success of the programme.

Goals include training government and private sector representatives from LDCs and low-income sub-Saharan countries each year for four years. It included a masters' programme, foundation and intermediary courses, and an annual workshop on trade policy; a network for research and trade information and a database on trade-related resources; and creation of a forum for trade dialogue. In 2010, a total of 617 students/participants enrolled in TRAPCA courses and programmes, with the number of students applying exceeding the target threefold. TRAPCA was initially intended to be self-funded after the initial phase, but it proved impossible to accomplish while catering to participants from LDCs. At the time of writing, SIDA was considering extending funding until TRAPCA was able to find alternative sources of funding.

Establishing a Regional Non-Tariff Barrier Reporting and Monitoring Mechanism (United Kingdom)

This DfID financed programme brings together COMESA, EAC and SADC to implement a web-based non-tariff barrier (NTB) reporting, monitoring, and elimination mechanism with concrete timelines for the removal of NTBs. The three RECs had previously identified the NTBs and had been attempting to facilitate their removal prior to the programme. These mechanisms were the starting point for the design of the online monitoring mechanism. The mechanism is available to economic operators, government functionaries, secretariat experts, academic researchers and other interested parties, with different levels of access for different users.

At the national level, National Monitoring Committees have been established, made up of the public and private sector. These Committees are responsible for determining the process of NTB elimination, outlining the time periods for the stages of elimination, and resolving the reported barriers. Challenges include gaps in regional policy implementation at the national level, where member states may put off implementing certain aspects of policy in order to avoid implementation costs. The bureaucratic requirements in taking a course of action can be complicated as a result of the need to reference action at a meeting of the RECs before they can be implemented. Member states often lack the financial and technical resources to remove the NTBs; hence, it was noted that the regional approach must not overlook these differing needs of member states.

Sustainable Institutional Capacity Building in the Countries of the Americas to Consolidate Active Participation in the SPS Committee and Move Forward with Implementation of the WTO/SPS Agreement (Inter-American Institute for Cooperation on Agriculture – IICA)

The programme aims to develop institutional capabilities in member countries in order to allow them to fully comply with the SPS Agreement. 28 of the 34 IICA member countries were involved in the programme. The programme occurred in two stages: the first involved the preparation of 26 national agendas for SPS measures as well as the preparation and implementation of four regional sub-projects based on these national agendas, and the second as the implementation of specific actions in the regional sub-projects.

Because of the differing levels of institutional development in regards to SPS, it was decided to use a strategy of horizontal co-operation between the member states and the six countries that comprised the Steering Group (Argentina, Brazil, Canada, Chile, Mexico, and the United States of America). Regional workshops were held to increase awareness, improve communication between national actors and the private sector, and train participants in best practices, risk analysis and risk communication.

Negotiating the COMESA-EAC-SADC Tripartite FTA (United Kingdom)

The “Triparite” (COMESA-EAC-SADC) group brings together the 26 southern and eastern African countries that are members of these three RECs , in a commitment to deepen integration of their economies to better achieve development goals through increasing trade-led economic growth and development. In 2008, the Tripartite agreed on the need for a regional FTA. Support was given by the UK in the form of financial and technical assistance.

Because the 26 member states consist of developing and least developed countries with different interests, needs and capacity, the programme offers technical assistance to the member states, assists in building analytical capabilities for trade policy, and imparting trade negotiation skills. Progress has been made on the FTA with the draft agreement and draft FTA Roadmap, which were sent to the member states at the end of 2010. The approach was designed to minimise negotiations by accounting for preexisting agreements among the member states.

Deepening the EPA Development Program (ECOWAS)

This five-year project deals with the process of enhancing the EPA Development Plan as part of the renewal of the trade regime between ECOWAS and the EU. The project was designed to address issues arising from the diversity of actors within the region and the need for the regional approach to account for and integrate needs at the national levels. The aims of the programme are to assist the region in maximising the benefit of the EPA while minimising any negative effects that may result. Implementation of the EPADP had not occurred as of the time of the study, but preliminary results included the adoption of a Concept Note in the region in 2008, workshops and national studies to identify needs. A regional committee will ensure regional co-ordination, with National Steering Committees at the national level. The programme developed is now a reference in the region.

Trade Capacity Building Program for the Implementation and Administration of Trade Agreements (OAS)

This programme aimed to train Latin American and Caribbean government officials who are responsible for the administration and implementation of trade rules through an exchange of experiences and lessons learnt from Canada, Chile, Costa Rica, Mexico and the United States. Most of the activities were undertaken with the co-operation of the Subsecretaría de Negociaciones Comerciales Internacionales of the Secretaría de Economía of Mexico with financing through CIDA. More than 500 government officials were trained through this programme.

Establishing and Managing a Regional Aid for Trade Programme (United Kingdom)

This case story examines the UK experience in establishing and maintaining TradeMark Southern Africa. The programme was designed to tackle ‘behind the border’ problems that inhibit trade in the region as well as restrict market integration. The objective include supporting improvements in policies, strengthening capacity to allow implementation of regional trade agreements and participate in multilateral trade negotiations, and improving transport infrastructure. TMSA was launched in November 2009 with GBP100 million and was designed as a five-year programme. Funding for 2009-11 consisted of GBP 67 million to support investment in transport infrastructure along the North-South Corridor, and GBP 33 million from 2009-13 to reduce trade barriers and increase market access. The programme was centered on the objectives, policies and plans set out in the strategic plans of SADC and COMESA and the Tripartite group.

The complexity of overlapping REC membership has prevented donor engagement on the issue of African regional integration in the past, but TMSA helps achieve greater harmonisation of trade and integration policies and strategies. The programme is also designed to complement development partners’ regional initiatives, including those of the World Bank, the African Development Bank, and individual donors (Japan, German and the USA). Managing regional and national linkages is noted as an important factor to the success of the programme, as was respecting the REC ownership of the agenda and reporting to the RECs while working with them.

Trade-related adjustment

Lessons from the Sugar Protocol Adjustment Measures (SPAM) Programme in the Caribbean (European Centre for Development Policy Management – ECDPM)

This programme is a response to the 2009 end of the Sugar Protocol, removing duty-free access to the EU market, fixed prices, and country-specific export quotas for the African, Caribbean, and Pacific (ACP) sugar producers. SPAM was designed as a fund to assist the ACP sugar sector to adjust to these European Union market access changes. The stated goals include increasing the competitiveness of the sugar and sugar cane sector, promoting the diversification of sugar dependent areas towards bio-fuels and other sugar uses, and to address issues that might arise as a result of the changed market access. This case story focuses on the programme's activities in the Caribbean, and focuses on the need for private-sector involvement in order to ensure and increase successes of this and other Aid-for-Trade programmes.

SPAM funding is delivered through sector budget support or general budget support to allow the governments in the region increased discretion over the use of the funding. While the programme emphasises working through the public sector, the story notes that because these adjustments must be market-led and private-sector based, changes to the programme need to be considered to allow the process to be market-led and private sector-based. EU funding regulations however create constraints against using the funding for private sector based production and trade adjustment initiatives.

Chapter 4

Case study of Southeast Asia

Regional aid for trade in the Southeast Asia region has not hitherto figured prominently in the agendas of donors and national leaders, and yet there are strong incentives to champion regional public goods in ASEAN, for example, to achieve the open regionalism vision of the ASEAN Economic Community. Indeed, there is a need to translate the physical infrastructure projects in the Greater Mekong Subregion and other sub-regional programmes and projects into trade and economic corridors. Likewise, support for behind-the-border, customs-immigration-quarantine-security, and market access reforms are needed to foster a greater sense of ownership of projects whose net benefits accrue generally to the region. The Coral Triangle case study and regional case stories suggest that capacity building, including training for leaders who understand strategies of competition, co-operation and "co-opetition", should target specific value chain participation, and anchor programmes in the quality of growth framework that embraces profits, people and planetary concerns.

Introduction

The 2013 OECD/WTO report on Aid for Trade finds that regional aid for trade has proven to be a useful instrument in reducing barriers to the flow of goods and services at borders and in developing trade infrastructure. It also reports that aid for trade, in general, has lowered trade costs and increased the ability of developing countries – especially the least developed countries – to trade and to integrate into global value chains. The report suggests that there has been stronger donor awareness of regional aid for trade, based on the tripling of regional aid for trade funds to USD 7.7 billion in 2011 (commitments) from a base of the three year average prior to 2005. It also stresses the need to improve the management of aid funds; approaches could include greater programme co-designing between donors and recipients, and the creation of clear targets and performance indicators.

While Asia overtook Africa as the largest recipient of aid for trade at USD 17 billion in 2011, regional aid for trade has not been used for economic integration efforts within Asia in the same way that it has in other regions (OECD/WTO, 2013).[1] For example, there have been few efforts through regional aid for trade to realise the ASEAN Economic Community (AEC) in December 2015. Of the three sub-regions related to ASEAN, only the Greater Mekong Subregion (GMS) has been given attention via regional aid for trade to support significant longer term development programmes (the GMS Strategic Framework 2002-2012 has been updated for 2012-22 to include equity concerns).

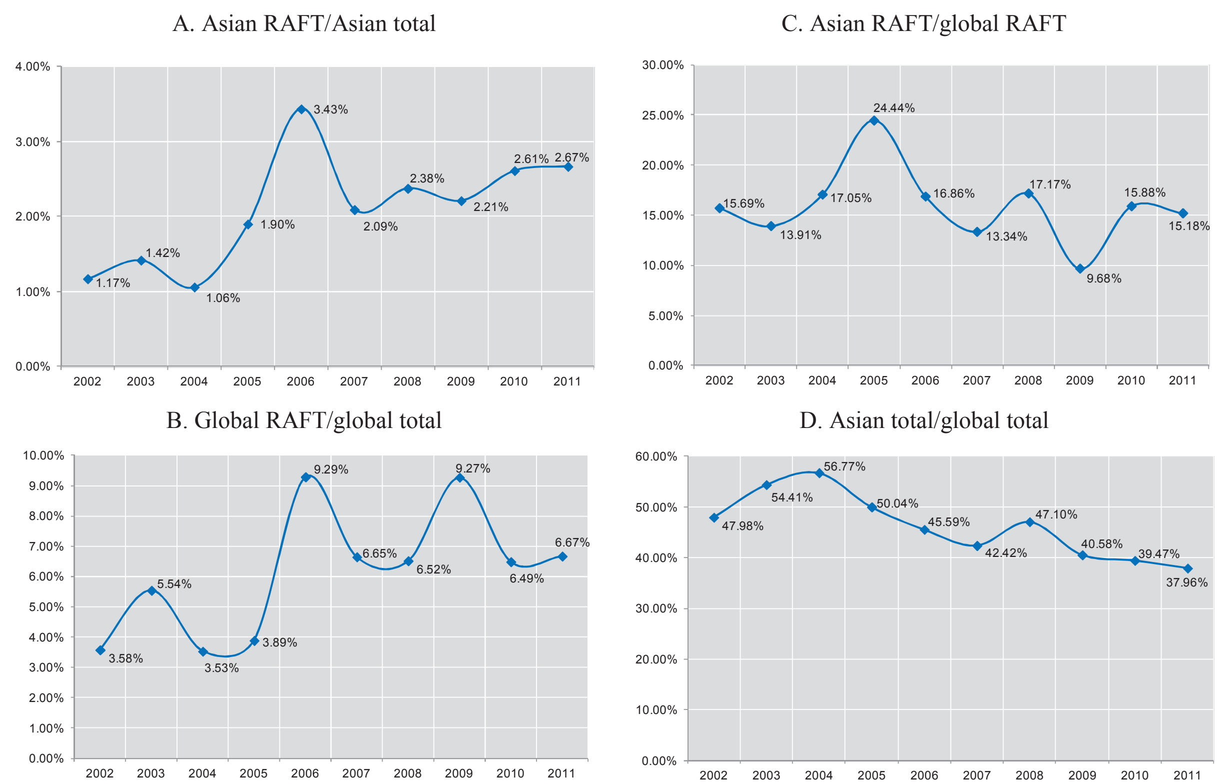
This chapter develops the theme of utilising regional aid for trade to enhance regional integration in Southeast Asia, especially in the face of the changing environment of trade and development (e.g. the focus on poverty and the environment, separately and in a systems context discussed below). This paper aims to: develop a better understanding of the constraints on regional aid for trade and how they may be removed; delineate lessons and best practices; consider how regional aid for trade can be designed creatively and efficiently from the grassroots level; and describe how regional aid for trade can be mainstreamed in the wider context of development plans (for example, trade links with equitable growth, sustainable development and other quality of growth indicators).

The importance given to regional aid for trade in Asia is relatively low from two perspectives; however, it is of great importance in regional production networks and linkage to value chains (Figure 4.1).

Figure 4.1A shows regional aid for trade to Asia averaged under 2.09% (standard deviation = 0.74%) of total Asian aid for trade in 2002-11, while Figure 4.1B shows the equivalent ratio for the global total to be around 6.14% (standard deviation = 2.09%), more than twice that of Asia. Both the Asian and global ratios here are trending upward for the period. As a share of global regional aid for trade, Asian regional aid for trade averaged 15.92% (standard deviation = 3.75%) in 2002-11 as indicated in Figure 4.1C. This is in stark contrast to the share of Asian total aid for trade in the global total averaging 46.23% (standard deviation = 6.30%) as shown in Figure 4.1D. Asia's share in regional aid for trade and total aid for trade are both trending downward.

Southeast Asia can definitely gain from the benefits of regional co-operation if regional aid for trade is properly implemented. These benefits include allocative efficiency, greater FDI inflows that bring about technology transfer, access to larger markets that enable greater economies of scale and scope, and the increased potential for more efficient policy frameworks resulting from trade facilitation measures and behind-the-border reforms that are featured in modern FTAs(OECD/WTO, 2013). Additional non-traditional benefits of FTAs are the insurance against losses in trade frictions, creation of a more secure international environment, enhancement of bargaining power in external negotiations, and promotion of domestic reforms (Yunling and Minghui, 2013).

Figure 4.1. **Asia compared to global aid for trade commitments**



Source: Based on OECD Creditor Reporting System database.

However, there are costs of regional co-operation that have to be accounted for in the overall calculation of regional aid for trade's net advantage. The framework suggested to redress this is the Porter competitiveness model combined with the World Bank quality of growth construct, presented in a later section of this report (Macaranas, 2009).

Methodology

This paper relies on existing literature and is informed by dialogues with stakeholders[2] and scrutiny of the statistical data from the OECD Credit Reporting System, Asian and ASEAN (except Brunei and Singapore which are not separately reported) trade; the ADB Asian Regional Integration Centre (ARIC) database; and the ASEAN and various donor websites. Only national aid for trade is reported for ASEAN members in the OECD CRS; there is no regional aid for trade information for ASEAN as a whole.

All the national economic and development plans of the ASEAN members were reviewed for their recognition of potential resource generation from aid for trade or regional aid for trade. It is clear that neither is considered by these countries in these plans, demonstrating the lack of national ownership of regional plans in the area of aid for trade.

Analysis of separate aid programmes of major development partners was done using the aid-for-trade databases and case stories from major programmes in published reports and select interviews with project heads, and two regional aid for trade programmes in Southeast Asia that are discussed in the present set of case studies.[3]

Definition of terms

Regional co-operation refers to policy measures, some to enhance economic integration, "jointly undertaken by a group of countries, typically located within a geographic area, to achieve a level of welfare that is higher than is possible when compared to pursuing such a goal unilaterally" (Lamberte, 2005). *Regional integration*, by contrast, is the "*de facto* integration of economies, within a geographic region (that) may be market-driven or policy-induced, that is, one that results from regional co-operation" (Lamberte, 2005). *Regionalisation* is market-driven integration, while *regionalism* refers to "formal economic co-operation and economic arrangements of a group of countries aimed at facilitating or enhancing regional integration" (Lamberte, 2005).

Regional co-operation and integration initiatives in Southeast Asia

The Asia-Pacific context

The Asia-Pacific region has seen three waves of regionalism (Bonapace, 2005 in Lamberte, 2005). The 1960s experiences a first wave of closed regionalism where co-operation forged by co-operating countries focused on import-substituting industries, financed mainly by borrowings, with local industries protected by high tariff and nontariff barriers. This ended in the 1970s as its contribution to economic development of participants were marginal and resulted in high indebtedness.

The second wave of outward-oriented regionalism witnessed liberal trade and investment policies to enhance export competitiveness. Adherence to multilateralism rose rapidly as seen in increased GATT/WTO membership. Open regionalism gained prominence in the Asia-Pacific as well, with APEC adopting non-discriminatory liberalisation by the 1990s. With the advent of the East Asian financial crisis in 1997, however, APEC's largest members (US and Japan) opted to liberalise only within the context of negotiated reciprocity under the WTO, thus starting the process of the third wave of regionalism – new Regional Trade Agreements (RTAs) – which was more comprehensive in scope than earlier waves (De, 2005 in Lamberte, 2005).

Today, Asia's rapid, broad and globally-linked integration is based on distinctly Asian characteristics – open, multi-speed, multi-track, pragmatic and bottom up, in the context of great regional diversity. Over the past two decades, increased Asian regionalism has been driven not only by the adoption of more outward-oriented economic policies to counteract the contagion of the 1997 Asian financial crisis, but also due to the slow progress of the Doha Development Agenda (with only a "mini-package" of liberalisation to show thus far from the December 2013 WTO Ministerial Conference in Bali), and the emergence of the People's Republic of China as the hub of regional production networks, which constitute about 50% of Asian trade (Perdiguero, 2013a).

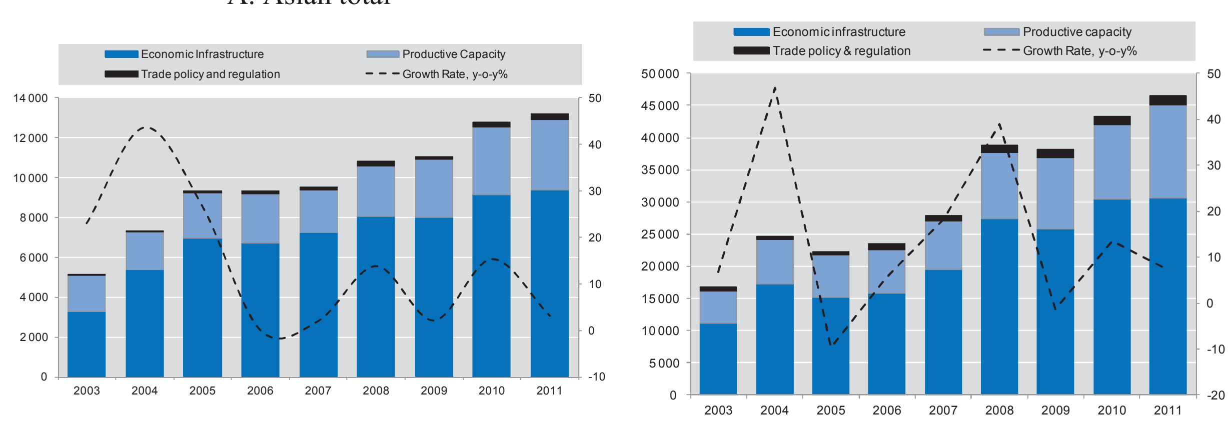
Increased interdependence is also shown in the density of FTAs (Asian countries have signed over 100 FTAs), a rise in intraregional FDI share among Asian economies, an improved correlation of equity price in stock markets, a strengthened correlation of various countries' GDP growth, and an increased share of two-way intraregional tourism flows (Perdiguero, 2013a). Driving accelerating regional co-operation are lower costs of transport, communications and energy; linkages of poor countries and population segments to dynamic and thriving regional economy; reduced financial vulnerability; management of spill-overs among economies; programmes and projects addressing health issues, natural disasters, environmental degradation; facilitation of labour movements; and Asia's growing influence in global economic fora (Perdiguero, 2013a).

How does Asia compare with the rest of the world in aid for trade? Both national and regional aid for trade in Asia and in the world have been steadily rising albeit at a slowing pace due to the Global Financial Crisis in 2008-09 (Figure 4.2A). The decline in aid for trade manifested itself especially in less support for projects in economic infrastructure (Figure 4.2). So far, aid for trade in Asia seems to be recovering, as OECD CRS shows better numbers in 2010 and 2011 (Figure 4.2A). Asia is now the leading recipient followed by Africa and the Americas (Figure 4.3A). The bulk of country-level aid for trade addresses economic infrastructure (EI). The majority of EI is focused on energy projects, on transport and storage, roads and bridges. The majority of building productive capacity projects, on the other hand, addresses agriculture rather than industry. This pattern however, does not hold for regional aid for trade.

Figure 4.2. **Asian and global aid for trade disbursements by category**

A. Asian total

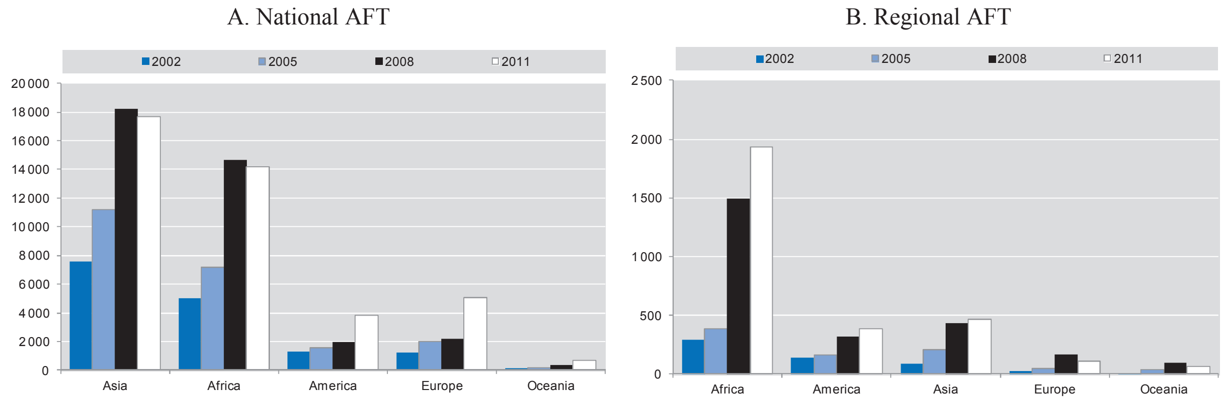
B. Global total



Source: Based on OECD Creditor Reporting System database.

Yet, Asia ranks third in regional aid for trade, behind the Americas and Africa (Figure 4.3B). All areas (Asia and global) of regional aid for trade appropriate more funds to building productive capacity compared to their national counterparts (Figure 4.4); this reveals a potential niche for a regional approach to trade education, training and service-related projects. Also, all areas of regional aid for trade, when compared with their total aid for trade counterparts, appropriate more funds to banking and energy than to transport and storage for economic infrastructure, and more to industry instead of agriculture.

Figure 4.3. **Aid for trade commitments by region**



Source: Based on OECD Creditor Reporting System database.

ASEAN context

ASEAN was established in 1967 by five countries in the signing of the Bangkok Declaration (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and aimed to foster economic growth, social progress, cultural development, regional peace, and collaboration and partnership with the international community. Succeeding memberships (Brunei Darussalam – 1984; Viet Nam – 1995; Lao People's Democratic Republic, Myanmar – 1997; and Cambodia – 1999) resulted in even more economic, socio-cultural and political diversity.

How do members of ASEAN figure in the aid for trade community? No data for regional projects have been collected for ASEAN in the OECD CRS, but the eight countries for which national aid for trade data have been collected show an increasing trend of funds disbursed (Figure 4.5). Interestingly, the ratio of actual to committed funds for 2002 through 2011 (Figure 4.6) reveals that ASEAN 8 received only 8.4% of total funds committed for Trade Policy and Regulation (versus Asian AFT, Asian regional aid for trade and global regional aid for trade receiving 8-9 times that). The same could be said for the other categories, with productive capacity at only 45.6% of total funds disbursed (versus 75%-85% for the others), and economic infrastructure doing at least as well as its comparators (77%).

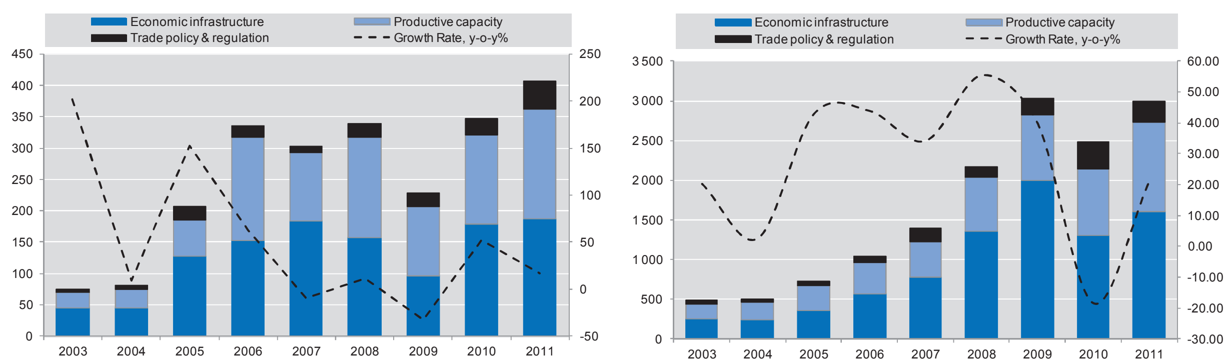
The ADB supports three main sub-regional co-operation programmes in Southeast Asia directly affecting trade: the GMS, which mainly covers physical connectivity; the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), which mainly covers cross-border trade and investment through improved Customs, Immigration, Quarantine and Security (CIQS); and the Indonesia-Malaysia-Thailand Growth Triangle (IMG-GT). The ADB also provides support for various regionally-focused ASEAN activities along with its dialogue partners.

Of the three sub-regional arrangements within ASEAN, GMS has come up with the most prominent and successful activities. The corridor development concept is now being replicated in other sub-regional groupings, e.g. Central Asia Regional Economic Cooperation (CAREC). Following the original model of building regional infrastructure for physical connectivity,[4] a long terms vision has been developed for a more integrated, prosperous and harmonious region in 2002-12. The ADB has realised that even the narrow roads that connect countries can serve as highways of commerce for domestic economies; hence, the areas around GMS corridors can become dynamic towns that link to farming villages, mining sites or tourist destinations. Such towns, in turn, can become urban centres where SMEs can thrive thereby improving the provision of business, education and health services. The same cities can later turn into regional centres for commerce, training, research, and so on. Hence, corridor-based economic zones can be created out of integrated regional plans. Alternatively, national roads can become regional trade and transport facilitation corridors through the development of logistics for the entire sub-region and beyond.

Figure 4.4. **Asian and global regional aid for trade disbursements by category**

A. Asian RAFT

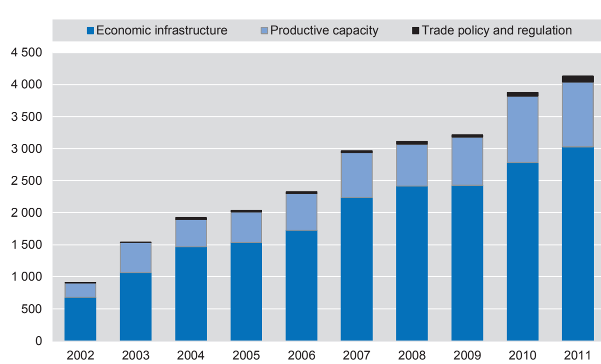
B. Global RAFT



Source: Based on OECD *Creditor Reporting System database*.

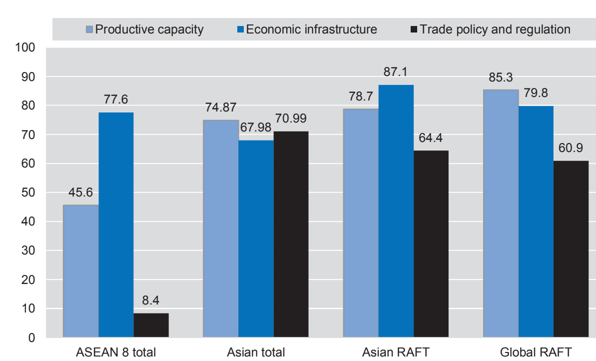
Figure 4.5. **ASEAN 8 aid for trade by sector**

USD millions



Source: Based on OECD *Creditor Reporting System database*.

Figure 4.6. **ASEAN 8 aid-for-trade compared to Asia aid-for-trade, Asia RAFT and global RAFT**



Source: Based on OECD *Creditor Reporting System database*.

To counteract increasing income disparities and to realise a poverty-free and environmentally rich GMS, the ADB developed the economic corridor model, embedding it in the GMS programme. At the core of this model is the development of trans-boundary roads between major economic centers. On these roads are end-nodes and "stepping stone" markets that connect remote and impoverished areas to economic hubs. With developed roads come corridor and sector plans for investment options and further connectivity enhancements (e.g. feeder roads, rail and river transport). Together, they transform corridor roads into full-fledged economic corridors that provide new livelihood opportunities for a previously marginalised population and also promote biodiversity initiatives.

GMS advances regionalism without hampering multilateralism because it is based on market and not institutional integration, such as in the case that ASEAN hastened the realisation of its ASEAN Free Trade Area based on an ambitious liberalisation programme in the context of open regionalism (Menon, 2005). Hence, GMS and the other sub-regional groups are seen as building rather than stumbling blocks for ASEAN integration, with the GMS plan through 2022 aligning closely to ASEAN roadmaps.

Opportunities and challenges in regional integration

For more than two decades, the wage and labour productivity differentials across members, and the trade and investment liberalisation and facilitation steps in both ASEAN and APEC have made regional production networks thrive in ASEAN. Since voluntary trade facilitation in APEC does not discriminate against partners, the regional approach is more acceptable for politically-sensitive reforms, especially those ‘behind-the-border’ (OECD/WTO, 2013).

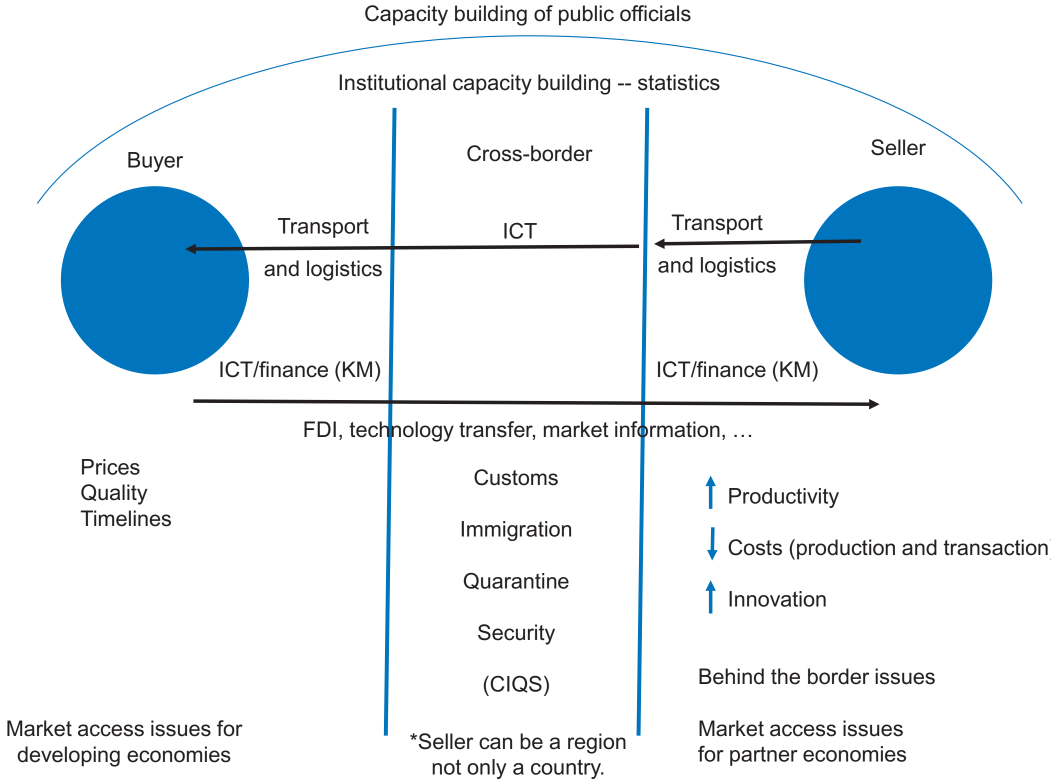
The emergence of “factory Asia” based on production networks will continue in the immediate future, but “two faces” of the region divulge a marginal integration of latecomers that have to shift growth drivers toward regional demand, more diverse exportables and more partners. These countries – which include natural-resource-rich Brunei Darussalam and Indonesia, and other lower-income countries like the Philippines and Viet Nam – may have to be more export-aggressive and FTA-reliant for regional economic integration (*ADB/WTO*, 2011).

China’s rise as the major global exporter in 2010 aroused fear that China would replace ASEAN in many markets. Such fear is unfounded as regional production chains made possible ASEAN’s export of manufactured components to Chinese assemblers who sell to the world (Yamashita and Kophaiboon, 2011). Indeed, among the top ten major export items of ASEAN in 2012 and based on UNCTAD data (2013) are cathode valves and tubes (USD 137 billion), automatic data processing machines (USD 38 billion), telecoms equipment and parts (USD 30 billion), and parts, accessories for making of groups (USD 27 billion).

Inter-regionally, ASEAN and GMS can influence global and regional standards and approaches through border and behind the border reforms (Figure 4.7). Regional co-operation initiatives in infrastructure for physical mobility (arrow moving from seller to buyer in Figure 4.7) and improvement of regulations for institutional alignment with global or regional standards (e.g. CIQS in the middle of Figure 4.7) respond to increasing globalisation and interdependence. Developing strategic products instead of entire sectors responds to the need to move up global and regional value chains. The sub-regional arrangements that build up ASEAN also support WTO-consistent regionalism.

The refocusing of export and tourism policies to new markets (left side of Figure 4.7) recognises the role of large economies such as China, India and ASEAN in the Asia-Pacific (Perdiguero, 2013b). More global concerns that respond to rapid urbanisation trends are found in investment in climate-resilient cities and equity-conscious projects such as social businesses, community based enterprises, co-operatives, SMEs, etc., which link to rural areas.

Figure 4.7. **Trade reform issues for regional aid for trade**



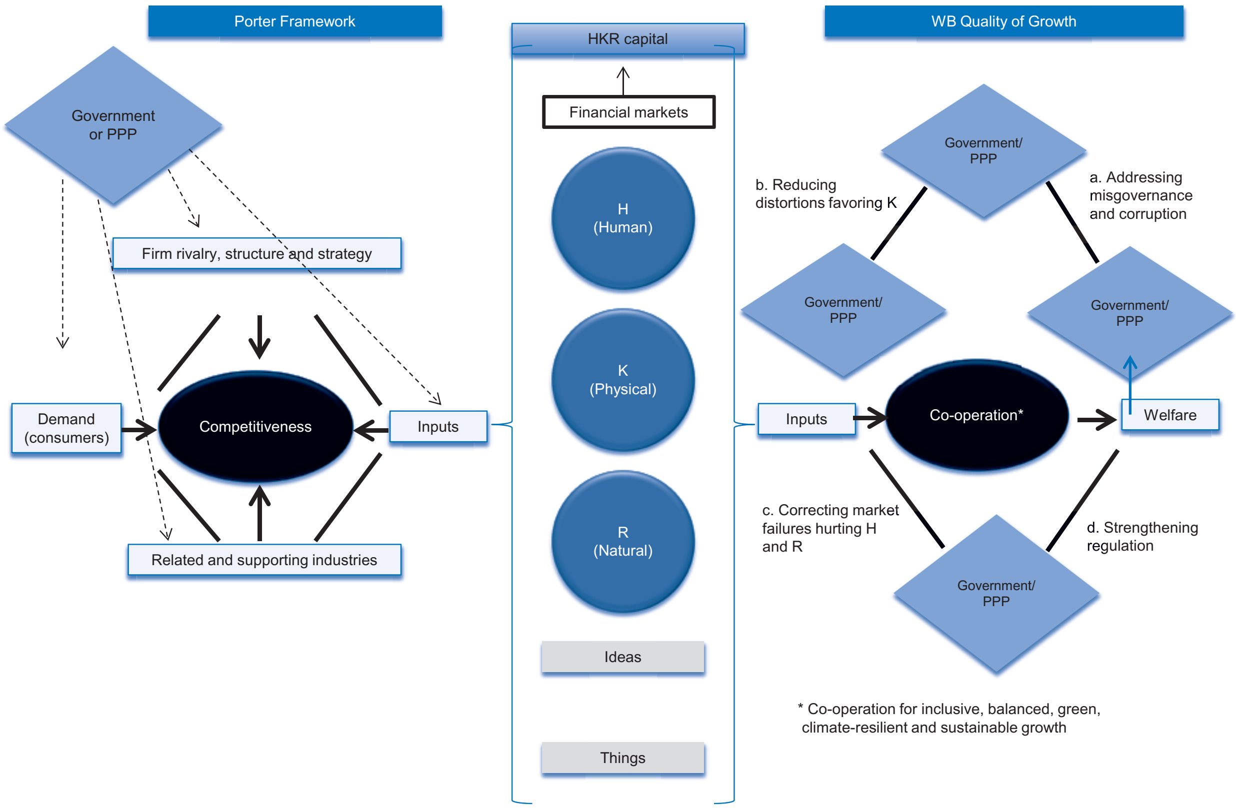
Other key global and regional trends on demographic changes require investment in social protection and health, for which innovative tradable products such as vaccines, as well as traditional and alternative medicines, can be developed (Box 4.2 on ASEAN NDI).

It is clear that regional aid for trade should address mainly objectives stipulated in the AEC blueprint adopted in 2007. Figure 4.8 suggests a way of combining Porter's model of competitiveness and the World Bank's quality of growth framework, both of which address inclusive growth and sustainable development at the heart of the AEC blueprint.

The blueprint for the Asian Economic Community was designed to mobilise resources needed to achieve its goals which could also be translated into the post 2015 development agenda and which include (Intal et al., 2013):

- An integrated and highly contestable ASEAN: non-protective non-tariff measures; more efficient trade facilitation; highly contestable services and investment in a regime accepting competition policy; facilitative standards and conformance; connectivity and transport facilitation; and greater mobility of skilled labour (Porter's entire competitiveness diamond plus the entire Figure 4.8).
- A competitive and dynamic ASEAN: nexus of FDI, trade, services and IPR; clusters and cluster policy; technology transfer (face to face or "invisible college"); moving up the technology ladder (Porter's strategy corner and WB's strengthening regulation concern).

Figure 4.8. **Competitiveness and co-operation: Framework incorporating triple bottom line**



Source: Macaranas, USAID/DTI Workshop on C+IG 2009.

- An inclusive and resilient ASEAN: linking peripheries to growth centres (Myanmar as a growth star); raising agricultural productivity and improving the food security system of member states; raising member states scores in the ASEAN SME Policy Index; energy efficiency, renewable and green energy for energy security; disaster insurance; safety nets; regional co-operation on disaster management, climate change adaptation and mitigation ("Correcting market failures affecting human and natural capital" in the WB quality of growth framework).
- Global ASEAN: integration with East Asia through the Regional Comprehensive Economic Partnership; ASEAN centrality in facilitating the process and in shaping the substance of other regional efforts; creation of a common ASEAN voice; ASEAN institutional strengthening; growing of ASEAN voice in global arena.

From Porter's "firm structure, rivalry, and strategy" corner of the competitiveness diamond, regional aid for trade can be mobilised for the execution of trade-related development efforts across the many working groups that operationalise ASEAN policies as in the agenda cited earlier. However, the institutional set-up ("supporting industries" in the lower part of the Porter diamond) will have to be re-examined as project champions need to be located in member states to effect a regional aid for trade strategy in priority programmes. (Robeniol, 2013 pers.com, 4 December)

The trade reforms issues on the right-hand side of Figure 4.7 can then be juxtaposed with its left-hand side as follows: Porter's "inputs" corner of the competitiveness diamond is what sellers in the behind-the-border trade reform framework need to address. This includes the border reforms for CIQS as well as transport/ logistics; trade finance; and knowledge management, especially of market intelligence.

Porter's "demand" corner is what buyers in the left part of Figure 4.7 are concerned about, e.g. market access issues on tariff and non-tariff measures including rules of origin that vary for particular products across various regional and sub-regional groupings. These issues may give rise to "varying schedules for phasing out tariffs, exclusion lists, conflicting standards, ROOs across FTAs particularly cumbersome red tape and documents including certificates of origin" (Yungling and Minghui, 2013).

Regional aid for trade in Southeast Asia

The following section analyses two major case studies and a set of case stories from different donors to Southeast Asia. It builds the case for examining more regional aid for trade assistance to ensure competitiveness at the firm level and equitable and sustainable development for the societies as ASEAN deepens and broadens its economic integration. According to Porter, the demand and supply sides of the market (also found in Figure 4.8 on trade reform issues) are enriched by: (1) the supporting industries (which most of the regional aid for trade programmes and projects address, including infrastructure/logistics); and (2) the firm strategy based on its structure and rivalry (including the co-opetition or co-operation-cum-competition strategy, especially in the provision and financing of regional public goods that affect tradables).

The ASEAN GMS case

ADB and the Aid for Trade Programme

Support for trade-related activities has been central to the ADB's portfolio even before the Aid for Trade Initiative came to life in 2005. ADB support for its Developing Member Countries (DMCs) have included regional and national infrastructure projects with a cross-border impact, trade facilitation and customs modernisation, export promotion and diversification, and policy and institutional support for trade regimes (OECD and WTO, 2007).

ADB's Long Term Strategic Framework for 2008-2020 reiterates the centrality of inclusive growth.[5] The strategy identifies investment in infrastructure as one of the main approaches in achieving high sustainable economic progress. The ADB is stepping up efforts in its Regional Cooperation Initiatives (RCI) Strategy for 2020, to narrow the development gaps among DMCs through trade catalysis and joint investments, strong transport connection and information links, and improved information and communications technology (ICT). This regional approach will allow neighbouring countries to maximise resources and mainstream aid for trade in regional and national development plans (ADB, 2012).

Regional co-operation initiatives in Southeast Asia

The ADB supports three main sub-regional co-operation programmes in Southeast Asia, as well as various ASEAN activities. ASEAN is central to the programme-wide strategies of the three sub-regional programmes. The AEC is further strengthening

ASEAN's influence in the region and is allowing sub-regional programmes to realign priorities to the ASEAN agenda through project implementation in landlocked, contiguous and less advantaged sub-regions. Less developed provinces benefit from wider regional economic integration in Southeast Asia.

Strong interconnection, however, does not translate into increased co-operation in operations. In a review of co-operation in transport and energy, and transport and trade facilitation, ADB found that while there is evidence of links in various forms, some links were random or unplanned (such as the ASEAN Highway Network coinciding with segments of sub-regional corridors). With the launch of the AEC in 2007, these links have become more purposeful, especially in transport and trade facilitation where "a number of ASEAN and sub-regional agreements and protocols have been aligning with one another."

A review of the co-ordination mechanisms among the four programmes also reveals the need to strengthen in-country co-ordination. While the four programmes have similar governance structures at four levels (summit, ministerial, senior officials and sector working group bodies), there are variations of focal ministers for co-ordinating each of the three sub-regional programmes. This situation raises concerns over: the effective management of countries' commitments to regional and sub-regional fora; the successful integration of regional efforts into national development plans; and the efficient continuation of cross-border co-operation in Southeast Asia.

The ADB has identified some of the factors constraining in-country co-ordination, including a lack of resources, limited technical capacity, historical antecedents, and political factors and personalities. Some countries, however, have taken the initiative to institutionalise co-ordination of regional and sub-regional programmes government wide. These include the Philippines' Council for Regional Cooperation chaired by the Secretary of Foreign Affairs, and the high-level co-ordinating committees under the chairmanship of the Prime Ministers of Cambodia, Thailand and Viet Nam.

More benefits can be reaped from these programmes with stronger inter-programme co-ordination between ASEAN and the GMS, BIMP-EAGA and IMT-GT. This is especially true since the sub-regional programmes have made efforts to align their strategies with those of AEC priorities. However, while some informal links have been initiated, no formal structure to facilitate co-operation among the four bodies currently exists.

The role of aid for trade

The ADB's support for regional aid for trade in Southeast Asia is evident in various regional co-operation and integration projects, notably the GMS Program which uses the economic corridor approach to progress. This approach is aimed at developing a highly efficient transport system for goods and peoples to move around the sub-region without excessive cost and delay, hence furthering economic growth and regional development. With extensive ADB support and dozens of projects in transport, energy, telecommunications, tourism, trade facilitation, agriculture, private investment and industrial estates, the corridor has accomplished much (ADB, 2012).

ADB support comes to about USD 60 million for projects valued at nearly USD 600 million as exemplified by Savannakhet Province, where completion and upgrading of Road 9 in mid-2004 and of the Second Mekong International Bridge in neighbouring Thailand in 2006 brought significant gains:

- agricultural sector averaged 7.2% growth (compared with 3.4% nationally) with better roads, more efficient border crossings, increased access to technology and cheap inputs in the last 5 years
- Savannakhet has become a net rice exporter since 2005, exporting 15 000 tons to Viet Nam in 2006
- imports increased to USD 124.7 million in 2005 from USD 31.8 million in 2001 and its exports increased to USD 151.8 million from USD 63.1 million
- FDI rose sharply: for example, 2006 approvals reached USD 421.7 million compared with a USD 96 million average over 1995-2000
- Oxiana, the Australian mining company, is among a number of companies that are benefiting. It employs large numbers of local people and credits road upgrading for boosting gold and copper production.

The development of economic corridors is a holistic strategy for quality and reach of intraregional infrastructure in both sub-regional and individual economies of member and adjacent states. The success of GMS' economic corridors approach is due to: (1) an appropriate mix of lending and non-lending assistance to the GMS dialogue; (2) the selection and implementation of physical infrastructure improvements at the national and sub-regional levels; and (3) a proper focus on cross-border issues and diligence for cross-border trade agreements.

One such example is the GMS East-West Transport Corridor which links Da Nang in Viet Nam with Tak in Myanmar. The project is expected to expand the market for transit and bilateral trade among Thailand, Viet Nam and Lao PDR, and included the construction of cross-border infrastructure as well as the mitigation of nonphysical barriers to the movement of goods and people across borders. To date, the GMS East-West Transport Corridor has successfully reduced average travel time by 2-8 hours; increased trade value across borders; expanded tourism and service sectors from 95 000 people in 2000-01 to 274 000 people in 2007; and constructed feeder roads in once-isolated communities reaching 101 villages in Lao PDR, (ADB, 2012).

Another example is the Southern Road Development Project which directly links Chiang Rai in northern Thailand and Kunming in Yunnan Province, China. A segment of this is the 147 km Yunnan Yuan Mo expressway; it has reduced the distance along the route from 214 km to 147 km and travel times by 60-70%, with a medium truck spending 2-2.5 hours vs. what used to be 8 hours. Freight transport is now deregulated. The delivery times for agricultural inputs have been reduced by more than 50%. The transport situation has made markets more efficient.

Given the success of the economic corridor concept, similar approaches have been adopted by ADB-supported programmes in South Asia (South Asia Subregional Economic Cooperation or SASEC) and Central Asia (CAREC). ADB has likewise helped promote trade finance through the region-wide Trade Finance Facilitation Program (TFFP), which provides guarantees and loans to partner banks in DMCs. ADB has raised the TFFP to USD 1 billion to better assist developing countries in accessing trade finance during economic crisis and global financial shocks.

Lessons learnt

While some ADB-supported regional programmes and projects have demonstrated the successful use of regional aid for trade in ensuring inclusive growth, improvements in certain areas could increase the benefits to lagging regions and countries:

- National Development Plan and Country Ownership. There is a need to develop institutional mechanisms for smoother in-country co-ordination in regional and sub-regional programmes; for an integrated approach to identifying and implementing regional projects for the poor and underserved segments; for streamlined efforts among various government ministries and agencies in managing regional and subregional projects, and commitments; and for these commitments to be aligned with the countries' priority development plans and strategies.
- Inter-programme co-ordination. Formal mechanisms must be in place to reinforce existing information networking and co-ordination among the sub-regional programmes and ASEAN. ASEAN and the sub-regional programmes could complement each other, as sub-regional programmes have already aligned their priorities with those of the AEC. The sub-regional programmes could serve as a building block toward a larger regional vision.
- Inclusive growth. While most of the ADB-supported sub-regional programmes in Southeast Asia have explicitly identified aiding slower-paced regions in order to keep up with their more dynamic neighbours, efforts must be undertaken to ensure that regional projects do not just facilitate trade and increase market access, but that these projects increase access to those who were previously underserved.
- Private sector. Since the private sector is a primary actor in trade activities, engaging them in regional aid for trade initiatives is important. Feedback from the private sector on bottlenecks and how to overcome them, as well as on co-financing arrangements could spell success for regional aid for trade projects.
- Capacity development. ADB also places importance in harnessing the soft-side of cross-border trade, including customs and standards, and skills training of government officials in negotiation, regional management and sub-regional commitments, and project implementation. Interventions similar to ADB's Phnom Penh Plan, aimed at capacity building of officials and institutions in regional co-operation, should be pursued further.

The Coral Triangle initiative case

The Coral Triangle (CT), known as the global centre of marine biodiversity, encompasses almost 6 million square kilometres of ocean and coastal waters in Southeast Asia and the Western Pacific. More than 350 million people, almost 242 million of whom are in Indonesia, directly and indirectly depend on its coastal and marine resources. The seas are located within the East Indies. CT is home to the Verde Island Passage (VIP) in the Philippines: VIP is the "centre of the centre of marine biodiversity."

CT is within the Exclusive Economic Zones (EEZ) of Indonesia, Malaysia, Papua New Guinea, the Philippines, Timor Leste and the Solomon Islands, located along the equator at the confluence of the Western Pacific and Indian Oceans. The unparalleled marine and coastal living resources directly benefit about 121 million people and thousands of micro, small and medium enterprises (MSMEs) within the six countries that compose CT.

The Regional Action Plan on the Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security (CTI-CFF), (CTI-RPA June 2009) highlights CT as: having an estimated USD 2.3 billion total annual value of coral reefs, mangroves, and associated natural habitats; the spawning and nursery grounds for tuna, supporting a multi-billion dollar live reef fish, shrimp and tuna industry; an important food source for millions of consumers worldwide and as supplier to the United States, Europe, China and Japan; providing thousands of jobs and livelihoods for inhabitants within the region in the fisheries and fish processing sectors; and the sale and export of wild marine products, e.g. snapper and grouper, to local and global markets, generating hundreds of millions of dollars in additional annual revenue.

Recently, healthy marine resources, e.g. mangrove, and marine protected areas have contributed to a growing eco-tourism industry in the region, generating thousands of jobs and tens of millions of dollars annually. CT6 had a consistent surplus over a nine-year period (2000-08) which increased by about 60%, for an average of 7.5% increase per annum. The total volume of production exported to other countries varies among the CT6. Overall, developing countries like the CT6 are increasingly supplying fish to developed countries, accounting for up to three-quarters of merchandise exports in some countries (ICTSD, 2006). Fish re-export industries (e.g. fish processing and canning) are also important sources of employment in the CT6 and add value to fishery resources. The Philippines exports only 7% of its total fish production, while PNG and the Solomon Islands export more than half of the catches from their domestic fleets. This may be due to the natural function of the Philippines as a spawning ground of migratory fish stock and limited fishing gear, and as mostly characterised by municipal and marginalised fishers.

However, a recent FAO report on the status of world marine fishery resources concluded that a majority of the fish stocks in Indonesia, the Philippines and Malaysia are considered to be at least fully exploited (FAO, 2011). Maximum Sustainable Yield (MSY) estimates indicate that most of the countries are nearing, if not beyond, critical thresholds for many fish stocks (Lymer et al., 2010). The increasing population in the region places a greater challenge on CT resources and the ecosystems' natural capacity for recovery. CT marine and coastal natural resources – and the many goods and services they provide – are at immediate risk from a range of factors, including: over-fishing, unsustainable and unregulated fishing methods (e.g. dynamite fishing) and land-based sources of pollution and climate change. Over 80% of the coral reefs across the Southeast Asia portion of the CT are at risk (under medium and high potential threat), and over half are at high risk – primarily from coastal development and fishing-related pressures.

CTI and the role of regional and multilateral platforms in Ecotech

In August 2007, President Yudhoyono of Indonesia proposed the creation of the Coral Triangle Initiative (CTI), a new multilateral partnership to safeguard the region's extraordinary marine and coastal biological resources. The CTI was welcomed by the 21 heads of States at the Asia Pacific Economic Cooperation (APEC) Summit in September 2007 and was launched during the 13th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in Bali, Indonesia.

Enhancing the supply chain of marine resources through biodiversity, conservation, enforcement and promotion of the CT requires co-ordination of a web of inter-and intra-relationships among diverse stakeholders across sectoral, cultural and geo-political boundaries and calls for economic and technical co-operation especially among the CT6 and their bilateral, regional, multilateral and non-country partners.

Conservation International (CI) is one of the lead executing partners in facilitating co-operation among the CT6 and implementation of the Coral Triangle Marine Protected Area System Framework and Action Plan (CTMPAS), a region-wide system to share resources, expertise, experiences, and address threats across the CT. CI helped establish a fully functional and effectively managed MPAs to achieve fisheries, biodiversity and climate change objectives in the CT ecosystems.[6]

In addition to CI, the CTI welcomed other partners. In April 2008, with the ADB as the Implementing Agency, the GEF Council approved a USD 72 million, five-year CTI Support Program, with over USD 300 million in co-financing (loan and grant projects) from various other sources. In October 2008, USAID committed USD 40 million over five years to support the CTI, with funding being channelled through a consortium of NGOs such as Conservation International. In November 2008, the Australian government hosted a major CTI workshop to facilitate discussions by countries and NGOs on the major constraints, gaps and opportunities around implementation of the CTI Regional Action Plan with the view to achieve the following agreed-upon goals: 1) designating and effectively managing “priority seascapes”; 2) applying an “ecosystem approach” to the management of fisheries and other marine resources; 3) establishing networks of marine protected areas; 4) implementing measures to strengthen resilience and adaptation to climate change; and 5) strengthening measures to protect threatened marine species.

Lessons learnt

The CTI is an opportunity for co-operative governance, integrating social and ecological goals and objectives on a regional basis. This can result in benefits greater than those that the six individual CT countries would achieve. In addition, existing multilateral and bilateral fisheries-related agreements among the ASEAN countries and among the Pacific Islands countries offer the CT6 opportunities for a robust and purposeful collaboration based on the strengths and weaknesses of these connections.

The CT6 has strengthened and continues to enhance its institutional linkages and regional ties with Malaysia, the Philippines and Indonesia as demonstrated in their active involvement in the Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) and voluntary implementation of the Regional Plan of Action (RPOA) for Responsible Fishing. Of the 19 fisheries-related agreements, three have the highest membership among the CT6: Five of the CT6 are signatories to INFOFISH, the RPOA for Responsible Fishing and the Asia-Pacific Group of Fisheries and Aquatic Research (GOFAR).

The information revolution has increased scrutiny of corporate environmental performance especially through their corporate social responsibility (CSR) agenda. To seize the growing opportunities offered in marine conservation, “green” businesses and livelihoods in the CT region could boost their credentials through more sustainable practices. This in turn will act as “magnets” to the environmentally-conscious markets of North America, Europe and Japan. There will also be more opportunities for an alliance of partners in governance, capacity-building and CTI implementation.

Enhancing marine resources in the Coral Triangle through conservation and development efforts at both national and regional levels is politically, ecologically, socio-culturally, economically and financially viable and sustainable. However, its sustainability depends on addressing certain challenges such as stakeholders' political commitment, particularly the CT6 governments in enforcing law; strengthening capacities and capabilities; facilitating accessibility to and responsiveness of the judicial system; improving co-ordinated intelligence; allocating key human and financial resources for marine conservation outcomes; and actively engaging local government units lying on the CT. Overlapping authorities and mandates, fragmented jurisdictions, insufficient co-ordination and institutional conflict have also become dominant features of the CT governance, i.e. land-use issues, land-based-pollution, climate change, exploitation of marine resources, disaster management and economic development. More often than not, these areas act independently so that sectoral strategies and actions are implemented in isolation from one another.

CI calls for a more robust, integrated framework requiring multisector approaches. The broader governance context recognises that marine and coastal ecosystems are composed of both natural and human elements that are interconnected. CT6 governments cannot undertake this approach alone. There is a need to co-ordinate with other governments outside CT6 with expertise in fisheries management, and economic and social development. Key strategies for managing coastal and marine resources such as EAFM, MPA and similar area-based management based on biophysical principles, and climate change adaptation approaches, among others, must be co-ordinated and integrated rather than done in standalone plans and projects. In this regard, seven integrated strategies toward implementing ecosystem-based coastal areas and fisheries management in the Coral Triangle were adopted and implemented with progress indicators.

Implementation: The CTI Roadmap

Through the CTI Roadmap, the CT6 captured the joint priorities and commitments of all of the member countries, and reflected extensive inputs over the past year from many partners. The Action Plan serves as a rallying point for collective and parallel action at the regional, national, and subnational levels.[7] The RPOA was complemented by the National Action Plans of each of the CT6 governments. However, the implementation of the CTI-CFF will be complex, encompassing: a) actions of national governments – broad-ranging actions of six national governments, organised around five overarching goals, 10 macro-level targets, 30 regional actions, and national actions in each country; b) actions of other key stakeholders – broad-ranging actions of hundreds of subnational governmental entities, local communities, non-governmental organisations, and private sector actors; c) projects and funding programmes – hundreds of discreet projects and funding programmes over the 10-year timeframe of the Plan of Action; and d) external funding support.

The case stories

Most Asia-Pacific aid for trade programmes focus on services and knowledge transfer via training programmes, seminars or fora. It appears that a regional context for aid for trade reveals a niche for the region-wide provision of education on industry techniques and trade policy, since such an avenue provides an opportunity for networking as well as the development of regional thinking. The case stories cited fall under three categories: general training and education to increase productivity or to provide technical and vocational education and training; policy and administrative management which includes trade facilitation, institutional capacity building and trade education; and building productive capacity through industry techniques and marketing. In dealing with overlaps (i.e. institutional capacity building vs. building productive capacity), the cases are classified based on their results or expected outcomes and target population.

General training and education

Regional aid for trade provides an avenue for educating workers based on employer demand, successfully improving employment opportunities in developing countries. For inclusive growth, programmes have been targeting low-skilled segments of the population, usually located in rural areas.

New Zealand's Recognised Seasonal Employment policy provides an opportunity for people who may not qualify under other immigration categories to live and work in New Zealand. The New Zealand Agency for International Development (NZAID), in turn, funded the RSE Worker Pilot Training Programme: "Vakameasina – Learning for Pacific Growth." This programme imparts foundational skills (literacy, numeracy and financial literacy) to low-skilled workers, usually from Pacific rural areas, which in turn, provides a secure and sustainable supply of seasonal labour for New Zealander firms. Three hundred sixteen Pacific workers successfully completed the programme.

The Australian Pacific Technical College also targets Pacific Islanders and provides Technical and Vocational Education and Training (TVET) to provide greater employment opportunities for Pacific Islanders and additionally helps to meet Australia's skill shortage. As of February 2011, 1 386 students were enrolled and a total of 2 424 students graduated with 75% of the latter receiving qualifications in a trade-related field. A midterm review and a survey report enhanced future employment and promotion prospects: 70% of surveyed employers highlighted improvements in productivity.

Trade facilitation

In the area of quarantine, the Australian Fumigation Accreditation Scheme, through the Australian Quarantine Inspection Service, aims to ease compliance with quarantine regulations at the Australian border via training programmes on fumigation and audit combined with a database of registered local fumigators. As a result, some 8 000 consignments have avoided retreatment, pulling failure rates down to 0.05%, from 35-40 failures per quarter to 5 or less. The programme is said to have saved an estimated USD 4.6 m in retreatment costs as well as an estimated 12 tonnes of methyl bromide (a major ozone depleting substance).

In the area of customs, a programme in facilitation of truck movement submitted a case storyy. Physical connectivity was done with the completion of Japan's ODA loan-financed Second Mekong International Bridge in 2006. However, the failure of the Cross Border Transport Agreement negotiations among the CMLV and Thailand required a shift of focus toward strengthening the east-west corridor. Through JICA's Truck Movement without Transhipment along East-West Corridor initiative, Viet Nam, Lao PDR and Thailand reached an agreement to issue licences to 500 trucks for operating cross border transport, minimising the delay and cost of transhipment.

Education and training in trade policy

Developed countries' aid efforts have mostly been on regional policy creation and administration. For instance, the EU, as a veteran in regional economic integration, focused on institutional capacity building through strengthening of institutions, and creation and implementation of frameworks and regional action plans (i.e. APRIS I, APRIS II and ARISE).

The Singapore Cooperation Programme (SCP) aims to build human resource capacity in trade negotiations, international trade facilitation, and understanding of regional/international trade agreements. As of February 2011, the programme has trained more than 70 000 government officials from 169 developing economies. Under the SCP, the *Regional Trade Policy Course* is conducted with the World Trade Organization (WTO). Largely modelled after WTO's Trade Policy Course, it is aimed at widening understanding of trade policy matters, law and WTO functions; developing negotiating skills; building institutional partnerships at the regional level; fostering networks; and developing a regional dimension through joint delivery by trade policy specialists.

The IMF-Singapore Regional Training Institute provides training in the design and implementation of trade and financial management policies and, hence, builds policy-making capacity of developing economies. Since the establishment of the STI in 1998, over 200 courses have been conducted for more than 8000 officials from the Asia-Pacific region.

CIDA's Asia-Pacific Economic Cooperation – Economic Integration Program (APEC-EIP) intends to assist six countries in Southeast Asia to comply with WTO obligations (Thailand, Indonesia, and the Philippines) and/or WTO accession requirements (Viet Nam, Lao PDR, and Cambodia), and to strengthen their capacity to take advantage of their WTO rights. One of its achievements is the establishment of the Southeast Asia Trade Policy Training Network (SEATRANET) which is a regional mechanism for training government officials in trade policy, sustaining the capacity-building work carried out during the project and supporting economic integration through ASEAN.

With the goal of a "clean revolution in Asia", the US-Asia Environmental Partnership Program (US-AEP) aims to improve public policy and environmental regulations, urban environmental management and industrial environmental performance, as well as increase the transfer of U.S. environmental technology, expertise and practices to Asian countries. Some of its achievements include: (1) establishing a Water Efficiency Team (WET) project in Indonesia; (2) improving air quality in Thailand; and (3) assisting in the passage of a Clean Air Act in the Philippines.

Policy and administrative management

The ASEAN-EU Program for Regional Integration Support I (APRIS I) that ran over 2003-05 aimed to provide assistance on technical regulations, standardisation, metrology, accreditation and conformity assessment principles in line with European and WTO policies. The programme boasts of having trained more than 2000 ASEAN delegates in the fields of food products, pharmaceuticals and cosmetic products, telecommunications, electronic equipment and services as well as assistance in the ASEAN Cosmetics Directive and the ASEAN Reference Laboratory network.

As an extension, the ASEAN-EU Program for Regional Integration Support II (APRIS II) that ran over 2006-10 focused on creating an implementation plan for developing and establishing an ASEAN Customs Transit Management System. The programme aimed to harmonise border procedures and regulations, put into operation a regulated security system with the goal of a single security/guarantee, apply comprehensive risk management systems, and establish ICT and database systems.

The third instalment of the APRIS series, the ASEAN Regional Integration Support by EU (ARISE), is tasked with operationalising National Trade Repositories (NTR) at the ASEAN Member States (AMS) level and establishing the ASEAN Trade Repository (ATR), as well as creating and implementing the Master Plan on ASEAN Connectivity (MPAC). The project is expected to hold (1) two regional workshops on NTB classification, notification processes and related institutional framework; and (2) a series of 10 national seminars to train AMS in collecting information on NTBs and domestic regulatory developments, classifying them and reporting them to the ATR.

The EU-ASEAN Statistical Capacity Building supports the harmonisation and integration of statistical data among the National Statistical Offices of the AMS and the creation of ASEANstats, an online database on ASEAN key statistics. The project has already succeeded in digitally linking these offices, creating the ASEAN Network of Statisticians. It has also pioneered a first ASEAN Millennium Development Goals report. A follow-up programme, the Institutional Capacity Building for ASEAN Monitoring and Statistics (COMPASS), was slated to begin in mid-2013 to further strengthen ASEAN capacity for regional statistics as well as initiate work on integration monitoring.

Following ECAP I and II, the ASEAN Project on the Protection of Intellectual Property Rights (ECAP III) aims to strengthen the protection and enforcement of intellectual property rights by implementing the ASEAN IPR Action Plan. To strengthen the institutional capacity for IP administration and enforcement in the ASEAN region, this project will develop the associated legal and policy frameworks, promote IP use and enhance IP institution building and integration.

The ASEAN Air Transport Integration Project (ATIP) aims to help develop the institutional framework and strengthen institutional capacity within ASEAN for a safe, secure and sustainable Single Aviation Market by 2015, based on high regulatory standards. It intends to create a single ASEAN aviation market and improve ASEAN connectivity.

To support the ASEAN Single Market and Production Base, the EU-ASEAN Migration and Border Management Programme intensifies co-operation among border management agencies by strengthening law enforcement agencies' networks and co-operation at main regional transit hubs, and studying the easing up of visa requirements. One component, which was successfully implemented in July 2012, eased the exchange of information between INTERPOL National Central Bureaus in ASEAN capitals and the INTERPOL General Secretariat resulting in improved regional co-operation against transnational crime.

Building productive capacities

The Third Country Training Programme on Artificial Insemination (AI) of Dairy Cattle, through the co-operation of JICA and the Government of Indonesia via Singosari National Artificial Insemination Centre (SNAIC), has successfully trained farmers, livestock breeders, inseminators and university students on the theory of livestock breeding and management, slaughterhouse practice and field practice. As of December 2010, SNAIC had trained 5 984 participants – 5 907 Indonesians and 77 international students – and expanded the market for frozen superior bull sperm among participating countries.

In marketing on the buyer's side, USAID's ASEAN Competitiveness Enhancement (ACE) Project intends to enhance competitiveness of selected ASEAN Priority Integration Sectors. Particularly in tourism, The "Southeast Asia: Feel the Warmth" Brand's achievement is anchored on the www.SoutheastAsia.org website that provides a menu of travel packages and a map-based organiser that allows travellers to plan trips, estimate costs and book hotels, cars and flights. In the textile and apparel sectors the Source ASEAN Full Service Alliance (SAFSA) Program has successfully transformed a fragmented textile and garment industry in ASEAN into a fully-integrated supply chain consisting of 14 virtual vertical factories (VVFs).

Creating a higher profile for regional aid for trade

This section develops the idea of elevating regional aid for trade in the consciousness of public and private sector leaders in Southeast Asia, first through a SWOT analysis, mainstreaming regional aid for trade in national development programmes and co-ordinating donor-partner engagements directly resulting from such analysis. The strategies are then explored in terms of capacity building for regional public goods (RPG) which are best exemplified by *co-operative* undertakings in behind the border, border and cross-border reforms for trade and its development (basically covering the World Bank quality of growth factors). These are in contrast to the purely *competitive* strategies in the original Porter model that focus on non-institutional setting issues. From the capacity building for RPG champions, implementers and supporters in public and private sectors, the practical lessons from the case studies and case stories are extended to include the other strategies identified in the original SWOT matrix.

Strategies from the SWOT analysis

The SWOT approach to strategy formulation calls for the careful definition of a problem and reviewing its internal strengths and weaknesses (S and W) and its external opportunities and threats (O and T). Hence, strategies result from combining internal with external factors confronting the entity (see Table 4.1). For addressing the problem of utilising regional aid for trade to further ASEAN's economic integration, internal ASEAN capabilities (S or W) are matched with the regional aid for trade positive and negative challenges (O or T).

Within the SWOT matrix, the key strategies of mainstreaming regional aid for trade in national development programmes and co-ordinating donor-partner activities (identified in OECD/WTO, 2013) emanate from the combination of *opportunities* presented by regional aid for trade in the present global policy environment (political, economic, social, technological, environmental) and *weaknesses* of ASEAN in its own milieu, especially its inability to articulate RPGs and hence requests for regional aid for trade, a major constraint that should be solved programmatically and not through single project approaches.

Table 4.1. **SWOT matrix for increasing regional aid for trade to ASEAN**

		Opportunities	Threats
		O1 RAfT shown to be effective in lowering barriers to create and expand production networks	**T1** RAfT benefits could not be appropriated nationally due to nature of regional public goods
		O2 RAfT being given more attention by donors	**T2** RAfT themes are politically sensitive (since they probe deep into national sovereignty issues in regional co-operation)
			T3 Lack of co-ordination at regional level for RAfT (due to high costs)
			T4 Volatile funding though increasing RAfT funds
Strengths	**S1** ASEAN attracts regional production networks	**(S1, S2, S3) & (O1, O2)** Best practices should be documented, replicated within ASEAN: ownership, buy-in, M&E, clear/ realistic goals,	**(S1) & (T4)** Private sector participation in regional capacity building (fund targeted areas of value chains in production network)
		(S1) & (O1) Sustainability of economic infrastructure, private sector engagement	**(S1) & (T1, T2, T4)** Target RAfT very well for specific value chain participation
	S2 ASEAN Economic Community roadmap in place		**(S2) vs. (T2)** Group together small number of like-minded countries (ASEAN minus X)
	S3 ASEAN successes in RAfT in the GMS (e.g. ADB's transport corridor strategy	**(S3) & (O1, O2)** Replicate in other subregions (RORO strategy in BIMP-EAGA)	
Weaknesses	**W1** ASEAN's weak articulation of demand for RAfT	**(W1, W2) & (O1, O2)** RAfT must be mainstreamed in national development programmes through donor-partner co-ordination.	
	W2 Lack of coherence between national and regional priorities in ASEAN		**(W2) & (T3)** Global strategy for co-ordinating national and regional public goods

Capacity building for leadership in regional public goods

Indeed, these key strategies further require donor-partner understanding of the need for (1) the capacity building of human resources (especially public and private champions of RPGs, other implementers of their causes, and production and marketing entrepreneurs), and (2) supporting institutions or industries that enable markets to be competitive or to level the playing fields for buyers and sellers (including regulatory bodies, academic and training groups, business associations and the media). These strategies require an environment of quality growth (the four elements on the right side of Figure 4.8) that can be the subject of capacity building programmes, not necessarily through regional aid for trade.

While there are numerous Asia-Pacific regional aid for trade programmes in knowledge transfer through training programmes, seminars or fora as noted in the case stories above, capacity building is not among the priorities given to ASEAN in terms of funding commitments. The relatively low ratio of actual funding to commitments made for the category of "trade policy and regulation" in the ASEAN 8, compares negatively ratios for Asia (total aid for trade and also for regional aid for trade) and global regional aid for trade. Although programmes under "building productive capacity" may overlap with the institutional capacity building objective as noted in the case stories, there is a strong case for more regional aid for trade programmes in ASEAN in this area.

The ADB, for example, considers capacity building in *leadership* for GMS officials (through the Phnom Penh Plan for Development Management Program) as critical to hastening the utilisation of the infrastructure they have heavily invested in. This is a way of increasing capacity usage of facilities like the Luang Namtha Airport in Lao PDR; the stretches of highways in the same country where trucks traverse the East-West corridor benefiting mostly Japanese traders shipping from Thailand to the port of Danang in Viet Nam; or Chinese traders bringing goods to Thailand and Viet Nam passing through the North-South corridor, without much benefit to Lao PDR (noted in interviews with training participants in some ADB PPP programmes).

Hence, the ADB set up a training programme under the Phnom Penh Plan for Development Management funded by several donors for the benefit of the entire GMS. This programme ended in 2013 after eight years of implementation. Participants developed creative tourism project proposals catering to niche markets (eco-tourism in a biodiversity corridor, ethnic/heritage tourism, adventure tourism, cultural tourism) and built productive capacity in agricultural enterprises (which national aid for trade emphasises, in contrast to the regional aid for trade emphasis on industry) like contract farming, processing of fruits and vegetables, livestock raising, etc.

However, trade data on intra-GMS reveals that intra-sub-regional trade is still low – at about 3% of total trade – on account of the low levels of incomes and the similarity of products. The comparative advantage of certain areas nevertheless makes it possible for some to be net producers of certain agricultural goods. In fact, because of climate change, alternative sources of food and raw materials are already considered good business practice. This has been part of the rationale for setting up Japanese investment funds for Southeast Asia, in addition to the needs of their own production networks.[8] Hence, the Phnom Penh Plan flagship training programme focused on leadership for competitiveness and inclusive growth, generating creative insights for faster economic integration.

ASEAN, GMS and APEC have Business Advisory Councils reporting to heads of governments during Summits and co-ordinating with ministers prior to such meetings. These councils have representation from top industry leaders including from SMEs, but they must be more cognizant of the need for systems thinking that goes beyond projects/programmes; hence, they should show a stronger commitment to providing and funding RPGs, in a genuine belief that deeper engagement in regionalism will convert them to be citizens of ASEAN, or GMS, or APEC, rather than as individual member countries or economies. It appears that even with the existence of possible champions for RPGs, institution-building for continuous private sector advice to political leaders through programmed approaches is required, especially since the members in advisory bodies serve on limited tenure. This is the rationale for creating private-public partnership bodies (Herzberg and Wright, 2005).

Similarly, the capacity building for Secretariats at the regional and national levels is deemed vital to the co-ordination of programmes across member states, including the monitoring and evaluation of cross-country activities with or without the use of outsourced experts. For the pharmaceutical drugs research network in ASEAN, the need for co-operating with non-scientists is evident at the later stages of the R&D value chain when national research institutions partner with private biotechnology companies on the way to clinical trials and commercialisation, using the services of intellectual property lawyers, IT-savvy knowledge management experts, and professional managers who can co-ordinate communities of practice (ASEAN NDI, 2013).

Diplomatic relations have been strengthened with the EU APRIS programmes for ASEAN through the introduction of institution building, training and exchange of experts; the EU is now sharing its expertise in integrating the region through subsequent regional aid for trade programmes. However, programmes with the ASEAN Secretariat have not cascaded to member states whose weak inter-agency co-ordination lead to a problem in finding national champions for regional aid for trade.

Co-operation and competition strategies

Another way of creating a high profile for regional aid for trade for ASEAN is through the emphasis on new strategic approaches. For example, through one of ASEAN's sub-regional groups, the GMS, the regional aid for trade approach has been demonstrated to generate fresh thinking on development paradigms, e.g. "co-opetition" strategies that simultaneously combine: (1) *co-operation* in shaping the common concerns in the business environment as in infrastructure and improvement of CIQS; and (2) *competition* as in marketing specific products to the same customers.

Regional aid for trade programmes will have to rely on the co-operation of members who are not as politically sensitive to certain issues. This could be solved through the "ASEAN minus X formula" in the formulation of regional/sub-regional programmes (in Table 4.1, a combination of an internal ASEAN strength and an external regional aid for trade threat). Consider the following:

- ASEAN Air Transport Integration Project (EU, 2012-16) to establish a safe, secure and sustainable single aviation market by 2015 based on high quality regulatory standards. (This is likely to exclude countries that do not accept the open skies principle; hence, competition will exclude them from certain routes.)
- EU-ASEAN Migration and Border Management Programme (2009-11) involves exchange of information between INTERPOL and national central bureaus in ASEAN Capitals for combating transnational crime.
- ASEAN Project on the Protection of IPR (ECAP III, 2010-14) supports implementation of the ASEAN IPR Action Plan with focus on trademarks, industrial designs, geographic indications and IP enforcement.

Participants in the projects cited above will have to compete openly in various markets, even as they co-operate in setting standards, exchanging information and enforcing action plans. This essence of co-operation differs dramatically from Porter's competitiveness framework, incorporating in fact the quality of growth factors that the World Bank and other regional financial and development institutions consider in pursuit of inclusive, balanced, green, climate-resilient, and sustainable growth. Hence, firms may have to actively participate in business associations that promote these concerns as part of their own strategies in penetrating markets as responsible triple bottom liners for profits, people and the planet.

Good practices

The many case studies and case stories cited here document many aspects that have to be considered for utilising regional aid for trade to enhance ASEAN integration. The following sum up some of the key lessons from the constraints of regional aid for trade in past and current programmes in Southeast Asia should there be proposals to replicate or scale them up:

Better understanding of the constraints

Annex 4.A1 to this chapter summarises the constraints and lessons from the cases studied here. The results can be grouped into: behind-the-border; cross border; and market access issues. Most of the regional aid for trade programmes reported here are focused on behind-the-border-type reforms, reflecting a linkage between trade and development issues.

Further breaking them down to the quality of the World Bank's growth concerns for the co-operation strategy of firms (Figure 8), there is an emphasis on regional aid for trade that corrects market failures affecting human capital (WINNER's women entrepreneurs in SMEs, Singapore's trade policy courses, New Zealand's seasonal employment programme, ADB's Phnom Penh Plan for development managers, and so forth).

These suggest that the human resource constraint at the national level must be distinguished in regional level funding, i.e. whether scale economies are achieved with programmes designed across member states of ASEAN or GMS. This may take the form of cost reductions in design (a fixed cost) and in implementation (variable costs due to numbers trained). The regional benefits must also be considered since national aid for trade can substitute for the regional aid for trade – do the benefits of public goods within a country spill over across borders to form regional benefits in a wider market? Are there unique benefits of cross-cultural learning in regional aid for trade training or exchange programmes critical to trade and development issues? These may have to be spelled out for understanding the purpose of regional engagements separate from national programmes of the same type.

The results can also be grouped according to the categories of regional aid for trade (building productive capacity, economic infrastructure, and trade policy and regulations) but because of the overlapping nature of the contents of the programmes, it is difficult to make any generalisations from the reported constraints.

Targeting regional aid for trade for value chain participation

The programmes and projects reported in Annex 4.A1 to this chapter all reflect segments of a value chain in an industry or across industries. Managing expectations in the final outputs and outcomes becomes a major problem when projects proliferate along undefined chains in the mind of stakeholders (Macaranas in PECC, 2013). It is easier to see the supply chain of regional production networks since component and parts for assembly are known to managers and workers. When it comes to consumers and public officials, however, regional aid for trade that takes the form of economic-technical co-operation aimed at improving behind-the-border productivity, cost efficiency and innovation is more distant from their immediate concerns; most often, it is neither inputs nor processes they are after but the final products.

For example, the EU-ASEAN statistical capacity building project is alien to consumers for whom data gathering for analysis of industry trends or market intelligence are distant concerns and of limited interest. So is the Australian fumigation accreditation scheme, or the Indonesian artificial insemination of dairy cattle, which are steps away in the value chain for food on the table of consumers.

It is important to recognise the impatience of stakeholders on delivery of tangible programme results within short-term rather than medium- or long-term timeframes. Particularly to encourage ownership of regional aid for trade programmes and "buy-in" of primary stakeholders, managing public expectations along the value chain must be incorporated in the design of programmes and projects. Value chains must be mapped along systems thinking exercises, e.g. several APEC Human Resources Working Group projects can be integrated and properly understood by policy makers for effective communication among expectant consumers.

Indeed, the APEC project on measurement and teaching of higher education (under the "balanced growth" agenda) can be combined with the APEC basic entrepreneurial course through distance learning (under "inclusive growth") and the emergency preparedness education programme (under "secure growth") in one value chain for *job generation* (Macaranas in PECC, 2013). This may prevent cross-border movement of unemployed people, especially young college graduates in certain fields much attracted to liberal migration policies in skills-deficit countries (e.g. science, math, engineering, and environment talents for some OECD countries).

When one part of the series of value chains becomes the critical missing piece in promoting trade, it becomes an attractive consideration for regional aid for trade. In ASEAN, for example, AEC priority projects include linking the maritime archipelagic states with modern port facilities such as roll-on-roll-off boats for transport of agricultural and other natural resource commodities.

Designing regional aid for trade from the grassroots level

Many examples have been raised in this report on the need for grassroots level approach to promote competitiveness with inclusive and other quality aspects of growth (Coral Triangle mangrove forest replantation for eco-tourism and spawning grounds for fish that get into the food chain of ocean-migrating stock, Doi Tung Development Project in the Golden Quadrangle, microfinance and training programmes for women entrepreneurs, other Magsaysay Institute for Transformational Leadership projects). It is clear that the "trickle down" approach to development is still prevalent in most regional aid for trade programmes. However, a typology of social business may be helpful in clarifying market-oriented enterprises that promote multiple objectives.

A social business solves a social problem by using business methods, including the creation and sale of products and services, exemplified by Otto Grameen Textile, a Type II social business, profit-making company of poor people (Yunus, 2010). Otto Grameen Trust is an aid *by* trade social business deeply involved in creating sustainable cotton industry for Africa founded by Dr. Michael Otto. It creates a product line for garments and textiles to be marketed under the brand names of social business owned by the poor, to be funded by 10% shares in Otto Grameen Textile Company whose profits will be used to fund no-interest loans as seed money for business launch and social services endowment. The factory building is designed to be ecologically and economically sustainable.[9]

Anchoring regional aid for trade on the quality of growth

Regional aid for trade programmes follow the principles of partnership based on the needs defined by recipient partners. In implementing the Coral Triangle Initiative, Conservation International and its partners have adopted a set of strategies with progress indicators. Based on various assessments such as Vulnerability Assessments and Ocean Health Index, it provided technical assistance to priority pilot communities in the Sulu-Sulawesi Seascape with funding from several bilateral donor countries like the United States through USAID and Germany through its International Climate Initiative (IKI)-Ecosystem-based Adaptation project. It partnered with local governments as a provider of an enabling policy environment.

Since Southeast Asia is one of the most disaster-prone regions in the world, climate-resiliency is spelled out by ASEAN as critical to its vision/mission for the long-term. After Typhoon Haiyan (called locally Typhoon Yolanda), rehabilitation efforts will likely focus on implementation of the Hyogo Framework for Action 2005-2015 (Building the Resilience of Nations and Communities to Disasters). The devastation of coconut plantations in the Eastern Visayas region of the Philippines will call attention to co-operation with Indonesia and the Asia Pacific Coconut Community, especially since Western markets have discovered new uses for coconut: isotonic sports drinks from fresh coconut; coco coir for geotextiles used in retarding desertification and preventing soil erosion; and activated carbon from coconut charcoal for water systems purification (Villafuerte, 2007).

The World Bank quality of growth framework contains four major elements that include addressing governance and corruption, a lingering concern among Western observers. Such fundamental concern has been addressed by some ASEAN leaders as their countries (Indonesia, Malaysia, Philippine, Thailand, Singapore) received investment upgrades up until the Great Recession of 2008-09. The other elements concerning distortions favouring physical capital over human and natural capital work to the advantage of inclusive growth champions. Strengthening regulatory institutions deserves closer attention due to externalities that modern markets generate. Again, ASEAN needs champions to espouse reforms in its many industries listed as priorities for economic integration.

A story of how women entrepreneurs were trained in a successor programme to a UN technology information system for trade queries and responses is shown in Box 4.1. The lessons reveal how regional aid for trade can be overtaken by technology developments and hence must concentrate on training modalities in market intelligence or knowledge management.

Box 4.1. **UNDP TIPS and WINNER**

Prior to ASEAN's announcement of formal regional integration efforts, a UNDP regional project directed at economic empowerment of women was rolled out in 2000-10. Called WINNER (Women into the New Network for Entrepreneurial Enforcement), its Asian participants included Bangladesh, Nepal and the Philippines. Over the three years of execution in Asia, 11 799 women received technical assistance and guidance in accessing trade opportunities to establish presence in global markets (see: www.winnernet.org).

This was completed through DevNet Association, an international NGO; its Regional Centre in Asia based in Manila also helped 312 women entrepreneurs in Zimbabwe. Thus, it seems reasonable to suggest extending the same effort for the new members in ASEAN (Cambodia, Laos, Myanmar, and possibly Viet Nam) rather than creating a new programme with the same goals: incorporation of the MDG goal of women empowerment, the use of ICT, and nurturing MSMEs. The Manila-based trainers are in fact more geographically and culturally proximate to the Greater Mekong Subregion where the four countries are located.

However, the project has ended and the office in Manila is scheduled to be closed in 2013, after the Philippine Government supported for three years a lean staff awaiting the prospect for an extension (Interview with Benjamin Milano, DevNet Project Consultant, 3 December 2013, Makati City). After Typhoon Yolanda devastated the Eastern Visayas Region of the Philippines in November 2013, the fiercest storm recorded in the planet with dramatic impact on poor communities, such revival seems natural since among the projects that succeeded in penetrating global markets were small women enterprises in agriculture and rural areas, in part boosted by millions of overseas Filipino consumers, now numbering over 10 million around the world. Regional aid for trade for ASEAN post-natural disasters is attractive for Southeast Asia because it is one of most vulnerable regions on Earth with its location in the Pacific Ring of Fire, and project trainers are available in the ASEAN.

WINNER was funded by the Italian Cooperation of the Ministry of Foreign Affairs. Its predecessor project was the Technological Information Pilot System (TIPS) which provided a computerised database of offers and demands on services in agro-industry, fishery, food processing, as well as in building and construction, chemistry, energy, electronics, leather, machinery, packaging, pharmaceuticals, tourism and transport.

DevNet's technical and trade co-operation for development strategy resulted in a Trade Catalog from APEC member economies and another focused on the Philippines (TIPS and WINNER Project terminal report, www.devnetinternational.org). While the Internet developments in ICT overtook the computerised offers and demands component of the project, its training segment remains as relevant as ever. The newer members of ASEAN as well as the Pacific Rim side of the regional economy need assistance in responding to business queries and supply-side constraints, especially in responding to climate change forces.

Source:

Conclusions

The AEC is going to be launched on December 2015. Effective implementation of programmes under the AEC Blueprint is needed to keep ASEAN vibrantly integrated into the dynamic Asia-Pacific region. As a major facilitator of production networks in the region, the AEC will help link the region to global markets and thus provide employment in an open regionalism context. This market-driven integration is now being fast-tracked by the intergovernmental decision to adopt an ASEAN Charter that has moved the Association to a higher level of expected deliverables. Not many expect an EU-style evolution of ASEAN; nevertheless, ASEAN requires the same type of leadership that EU founders bravely pursued.

A stronger sense of ownership is needed in this integration process. While regional aid for trade is attractive as an alternative to bilateral arrangements, its attractiveness to donors must be matched by a firmer resolve to mainstream national plans to the regional commitments in various areas. Of import are the findings of this report that preferences offered in FTAs are underutilised because of many constraints including bureaucratic issues and business reticence (when lobbying may prove effective in pursuing reforms), that intra-ASEAN trade still pales below those of other regions, that transport corridors are not easily converted to economic corridors, and that impatient stakeholders today demand faster delivery of outputs, even as "eco-tech" co-operation proliferates across working groups.

Here is where champions for RPGs must be proactively developed by both donors and recipients, less to espouse short-term competitiveness policies and more to show the way for institutional strengthening and development, which benefit all. This will improve the quality of growth side by side with the traditional profit motivation that drives the spirit of capitalism, which ASEAN has embraced despite its membership including economic reform latecomers which are of politically socialist orientation.

The focus on RPGs must be at the heart of any capacity building because it balances efficiency with the equity rationale of public policy. Translated to strategies of enterprises, competition and co-operation can coexist. The latter enables creation of larger markets as rules of the game are created, applied, reviewed, and amended for various industries in complex and chaotic times. The former tests the superiority of entrepreneurs able to reinvent themselves fairly in such periods, and not to exploit the frailties of their societies.

These champions must include transformational leaders in both the public (regional, national and local governments) and the private sectors (business advisory councils to regional/subregional groups, industry leaders including those of SMEs and women-owned and/or -led enterprises). They should be placed in critical organisations to dynamise the regional economy with reforms behind the border and cross-border, especially after the trade facilitation agenda has enlivened the WTO in its December 2013 Bali Ministerial Conference. Market opening and access issues still need to be addressed as services continue to increase in their share of GDP. (Among others, ASEAN focuses on tourism, business process outsourcing, ICT-mediated industries including health and education. What steel and coal were to industrial Europe, information technology will be to Southeast Asia in the knowledge age.)

Still, the short-term expression of commitments by members to implement the AEC Blueprint promises must be demonstrated even before December 2015. The lack of binding commitments, quite strangely, is as well demonstrated in aid for trade promises for ASEAN aid for trade; as this report documents, ASEAN has a low ratio of actual funding to trade regulation and policy compared to commitments made. (Fortunately, it fares better in the other categories of economic infrastructure and building productive capacity.) It remains to be seen whether regional aid for trade capacity building programmes can credibly deliver the expression of commitments.

Some members are hesitant to pursue regional customs reforms (ASEAN Single Window, ASEAN Customs Declaration Document, and Certificates of Origin are slowly progressing); national-level aid for trade seems more effective. Regional competition regimes that level the playing field are far from being harmonised; transparent and reliable dispute settlement mechanisms have yet to be operationalised. Border administration across members is improving unequally. The liberalisation of trade in goods is ahead of those in services and investment, yet it is intangibles that drive most of global GDP. Movement of natural persons is still restricted by national laws despite signed mutual recognition agreements in many professions. Unskilled worker mobility, although potentially contributing to host countries, is not likely to be encouraged by members who care for national social equilibrium more than regional growth (CIMB, 2013)

Concerning the capability of institutions, national legislative frameworks, executive branch co-ordination systems, and judicial enforcement practices must eventually be harmonised. Good governance practices must be enhanced; wise leaders who understand the common regional good must be supported with effective systems and people, including those in academia, media, and civil society – they have a better feel for the grassroots whose buy-in is critical to effective regionalism in an era of social networking.

Social businesses must be given more attention in uplifting the lives of the poorer segments of Southeast Asia whose numbers could be absolutely larger than those in ECOWAS in Africa; so should initiatives for innovative agriculture and fishery practices, including institutional support systems for contract farming, biodiversity corridors, and even mangrove reforestation that links reefs to ridges especially in the Coral Triangle, home to a sizeable marine / maritime trade in the region.

Failing to achieve the optimal conditions for economic integration, ASEAN must nevertheless be assisted for geopolitical balance and its economic gravity (Apoteker, 2013). A weak ASEAN will not play well in a region where China and India will contest markets, especially in the GMS, even as resurgent Japan and Korea together with Western OECD countries continue to have lead firms in production networks; the world should expect more home-grown-lead firms in ASEAN as it implements a vision of an even more open region in the future. Politically, dialogue partners will still engage ASEAN in security and social issues. ASEAN is home to the world's largest Muslim populated country and the largest Catholic country in Asia (both waking up to good governance principles to attract FDI); it is the source of many natural resources vital to industries and highly trainable human resources that will continue to be sought out for both brawns and brains, is a potential path for global pandemics and an unavoidable place for natural disasters, and is a player in financial markets, ASEAN being a site for China's testing the use of the renminbi as an international trade currency.

Regional aid for trade can be a force in shaping the consciousness of leaders in Southeast Asia for seriously committing to regional public goods underlying cross-border and behind the border reforms – and more. By 2030, ASEAN is projected to have four countries in the high income category, three in the upper middle income, and the CLM economies per capita GDP will have tripled at least (Intal et al., 2013). Hence, ASEAN need not evolve from FTA to customs union to common market to economic union the way the EU did, but ASEAN can learn from the variable geometry of EU's integration with an ASEAN minus X formula adapted to forms of a Schengen visa arrangement, a European Defence Unit, or Eurozone, if at all (Apoteker, 2013). In contrast to this inward-looking geometry are the outward-oriented engagements of ASEAN that make it more malleable to global influences at this point in history, be they from the Americas, North Asia, Africa, the Middle East, or other parts of Asia. Whatever form of democratisation engulfs the region, ASEAN will have to recognise the world is finally a trading stage for ideas, all for the better of its people and the planet.

Notes

1. In fact, this study finds that there are no World Bank projects of a *regional* nature for Asia on the subject of aid for trade, although it has taken this approach for Africa.

2. ADB regional economic analysts, a representative of the ASEAN Secretariat, Korean donor officials, a variety of GMS officials, an NGO trade advocate for South-South co-operation, and some planning officers from the Philippines.

3. The Korea-ASEAN partnership, not presented here, is a good example of how the interest of an OECD member in pursuing region-wide aid programmes for trade is being stimulated as the ASEAN Economic Community is launched on December 2015. Korea has focused on Southeast Asia more recently but more on a bilateral basis. A forum was held at the Asian Institute of Management in December 2013 in this regard.

4. For example, the East-West Economic Corridor (from Viet Nam to Myanmar), the North-South Economic Corridor (from Kunming, China to northern Thailand, and the Southern Economic Corridor (Cambodia to Thailand).

5. This basically "trickle down" approach reflects in ADB's argument in 2012: "a development strategy anchored in inclusive growth will have two mutually reinforcing strategic focuses, namely: (1) high sustainable growth will create and expand economic opportunities; (2) broader access to these opportunities will ensure that members of society can participate in and benefit from growth."

6. CI pursues a strategy that protects healthy ecosystems and its services and focuses on thematic responses supported by field demonstrations in the most vulnerable areas to climate change impacts to help address urgent threats to the biodiversity of the CT6. The CI's framework is anchored on five pillars, namely: conservation science, human well-being, ecosystem services, climate change mitigation and adaptation, and sustainable financing. Working at the level of corridors and seascapes, CI uses broad-scaled approaches that address biodiversity conservation while also incorporating other resource uses in support of meeting development objectives for human well-being. The areas where CI work is globally important for biodiversity conservation and are vital providers of ecological services for millions of people.

7. The CT6 governments address the key *drivers* – economic, social, and ecological – that influence the management and conservation of marine and coastal resources at all scales and institutional levels. To successfully achieve sustainable management of marine and coastal resources for current and future generations, the CT6 countries collectively and individually committed to: a) Designate the sustainable management of marine and coastal resources as a high and urgent ongoing priority on national agendas; b) Mobilise high-level public and private sector leadership; c) Achieve enhanced regional collaboration to address important regional problems; d) Implement needed economic, policy and legal reforms; e) Establish a system of sustainable funding and orient these financial resources toward achievement of the *CTI Plan of Action*; f) Rapid increase of institutional and human capacity; g) Lead effective, highly participatory multi-stakeholder alliances; h) Integrate conservation, management and development; and i) Promote public/private partnerships.

8. Philippine fishery products and tropical fruits benefited substantially from the Japan-Philippine Economic Partnership Agreement as substantiated in a 2012 study of Macaranas.

9. According to Yunus in his 2010 book, Type I Social Business involves investors and owners who do not earn profit, dividend, or other forms of financial benefit but who may take back the original amount of their investment over a certain period. Examples are Grameen Danone that solves malnutrition by selling affordable yogurt fortified with micronutrients, Grameen Veolia Water that solves the problem of arsenic-contaminated drinking water by selling pure water at a price the poor can afford, BASF Grameen that reduces mosquito-borne diseases by producing and marketing treated mosquito nets made in Thailand but distributed in Bangladesh. The last example is relatively cheaper than expensive draining of swamps, neglected ponds and other standing water that breed mosquitoes.

Annex 4.A1

Lessons learnt from case stories on binding constraints in Asia

Donor/ partner	Constraints	Lessons	
		How it was removed	Best practice
EU	Initial RAfT programme designs (e.g. APRIS I, before 2007) offered sometimes limited, and often delayed, opportunities for participation and ownership of projects. Project goals were centred on the buyers' specifications on standards, quality, labelling, etc. This was met with anti-GATT sentiments as this was about the same time as the Uruguay Round.	By encouraging quorum and adequate representation of all ASEAN member countries in dialogues.	Subsequent APRIS II programme and ARISE introduced sub-projects that tackled specific border issues e.g. Customs Transit Management (APRIS II) and Managing Non-Tariff Barriers (ARISE) and veered away from buyer-centred compliance rules.
	RAfT programmes are expected to produce primarily improved trade relations at the diplomatic level, bilateral and regional policy coherence as well as trade results.	By introducing components for institutional building, training, exchange of experts, resistance to change was lessened and EU-ASEAN diplomatic relations are becoming stronger. Policies are formulated but not trickled down to national levels clearly. Trade results difficult to attribute to specific EU RAft projects in ASEAN.	Through their RAfT programmes EU is sharing its expertise in integrating the region.
	Limited private sector participation	EU had several EU-Asia projects where funds were allocated for specific sectors. (See Asia-Invest, Asia IT&C, Asia Link, Asia Pro Eco, Asia Urbs). These were solicited via call for proposals method and announced via Internet. Proponents designed their own programme based on criteria and guidelines specified in the Project Fund.	This resulted in greater private sector participation from academe and NGOs and some local government units or state-owned corporations. It also encouraged partnerships between EU and Asian institutions. Sustaining these partnerships became the responsibility of proponents.
	Limited involvement of recipient in programme design		The grants supported proposals which were developed by the recipients themselves thus encouraging co-designing and ownership of the projects. Even expected results were voluntarily determined by proponents.

Donor/ partner	Constraints	Lessons	
		How it was removed	Best practice
	Mainstreaming into national development plans, problems of cascading to each country.	At the level of ASEAN Secretariat's institutional capacity building programmes, each member country has different ways of assimilating and cascading programmes to their national governments. Countries that have weak internal inter-agency co-ordination may not feel the impact of these changes except as extraneous changes in the global trade scenario.	Programmes that have regional components must be supplemented by nation-specific components since the needs of ASEAN member countries are different.
	Aid programmes of EU are grants and mostly concentrate on soft infrastructure specifically on reducing the thickness of borders.	Capacity building programmes are necessary to prepare for ASEAN Economic Community 2015 but each programme has hardware needs where each member country is responsible for setting it up.	Possibility of introducing support for hardware infrastructure as a programme component or a parallel programme to existing capacity building programmes in the form of FDI from their private sector companies or soft loans.
	The clarity of goals of EU's capacity building RAfT programmes and its direct relation to trade results are difficult to draw in the short term.	Not removed yet.	The Bandar Seri Begawan Plan of Action (Items 2.1.8 and 2.1.9) pledges that EU will encourage the European Investment Bank to invest in ASEAN member countries and for EU to promote private sector participation in the Master Plan for ASEAN Connectivity (MPAC), specifically by creating mechanisms and stronger institutional linkages for PPPs.
	Knowledge management and mechanisms for cascading information and results of EU's capacity building programmes for ASEAN countries is weak.	Not removed yet. Countries with poorer telecommunications infrastructure and usage have the least access to information. The case for establishing a national and regional trade repository is strong. Right now the multiplicity of committees and sub-committees within the ASEAN is a maze of information that even national agencies of ASEAN member countries have a difficult time traversing.	The knowledge management model of Japan, through its ADB and JBIC programmes, are comprehensive, informative and well-linked to national, local and private sector institutions on the ground. Avenues for information sharing include Japanese companies who relay information to their overseas branches, local offices of ADB, JICA, JBIC and the establishment of local project offices.
Japan	RAfT must produce palpable trade results both at the national (policy) level and actual increased trade on the ground.	A comprehensive programme that provides aid, technical assistance and soft loans to government and civil societies, such as what ADB is doing, coupled with loans and investment support to private trading companies, such as what JBIC is doing, produces trade results for every increase in RAfT that Japan gives. It took decades for US and Japan to build production networks. ASEAN can probably entice new developed economies to subcontract or outsource some stages or components of their value chains to developing economies of ASEAN. Candidates are Taiwan, Singapore, Malaysia, China, India, Korea.	For RAfT to ensure palpable trade results between donor and recipient country, donor country must lead and support production networks and value chains all over the recipient region. Support includes appropriate trade policies and financial backing for projects identified to boost trade. Doing so would create a win-win situation for both donor and recipient country. Japan is very active in promoting G to G, PPPs, and B to B co-operation between Japanese overseas corporations to ensure the growth of the Japanese economy and enhance global trade. Aside from RAfT, sub-regional programmes also complement their aid programmes.

Donor/ partner	Constraints	Lessons	
		How it was removed	Best practice
United States	Many RAfT programmes had inadequate monitoring and evaluation, which limited the distillation of lessons learnt from the experiences of the programme. It also made it difficult to determine the impact of RAfT on the people in the developing countries	Development of an evaluation framework	15% of TCB projects were evaluated
	Poor ownership and buy-in of stakeholders of many RAfT programmes (e.g. ASEAN Competitiveness Enhancement Project – Tourism component. The Tourism component was spearheaded by the Ministries of Tourisms of the participating ASEAN countries. The component had limited achievements. Another situation is the trade-related infrastructure component of the GEM-2 Project.)	In the GEM-2 Project, conduct of an evaluation of the insfrastructure component (biggest component) to derive lessons learnt for design of GEM-3. In contrast, Viet Nam's STAR Project used Trade Agreements to spur systematic domestic reforms (e.g. The STAR programme linked BTA/WTO-related reforms with the systematic strengthening of Viet Nam's legal system)	Agriculture component of the GEM-2 Project was more successful because it was able to harness the participation of the private sector producers. In the STAR Project, the government established an innovative Government Steering Committee (SC) chaired by a Vice Chairman of the Office of the Government (essentially the Prime Minister's office) and including nine representatives of other ministries and state agencies affected by the BTA
	Sustainability issues were common across RAfT programmes, especially those involving trade-related infrastructure.	Strong private sector participation was an effective strategy for some RAfT programmes (e.g. ASEAN Competitiveness Enhancement Project, textile and garments sector and the agricultural trade component of the GEM-2 Program)	Establishment of 14 Virtual Vertical Factories comprised of textile and garments manufacturers and companies in different countries and linked to markets/buyers abroad (i.e. SAFSA Program)
Canada	RAfT programme designs centred on improving the capacity of recipient countries to trade with the donor country	Development of trade capacity building programmes for government officials of participating countries (i.e. APEC-EIP)	Establishment of SEATRANET, a group of institutions located in different ASEAN countries sharing expertise and resources to continue to provide trade capacity building initiatives

Sources: various donor reports, author's analysis.

Chapter 5

Case study of the Economic Community of West African States

Regionally-focused aid for trade has emerged as a means by which developing countries can overcome productive capacity and infrastructural constraints, promote regional integration, and increase both regional and global trade. This chapter provides the ECOWAS perspective on regional aid for trade (AFT). Stakeholder consultations reveal the importance of regional AFT projects for enhancing regional integration and expanding trade. However, regional AFT projects are difficult to mainstream into national plans due to issues related to implementation, ownership and aligning national, regional and donor goals. Lessons learnt are that AFT is not a sectoral issue but rather is cross-cutting. Mainstreaming is important; it is a process and not an event. National budgetary processes must continually capture multi-country and regional AFT projects. There is the need for a regional body to co-ordinate regional AFT and co-ordinate donors so as to maximise the benefits from regional AFT.

Introduction

The role of trade in development is well documented and the need to provide concessions to developing countries, particularly low-income countries (LICs), to enable them integrate fully into the international trading system on the same terms and conditions as their developed counterparts has long been recognised. Therefore, various concessions (for example, enhanced market access through trade preferences) were introduced to help LICs benefit from the international trading system. However, owing to constraints in productive capacity arising largely from human, institutional, infrastructural and other bottlenecks, some developing countries have achieved little success despite the numerous market access opportunities present in the global trading system. Intra-regional trade among developing countries in some regions has not fared any better. In the case of sub-Saharan Africa (SSA) the problem is even more acute. Market access is thus a necessary but insufficient condition for harnessing the opportunities that trade presents for development to LICs. To access global export markets and then survive in them, firms and traders in LICs must be able to offer competitive products. For example, appropriate and adequate infrastructure must be in place. There must also be state capacity to develop sound trade policies and to competitively negotiate in international trade agreements. Aid for trade (AFT) – a concept that has assumed increasing importance in the disbursement of development assistance – is considered a potential instrument for addressing these challenges faced by developing countries.[1]

One of the major developments in international economic relations over the past decades has been the rise of various regional trading blocs. The economic literature supports the view that regional co-operation can offer large benefits to developing countries, including expanded markets and input sources, better allocation of resources across the region and acceleration of economic growth (Asian Development Bank, 2013).[2] However, certain preconditions of economic integration must be in place, including efficient economic infrastructure and a trade-enabling environment. The extent to which developing countries can benefit from regional integration will depend on whether they can effectively overcome these constraints. Aid for trade (AFT), which essentially is development assistance to bolster trade capacity and reduce trade costs in developing economies, can have high returns in terms of greater growth and poverty reduction by improving their capacity to benefit from both regional and global trade.

To better understand the constraints to getting the most out of regionally-focused AFT projects, careful analysis at the regional and sub-regional level is required. This chapter provides the ECOWAS perspective on regional AFT. The objectives are to: 1) review relevant regional co-operation and integration initiatives in Africa in general and ECOWAS in particular; 2) provide a status quo analysis of multi-country and regional AFT projects in ECOWAS; 3) analyse the challenges present in creating a higher profile for regional AFT in ECOWAS, including challenges to mainstreaming regional AFT projects in ECOWAS countries, the degree to which multi-country and regional projects are "owned" by regional organisations and by national authorities, and difficulties encountered in aligning goals of stakeholders, including dialogue partners; and 4) discuss lessons learnt and provide a summary of "good practices" in mainstreaming regional AFT in Africa.

The approach involved reviewing existing relevant literature on AFT particularly in the context of ECOWAS. In addition, stakeholder consultations were held in Ghana and at the ECOWAS Secretariat in Abuja, Nigeria. In Ghana, discussions on AFT were held at two key government institutions[3], namely: i) the Ministry of Foreign Affairs and

Regional Integration; and ii) the National Development Planning Commission (NDPC). At the ECOWAS Secretariat, discussions were held at the Trade Directorate.

The rest of the report is structured as follows: the next section discusses regional co-operation and integration initiatives in Africa with a particular emphasis on ECOWAS; this is followed by a section discussing completed, ongoing and in-the-pipeline multi-country and regional AFT projects in ECOWAS; challenges to regional AFT in the context of ECOWAS are discussed in the subsequent section, with emphasis on the issues of mainstreaming, ownership and implementation, and alignment of national, regional and donor goals; the penultimate discusses lessons learnt, while the last section concludes.

Regional co-operation and integration initiatives in Africa

One of the major developments in the international economic arena over the past decades has been the rise of various regional trading blocs. The continent of Africa is an active participant in this trend. Over the years, many regional and sub-regional treaties were signed, establishing various regional trading blocs in order to attain self-reliant development of member countries on the continent. These include, among others, the Organisation of African Unity (OAU) founded in 1963 (now the African Union); the Customs and Economic Union of Central Africa (CEUCA) founded in 1964 (now known as Central African Economic and Monetary Community, or CEMAC); the East African Community (EAC), which existed from 1967 to 1977; the Southern Africa Customs Union (SACU), established in 1969; the Southern African Development Coordinating Conference (SADCC), founded in 1980, which later became the Southern African Development Community (SADC); and the Common Market for Eastern and Southern Africa (COMESA), established in 1995. In the West African sub-region, there is the Economic Community of West African States (ECOWAS) founded in 1975; and the West African Economic and Monetary Union (UEMOA), which was established in 1994. While some of these institutions are now defunct, the overriding goal of these treaties and regional institutions has been to maximise the economic gains of the region through co-operation and integration. The following sections discuss co-operation and integration initiatives pertinent to West Africa at the African regional level (The African Union) and at the West Africa sub-regional level. The West Africa-European Union co-operation relationship is also discussed.

The African Union

A major need identified by African leaders soon after attaining political independence in the 1950s and 1960s was co-operation among and integration of the economies of the continent as a means of promoting structural transformation and harnessing the continent's economic strength internationally. The OAU was therefore established in 1963 to serve as a vehicle through which the economic development of the continent could be achieved. In 1980 and 1991, the commitment of member states to the creation of an African Economic Community was renewed in the *Lagos Plan of Action* and in the *Abuja Treaty*, respectively.

The 37th Summit of the OAU held in July 2001 was the last for the 38-year-old continental body, making way for the birth of the African Union (AU) on 8 July 2002 in Durban, South Africa. The main objectives of the AU are to: 1) achieve greater unity and solidarity between African countries and the peoples of the continent; 2) accelerate the political and socio-economic integration of the continent; 3) promote democratic principles and institutions, popular participation and good governance; 4) promote peace, security, and stability on the continent; and 5) co-ordinate and harmonise the policies between existing and future Regional Economic Communities (RECs) for the gradual attainment of the overall goals of the continent and its people. Thus, economic co-operation and integration remains a core objective of the AU.

One major problem that has confronted the AU over the years has been insurgency and armed conflicts across the continent (e.g. Sudan, Somalia, Kenya, Liberia, Sierra Leone, Cote d'Ivoire, etc.). The AU has therefore been involved in the peaceful resolution of conflicts among member states rather than paying greater attention to economic co-operation and integration. Future aspirations of the AU include, among others, the creation of a pan-African free trade area (FTA), customs union, single market, African central bank, and a common currency. The establishment of an African Economic Community with a single currency is slated for the year 2023. But by and large, the AU has been very active and more successful in dealing with political issues than the economic challenges confronting the continent.

One significant effort in the last decade to hasten the process of co-operation and integration among African countries is the New Partnership for Africa's Development (NEPAD) initiative. The NEPAD was created out of two parallel initiatives, namely: 1) the Millennium Africa Recovery Plan (MAP), championed by the then South African President Thabo Mbeki and unveiled at the World Economic Forum in Davos in January 2001; and 2) the Omega Plan, crafted by Abdoulaye Wade (a former President of Senegal) and presented to the Summit of Francophone African leaders in Cameroon in January 2001. The MAP and the Omega Plan were combined into a third initiative – the New African Initiative (NAI) – which then led to the creation of NEPAD in 2001. The NEPAD was adopted by African Heads of State and Government of the OAU in 2001 and was ratified by the AU in 2002 to address developmental challenges of Africa within a new framework. The primary objectives of NEPAD are to: i) eradicate poverty; ii) place African countries, both individually and collectively, on a path of sustainable growth and development; iii) halt the marginalisation of Africa in the globalisation process; iv) accelerate the empowerment of women; and v) fully integrate Africa into the global economy. The NEPAD is thus widely seen as a mechanism to further promote economic co-operation among and integration of the economies of the countries of Africa.

Regional co-operation and integration initiatives in West Africa

The Economic Community of West African States

The Economic Community of West African States was founded on 28 May, 1975. It initially comprised all the 16 independent nations of West Africa, namely, Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea–Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Mauritania, however, withdrew from the union in 2000.[4] ECOWAS is thus currently a 15 member union. The aims and objectives of ECOWAS are to: (1) promote free trade by eliminating trade barriers such as tariffs among member states; (2) promote free movement of people among member states by eliminating all forms of immigration impediments; (3) establish a common tariff for member states; (4) establish funds for co-operation, compensation and development; and (5) harmonise policies and promote common projects in the areas of agriculture, transport, energy, etc. Clearly, trade objectives are critical to the aspirations of ECOWAS.

In 1993, the ECOWAS Treaty was revised in an attempt to hasten the process of integration and establish an economic and monetary union to stimulate economic growth and development in West Africa with the objectives of: *i)* removing customs duties on intra-ECOWAS trade; *ii)* establishing a common external tariff (CET); *iii)* harmonising economic and financial policies; and *iv)* creating a single monetary zone. The institutional design of ECOWAS is loosely fashioned after that of the European Union (EU). The institutions operating under ECOWAS include: the Executive Secretariat; the Authority of Heads of State and Government; a Council of Ministers; a Fund for Co-operation, Compensation and Development. Institutions include: a Parliament; an Economic and Social Council; and a Court of Justice.

The population of ECOWAS was in 2012 estimated at about 300 million. The dominant economy in the ECOWAS region is Nigeria, accounting for more than half of the population and about half of the regional aggregate Gross Domestic Project (GDP). Eight ECOWAS member states also belong to the West African Economic and Monetary Union (UEMOA), a customs and monetary union within the sub-region. The exports of member countries are mainly comprised of a limited range of primary (largely agricultural) commodities. This reliance on internationally traded commodities leaves member countries vulnerable to international commodity market price fluctuations. Manufactured exports have not seen any significant increase over the years. Intra-regional trade as a share of total trade is less than 10%, reflecting the lack of complementarities of regional economies.

An essential step towards the creation of the ECOWAS FTA was the introduction of the ECOWAS Trade Liberalisation Scheme (ETLS) aimed at enhancing the free movement of transport, goods and persons within ECOWAS, including the removal of all tariff and non-tariff barriers to trade. While the ETLS has generally succeeded in promoting intra-regional exchange, particularly with regard to persons, it has been less successful in implementing protocols on free movement of goods and transport. When moving goods across borders in the region, traders still encounter tariff and non-tariff barriers that increase the cost of doing business, while transporters also face various types of constraints. For instance, different vehicle standards, inspection requirements, and axle weight limits – all of which were to be harmonised under the ETLS – exist in member states. In a bid to become a customs union, ECOWAS has set itself datelines for the introduction of a CET but this has been missed several times. The new date set for the CET is January 2015. Similarly, the convergence criteria for the creation of a second monetary union within ECOWAS have been missed several times.

In its nearly four decades of existence, ECOWAS has generally underperformed. Intra-regional trade has not improved significantly. Although the share of intra-ECOWAS exports in total exports in the mid-1970s tripled to 9% by 2004 from just 3% prior to the establishment of the ECOWAS (Nielsen and Zouhon-Bi, 2007), intra-ECOWAS trade has largely remained stagnant at about 10% over the past two decades (see Table 5.1). There has been a lack of political will to enforce integration protocols; there are divided amalgamation interests due to multiple and overlapping union membership; multiple objectives are being pursued with a lack of harmonisation of sector policies; and there have been inadequate negotiations of distributive and equity issues (Oyejide at al., 2010). As a result, progress towards the achievement of the objectives of ECOWAS has been slow.

Table 5.1 **Exports of ECOWAS to the ECOWAS sub-region and the rest of the world**

USD billions, 1996-2008

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total intra-ECOWAS trade	3.7	3.9	3.2	2.6	2.8	2.3	3.1	3.3	4.2	5.3	9.9	6.6	7.0
Total extra ECOWAS trade	42.4	40.6	28.1	22.4	33.2	24.0	24.5	32.0	46.9	58.0	67.1	61.3	64.4
Intra-ECOWAS trade share (%)	7.9	8.7	10.1	10.3	7.9	8.8	11.4	9.3	8.2	8.4	12.9	9.8	9.8

Source: Based on data from ECOWAS External Trade Statistics (2009).

The West Africa Economic and Monetary Union

The UEMOA was officially established in January 1994 based on the pre-existing West Africa Monetary Union of the CFA franc zone and comprises of eight francophone West African countries, namely, Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. The Union is operationally fashioned after the EU with an UEMOA Commission that is funded by a 1% levy on all imports into the UEMOA zone. The main tasks of the Commission are to establish a customs union; harmonise investment incentives, public financial management procedures and taxation; and monitor key macroeconomic convergence criteria including fiscal deficits, inflation, public sector wages, and government arrears. Other institutions created within the union include: a common central bank; a regional banking commission; a regional stock exchange; and a security exchange commission. Yet others include a court of justice, a general accounting office, regional chamber of commerce, and a parliament.

The establishment of the customs union in the zone brought about an increase in intra-UEMOA trade as a share of total trade from about 10% in 1994 to about 16% in 2000. The dominant economies in the UEMOA zone are Côte d'Ivoire and Senegal, accounting for more than 50% of GDP. Côte d'Ivoire alone accounts for about 50% of total intra-UEMOA trade, highlighting the importance of this country for the region (Egoume and Nayo, 2011). The zone has been largely successful at significantly reducing fiscal and external deficits. The average annual GDP and export growth of the zone are usually higher than those of the SSA region. The economic and financial situation in UEMOA countries improved significantly over the years, especially following the devaluation of the CFA franc in 1994, although the Ivorian conflict has since greatly affected the zone's performance.

West Africa – European Union Economic Partnership Agreement

The EU and the African, Caribbean and Pacific (ACP) relationship has existed since 1975 when the first Lôme Agreement was signed. It is a relationship between the EU and its former colonies in Africa, the Caribbean and Pacific regions. The reason for this relationship was the desire of some members of the European Economic Community (EEC) at that time to maintain some influence in their former colonies. It was also to maintain economic ties that gave them access to raw materials and provide a market for their finished goods. For their part, the former colonies hoped to get aid to develop their economies and to enhance their exports by gaining duty-free access to the EEC market. Four Lôme Agreements were subsequently signed followed by a fifth – the Cotonou Agreement. The Cotonou Agreement originally envisioned negotiation between the EU and ACP countries regarding economic partnership agreements (EPAs), to start in September 2002 and to be concluded by the end of 2007 (Busse et al., 2004).

There are several fundamental components to the EU-ACP agreements. The trade part ensured the removal of tariff barriers to the entry of ACP exports to the EU market. The agreement was non-reciprocal in the sense that ACP countries could impose restrictions on EU goods entering their markets. Another component of the agreement was development aid, which over the years resulted in quite substantial inflows to ACP countries. By the time the Cotonou Agreement was signed there was general agreement that ACP countries, for various reasons, had not been able to take advantage of opportunities offered by the duty-free access to the EU markets. Some of the reasons included lack of adequate information to prospective exporters, complicated rules of origin provisions, and inadequate trade infrastructure. At the same time some provisions of the Agreement violated WTO principles such as non-reciprocity. Thus at the WTO ministerial conference in Doha, Qatar in 2001, it was agreed that these unilateral preferences were to be replaced by reciprocal EPAs between the EU and individual ACP countries or groups of countries by 2007.

The West Africa-European Union (WA-EU) EPA negotiations were the result of the mandate of the 21st session of the Authority of Heads of State and Government of ECOWAS given to the ECOWAS and UEMOA Commissions to negotiate, on behalf of the States of the region, an economic partnership agreement with the EU. The specific objectives of the mandate that have formed the basis of the WA-EU EPA negotiations are to: (1) gradually establish, in line with WTO rules, an FTA between ECOWAS and the EU with effect from January 2008; (2) accord priority to development and poverty reduction; (3) co-operate on trade-related issues; (4) deepen the integration process in West Africa; (5) improve competitiveness; (6) build capacity and upgrade enterprises; and (7) enhance market access for West Africa's exports. The EPA negotiations were planned to be concluded in December 2007 and the agreement was to come into force in January 2008. This date was missed but Cote d'Ivoire and Ghana signed interim EPAs with the EU, leading to the declaration of the Authority of Heads of State and Government of ECOWAS, at its 33rd Summit held in January 2008 the member states' desire to conclude the EPA as a single custom territory within the West African sub-region. ECOWAS is yet to sign the EPA with the EU as a single entity.

Regional aid-for-trade in ECOWAS

Thus, West Africa has embraced a strong regional-integration agenda. In pursuance of its objective of promoting regional integration and intra-regional trade, ECOWAS has embarked on a number of multi-country programmes and projects. This section discusses some of these multi-country and regional AFT projects in ECOWAS. The projects are discussed under the OECD Creditor Reporting System (CRS) aid for trade classification namely, Economic Infrastructure, Building Productive Capacity, and Trade Policy and Regulations. A brief discussion of AFT flows to ECOWAS, however, precedes this.

Aid for trade flows to ECOWAS

A recently published report, *Assessing Regional Integration in Africa*, a joint undertaking by the AU, the United Nations Economic Commission for Africa (UNECA), and the African Development Bank (AfDB), highlights the prominence of regional trade for development and poverty reduction in Africa. At the same time, AFT projects are increasingly supporting regional integration through technical support for regional institutions, cross-border transport corridors, and other trade facilitation measures. Table 5.2 presents AFT disbursements to RECs in Africa from 2006 to 2011. Aid for trade disbursements to the various RECs has been rising in spite of the challenges posed by the global economic and financial crisis of 2008-09. Between 2009 and 2011, ECOWAS accounted for about a quarter of the AFT disbursements to Africa, averaging about USD 2.8 billion per annum, with disbursements averaging nearly USD 4.0 billion per year. Ghana, Mali and Nigeria represent the main regional players in relation to AFT and account for nearly half of the flows disbursed to the ECOWAS region.

Table 5.2. **Sub-regional aid for trade disbursements**

USD million, constant 2011

	2006	2007	2008	2009	2010	2011	Share of Africa total 2009-11
CEN-SAD	3 028.4	3 739.1	4 726.0	4 921.7	6 105.7	6 068.6	48%
COMESA	2 541.4	2 976.2	3 579.2	4 230.4	4 031.3	3 956.3	34%
EAC	1 041.3	1 516.2	1 526.6	1 719.3	1 993.6	2 032.8	16%
ECCAS	587.4	617.5	685.4	946.5	842.6	932.1	8%
ECOWAS	1 523.7	2 009.0	2 352.9	2 345.1	2 985.3	3 138.5	24%
IGAD	1 079.0	1 485.6	1 639.2	2 257.3	1 847.0	1 925.3	17%
SADC	1 535.5	1 571.7	1 837.8	2 121.6	2 236.1	2 237.8	18%
UMA	770.0	936.9	1 070.9	1 262.2	1 509.8	1 454.7	12%

Notes: CEN-SAD: Community of Sahel-Saharan States; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Community; ECCAS: Economic Community of Central African States; ECOWAS: Economic Community of West African States; IGAD: Intergovernmental Authority on Development; SADC: Southern African Development Community; UMA: Union du Maghreb Arabe (UMA).

Source: (UNECA, 2013), Building Trade Capacities for Africa's Transformation-A critical Review of AFT; www.wto.org/english/tratop_e/devel_e/a4t_e (accessed 30 December 2013).

Aid for trade disbursement-to-commitment ratio is quite high in ECOWAS on average. However, there are substantial variations across countries. Virtually all (98%) of AFT disbursements to ECOWAS between 2006 and 2011 went into building productive capacity and the development of economic infrastructure (Table 5.3). This underscores the importance of these sectors in promoting integration and enhancing intra-regional and extra-regional trade.

Economic infrastructure

The infrastructure deficit remains a major constraint to competitiveness in the economies of the ECOWAS sub-region with studies showing that half of the production costs stem from inadequate infrastructure (ECOWAS/UEMOA Commissions, 2006). This emphasises the major impact infrastructure development can have on the sub-region's competitiveness. In this regard, AFT targeted at developing the economic infrastructure of ECOWAS can act as a stimulus to help member countries improve their supply capacities and reduce the cost of infrastructural services, thereby boosting their competitiveness. Integrating the infrastructure services market (transport, energy, telecommunication, etc.) and facilitating co-operation between the state and the private sector for the implementation of major multi-country investment projects (electrical interconnections, gas pipelines, etc.) will help promote the regional integration agenda and make the sub-region more competitive and conducive to foreign direct investment.

Table 5.3. **Aid for trade flows to ECOWAS sub-region, 2006-11**

	Disbursements-to-commitments ratio			Sectoral disbursements (2006-11)		
	Average 2006-08	Average 2009-11	Coefficient of variation 2006-11	Building productive capacities	Economic infrastructure	Trade policy, regulation and adjustment
Benin	82%	107%	47%	38%	61%	1%
Burkina Faso	129%	60%	51%	54%	45%	1%
Cape Verde	109%	161%	50%	17%	83%	0%
Cote d'Ivoire	83%	71%	17%	65%	22%	13%
Gambia	137%	81%	40%	50%	49%	1%
Ghana	65%	82%	40%	52%	47%	1%
Guinea	188%	259%	99%	40%	59%	1%
Guinea Bissau	313%	157%	71%	43%	56%	1%
Liberia	53%	49%	54%	31%	68%	1%
Mali	72%	109%	60%	61%	38%	1%
Niger	120%	112%	58%	61%	39%	0%
Nigeria	98%	76%	58%	58%	41%	2%
Senegal	104%	71%	47%	48%	50%	2%
Sierra Leone	104%	165%	71%	32%	64%	4%
Togo	145%	45%	88%	68%	30%	2%
ECOWAS	73%	75%	23%	50%	48%	1%

Source: (UNECA, 2013) Building Trade Capacities for Africa's Transformation-A critical Review of AFT; www.wto.org/english/tratop_e/devel_e/a4t_e (accessed 30 December 2013).

There are a number of ongoing and planned multi-country and regional AFT infrastructural projects in ECOWAS. These projects are concentrated on the development of the transport networks as well as facilitating movement of persons, goods and transport across countries of the sub-region. This is not surprising given that poor transport linking member states and obstacles to free movement of vehicles and persons have been identified as major inhibiting factors to intra-regional trade and integration. While there might be other completed or ongoing multi-country and regional AFT infrastructure projects, the projects discussed below are those for which adequate information was available.

Road projects

Lagos-Nouakchott "trans-coastal" and Dakar-N'Djamena "trans-Sahelian" roads

Among the infrastructure services, road transport has been noted as the area in which the sub-region will gain most in terms of competition and growth effects (ECOWAS/UEMOA Commissions, 2006). Accordingly, both ECOWAS and UEMOA have given special attention to integration of road transport in the sub-region. In 1980, ECOWAS adopted a priority road transport programme (PRTP) whose objectives are to facilitate trade and accelerate the integration of the regional economic space. The PRTP is to be implemented in two phases. Phase I entails the facilitation of cross-border road transport, and the construction of a trans-west African road network that includes the Lagos-Nouakchott "trans-coastal" and the Dakar-N'Djamena "trans-Sahelian" roads. Phase II targets vertical interconnection of road segments (North-South) to link landlocked countries to coastal countries.

Although yet to be completed, the West African road network is considered as one of the most important achievements of the ECOWAS integration programme. Assessments as of 2006 indicate that more than 80% (3 777 km out of the 4 560 km) of the Lagos-Nouakchott "trans-coastal" road had been completed. Similarly, 3 894 km of the Dakar-Ndjamena trans-Sahelian road (representing 87% of the total length of 4 460 km) had been completed.[5]

Trans-ECOWAS coastal highway

In 2012, ECOWAS and the People's Republic of China signed an agreement for economic co-operation. Part of the agreement covers the construction of a 2000 km long trans-West African coastal highway between Dakar (Senegal) and Lagos (Nigeria) to link 11 ECOWAS countries. The project will pass through Banjul (Gambia), Bissau (Guinea Bissau), Conakry (Guinea), Freetown (Sierra Leone), Monrovia (Liberia), Abidjan (Côte d'Ivoire), Accra (Ghana), Lome (Togo) and Cotonou (Benin) and will create a continuous link to facilitate the distribution of goods, thereby promoting intra-regional trade. Individual country segments of the highway are currently being implemented.

Transport facilitation projects

Inter-state road transport and transit facilitation projects

Regional road construction projects have contributed to improving the road transport infrastructure in West Africa. However the volume of transport flows within ECOWAS continues to remain low along interstate corridors due to the existence of numerous checkpoints and non-tariff barriers arising from uncoordinated procedures for goods and passenger traffic. In 1982, ECOWAS adopted an Interstate Road Transport (ISRT) Convention to facilitate road transport from the major ports of the sub-region to landlocked countries in particular. The aim of the convention is to define the rules governing how transport by road shall be carried out between member states. It deals with the transportation of persons and goods by road vehicles or by containers mounted on such vehicles operating along clearly defined interstate roads.

More recently and in conformity with the NEPAD action plan, ECOWAS and UEMOA developed a regional Interstate Road Transport and Transit Facilitation Programme for West Africa (ISRTTFP-WA). The ISRTTFP-WA is to consolidate the ISRT and other preceding programmes. It has as its objective reducing transport costs, improving member state competitiveness and contributing to poverty reduction. The programme is supported by donors under the SSA Transport Programme (SSATP). The components of the ISRTTFP-WA involve, *inter alia*, the following activities: i) simplification and harmonisation of road transport regulations, procedures and documents; ii) establishment of joint border posts along interstate corridors; and iii) establishment of observatories to identify and analyse abnormal practices which impede traffic fluidity on road corridors. The EU has committed EUR 63.8 million to this project from the 9th European Development Fund (EDF) to finance technical assistance.

While some successes have been achieved, the implementation of the transport facilitation programmes by member states has encountered many difficulties. An analysis of the extent of implementation of ETLS by the ECOWAS Commission and United States Agency for International Development (USAID) West Africa Trade Hub highlights a number factors stalling effective implementation, including low level of promulgation of ETLS protocols into national laws, and insufficient publication of rules and procedures to the public. Economic operators are thus not adequately sensitised to the conventions of the ISRT. Hence the existence of numerous checkpoints and non-tariff barriers due to uncoordinated procedures for goods and passengers continue to persist.

Abidjan-Lagos trade transportation facilitation project

Another project aimed at facilitating inter-state transport is the Abidjan-Lagos trade transportation facilitation project (ALTTFP) which involves five countries; namely, Côte d'Ivoire, Ghana, Togo, Benin and Nigeria. It is an initiative by ECOWAS and is being financed by the World Bank. It forms part of the ECOWAS and UEMOA transport and road transit facilitation regional programme, and aims at facilitating trade by reducing barriers to trade and transport in ports and on the roads along the Abidjan-Lagos corridor. The project became operational in 2010. It is a six year project subdivided into two phases. Phase 1 involves Ghana, Togo and Benin, whiles Phase 2 covers Côte d'Ivoire and Nigeria. Essential features of the project are trade facilitation, improvement of the corridor's road infrastructure, co-ordination and corridor performance monitoring and evaluation.

Eight indicators have been developed to measure the performance of the project. Interim assessment indicates that the project is proceeding gradually. However, it is confronted with implementation problems, particularly, country ownership of the project and problems relating to the data collection that would enable a better evaluation of performance.

ECOWAS railway project

The sub-region's railway system is characterised by low density, heterogeneous track gauges and dilapidated tracks (ECOWAS and UEMOA Commissions, 2006). A loan agreement between ECOWAS and the AfDB for a feasibility study on a sub-regional railway master plan was signed in 2002. The 1178 km long rail line estimated to cost USD 58.9 billion, which is to link Nigeria to Benin, Togo, Ghana and Cote d'Ivoire, has witnessed very slow progress. There are high expectations regarding the prospects of the project, which is considered as being capable of transforming the region's transport system through the introduction of new high-speed goods and passenger rail services. The project when implemented has potential for greatly enhancing the movement of goods and passengers, generating employment, increasing efficiency, reducing international trade costs, and ultimately boosting intra-regional trade. While the project has been backed by strong political will from the member countries of ECOWAS, it is less clear which donor agencies have committed to funding the project.

Building productive capacity

Exports promotion and enterprise competitiveness for trade initiative

The Exports Promotion and Enterprise Competitiveness for Trade (ExPECT) initiative was launched in 2010. Funded by CIDA, it is the framework and co-ordinated implementation support mechanism established by ECOWAS to consolidate and sustain the impact of the Programme for building African Capacity for Trade (PACT II).[6] ECOWAS Council of Ministers has provided a seed fund of USD 2.8 million over a five-year period (2011-15) as core funding for ECOWAS Commission to fund priority activities. This is to be complemented by other donor funds. ExPECT aims at creating and strengthening the technical, managerial and institutional structure and capacities needed to carry forward the region's trade development and promotion agenda in support of the ECOWAS growth and regional integration objectives. The objective of ExPECT is to engage value chain actors and other stakeholders to develop the competitiveness of value chains of lead products with high export potential such as mango, cashew, shea and palm oil, and to empower small and medium-sized enterprises (SMEs) operating in those value chains with the appropriate capacities and skills to perform on regional and global markets. ExPECT focuses its intervention into building essential pillars in three main areas, namely: i) the Trade and Enterprise Experts Network (TEN), which is its operational platform for service delivery; ii) the Export Actors Platform (EAP), its policy advice and strategic orientation mechanism; and iii) the Export Actors Forum (EAF), which is its flagship promotion and advocacy forum.

Since 2011, ExPECT has been making efforts targeted at solidifying its strategic partnerships and building firm structures. Activities it has pursued since 2012 include: 1) building institutional capacity; 2) building technical capacity; 3) building SME competitiveness in value chains; 4) mobilising resources and partnerships for export competitiveness; and 5) raising awareness and advocacy for ExPECT priority value chains. While no thorough impact assessment of the ExPECT has been carried out so far, it is expected that the initiative would enhance the capacities of firms and producers to be competitive in global markets.

ECOWAP regional agricultural investment programme

In 2005, ECOWAS adopted the ECOWAS Agricultural Policy (ECOWAP) as the instrument for co-ordinating the Comprehensive Africa Agricultural Development Project (CAADP), the agricultural component of NEPAD within the ECOWAS region. Implementation of ECOWAP is based on the Regional Agricultural Investment Programme (RAIP), a multi-donor support programme with funding from institutions and agencies such the USAID, CIDA, DFID, the EDF, and the World Bank. The vision of ECOWAP is to promote modern and sustainable agriculture by ensuring the effectiveness and efficiency of family farms, enhance the productivity and competitiveness of the agricultural sector in intra-regional and international markets, as well as improve food security and incomes of agricultural workers. ECOWAP is being implemented at both regional and national levels. ECOWAP has several sub-project components that are currently being implemented. They include: 1) West African Agriculture Productivity Programme (WAAP), which has both regional and national components. It is a USD 83 million project being funded by the World Bank, USAID and ECOWAS; 2) Regional Food Reserve Initiative (estimated at USD 150 million and funded by Group of Twenty (major countries) (G20), EU, and ECOWAS); 3) Regional Project for Food Security in West Africa (worth EUR 11.5 million and funded by Agence Francaise de Developpement (AFD) and ECOWAS); 4) West African Seed Programme (estimated at USD 9 million and being funded by USAID and ECOWAS); and 5) Action Plan to Fight Fruit Flies in West Africa (worth EUR 15 million and funded from the 10th EDF and by ECOWAS).

West African Common Industrial Policy (WACIP)

The West African Common Industrial Policy (WACIP) was established in 2010 with the vision of maintaining a solid industrial structure which is globally competitive, environmentally-friendly and capable of significantly improving the living standards of the people of West Africa by 2030. Its objectives are to: i) diversify and broaden the region's industrial production base by progressively raising the local raw material processing rate from 15-20% to an average of 30% by 2030, through the support to the creation of new industrial production capacities and the development and upgrading of the existing ones; ii) progressively increase the manufacturing industry's contribution to the regional GDP, currently at an average of 6-7% to an average of over 20% in 2030; iii) progressively increase intra-regional trade in West Africa from less than 12% to 40% by 2030, with a 50% share of the region's trade in manufactured goods, particularly in the area of energy; and iv) progressively increase the volume of exports of goods manufactured in the region to the global market from the current 0.1% to 1% by 2030 through the enhancement and development of skills, industrial competitiveness and quality infrastructure, particularly in the areas of information, communication and transport.

The WACIP has ten programme components. They are: i) development of microenterprises, SMEs and major industries; ii) Industrial Research and Development programme (IR&D); iii) development of regional intellectual property rights (IPRs); iv) development of regional financing; v) Business Opportunity Information Management System (ECO-BIZ); vi) creation of the regional industrial partnership network; vii) infrastructural development; viii) Standardisation, Quality Assurance, Accreditation and Metrology Programme (SQAM); ix) managerial capacity and skills development programme; and x) industry restructuring and upgrading programme.

To date the activities of the WACIP have included: (1) a policy meeting held in 2011 in order to prioritise and organise programmes with vision 2030 in mind; (2) "sensitisation workshops" in member countries in 2011; (3) hosting of the policy guideline on the ECOWAS website as part of communication steps; (4) conducting new assessments of SMEs and microenterprises in the region to discover areas for support; and (5) carrying out capacity building and skills development exercises. While there is no mention in the policy document of development assistance agencies that have pledged technical and financial support for programme, ECOWAS is working towards getting regional banks and other development institutions to finance the project.

Trade policy and regulations

African Trade Policy Centre

The African Trade Policy Centre (ATPC) was established in May 2003 with technical and financial support from the Canadian International Development Agency (CIDA). It was formed to enhance UNECA's support to building Africa's trade capacities. The core objective of ATPC is to strengthen the human, institutional and policy capacity of African governments to formulate and implement sound trade policies and participate more effectively in international trade negotiations. Based at the UNECA, the ATPC operates under the guidance of an advisory board composed of representatives from CIDA, three RECs – the EAC, ECOWAS and SADC – and the AU, AfDB, United Nations (UN) agencies and other development partners.

An important component of regional integration is trade facilitation, an area where AFT is expected to play an important role, particularly given the recent "Bali package" negotiated in Indonesia at the 9th WTO Ministerial Meeting. For instance, there is need to harmonise customs procedures so as to minimise delays at African borders. The removal of many roadblocks along major transport corridors, most of which connect landlocked countries to the sea, is also needed so as to improve trade flows. Hence, ATPC's work in promoting the reduction of obstacles to trade amongst others is crucial to enhancing intra-regional trade. One important achievement of the ATPC relates to its spearheading the creation of the African Alliance for Electronic Commerce (AAEC). The AAEC is a framework for exchange and sharing on trade facilitation. With the objective of facilitating trade, the AAEC aims to promote the concept of national and regional single window. A number of ECOWAS countries are members of this alliance. Through the ATPC, AAEC organises workshops to raise awareness of the single window concept. Through its research and presentations at high-level meetings, ATPC has influenced the debate on AFT and played a leading role in shaping Africa's position in international trade negotiations.

While the ATPC has proved its relevance, efficiency and ability to respond in a timely manner in assisting African countries to build capacity in trade-related issues, it is also constrained by its limited human and financial resources. Attention needs to be paid to the project's reliance on CIDA as the only development partner.

EPA development programme

The EPA Development Programme (EPADP) is an initiative of ECOWAS, with financial support from the EU. It constitutes a framework to identify evolving development support needs in order for the sub-region to reap the benefits of the EPA and to mitigate any negative effects. It also provides a common platform for the EU, its member countries and development partners alike to co-ordinate their assistance to the West African region within the EPA framework. The EPADP is also formulated to serve as an instrument that would aid the implementation of certain policies and strategies which include the ECOWAS poverty reduction strategy, the UEMOA regional economic programme, and ECOWAP among others in the sub-region. It intends to ensure coherence between the EPA and regional strategies as well as the AFT initiative. The EPADP is anchored on five strategic axes, namely: (1) diversification and increase of production capacities; (2) development of intra-regional trade and facilitation of access to the global market; (3) improvement and strengthening of trade-related national and regional infrastructure; (4) consideration of adjustment costs and trade-related needs; and (5) implementation and monitoring and evaluation of the EPA. Hence, the programme is expected to support the ECOWAS region to draw full benefits from the opportunities offered by the EPA while minimising the negative consequences.

The EPADP is being implemented in a sequence of 5-year phases. The first five-year phase is based on national and regional operational plans. The indicative cost of implementing programmes under the five axes is estimated at EUR 9.54 billion. Two-thirds of this amount has been earmarked for trade-related infrastructure, such as rehabilitation of energy, road and telecommunication, highlighting the importance the sub-region attaches to development of trade-related infrastructure.[7] Given its potential development impact, assistance, both financial and technical, would be required from development partners in successfully implementing the programme. The EU has shown commitment to supporting the programme by committing EUR 6.5 billion to EPADP-related activities over a period of five years (Dalleau and van Seters, 2011).

Summary

The analysis above indicates that some multi-country and regional AFT projects in the ECOWAS sub-region are yielding good results while others have not seen much progress. A peculiar problem with the projects and programmes has been the unavailability of detailed information on their current status. Some level of success has been achieved in the area of road projects. For instance, the Lagos-Nouakchott "trans-coastal" and the Dakar-N'Djamena "trans-Sahelian" roads have achieved over 80% completion rate. In spite of inherent problems, the transport facilitation projects have also achieved some level of success. Challenges still remain though, especially in terms of funding. In the areas of productive capacity building, and trade policy and regulations, even though a number of projects are ongoing, it has been difficult to ascertain any clear impacts that these projects have had or are having. In consonance with the need to show results in implementation of AFT projects, it is imperative that periodic assessments of the ECOWAS AFT projects are carried out. In summary, given the objectives of AFT and the potential that multi-country and regional AFT projects have for promoting regional integration and trade, donor support for such projects together with effective monitoring and evaluation would yield meaningful results. In addition, a renewed commitment of member countries to these regional AFT projects is required for successful implementation at the various national and sector levels.

Challenges to regional aid for trade in ECOWAS

While it is generally accepted that regional AFT can help achieve integration objectives, there are major impediments to creating a higher profile for regional AFT in ECOWAS. First, there is a generally low level of awareness of what constitutes AFT among key stakeholders in ECOWAS countries. For instance, stakeholder consultations in Ghana with some key government departments revealed a low level of appreciation of the concept of AFT even though respondents emphasised the potential of multi-country and AFT projects, particularly infrastructure projects, in promoting regional integration and intra-regional trade. Second, there is inadequate harmonisation and co-ordination of AFT at the ECOWAS level. Third, there is a lack of coherence between AFT at the national and regional levels. Differences exist in the degree of prioritisation accorded regional projects at the national level across countries. These issues dovetail into the problems of mainstreaming, ownership and implementation as well as alignment of national, regional and donor objectives in regional AFT projects. The discussion that follows is based on stakeholder consultations in Ghana and at the ECOWAS Secretariat, as well as analysis of various reports.

Mainstreaming regional aid for trade

The benefits of regional AFT are better realised when regional projects are mainstreamed into national development plans. As a region, ECOWAS has a poverty reduction strategy paper developed in collaboration with UEMOA which features integration and trade as priority areas. The plan also highlights integration and co-operation as conduits for achieving trade-related development goals. A major objective is the promotion of sub-regional economic integration to accelerate diversification and bolster growth. In this regard it seeks the development and interconnection of infrastructure to support economic integration and enhance the competitiveness of the region. There is also the ECOWAS Strategic Plan – *The ECOWAS Vision 2020* – which amongst others sets the strategic objectives of achieving a borderless region and ensuring integration into the global economy. In addition, regional sectoral development plans also include trade as a priority area and incorporate specific trade objectives to be achieved in specific sectors. To a large extent, these regional trade priorities are reflected in national development plans. For instance, many of the elements of the regional poverty reduction strategy paper – *Regional Integration for Growth and*

Poverty Reduction in West Africa: Strategies and Plan of Action – are highlighted in national development plans or sectoral strategy documents. A case in point is the regional plans on roads and road transport, which is highlighted in national transport sector strategies and programmes. Hence, clearly there should be a prominent role for regional AFT. Nevertheless, there are still difficulties with the lack of coherence of AFT in regional and national development plans.

As noted above, even though trade is highlighted in various regional and national plans, there appears to be a low level of understanding of what constitutes AFT and what benefits can be realised from a regionally-focused AFT strategy. In such a situation, it is unlikely that regional or national plans would strategically focus on AFT. Mainstreaming regional AFT could be constrained by divided amalgamated interests due to multiple and overlapping membership of RECs (ECOWAS and UEMOA). This makes difficult the harmonisation and co-ordination of policies and strategies especially in the absence of a lead regional co-ordinating institution.

Mainstreaming regional AFT also becomes problematic when national plans fail to incorporate regional strategies. Incorporating regional projects into national plans may be difficult in situations where some member countries are skeptical about their abilities to reap benefits commensurate with any financial commitments they make to regional projects, especially in the absence of adequate negotiations of distributive and equity issues and compensation mechanisms. Colonial ties with particular donors, or ideological differences could also stifle the implementation of regional AFT projects. Countries may therefore accord varying degrees of prioritisation to regional projects in their national plans. For instance, in the quest to facilitate trade in the ECOWAS region, various transnational road projects have been commissioned with member countries required to ensure the implementation of country segments. It has been difficult to have all countries commit to implementing their portions of the individual projects, thereby reducing the impact the projects are expected to have in promoting regional trade. This is how one stakeholder shared his perspectives on mainstreaming regional AFT:

> … also, the differences in the levels of reception to aid-for-trade in the [various] countries can be problematic. Whilst some [member] countries may be wholly receptive of the programmes, others may not be, due to varied factors such as historical relations with the donor countries, ideological differences, differences in development priorities, or even suspicion of the motives behind the aid-for-trade initiatives. As a result, the levels of dedication to the programmes may differ and, thus, render co-operation in implementation difficult.

In addition, when AFT projects tend to be supply-driven rather than demand-driven, mainstreaming becomes problematic. This aspect was captured in one of the stakeholder consultations:

> ...the challenge… often occurs when these projects are conceived by the donors without prior consultation with the recipient countries. Such projects often do not fit into the development priorities or agenda of the recipient countries, making their incorporation a challenge.

Ownership and implementation issues

Lack of ownership constitutes a further constraint to regional AFT projects. Low levels of ownership of multi-country and regional AFT projects in particular are attributed to low levels of consultation and awareness-raising at national levels. Earlier integration efforts by ECOWAS have met with very little success because the peoples of the sub-region did not own the processes. For several decades the integration agenda remained largely the integration of 'heads of states or their representatives' rather than integration of the peoples of the respective countries. This approach did not quite achieve the desired results. The shift in strategy these days is to engage the society of the region and make them feel part of the integration process. As one stakeholder put it during the consultations:

> …it is just not enough highlighting the benefits and concepts of intended regional policies and programmes to beneficiary countries or on regional platforms and expect things to work well. The individual countries must be involved and engaged in the planning and formulation processes from the word go. If these consultations are carried out properly, then countries can appreciate the process and would then support the process and make it work.

Another stakeholder stressed the need for wider consultation and dialogue in formulating AFT projects:

> …participation and dialogue has perhaps not been the best. It is one area of aid-for-trade that can be improved significantly if the related projects are to be deemed to be owned by the beneficiaries – the beneficiaries need to be consulted extensively on what their development priorities are and how they can contribute to the achievement of these projects. That way, they will own the projects even though the funds will be coming from the donors.

Major hurdles tend to inhibit the implementation of regionally-centred initiatives. For example, while ECOWAS member countries are determined to give greater priority to regional roads in their national programmes, the challenge lies in effectively implementing these programmes and paying more attention to regional components. It has always been difficult for countries in the region to make regular budgetary allocations to regional components. Problems of criteria standardisation and harmonisation of indicators still persist in the implementation of regional projects. Article 46 (Chapter VIII) of the ECOWAS Treaty requires member states to "take appropriate measures to harmonise and standardise their customs regulations and procedures to ensure the effective application of the provisions of this Chapter and to facilitate the movement of goods and services across their frontiers."

However, there are several hurdles to movement of transport across the sub-region. For instance, differing vehicle standards, inspection requirements, and axle weight limits, all of which were to be harmonised under the ETLS, still do exist (as noted above). Although not totally developed, the construction of the West African road network is among the significant achievements of ECOWAS integration. In contrast, trade facilitation projects have achieved relatively lower levels of success. The implementation of the ISRT convention by member states, for instance, has been confronted with many difficulties because of inadequate information and sensitisation of economic operators and civil society.

The fact that there are two overlapping unions in the sub-region poses problems for co-ordination as well. Whereas all members of UEMOA are also members of ECOWAS, the opposite is not true. In terms of trade integration, UEMOA has made better progress than ECOWAS by being able to eliminate tariff and non-tariff barriers to intra-union trade and the institution of a CET regime. ECOWAS still faces challenges in terms of the elimination of non-tariff barriers. There are also overlapping and inconsistencies between the ECOWAS trade liberalisation scheme and that of UEMOA. Many customs documents are not harmonised. Another area of difficulty is in terms of undertaking the needed trade reforms to ensure convergence of trade policies in the sub-region.

Aligning national, regional and donor goals

Mainstreaming and implementation difficulties in multi-country and regional AFT projects also arise when there is divergence between national and regional goals. Countries of the region are at different stages of development. As a result some countries might be skeptical of their ability to appropriate fully the benefits of pursuing regional strategies. This problem similarly arises in the case of regional AFT projects. Another challenge to aligning regional and national goals arises from multiple memberships of regional economic groupings with different objectives. Absence of harmonised monitoring and evaluation (M&E) systems also poses a challenge.

It is often difficult to co-ordinate donors at national levels in AFT projects because of the different objectives and M&E mechanisms donors use. At the regional level, co-ordination of donors might even be more difficult given the divergences between national and regional goals. This problem becomes particularly difficult when developing countries, which are highly dependent on foreign aid for development, have to deal with different AFT projects from different multiple donor countries. Often, the technical expertise to properly fuse all these projects into a coherent regional development agenda may be lacking, making the projects stand-alone projects and therefore ineffective.

Lessons learnt

Analysis of regional AFT in ECOWAS and the ‘stakeholder consultations’ offer a number of lessons:

- Mainstreaming regional AFT is a difficult task. There is low level of appreciation of the concept of AFT. Low levels of consultation and inadequate sensitisation of stakeholders remains a problem, and there is the need to engage key stakeholders and economic actors from the preliminary stages of the planning process.
- Aid for trade is not a sectoral issue but rather is cross-cutting. It must involve the collaboration of all stakeholders – governments, private sector actors, and donors.
- Mainstreaming is a process and not an event. Integrating regional policy initiatives and programmes, such as AFT, into national plans is vital. The national level offers the overall framework within which national stakeholders and other key partners would operate. As such, regional decisions and programmes ought to be mainstreamed into national development strategies which can be translated into annual action plans to be captured in yearly budgetary allocations for their effective implementation.
- There is weak co-ordination and coherence between AFT at national and regional levels due to differences in the levels of reception to regional AFT in member states. These differences result in differences in the levels of dedication to and prioritisation of regional programmes in national plans and thus render co-operation in implementation difficult.
- Major hurdles that tend to inhibit effective implementation of regionally-centred initiatives include lack of criteria standardisation and harmonisation of indicators. While Article 46 of the ECOWAS Treaty enjoins countries to ensure

harmonisation and standardisation of customs regulations and procedures to facilitate the movement of goods and services across the region, there are practical difficulties with the movement of goods, persons and particularly transport across the sub-region. Differences do exist across countries of the sub-region in terms of, e.g. vehicle standards, inspection requirements, and axle weight limits.

- Countries in the region are at different stages of development – economically and politically – and would raise questions about their proportion of benefits that would accrue from regionally-focused projects. Expected unequal benefits ensuing from such projects may possibly undermine promising regional initiatives. There is need to pay attention to distributive equity and compensation issues. Credibility is key, thus it might be useful to explore the possibility of having an "honest broker", such as a regional development bank or a bilateral donor, to administer such a mechanism.
- Ownership is key; it is just not enough to highlight the expected benefits of regional policies and programmes to beneficiary countries or on regional platforms and expect results. The individual countries must be involved and engaged in the planning and formulation processes. If these consultations are carried out properly, economic operators in member countries would appreciate the process and help make it succeed.
- There is need for a regional co-ordinating body on regional AFT to ensure that ECOWAS development priorities are pursued. Stakeholder consultations at the ECOWAS Secretariat revealed the importance of the *ECOWAS Aid for Trade Expert Working Group*, a collaboration of the ECOWAS Commission, UNECA, AfDB and the WTO. The key objectives of this group are to create greater awareness about regional AFT, develop and adopt a common ECOWAS AFT framework, and co-ordinate donors.
- There is need to formulate an ECOWAS AFT Strategy to define the region's trade-related development priorities so as to maximise the development opportunities presented by AFT. This process is ongoing and is being co-ordinated by the *ECOWAS Aid for Trade Expert Working Group* under the auspices of the ECOWAS Commission.

Conclusions

It is evident from the discussion thus far that multi-country and regional AFT can be a catalyst for regional integration in ECOWAS given the current serious infrastructure and productive capacity deficits of the sub-region. Aid that comes in, for instance, to construct railway lines and road networks between member-countries, and improve energy generation and supplies would greatly foster regional integration and intra-trade relations in the region. Similarly, aid geared towards regional trade policy formulation as well as enhancing the productive capacities of producers would make countries in ECOWAS efficient and more competitive as a unit in trade relations with the outside world.

However, achieving this would require overcoming the many constraints to creating a higher profile for regional AFT. The problems of mainstreaming, ownership and implementation as well as aligning regional, national and donor goals would have to be addressed. Aid for trade is not a sectoral issue but rather is cross-cutting and must involve the collaboration of all stakeholders – governments, private sector actors, and donors.

Mainstreaming is important; it is a process and not an event. Thus, national budgetary processes must continually capture multi-country and regional AFT projects. Consultations are currently ongoing to craft an ECOWAS AFT strategy. Key objectives of the expert working group include greater awareness creation, developing a common ECOWAS framework on AFT, co-ordinating AFT in ECOWAS, and co-ordinating donors. The ECOWAS *Aid for Trade Expert Working Group* can serve as a regional co-ordinating body for AFT to ECOWAS so as to ensure that maximum benefits are reaped from regional AFT. Accordingly, this initiative must be sustained. This would require greater support from the donor community.

Notes

1. See OECD (2009; 2011) and OECD/WTO (2011) for a discussion of the constraints faced by developing countries and how aid for trade can help ameliorate these constraints.
2. See also ODI (2008), which surveys the theoretical and empirical literature on the benefits of regional integration.
3. Four stakeholder consultations were envisaged. However we were unsuccessful with consultations at the Ministry of Finance and the Ministry of Trade and Industry.
4. On 26 December 1999, Mauritania announced its withdrawal from ECOWAS citing disagreement with some of the decisions taken at the ECOWAS Summit of December 1999. Mauritania's Prime Minister Cheikel Ould Mohammed Khouna ascribed his country's withdrawal from ECOWAS to the "latest decisions of the community" in his address to parliament (http://news.bbc.co.uk/2/hi/africa/578966.stm). According to some observers the Mauritanian government was opposed to plans by ECOWAS to establish a common currency for its members. The revised ECOWAS Treaty also designated the responsibility of preventing and settling regional conflicts to the member states, which was formalised at the December 1999 Summit. Other observers attributed Mauritania's withdrawal to its unwillingness to make a political commitment outside the Maghreb.
5. It has been difficult to get updated information on the current status of these projects.
6. PACT II is a trade-related technical assistance programme executed by the International Trade Centre (ITC). It revolves around a strategic partnership between ITC, selected regional economic communities – COMESA, ECCAS and ECOWAS – as main counterpart organisations, regional private sector and trade support institutions.
7. It has been difficult to find which specific projects are being implemented under the EPADP.

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Chapter 6

Case study of Mesoamerica

This chapter explores and draws lessons from the effectiveness of aid for trade (AFT) in multi-country and regional projects in Mesoamerica for the period 2007-12. This is done by identifying and qualitatively analysing how close projects came to meeting their proposed goals. The results suggest that regional AFT initiatives have, for the most part, been effective. However, achievements can be enhanced via greater knowledge of the initiative among policy makers and other stakeholders. Co-ordination among agencies is satisfactory although there is room to improve efficiency when human capital constraints are binding in multi-country projects. There is no clear strategy to guarantee cross-country enforcement for regional projects that try to implement regional norms or standards. The initiative could co-ordinate projects to fully acquire the benefits beyond those of the individual project itself. In doing so, it can benefit from a number of externalities in terms of promoting trade and economic growth.

Introduction

Mesoamerica, understood as the compound of Central American (CA) countries plus Colombia and Mexico, is an increasingly active region in global international trade. In this context, commercial integration plays a key role in the region's development prospects. These development prospects are highly relevant as the debate on the relationship between trade reforms and economic growth is as active today as it was 25 years ago. Recently, for instance, Christiansen, Schindler, and Tressel (2013) found new evidence that positively links financial and trade reforms with economic performance. Interestingly, it suggests that such a link between trade and economic performance is driven for the most part by middle-income countries such as Colombia, Costa Rica, El Salvador, Guatemala, Mexico and Nicaragua – that is, Mesoamerica.

Recognising the need to fully exploit the possibilities of free trade, the Aid for Trade (AFT) initiative has stepped in as a mechanism to help developing economies build supply-side capacity and trade-related infrastructure in order to facilitate the desired access to world markets: *"*Aid for trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access"[1] (OECD/WTO, 2010).

Aid for Trade is now an integral part of official development assistance (ODA) programmes of developed economies, including in its agenda to support private sector development, trade-related infrastructure, trade-related structural programmes and other trade-related needs (OECD/WTO, 2010). A recent report, *Aid for Trade at a Glance 2011: Showing Results* (OECD/WTO, 2011) underscores evidence that, despite a positive assessment of AFT, more has to be done, as AFT is far from having reached its potential. Moreover, there is a need to monitor the impact of AFT to improve impact-assessment methods (Adhikari, 2011).

There is also evidence suggesting that economic openness is correlated with higher economic growth, but there are a number of constraints that need to be addressed in order to achieve the expected gains. In addressing these constraints, the AFT initiative generally deals with supply side issues. Moreover, AFT in a multi-country context poses special challenges, given the need to co-ordinate efforts across borders.

The objective of this chapter is to consider the effectiveness of AFT in multi-country and regional projects in Mesoamerica for the period 2007-12, and draw lessons from associated experiences. This is done by identifying a number of projects and qualitatively analysing how close they come to meeting their proposed goals. Of special interest is to learn how countries co-ordinate among themselves and with stakeholders in order to guarantee success.

The remainder of the case study is organised as follows: Following the introduction, the second section situates Mesoamerica in the context of world trade. Second 3 reviews general AFT in Mesoamerica, followed in Section 4 by analysis of existing multi-country and regional projects. Section 5 discusses implementation and other challenges facing AFT in the region. Section 6 summarises lessons learnt. Finally, conclusions are stated in section 7.

Mesoamerica in the global context

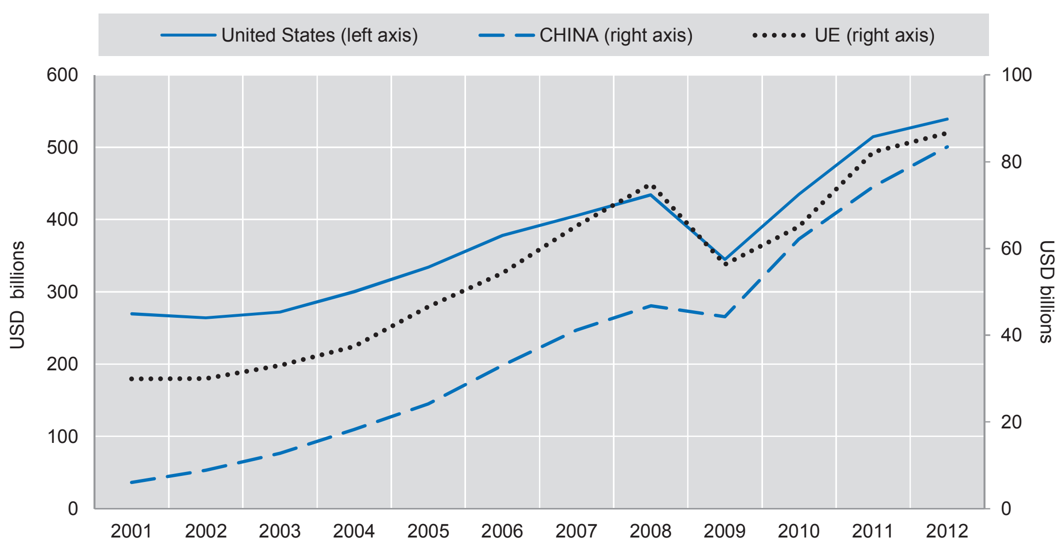
Central America, i.e. Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, is made up of relatively small countries in terms of geography and population, as well as by any economic measure used. The geographical area of the region is 508 320 km^2; population in 2012 was 43.2 million inhabitants and the GDP per capita in that same year came to an average of USD 7 336.[2] Guatemala, by measure of population, is the largest, with over 14 million inhabitants. The richest countries, measured by GDP per capita, are Panama and Costa Rica (USD 15 616 and USD 12 606, respectively, in 2012). Nicaragua and Honduras, the largest countries by area, are the poorest, with GDP per capita of USD 4 458 and USD 4 609, respectively.

The joint area of Mexico and Colombia is 3 million km^2, more than six times larger than that of all of Central America combined, with 114.8 and 46.5 million inhabitants, respectively, more than triple that of Central America. However, although Mexico's GDP per capita (USD 15 311) is larger than that of most of the Central American countries, Colombia's GDP per capita was just USD 10 247 in 2012.

Over the last decade, regional and multilateral co-operation, along with an active participation of Mesoamerica in a series of regional economic organisations such as the Latin American Integration Association (LAIA), the Caribbean Community (CARICOM), and the Central American Common Market (CACM), has promoted trade-policy reforms while enhancing the participation of the region in the global market. As a result, a new set of trade agreements have emerged.

Figure 6.1. **Trade flows (exports plus imports) Mesoamerica with main trading partners**

USD billion, 2001-12



Note: China includes Mainland China, Hong Kong, China and Macao.

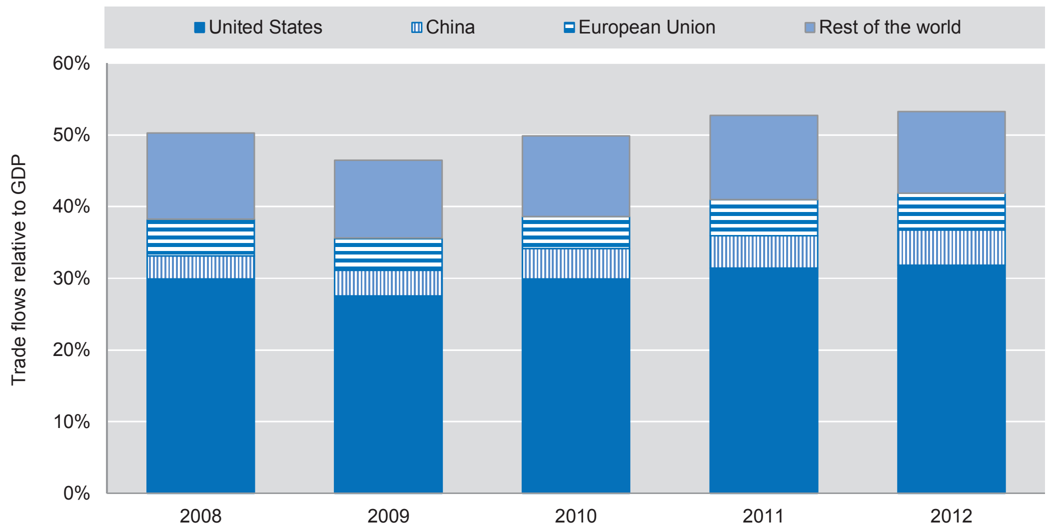
Source: Based on International Trade Centre (2013), Trade map (database), www.trademap.org/Index.aspx. Author's calculations.

The United States is historically the region's main trading partner. However, recently, the European Union (EU) and the People's Republic of China have gained a rising share of Mesoamerican trade. Trade flows (export plus imports) between Mesoamerica and the United States grew from USD 273 billion in 2001 to USD 552 billion in 2012. Over the same period, China's trade flows with Mesoamerica rose from USD 6.1 billion to USD 83.4 billion, while the EU trade flows rose from USD 29.9 billion in 2001 to USD 86.4 billion in 2012.[3,4] Altogether these three trade blocks represent 81% of

Mesoamerican trade. Extra-regional trade in 2012 constituted 53% of Mesoamerica's GDP, a very large share related to other developing economies. Figure 6.2 shows that in 2012, trade flows with the United States alone reached 32% of Mesoamerican GDP.

Figure 6.2. **Mesoamerican total trade flows with commercial partners**

Excluding intra-regional trade; exports plus imports



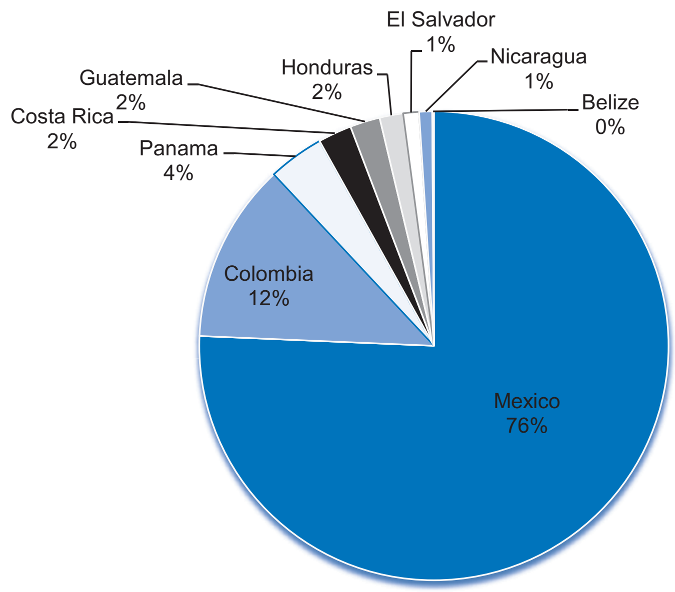
Source: Author's calculations based on data from the following sources:: trade data: 2008-11: UN COMTRADE (2013), World Integrated Trade Solution (database), http://wits.worldbank.org/wits/index.html. 2012: International Trade Centre (2013), Trade map (database), www.trademap.org/Index.aspx. GDP data: International Monetary Fund (2013), World Economic Outlook Database 2012, www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx.

Mesoamerican exports have increased continuously over the last decade, rising from USD 334.3 billion in 2007 to USD 489.3 billion in 2012. Figure 6.3 shows that Mexico dominates regional exports (76%), not a surprising result considering that it is the largest country in the region by any economic measure.

Currently, Mesoamerican countries belong to three different customs unions: the Central American Common Market (CACM), the Caribbean Community (CARICOM) and the Andean Community of Nations (CAN) (Figure 6.4). The CACM was established by the General Treaty on Central American Economic Integration in 1960 and includes Guatemala, Honduras, El Salvador, Nicaragua, and since 1962, Costa Rica. The CARICOM, created in 1973 by the Treaty of Chaguaramas, included 15 countries.[5] The CAN was established originally in 1969, at the time known as the Andean Pact. Current members are Colombia, Bolivia, Ecuador, and Peru.

Mesoamerican countries are also members of 28 existing Free Trade Agreements (FTAs) with 58 countries – excluding those FTAs within Mesoamerican countries – (Figure 6.5), and 12 Partial Preferential Agreements[6] (PAs) with 22 countries around the world. At a glance, Figure 6.5 reveals that the United States has FTAs with all eight Mesoamerican countries, reflecting the country's interest in the region. In contrast, the EU, China, Japan, and Israel only have one FTA in force with a Mesoamerican country.[7] The European Free Trade Association (EFTA), Canada and Taiwan have FTAs in force with 2, 3 and 5 Mesoamerican countries, respectively.

Figure 6.3. **Mesoamerican exports share per country, 2012**



Sources: Author's calculations based on data from the following sources: Colombia: National Administrative Department of Statistics (2013); El Salvador: Central Reserve Bank (2013); Trade Balance Data Base. Guatemala: Bank of Guatemala (2013); Economic statistics, Honduras: Central Bank of Honduras (2013); Economical Statistics, Costa Rica: Procomer (2013), "Estadísticas de comercio exterior de Costa Rica"; Nicaragua: Central Bank of Nicaragua (2013), Economic statistics;. Mexico: Inegi (2013), "Balanza comercial de Mercancías México"; Panama: National Institute of Statistics and Census (2013); Belize: IndexMundi (2013), Belize Economy Profile 2013.

There are countries that have FTAs in force with more than one Mesoamerican country. Chile and the Dominican Republic, for instance, independently have an FTA with the Central American countries of El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua. Simultaneously, Central America and the Dominican Republic have an FTA with the United States (CAFTA-DR-US). Above all, in terms of importance and because it is the oldest, is the North American Free Trade Agreement (NAFTA), which was signed by Mexico, Canada, and the United States in 1992 and came into effect in 1994. This agreement is not only significant for the region but also represents one of the world's largest free-trade zones.

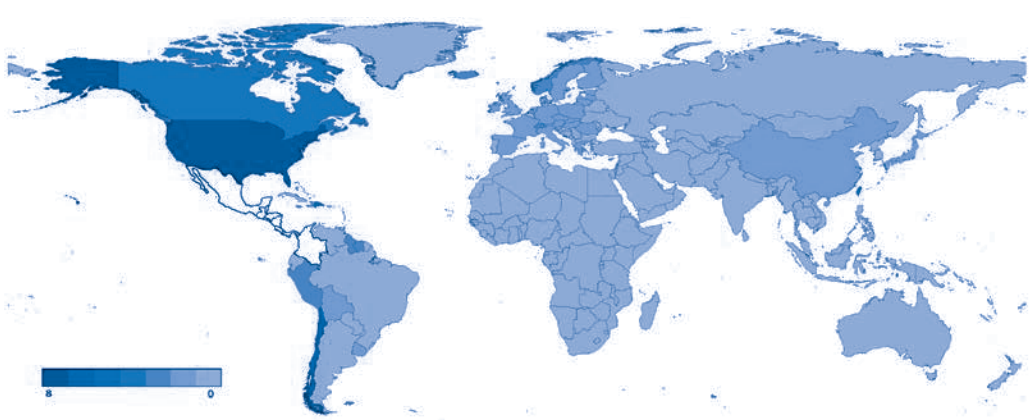
Figure 6.4. **Customs unions: Latin America and the Caribbean**

Note: This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Source: Author's elaboration based on Organization of American States (OAS) (2013), Foreign Trade Information System, www.sice.oas.org.

Figure 6.5. **Countries involved in FTAs: Mesoamerica vs. rest of world (ROW)**

Number of Mesoamerican countries involved in free trade agreements with ROW



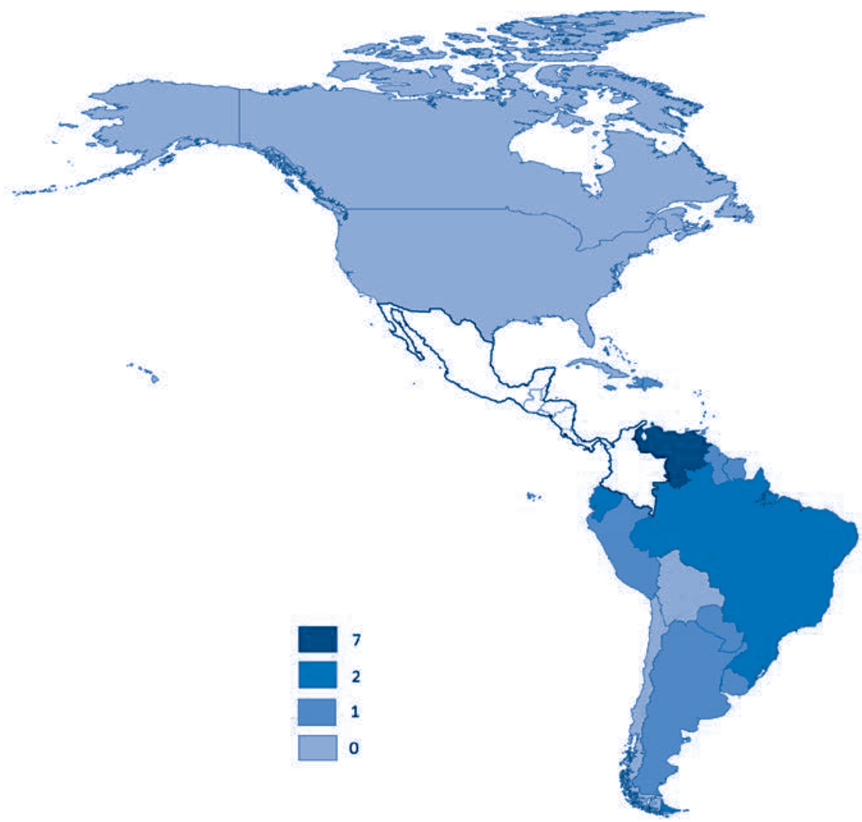
Notes: The above only includes enforced FTAs. Colour depth indicates the number of Mesoamerican countries involved in FTAs. It ranges from 0 (none) to 8. This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Source: Author's calculations based on Organization of American States (OAS) (2013), Foreign Trade Information System, www.sice.oas.org.

Commercial integration with other Latin American countries is mainly dominated by PAs, with Venezuela standing out with 7 PAs signed with Mesoamerican countries (Figure 6.6). Recent developments show that there are already 6 signed FTAs agreements waiting to be enforced, and another 22 agreements are under negotiation. Table 6.5A (Annex) presents detailed information on FTAs and PAs on a per country basis.

Figure 6.6. **Extra-regional countries with partial agreements with Mesoamerica**

Number of Mesoamerican countries involved in partial agreements



Notes: Number of Mesoamerican countries involved in Partial Agreements with the rest of the world. Only includes agreements in force. This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

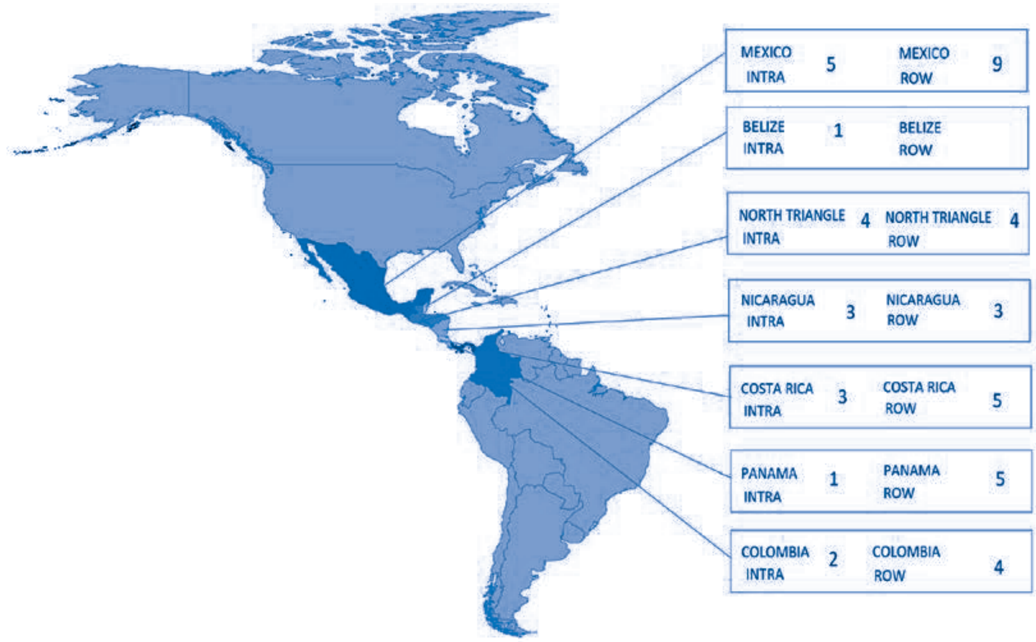
Source: Author's calculations based on Organization of American States (OAS) (2013), Foreign Trade Information System, www.sice.oas.org.

Trade agreements across Mesoamerican countries have surged in recent years. Currently all countries are linked via a trade agreement with at least one other regional partner. There are eight FTAs and six PAs in force within Mesoamerica. Multi-country agreements, such as the North Triangle (El Salvador, Honduras and Guatemala) and the Central American Common Market (CACM), which clusters Costa Rica, Honduras, Nicaragua, Guatemala, and El Salvador, stand out. Mexico is the most active country within the region with a total of 5 regional agreements. CA and the North Triangle Countries are not far behind. They have signed FTAs with Mexico, Colombia and Panama (Table 6.5B in the annex). Belize, a member of CARICOM, only has an FTA with Costa Rica and two partial agreements with Colombia and Guatemala.

Figure 6.7 summarises the above findings by illustrating the number of FTAs that each Mesoamerican country has with other nations in the region and with the rest of the world (ROW). Mexico has the most FTAs signed with ROW (9), followed by Panama and Costa Rica with 5 and Colombia with 4. The map also reveals that regional co-operation is significant for Central American countries. Despite existing independent FTAs between Mexico and all five Central American countries, the most recent intra-FTA is the CA-Mexico accord, which is designed to create a single regional trade bloc. The agreement entered into force on January 1st 2013 for only Honduras and Mexico but it was signed by all participating countries in 2011.[8]

Figure 6.7. **Free trade agreements by country**

Free trade agreements in force within Mesoamerica and with rest of world



Notes: Intra refers to FTAs within Mesoamerica. North Triangle is El Salvador, Guatemala and Honduras. This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Source: Author's calculations based on Organization of American States (OAS) (2013), Foreign Trade Information System, www.sice.oas.org.

Box 6.1. **Central America and Mexico FTA**

The Central America-Mexico Free Trade agreement was signed in 2011. This treaty is a result of different bilateral FTAs between Mexico and each of the following countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The FTA, which began to be implemented in all countries between September 2012 and September 2013, aims to facilitate trade by creating a new and unique free-trade zone, with a unique regulatory framework and one single certificate of origin, expediting, expanding and diversifying international trade within the region. The treaty is a broad step towards regional integration – 98% of the trade rules from already existing agreements were harmonised under this FTA.

Infrastructure and its importance for competitiveness

Even though globalisation heightens competition, Mesoamerica is still far from being a world-class competitive region, particularly with respect to export capacity. The *Global Competitiveness Report (2012-2013)* ranks Mesoamerican countries in the range of 40 to 108 out of 144 countries in terms of competitiveness.[9] Panama tops the region in 40th place, followed by Mexico, Costa Rica and Colombia (holding the 53rd, 57th and 69th slots, respectively). Honduras, El Salvador, and Nicaragua fall much lower at 90th, 101st and 108th, respectively. Although some countries like Guatemala (ranked 83rd), Costa Rica or Mexico have improved their competitiveness levels, the fact remains that the region stills lags behind advanced and many other middle-income economies.

There are a number of factors that impact the region´s competitiveness. A thorough review of the topic is beyond the scope of this chapter; nevertheless, given the poor state of trade-related infrastructure in the region, its importance in determining international trade competitiveness, and the fact that it has been a key target of regional AFT in Mesoamerica and elsewhere, an overview of the state of infrastructure in the region relative to its competitors is presented below.

Empirical evidence has shown that infrastructure is one of the main determinants of transport costs, and the lack of it can affect quality and quantity of exports (Limao and Venables, 2001).[10] Consequently aid directed to infrastructure is an important issue for developing countries. Vijil and Wagner (2012) show that AFT influences export performance via its channelling of resources into infrastructure development. Their findings indicate that a 10 per cent increase in aid for infrastructure commitments leads to an average increase in exports relative to GDP ratio by 2.34 %.

As is documented extensively, Mesoamerica needs to prioritise improvements in road, rail and electric networks. There are a number of indicators to show this but for now the focus is on data provided by World Development Indicators on the number of kilometres of road and the density of such roads in each country. For comparative purposes the number of kilometres of roads relative to the population (km of roads per 100 000 people) is normalised and the number of kilometres of roads per 100 km^2 of land area is defined as road density.[11] Table 6.1 shows the most recent available data for seven Mesoamerican countries.[12],[13] Costa Rica leads the region with its 848 km of roads per 100 000 habitants, followed by Panama and Nicaragua, with Guatemala coming in last. Road density indicators generate similar results. In both cases, Colombia and Mexico’s figures are far from outstanding.

Table 6.1. **Roads in Mesoamerica (2009)**

Country	Roads km, total	Km per 100 km^2	Roads (km) per 100 000 inhabitants
Costa Rica	39 039	76	848.41
Panama	13 974	19	386.47
Nicaragua	21 975	17	382.62
Mexico	366 807	19	315.06
Colombia	129 485	11	282.70
El Salvador	6 898	32.8	111.56
Guatemala	11 073	10.16	79.16
Average	84 179	26.42	343.71

Source: Author’s calculations based on World Bank (2013), The World Development Indicators (databank), http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators.

How do Mesoamerican countries compare to the rest of the world? Relative to OECD countries (excluding Mexico from the calculations), Mesoamerica underperforms significantly. OECD has 1 454 km of roads per 100 000 inhabitants, and 122 km of roads per 100 km^2. However, when compared with other Latin American countries such as Brazil, Bolivia, Paraguay and Peru, the figures do not look as bad. These countries, on average, have higher km per 100 000 inhabitants (368 km), but lower road density (11 km).[14]

Thus, roads are scarce, density is low and border-crossings also fall short of desirable levels. For instance, currently there is no railroad or road connection between Panama and Colombia, that is, between Central America and South America. The longest overland connection in Mesoamerica is the Pacific Corridor, which stretches from Puebla in Mexico to Panama (3 152 km). According to the latest report[15], the corridor is expected to be finished in 2018.[16] Currently the average speed in the Pacific Corridor is about 17 km/h. When finished, the average speed is expected to rise up to 60 km/h (Dirección ejectutiva del PM, 2013).

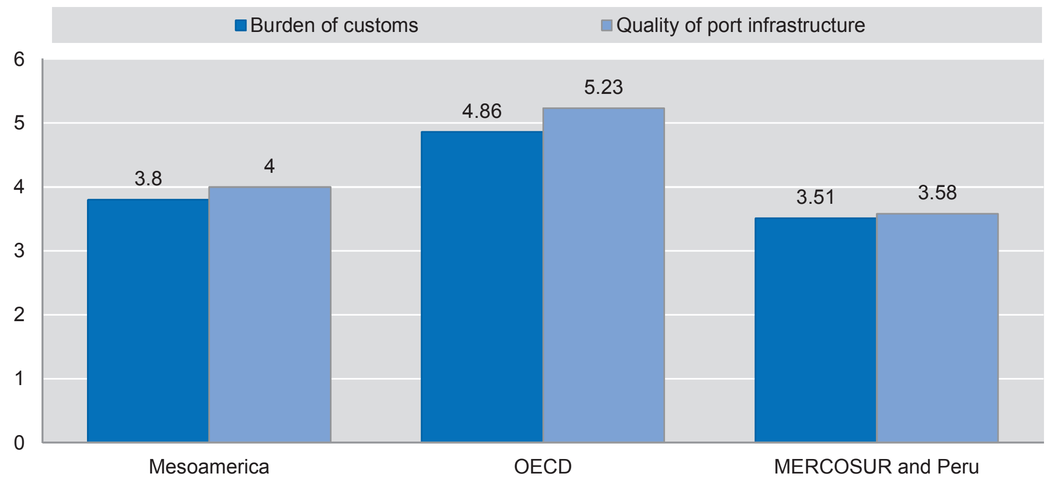
Railroad infrastructure is also scarce. As noted above, there is no connection between Central America and South America. There is, however, an important connection between the Pacific Ocean and the Caribbean Sea through the Panama Canal Railway. There are some potential alternatives to connect East and West, such as a land bridge or even a Canal, through Nicaragua. However, these are just blueprints, and meanwhile, the lack of competitiveness of the Panama Canal Railway has led shipping companies to use the North American Land bridge (Rodrigue, Comtois, & Slack, 2013).[17]

In terms of air transportation, Mesoamerica holds just a 0.76% share of the world total. Colombia, an important player in the international flower export market, accounts for 73% of all of Mesoamerican air transportation. The United States, China, Korea and the United Arab Emirates are the world's main players with a total share of 43% of the world total.[18]

Marine transportation in Mesoamerica is led by the global and historical importance of the Panama Canal. It is currently in an expansion process in order to accommodate modern world transport needs. It is expected to be ready in 2015 and by then it will be able to handle post-Panamax ships (Rodrigue, Comtois, & Slack, 2013), reversing the decreasing trend in Panama Canal usage.[19] Meanwhile, given the limited capacities of the Canal, a non-negligible number of firms have changed the configuration of their routes to alternatives routes in Pacific Asia, the Suez Canal or Mediterranean as well as the North American Land bridge.

Nevertheless, given that 90% of world trade is carried out by ship, it should come as no surprise that maritime connections in Mesoamerica are better than those of other modes of transport (International Chamber of Shipping, 2009). There are 89 ports in Mesoamerica (according to the 2013 World Port Source), for the most part located in Panama, Colombia and Mexico (13, 15 and 40, respectively). Efficiency and infrastructure port indicators – such as the burden of customs quality of port infrastructure – show that Panama has the most efficient ports in Mesoamerica (6.4 for quality of port infrastructure and 4.4 in burden of customs). On the other side of the spectrum, Costa Rica has the lowest rating in quality of port infrastructure, and Nicaragua in the burden of customs (2.4 and 3.1 respectively). The average in Mesoamerica for the burden of customs is 3.8, and for quality of port infrastructure average is 4 (Figure 6.8).[20] These figures are lower than those reported for OECD countries (excluding Mexico), in which customs efficiency is 4.86 and quality of ports is 5.23. However they are better than the aggregate of Mercosur and Peru (3.51 and 3.58).

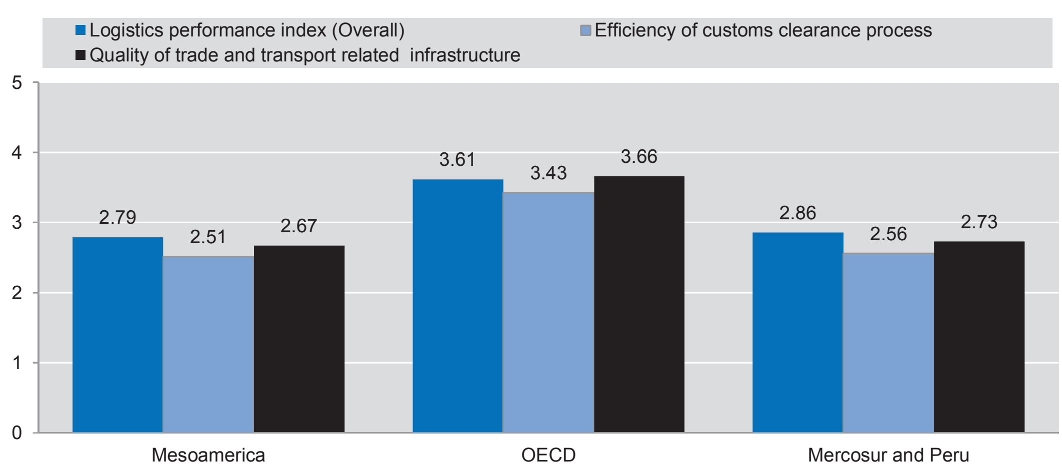
Figure 6.8. **Burden of customs and quality of port infrastructure (2012)**



Source: World Bank (2013), The World Development Indicators (databank), http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators.

The overall perception of logistics performance in ports reveals that Mesoamerica´s performance is similar to that of Mercosur plus Peru, but still far from the OECD average (Figure 6.9.).[21] A comparison of the quality of trade-related infrastructure shows that Mesoamerica is also far from OECD average but outperforms the sample of South American economies.

Figure 6.9. **Logistics performance index (2012)**



Notes: (1=low and 5= high). Logistics overall index includes efficiency of the customs clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistic services, ability to track and trace consignments, and frequency with which shipments reach the consignee within scheduled time. Mesoamerica data do not include Belize or Nicaragua.

Source: World Bank (2013), The World Development Indicators (databank), http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators.

In sum, this section underscores that Mesoamerican countries are lagging in physical infrastructure relative to what is necessary to promote efficient trade flows, thereby negatively affecting competitiveness. Other indicators reinforce this conclusion. For instance, the number of days to export or import further suggests the need for these countries to invest both in infrastructure and institutional development. As shown in Table 6.5C of the annex,[22] Guatemala requires up to nine documents to export, while in El Salvador, Guatemala and Honduras firms need 8 to import. Nicaragua requires almost three weeks to export and import. Consequently, there is ample space for development assistance targeted at trade-related infrastructure improvements.

Table 6.2. **Infrastructure, business and trade facilitation indicators**

Mesoamerica compared to OECD countries

Indicator	Mesoamerica	OECD
Transport infrastructure	3.2	5.03
Quality and reliability of electricity supply	4.74	5.59
Quality of air transport infrastructure	4.86	6.18
Starting a Bussiness		
Number of procedures to make a business	9.1	5.35
Time (days)	28.6	11.8
Trading across borders		
Documents to export	5.8	4.3
Time to export (days)	14.5	10.6
Documents to import	6.2	5
Time to import (days)	14.5	10.39

Notes: The scores rage from 1 to 7 for those variables that are all collected from the executive Opinion Survey. Transport infrastructure includes: quality of roads, ports and railroad. Data for Belize not available for transport indicators. Mexico included in Mesoamerica, not in OECD

Source: Author's calculations based on World Bank (2013), "Economy Rankings", Doing Business Data, www.doingbusiness.org/rankings; World Economic Forum (2013), "Global Competitiveness report 2012-2013", http://reports.weforum.org/global-competitiveness-report-2012-2013.

Aid for trade in Mesoamerica

The AFT initiative has been relevant to Mesoamerica since 2007 and projects are co-ordinated across different regional and national institutions. Implementation by a given agency depends mostly on the sector in question. There is no specific domestic agency that directly handles AFT and each nation has its own AFT strategy, based on each country's national development agenda. However, domestic participation in each project is generally channelled through the corresponding Ministries (Ministries of Commerce, Tourism, Environment, Agriculture, Treasury and others), and other related public institutions. The level of involvement for each country depends on its development strategy and the priority given to the project.

Central American countries use a variety of institutions to execute, manage, co-ordinate and evaluate regional projects. For instance, regional co-operation projects involving Guatemala, Belize, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama are managed by the Central American Integration System (SICA), whose projects' data are stored in the Information System for International Cooperation (SICOR). As a regional institution in charge of regional integration, SICA is also involved in executing and managing international co-operation projects. SICA's objectives go beyond involvement in AFT and, hence, it has supporting secretariats that directly execute AFT-related projects. There are other institutions linked to SICA, such as the Foundation for Micro and Small Enterprise Competitiveness (CEMPROMYPE), that manage, execute and in some cases administer funds for regional projects involving small and medium firms.

SICA also co-ordinates with other institutions in the region to execute projects that require a significant degree of specific knowledge. Among these are the Inter-American Institute for Cooperation on Agriculture (IICA), the Regional Organization for Animal Health (OIRSA) and the Regional Unit for Technical Assistance (RUTA). These organisations, not necessarily focused only in Central America, provide technical assistance on a number of regional projects.

Figure 6.10 visually illustrates the role of the above institutions and how AFT flows across the 'aid chain'. Central American countries in particular, through different government institutions, analyse the specific needs of each country. SICA co-ordinates these domestic efforts in order to generate a regional project whose funding will be provided by an array of potential DAC countries. In essence, SICA and the Inter-American Development Bank (IDB) are bridges that assist partner countries in co-ordinating requirements with funding needs.[23] Projects are ultimately executed by a number of institutions or individuals who demonstrate the required knowledge to effectively implement it but are supervised by organisations such as SICA or IICA.

Box 6.2. **Regional participants**

IICA, dependent on the Organization of American States, is a technical co-operation agency. Its objective is to promote, provide and support member-states to achieve sustainable development of agriculture while improving the well-being of the region's rural population.

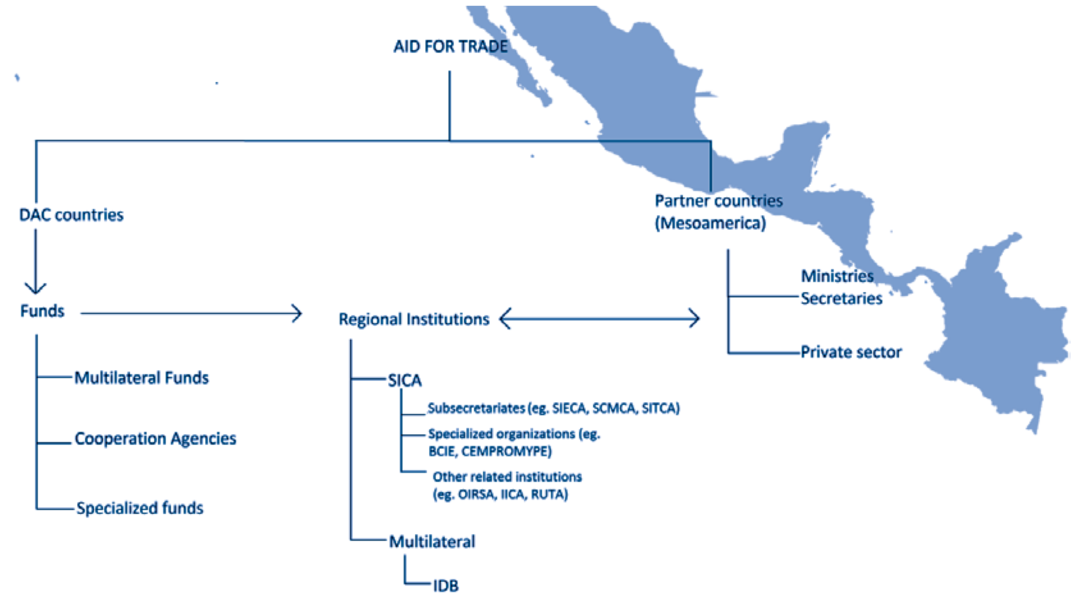
SIECA is the Central American regional branch of the Central American Integration System whose main objective is to assist the Central American integration process technically and administratively.

OIRSA is an intergovernmental organisation whose member states include all Mesoamerican countries except Colombia. Founded over 60 years ago, it offers technical co-operation to protect and develop the agriculture, aquaculture and forestry resources through the promotion of safe food production. OIRSA co-operates with different institutions worldwide to develop and co-ordinate projects involving its areas of expertise.

RUTA originated in the 1980s as an intergovernmental and multi-agency organisation seeking to promote technical assistance to governments in order to achieve sustainable rural development in Central America. RUTA designs and supports project implementation on issues related to: (1) rural poverty and food security, (2) international trade, (3) sustainable agricultural production and natural resources management and (4) others topics such as natural disasters prevention.

A significant difference between Central America and Colombia and Mexico is that in the former countries there are institutions (SICA for instance) that exclusively focus on regional or multi-country projects. Colombia and Mexico, instead, implement a significant number of domestically-oriented AFT projects.

Figure 6.10. **Management on regional AFT projects (Mesoamerica)**



Note: This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The publicly available OECD credit reporting system (CRS) from 2007 onwards is used to review the AFT initiative in Mesoamerica in recent years. Data are available until 2011. It includes figures on disbursements and commitments, though the latter is used in this chapter.[24] Total AFT flows contain data on loans and some grants addressed to technical assistance for trade policy and regulations, trade-related infrastructure (includes transport and storage, communications and energy generation supply sectors), building productive capacity (banking and financial services, business and other services, agriculture, fishing, forestry, mineral resources, industry and tourism sectors) and trade-related adjustment.

According to the *Aid for Trade at a Glance* country reports in 2013, most of Mesoamerican countries have prioritised competitiveness followed by trade policy analysis, negotiation and implementation, export diversification and regional integration (Table 3).[25] Nicaragua, Mexico, El Salvador, Colombia and Costa Rica prioritise for the most part competitiveness, while Guatemala and Belize prioritise trade policy analysis. Regional integration is a low priority for Nicaragua, Mexico, El Salvador, and Guatemala.

Official development assistance (ODA) commitments to Mesoamerica for the period 2007-11 add up to USD 4.66 billion. Figure 6.11 illustrates aid commitments to Mesoamerica by donor country. Multilateral donors' funds represent, over this period, USD 1.35 billion (around 28% of total commitments), much of which is channelled through the IDB (USD 532 million). Other important multilateral donors are the World Bank via the International Development Association (IDA) (USD 265.2 million), the EU institutions (USD 359 million), and the OPEC Fund for International Development (OFID) (USD 124.4million). DAC donors' commitments amount to around USD 3.3 billion, with the five top donors being the United States (USAID), Japan (JICA), Spain (AECID), Germany (BMZ) and France (AFD).

Box 6.3. The Inter-American Development Bank and AFT

The IDB is the main institutional counterpart of the World Trade Organization in Latin America and the Caribbean for AFT. It has been an active partner since the beginning of the AFT initiative. Between 2008 and 2012 in co-ordination with beneficiary countries and development co-operation partners, the Bank has provided a significant amount of financial resources to AFT initiatives. To this end, the IDB has used financial and non-financial instruments from member countries to address trade-related, supply-side constraints at the national and regional levels. The IDB uses a wide range of financial and non-financial instruments that are concessional and non-concessional in nature, including grants, capacity-building activities, targeted investment loans, and, in the context of the Trade Finance Facilitation Program (TFFP), credit lines for financing international trade activities (IDB, 2013).

The IDB has three grant instruments that are fundamental in implementing its integration Strategy under the AFT framework:

1. The IDB Aid for Trade Fund launched in 2008 to help the public and private sectors in Latin American and the Caribbean to integrate and benefit from the global economy. The fund received a total of USD 14 million in contributions from Canada, Chile, Switzerland and the United Kingdom for non-reimbursable technical assistance projects regarding trade policy, services, agricultural standards and trade facilitation.

2. The Fund for Financing Technical Cooperation for Initiatives for Regional Infrastructure Integration (FIRII), created in 2005 to promote integration of physical infrastructure across borders. The non-reimbursable funds have also included the countries of the Mesoamerican Project, financing hardware and software of the infrastructure interventions of the above. The fund has a cumulative endowment of USD 46.5 million.

3. The Regional Infrastructure Integration Fund (RIIF), which has USD 22 million in funding from Canada, Colombia, Mexico, Spain and the United States. The RIIF provides financial incentives for the preparation of strategic infrastructure integration in projects in LAC that complement the other funds. It has three thematic pillars *i)* aid the development and harmonisation of regional regulatory frameworks *ii)* strengthen institutional capacities for regional and global integration, and *iii)* support the preparation of physical infrastructure projects with a regional impact.

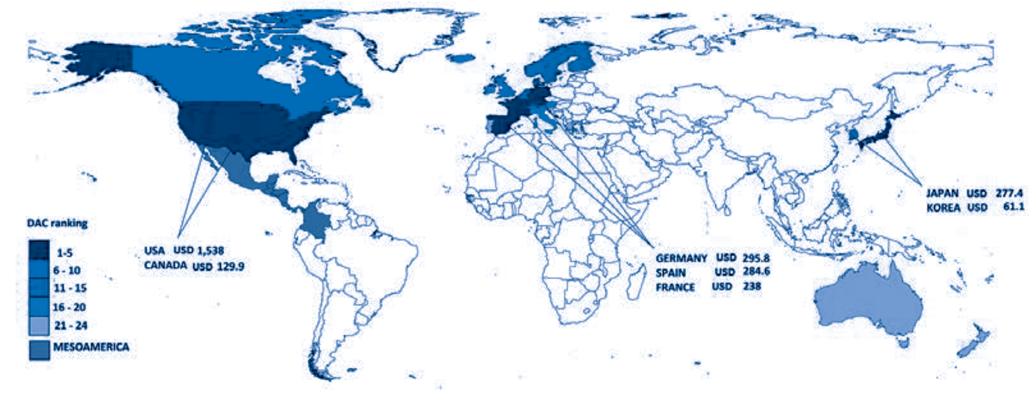
Table 6.3. **Aid for trade strategy priority ranking**

	Competitiveness	Trade policy analysis, negotiation and implementation	Regional integration	Trade facilitation	Export diversification	Trade Performance Index	Internalisation of the economy	Other productive transformation	Value chain	Infrastructure of networks
Nicaragua	Priority 1	Priority 2	Priority 3							
Mexico	Priority 1		Priority 1							
El Salvador	Priority 1		Priority 3		Priority 2					
Colombia	Priority 1						Priority 2	Priority 3		
Costa Rica	Priority 1			Priority 2					Priority 3	
Guatemala	Priority 2	Priority 1	Priority 3							Priority 3
Honduras	Priority 1			Priority 2						
Belize	Priority 3	Priority 1		Priority 2						
Panama		Priority 3			Priority 2	Priority 1				

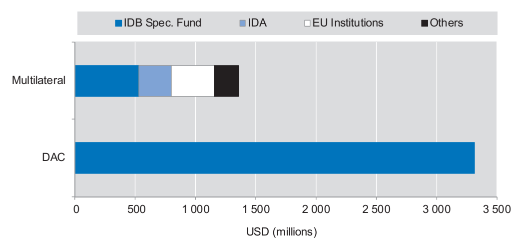
Notes: Panama, Mexico, Nicaragua and Costa Rica information available only up to 2011.

Source: Author's elaboration based on OECD (2013), "Aid for Trade at a glance 2013": Country fact sheets, www.oecd.org/aidfortrade/questionnaires-partnercountries.htm.

Figure 6.11. **ODA commitments to Mesoamerica (2007-11)**



Panel (a)
All donors (USD millions)



Panel (b)
DAC donors (USD millions)

Netherlands	79.4	Ireland	17.8
Norway	72.9	Austria	14.6
Switzerland	71.8	Italy	13.1
United Kingdom	66.8	Luxembourg	11.6
Belgium	60.3	Iceland	0.7
Finland	43.8	Australia	0.4
Sweden	18.8	New Zealand	0.3
Denmark	18.2	Portugal	0.2

Notes: "DAC ranking" refers to sorted donors by amount donated over the period 2007-11. Note to Panel (a): Other multilateral organisations include: OFID, IFAD, GEF, Nordic Dev Fund, UNDP and UNICEF. This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Source: Author's calculations based on data from OECD (2013), Creditor Reporting System: QWIDS (database), http://stats.oecd.org/qwids.

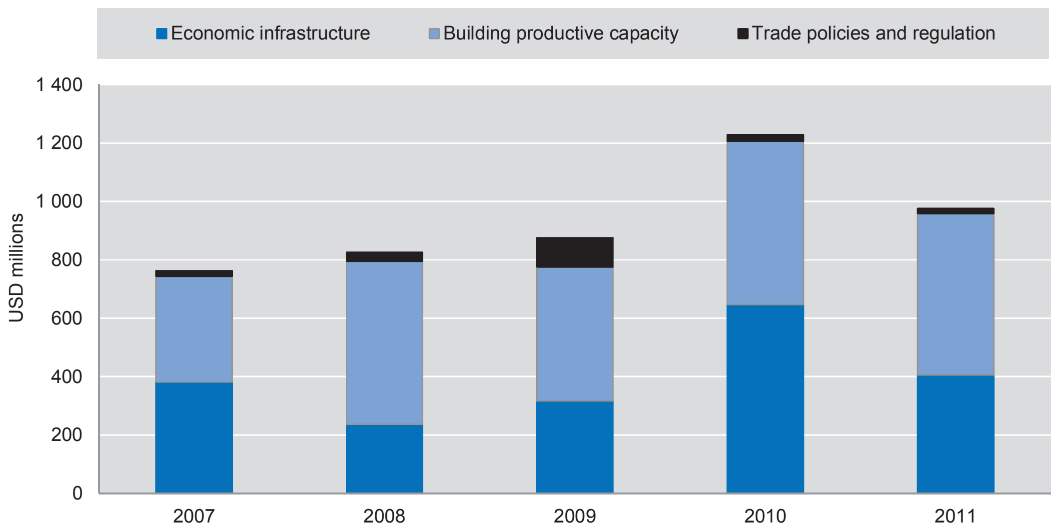
Out of 56 donors (DAC members, multilateral institutions, non-DAC members and private donors), 30 have made commitments to Mesoamerican countries, 27 in economic infrastructure (USD 1.98 billion), 30 in building productive capacity (USD 2.48 billion) and 20 in trade policy and regulations (USD 191million). Commitments from the United States, the IDB special fund, the WB- IDA fund, France and Japan add up to 75% of economic infrastructure commitments (USD 1.5 billion). Commitments from Spain and Germany are for the most part directed to building productive capacity projects, which along with the United States, EU institutions, the IDB and Japan, add up to USD 1.84 billion, or 74% of total commitments in this sector. EU institutions are the most interested in trade policy and regulations projects, committing a total of USD 93.6 million from 2007 to 2011 (around 50%). The United States, Finland and the IDB contribute the remaining 39% in the sector (USD 80 million).

Other multilateral donors, such as the Taiwan International Cooperation and Development Fund (Taiwan ICDF), have also contributed to AFT projects in Central America, totalling USD 11 million from 2007 to 2011.[26] Projects are mostly centred on productivity and competitiveness-building for farm holders and small and medium enterprises.

Despite the world recession, AFT commitments increased in 2009 and 2010 (Figure 6.12). Peaks in aid per sector were reached in 2008 for investments in building productive capacity (USD 557.5 million), in 2010 for economic infrastructure

(USD 647.18 million) and in 2009 for trade policies and regulation (USD 99.9 million). However, over time, the global recession seems to have caught up as DAC donors have squeezed their aid budgets and, hence, lowered AFT commitments (OECD, 2012). According to a DAC survey on Donors' Forward Spending plans the decline mainly affects countries in Central America, as well as some large aid recipients in East Asia (e.g. Indonesia and the Philippines). [27],

Figure 6.12. **Aid for trade commitments in Mesoamerica (2007-11)**



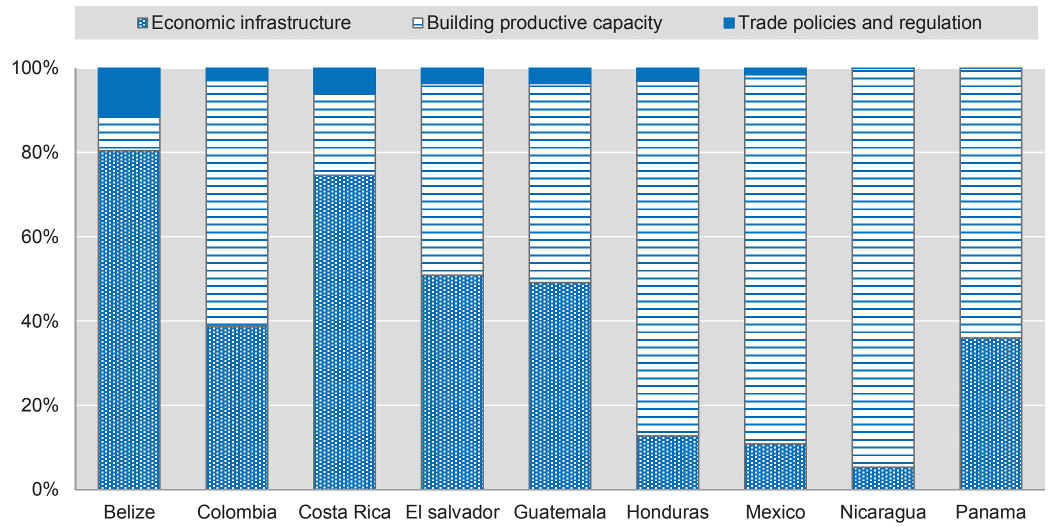
Source: Author's calculations based on data from OECD (2013), Creditor Reporting System: QWIDS (database), http://stats.oecd.org/qwids.

Within Mesoamerica, Colombia receives the most Aid for Trade (USD 1 026 million), followed by Nicaragua (USD 972 million) and Honduras (USD 798 million) (Figure 6.13). Aid is focused on building productive capacity in most countries (Colombia has the largest share with USD 692.9 million). In countries such as El Salvador and Nicaragua, economic infrastructure has the largest share, each receiving commitments since 2007 for USD 469 and USD 460 million. The country with most resources devoted to investment in trading policy and regulations is Guatemala (USD 66.7 million).

The level of the AFT figures discussed above is important in understanding global trends in AFT to Mesoamerica. The impact of such aid, however, depends on how the funds flow to the population as projects become successful. A simple proxy is to review the AFT per capita for the period considered (2007-11). The results are depicted in Figure 6.14. Colombia, a relatively wealthy country, receives the most aid when figures are reviewed in absolute levels. However, relative to population, Belize receives the most (USD 50 per capita) while Mexico receives the least (USD 0.7 per capita). A sectorial detail of the AFT distribution in Mesoamerica is illustrated in Figure 6.15.

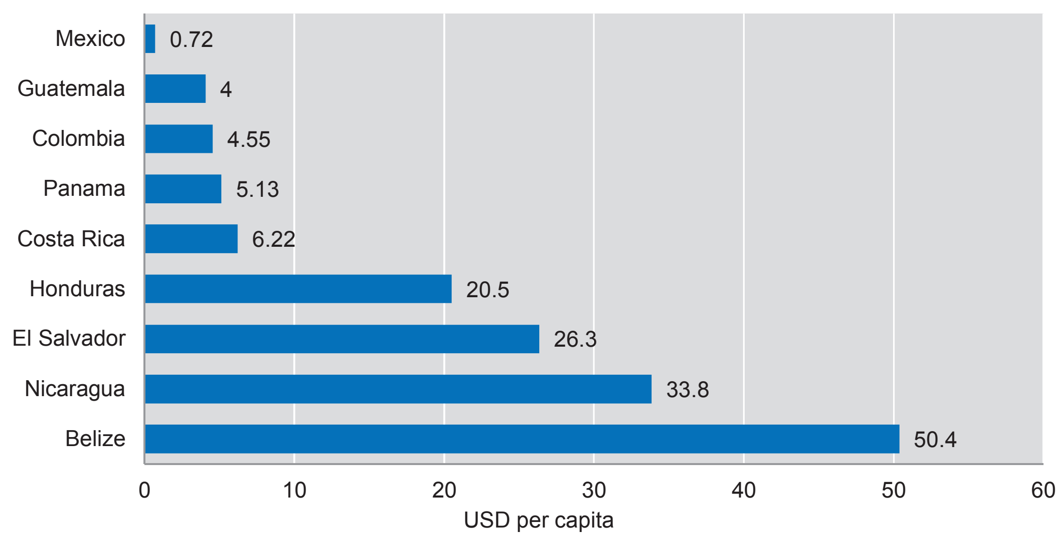
Figure 6.13. **Aid for trade in Mesoamerica – shares, 2007-11**

Commitments, USD millions



Source: Author's calculations based on data from OECD (2013), Creditor Reporting System: QWIDS (database), http://stats.oecd.org/qwids.

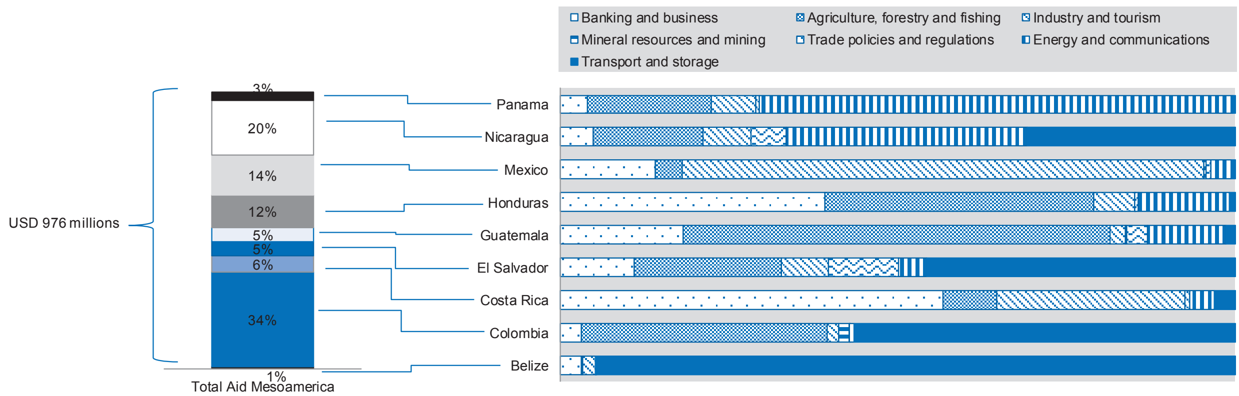
Figure 6.14. **Total aid for trade per capita, 2007-11**



Notes: Population average for all countries in Mesoamerica.

Source: Author's calculations based on OECD (2013), Creditor Reporting System: QWIDS (database), http://stats.oecd.org/qwids. Population taken from International Monetary Fund (2013), World Economic Outlook Database 2012, www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx.

Figure 6.15. **Total aid distribution by AFT sector in Mesoamerica, 2011**



Source: Author's calculations based on data from OECD (2013), Creditor Reporting System: QWIDS (database), http://stats.oecd.org/qwids.

The status of regional and multi-country projects

To establish the status of regional and multi-country projects requires going to the micro level. However, an exhaustive econometric analysis and detailed case-by-case analysis are beyond the scope of this chapter, mostly due to data limitations. Thus, a natural first step was to collect and review the existing datasets on AFT projects. Projects were gathered from different sources mostly from the IDB, which kindly provided a list of its AFT projects. Other sources include the Ministry of International Trade in Costa Rica (COMEX), which also offered information on a number of regional projects (Central American ones for the most part).[28]

Further regional and multi-country projects were gathered from the SICA database for regional co-operation projects and the Secretariat for Central America Integration (SIECA). In general, information for Central America was relatively abundant and accessible, while information for Colombia and Mexico was scarcer. Most projects were already categorised by the CRS classification system – economic infrastructure, building productivity capacity, and trade policy and regulations. A number of projects had no classification from the source so they have been classified into the proper category.[29] The OECD CRS dataset was reviewed but multi-country information at the project level is not readily available as reported by Maul, Bolaños, et al. (2012). As a second step, managers or co-ordinators in charge of various projects were contacted. Primary information on a number of projects was recieved, with many sending global reports on the status of different projects.[30] A total of 58 ongoing AFT regional and multi-country projects involving the Mesoamerican countries were identified.

Table 6.4. **Project distribution per sector**

Sector	Number of projects
Economic infrastructure	12
Building productive capacity	31
Trade policy and regulation	15

Economic infrastructure projects

The 12 economic infrastructure (EI) projects added up to a total of USD 14.2 million. Nine of these projects are part of the Mesoamerican Project (MP). The MP involves all Mesoamerican countries plus the Dominican Republic, although just six projects involve all 9 countries. The other 3 projects include the bilateral project, Panama-Colombia electrical interconnection; the "regional electricity market consolidation in CA" in all Mesoamerica (excluding Belize, Colombia and Mexico); and the "MP: optimi[s]ation of border crossing facilities in the Pacific Corridor," committed to Mexico, Costa Rica, Colombia, Panama, Guatemala, Honduras, Nicaragua and El Salvador. All of these MP initiatives use AFT technical co-operation as well as a number of alternative resources. The estimated cost for all investment in the MP towards energy, commercial facilitation and transport is approximately USD 3 billion. The AFT resources directly devoted to MP represent USD 13.3 million, including USD 10.8 managed by the IDB.

The three non-MP projects related to economic infrastructure are distributed as follows: one involving all Mesoamerican countries ("support the development of single window interoperability in Mesoamerica"); one, which excludes Mexico and Colombia, studies the "climate change vulnerability of hydropower systems in Central America"; and one involving Panama, El Salvador, Guatemala, Costa Rica and Honduras, which focuses on "broadband development for competitiveness and integration".

The IDB Fund is the major aid contributor to the infrastructure sector. Twelve projects currently receive funds from the IDB Fund, whose total commitments reach approximately USD 11.6 million (82% of the total cost of projects in which the IDB is involved). It is generally held that technical co-operation has been successful in helping in the development of key projects in Mesoamerica. For instance, the "climate change vulnerability of hydropower systems in Central America" project is almost complete[31]. The main objective of the project is to develop a replicable methodology to determine the vulnerability of hydropower systems in Central American countries (Belize, Honduras, Guatemala, Nicaragua, Costa Rica, Panama and El Salvador) in order to adopt the necessary measures. According to the project co-ordinator, it is "a pioneer project in the region. Results suggest that co-ordination among institutions across borders have surged as they seek the common objective of adapting to climate change".

Another significant multi-country project, launched in October 2012, is the Mesoamerican observatory on freight transport and logistics, which involves all of Mesoamerica (plus the Dominican Republic). The objective is to create an information system on freight transport and logistics via a regional observatory on the subject. The system seeks to assist each country in collecting data in order to create general statistics and relevant indicators on the sector. Although it is an ongoing project, information generated by the observatory is already being used (e.g. Guerrero and Abad, 2013a; 2013b).

The international transit tool (TIM), implemented under the MP and supported by the IDB, is an electronic system to efficiently manage goods in transit from Mexico to Panama. The system was expected to be in use by all countries in the region by 2011. The pilot programme, implemented in El Salvador, is ready for a large number of routes, customs posts, and transit operations. However, according to the technical operations co-ordinator of the project in El Salvador "Not all countries implement the tool at the same pace."[32] By December 2012, TIM operated from the southern border of Mexico to Panama and in some ports.

The next phase of TIM, the "Multimodal International Merchandise Transit (Pacific Corridor)", includes Belize, Colombia, the Dominican Republic and the Colón Free Trade Zone in Panama. Co-operation for the project, supported by the IDB, started in 2012. The project is in its early stages as experts in the transit of goods are being contacted and hired. Co-ordination among various projects is important to achieve significant effects in integrating markets and, ultimately, in boosting exports and raising competitiveness. This is particularly true in this case as the latter project connects with the "single window interoperability" project whose purpose is to implement a single window to simplify trade procedures in Mesoamerican countries. The latter is in its early stages, at approximately 20% implementation.

Overall, AFT projects related to economic infrastructure seem to be advancing at a decent pace. Nevertheless, note that technical co-operation does not necessarily correlate with the implementation of the actual infrastructure related to the project. An example is the electrical interconnection between Colombia and Panama, "structured finance for the Colombia Panama electric interconnection project." Technical co-operation for the project was supported by the IDB Special Fund for USD 1 million. The objective of this project was to provide technical assistance to support the engagement of consulting services in the areas of financial and legal advice to structure and make financially viable the Colombia Panama Electric Interconnection Project. Such connection has to be done through the region known as *Tapón del Darién*, i.e. the border between Panama and Colombia. This is a very dense jungle region which historically has been difficult to develop. In order to do so, a strong complementary investment in infrastructure would be needed. Panama´s government decided that resources required were too high and environmental damage would be unacceptable. Instead, decisions were made invest its limited resources in a more viable plan: the extension of its domestic electrical connection.

On the other hand, co-ordination from Guatemala to Panama for these kinds of projects is smoother. This is true both for historical and geographical reasons. Mexico has made important steps to develop its southern border but it still prefers to look north to the United States. Colombia has a strong geographical issue when trying to physically connect itself with Panama and, from there, to the rest of Northern Mesoamerica. As a consequence, aid focused on bringing together Central America is likely to be more effective than attempts to co-ordinate efforts with its southern and northern border countries: Colombia and Mexico.

Building productive capacity

There are 31 building productive capacity (BPC) projects diversified in various areas in Mesoamerica. Total investments add up to USD 85.9 million. Funds come primarily from the IDB special fund, USD 14.9 million in grants.[33] The European Union Delegation to Costa Rica, El Salvador, Honduras, Nicaragua and Panama funds the "regional programme quality support and the application of sanitary and phytosanitary measures in Central America (PRACAMS)" for a total of EUR 23.5 million. The project is on schedule and planned to be fully implemented by the end of 2016.

USAID and Taiwan also fund projects representing 25% of total building productive capacity commitments. USAID has three projects related to food safety, fishing and industry development for a total of USD 7.7 million. Taiwan's co-operation agency funding is located mainly in Central American countries and has six regional projects. These programmes promote competitiveness on agriculture, fisheries and animal health. They also have one project involving tourism integration and promotion of Central

America. Taiwan´s projects add up to a total of USD 14 million and none of them involve Colombia or Mexico. Other donors for BPC projects are Austria (ADA), Spain (OECID), Switzerland (COSUDE), and Japan (JICA) agencies, which together fund a total of six projects involving industrial, agricultural and tourism areas.

Mexico and Colombia are less involved in building productive capacity investments. Colombia has three funded projects: the “Latin American regional network to strengthen competition policy” and the “Authorized Economic Operator (AEO)”. The latter is in its pilot phase. The third one, “comply standards and technical regulations”, is a bilateral project with Panama. Mexico on the other hand participates in 4 building productive capacity projects, which include the AEO, “indicators of animal and plant health and food safety”, “foreign direct investment in CA financial crisis”, and “Latin American regional network to strengthen competition policy” projects.

Central American countries have stakes in 96% of all building productive capacity projects. Primarily, projects are oriented to Guatemala, Honduras, El Salvador and Nicaragua. As part of the North Triangle, or “Trifinio region”, Guatemala, El Salvador and Honduras, also share projects involving tourism and SME competitiveness. Belize, Costa Rica and Panama participate each in 58%, 90% and 41% of building productive capacity projects.

Among these projects the “Red SICTA III Phase” supported by the COSUDE agency stands out.[34] The previous project, “innovations to improve the competitiveness and the income of small white maize and black beans producers of Jalacte and San Vicente Villages, Toledo District”, has been positively evaluated. According to IICA (2013) the project attained improvements in technology adoption for 40 producers in Jalacte and San Vicente. As a consequence, there has been an increase of 25% in the production of black beans and maize while optimising the production process. The project evolved into phase three, were interest in food security was prioritised and previous lessons in food management along the chain of production are deepened.

The “organization of sustainable tourism in the Trifinio Region” project, involving El Salvador, Guatemala and Honduras has for the most part achieved the proposed goals. According to *Unidad Técnica Trinacional,* “there is a high political backup and good motivation in each country”.

The “regional strategy for regulation and supervision of the Central American stock market” project seeks to define the regulatory standards that should lead to an efficient and modern regional capital market involving Costa Rica, El Salvador and Panama. The Executive Secretariat of the Central American Monetary Council (SECMA), the institution in charge of the project, has announced that the project is in its final phase and that for the most part is up to date.

The “innovative access to markets for small producers programme” project involving Guatemala, El Salvador, Honduras and Nicaragua seeks to reduce poverty by involving the private sector in the development process. The project is in its final phase, and according to the organisation in charge, RUTA, objectives and results have been achieved for the most part as scheduled.

Finally, the “Latin American Regional Network to strengthen competition policy” programme created the Competitive Regional Centre for Latin America (CRCAL). The project, supported by the IDB, is on schedule. The IDB consultant working for CRCAL noted that in September 2012 the first Latin-American meeting on competition policy was held, with topics such as the effects on concentration and the sectorial study on telecommunications being discussed.

Trade policy and regulation projects

Out of a total of 15 projects categorised in this sector, with a total cost of USD 50.2 million approved in commitments, two projects take up 70% of total funds. Trade and policy regulation projects (TP&R) seem to be a main concern for the European Union Institutions. USAID, the IDB and the WB also contribute in projects for trade facilitation (15% of total TP&R projects). The US Department of Commerce donates directly for some projects like the "Central American border management reform pathways to prosperity" in Honduras, Costa Rica, Guatemala, El Salvador and the Dominican Republic. The general idea of this project is to ease border crossing between these countries. Three out of the four stages of the programme have been completed in Honduras, Costa Rica and El Salvador. The remaining countries were slated to catch up during the second half of 2013 or early 2014.

It is relatively common in Mesoamerica to fund projects that seek to make more efficient border crossings, as the above project showed. For instance, the "Central American border integration between Costa Rica and Panama", a technical co-operation initiative supported by the IDB seeks to promote fluid trade across the border, particularly Paso Canoas.

Colombia's participation in TP&R projects consists only of the, "trade facilitation and security standards in the logistic chain" project, which also involves Peru, the Dominican Republic, Uruguay and Central American countries. The objective is to update customs codes and norms while supporting the creation of the AFT project "authorised economic operator" in Dominican Republic, Peru, Argentina plus Mesoamerica. The project is in its final stages and it has certified at least five firms as AEO by each country's customs agencies.[35]

The "institutional and normative framework for a regional competition policy" seeks to develop an institutional framework for a regional competition policy in Central America and Panama. It is in its finals stages and according to the Superintendent of El Salvador, "both SICA and SIECA must push for the adoption of the regional competition norm, which plays an important role given the agreement between the Central America and the EU". According to the same source, regional integration has benefitted as a result, as "it has promoted exchanges among the different competition agencies of the region," a notable network externality.

Implementation issues and challenges of aid for trade in Mesoamerica

An important issue concerning aid when originated by different donors is to guarantee that projects do not overlap in their objectives. This is a very important matter in multi-country and regional projects funded by the AFT initiative because not only are there multiple donors, but there are also multiple recipients.

Overall, no significant overlap in the projects aimed at the Mesoamerican region is found. Projects cover different sectors that range from SME to fishing; from sanitary and phytosanitary measures to poverty related ones. It is common that projects that focus on a similar topic tend to be supported by a variety of agencies but complementarity among them is the rule. An example is the "regional programme to support the fishery and aquaculture policy (PRAEPESCA)". This programme seeks to improve food safety while strengthening regional rules and norms in the production process. PRAEPESCA is a sequel to "support the integration of fisheries and aquaculture in Central America (PRIPESCA)" project originally executed by the Central America fisheries and aquaculture organization (OSPESCA). According to information provided by OSPESCA, PRIPESCA finished in 2012 with positive results in making awareness at government levels for the need to responsibly exploit fishing and aquiculture resources in Central America.

Food security and safety projects are a good example of how different agencies can support similar projects with different objectives. While the IDB "indicators of animal and plant health and food safety" project seeks to develop indicators on the topic, another USAID project offers technical assistance to encourage better private and public food standards systems. In addition, the USAID project, "regional food security policy effectiveness and sustainable agricultural programme," promotes policies and regulation to improve food security. Lastly, the co-operation agency from Taiwan is focused on improving productivity and quality in the food process done by small producers.[36]

The IDB, the Swiss Agency for Development (SDC) and Taiwan program, "organization of sustainable tourism in the Trifinio Region," promotes precisely that, sustainable tourism. Other agencies seek simply to promote Central America as a tourist destination as a way to generate employment while often ignoring sustainability.[37] Hence, they do overlap in the sustainability requirements, but they differ in the regional scope of each project.

There are at least five projects related to sanitary and phytosanitary issues. This is an important factor to consider when implementing FTAs because the lack of human-capital resources required to satisfy technical measures related to such issues may inhibit trade despite the existence of trade agreements (Essaji, 2008). Correcting this issue is the general objective of these types of projects. Two, supported by Taiwan´s co-operation agency, are focused on poultry health. One updates legislation related to the topic, while the other concentrates on educating producers to properly produce and handle food.[38] The EU and IDB´s project seeks to improve the private sector's limited knowledge on the topic and consider how the existing regulation impacts the supply chain.[39]

Two apparently similar projects, the "Latin American regional network to strengthen competition policy" and "institutional and normative framework for a regional competition policy" are well aligned. The former refers to a technical co-operation while the latter seeks to promote a regional competition policy. Aligned nicely with the AFT initiative's objectives, most of the projects are central in promoting competitiveness in the context of the various trade agreements signed by Mesoamerican countries. However, there are a number of issues that could be improved in order to achieve a stronger impact on trade. In general, Central America, particularly its Spanish-speaking countries, tends to be more willing to strengthen ties with each other than with the rest of Mesoamerica. Belize, for historical reasons, are more focused on the Caribbean. Mexico´s main focus is on the United States, while Colombia is more connected on the Andean Region.

Thus, when AFT invests in regional projects in Mesoamerica they find more receptiveness in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and, in some cases, Panama, than in Belize, Mexico or Colombia. In this sense, much of the AFT regional investment has taken advantage of the Central American "connection" originated in its strong historical and geographical ties as well as its pre-existing institutions. By contrast, Mexico and particularly Colombia are *a priori* less attached to other Mesoamerican countries. Nevertheless, Mexico has strong ties with its neighbours to the south. Southern Mexico is the poorest region of the country, although Central America is significant to Mexico and it even provides complementary regional aid via the Mexican Infrastructure Fund (which also provides aid to the Caribbean).

Overall, regional AFT seems to have had a stronger regional impact in Central America than in Colombia or Mexico. These two countries are relatively large and have a relatively high per capita income; thus, at the margin, it makes sense for aid to be more important to Central America. However, as noted above, size does not explain it all. Much of it is explained by the strong "ownership" that these countries have in any commercial integration initiative.

In Central America, but also in Colombia, a common issue is the need to develop infrastructure as way to gain competitiveness in global markets. Recognising scale issues, Colombia, Costa Rica, El Salvador and Nicaragua promote SME producers as vehicles to drive the countries´ presence in regional and world markets. Mexico, given its strong neighbours in North America with which they have had an FTA for almost two decades, recognises in its development plan that trade liberalisation must work hand-in-hand with policies that promote competitiveness of its economic agents. The effectiveness of regional and multi-country projects seems to depend on how similar or different the countries involved are. This is a finding consistent with Hallaert, Cavazos Cepeda, and Kang (2011), who find that countries sharing characteristics face similar constraints and, extending the argument, face similar advantages when receiving aid. In short, the review of the regional development strategies of Mesoamerican countries suggests that existing projects are strongly aligned with the AFT initiative objectives.

A second challenge is related to the central element of any aid programme: its ability to evaluate its impact on the recipient countries. Cali and Te Velde (2011) find that AFT reduces the cost of trading and that it has a (small) positive impact on exports driven by aid to economic infrastructure. Although not focused specifically on Mesoamerica they do point out a common problem when evaluating the impact of AFT, that is, limits associated with the CRS data categories in permitting ex post assessments.

It is complex to analyse the impact of AFT from a micro perspective given lack of up-to-date information at the project level. This is true of any assessments of long-term development-related investments. However, a relevant issue discovered is that in a number of countries, domestic agencies receiving aid are not aware that resources flow from the AFT initiative. For instance, in Colombia, the Presidential Cooperation Agency is unaware of the projects that are funded with AFT resources, despite that fact that they monitor project status and the sources of the funds channelled to the projects. As a consequence there is no direct way to verify the efficient use of AFT resources in a given project. A similar case applies to the Mexican Development International Cooperation Agency. A notable exception is the Mesoamerican project, which controls its AFT funds despite managing significant funding beyond AFT.

A major challenge of AFT is to promote the physical connection between Panama and Colombia. As noted earlier, connecting these two countries has proven historically impossible, despite the initial support that the Mesoamerican Project concept had in Colombia´s Development Plan. The AFT project, a technical assistance project described earlier, as an initial step to the entire connection project was a success. However the ultimate goal of actually inter-connecting was a failure. This is exactly the type of project that can be effectively promoted by regional AFT.

Other challenges are related to co-ordination difficulties between different countries despite their interest and involvement in the project. For instance, the "climate change vulnerability of hydropower systems in Central America" had implementation issues given that local institutions involved in each country had to work with climatic models not specifically adapted to the region. Moreover, data on each other's weather stations were only available under confidentiality agreements, which in turn required high levels of co-ordination among the different participants involved. The multi-country nature of the project had ownership problems in the sense that for a period of time it was not clear which Energy Ministry would lead and co-ordinate the project. Additionally, there was a lack of enough personnel with the required technical abilities.

A common concern is that despite the success of projects at the local level, it is difficult to develop an agenda in which their individual benefits are translated to the regional economy.[40] A case in point is the "innovative access to markets for small producers" project. It seeks to reduce poverty for small producers along the value chain by improving the production process and generating sufficient scale when exporting. The project's objectives are, thus, focused on improving the income of small producers in the Central America region by enhancing the productive capacity domestically. However, according to personnel involved in the project, there exist a series of bottlenecks that impede the project's success. For instance, the management ability of some private organisations involved is more heterogeneous than expected: some producers' organisations have lower managerial ability than others thus affecting the project's effective implementation. There is also concern as to how efficiently the production is marketed and distributed: "even when the production is produced – in quantity and quality – as required by markets, the volumes marketed are not enough to make it profitable to all linkages in the production chain" (FOMIN, 2013.a).

The project "institutional and normative framework for a regional competition policy" also requires each Central American country's individual participation to achieve a regional goal. It consists of the adoption of a regional competitive policy that contributes to the strengthening of the Central American Common Market by eliminating entrance barriers and reducing anticompetitive practices. However, domestic competition agencies in the participant countries seem to have difficulties assigning personnel in order to advance the project's objectives in line with its neighbours. Moreover, there is no institutional guarantee that, once the project is finished, each country will continue to apply the regional framework.[41]

Other types of co-ordination difficulties arise eventually when the private sector is involved in a project, particularly when dealing with building productive capacity, e.g. in the case of the project, "organisation of sustainable tourism in the Trifinio Region." According to project reports, there is neither interest nor provisions available for the expected financial contributions of entrepreneur associations. Of particular relevance are claims that the Micro and Small Firms Association in the Trifinio region is not participating actively in the project and is not using its services. This, FOMIN (2013.b) argues, is a significant deterrent to the project's success. Despite the above, the project has been effective in strengthening private business associations with technical assistance on sustainable tourism management.

A common issue that emerges in theses regional AFT projects is the need to increase qualified human capital in both the private and public sectors in order to efficiently implement projects. For example, the "technology innovation strategy for mitigating food price impact in Central America" project seeks higher productivity and competitiveness in the agricultural sector by promoting regional abilities through the creation of technology and innovation consortiums. It is aimed at value chains affected by price volatility. The project currently requires more capital and human resources which, according to IICA personnel, are not easily available. These bottlenecks have delayed implementation and inhibited success.

Two broader issues are related to the lack of exposure of the programme (the authorised economic operator, OEA) and difficulties in implementing the results of the project ("regional strategy for regulation and supervision of the Central American stock market"). The former project, successful in Colombia and Mexico, has had financial issues in Central America as government institutions and the private sector responsible for funding the project beyond those provided by the IDB resources have been unable to deliver. As a consequence, project managers have developed a strategy to keep interest and raise funds for the project by presenting its benefits to both public and private institutions.[42]

The "regional strategy for regulation and supervision of the Central American stock market" involves Costa Rica, El Salvador and Panama. The purpose of it is to create a stronger stock market regulation system. The required technical co-operation has flowed properly and the project has managed to study and identify regional standards and to propose prospective action plans. Implementing proposed regulation, however, is being delayed because it requires each nation's Congress to approve it and ensure the required reforms to actually apply the multinational stock market.[43] Beyond the time required by any legislative process, co-ordinating the eventual implementation of the new framework represents an additional challenge because norms and regulations vary significantly across countries.

To conclude, no significant overlap in the projects aimed at the Mesoamerican region is found. It is common that projects that focus on a similar topic tend to be supported by a variety of agencies but complementarity among them is the rule. AFT projects, however, are regionally more co-ordinated in Central America given the institutional arrangement operating in this sub region. Challenges are strongly related to the need to develop infrastructure and build human capital capable of supporting the requirements of a developing region.

Lessons learnt

In sum, the analysis presented in this chapter suggests that regional AFT initiatives have, for the most part, been effective in Mesoamerica, despite the fact that contributions have been relatively small. Certainly, given data limitations, quantifying the contribution of regional AFT projects would be impossible at this stage. However, the analysis would suggest that regional AFT projects have often achieved their goals, even though they could be made better. This section considers some of the salient challenges facing AFT and the lessons learnt from the survey.

To begin, organised and easy to use datasets are keys in evaluating the impact of aid. Project codes are not the same across countries, making it difficult to work systematically with data, particularly if the objective is to analyse multi-country or regional projects. Hence, in order to facilitate assessment, it is important to improve the rich dataset that is already available, which would ease the micro level analysis across countries.

Second, an important issue discovered when seeking information on AFT projects in Mesoamerica is the limited knowledge regarding the initiative among policy makers, underscoring the importance of outreach. In Colombia (and even in Mexico), government officials are almost completely unaware of AFT resources in any given project. This is also true regarding officials in Central America, albeit on a smaller scale. Arguable this situation is to no small degree a function of how AFT is structured: officials tend to recognise those agencies that directly manage the project funds with little regard to how the projects originated upstream; i.e. the project budget, generally administrated by a single 'visible' agency, might originate from different sources which are ultimately unknown to each country's domestic project administrators. This problem also has a bearing on impact assessment: it is difficult to measure the impact of regional AFT when there is a lack of information on the part of participants on the demand and supply sides.

Third, issues related to co-ordination and alignment of objectives across donors and recipients emerged in the analysis. As noted by Hallaert (2010), AFT requires proper sequencing and policy coherence in order to achieve the ultimate objective of boosting trade and economic growth.[44] This is particularly important in multi-country and regional projects, in which, for example, strong historical ties can have an important bearing on success, as noted in Section 5. From Guatemala to Panama, the Spanish speaking countries of Central America, commercial integration is mainly limited by political differences. Culturally, geographically and, of course, historically they are predestined to co-ordinating their trade policy.

Co-ordination seems easier in Central America because regional institutions support and channel foreign aid. Given the way that some of these institutions are structured, alignment with regional development strategies is more likely, and this seems to be the case in practice. Such alignment is closer to domestic development strategies in the rest of Mesoamerica and, hence, easier, but it still faces challenges. An example is the interconnection between Panama and Colombia which, despite a well-structured regional technical co-operation AFT project, is still pending the actual construction phase due to co-ordination problems on the part of both countries.

Even with good co-ordination, there is still room to improve efficiency when human capital constraints are binding in multi-country projects. Examples in which the pace of implementation of given projects varies across countries due to differences in not only commitment to the project but also the capacity of participants were described. Hence, what is needed is both better co-ordination and better sequencing at the project level: implementing the results of certain projects, in a multi-country or regional setup, depends on existing personal which require the time and qualifications to implement the project properly.

There are roadblocks that should be considered as potential threats. Consider the case of SICA. It has been shown that is it relatively successful in developing regional strategies based on their regional integration agenda. Given the obvious difficulty to achieve practical co-ordination between different countries, they have developed a strategy that has been relatively successful: partner countries submit lists of their priorities and given common needs regional projects arise. SICA, nevertheless, is a multilateral organisation whose funding depends significantly on aid from the EU and Central American countries' quotas. The latter has generated independence and funding problems in the past because, under certain circumstances, a given country may decide not to pay its quota. This restricts its decision-making ability and ultimately its effectiveness.

Another relevant element refers to ownership and how institutions within the recipient countries co-ordinate. It is an important factor as domestic agencies have to co-ordinate among themselves while co-ordinating with foreign agencies.

Issues arise in a number of setups such as those that target changes in regulations or norms. Regional projects that try to implement regional norms, rules or standards are subject to each country's enforcement. It is not clear that there is a well-developed strategy to guarantee cross-country enforcement. Nevertheless, donors and partners are aware of this issue and there are a number of projects to provide technical co-operation in order to aid in its implementation. These projects are useful and have had success but, ultimately regulations and norms changes depend on non-technical policy makers.

Sustainability, understood as the engagement of local level institutions and individuals in the project design and implementation is another element to consider. AFT is, for the most part, sustainable. Local agents actively participate in the project even if they are unaware that they are AFT projects. However, if sustainability is understood as the ability of donors to continue to support the project over time, then it seems to be an issue mostly in BPC projects. Infrastructure projects tend to use AFT funds for the technical studies. The actual construction, however, has to be done by the government or, in the case of regional multi-country projects, by more than one government. Given that these types of projects tend to require large financial needs, it is relatively common to see non-negligible delays in these projects.

Despite the importance attached to regional integration in Mesoamerica in general, and Central America in particular, there are serious border crossing problems among all the countries in the region. This has led to the development of a number of projects aimed at easing such border crossing such as PRACAMS, described earlier. Nevertheless, other projects, such as the inter connection between Colombia and Panama have been unsuccessful, though not due to AFT. In fact, the AFT project that financially structured the Colombia Panama electric interconnection project was implemented successfully. But these types of projects are in practice just a relatively small part of larger developments that require a significant investment to ultimately achieve the goal. These projects seem to be more successful in Central America, where there are at least 28 projects other than PRACAMS being implemented. They are, however, far from being globally successful despite the success from a micro perspective. It follows that additionality, understood as resources additional (and co-ordinated) to what was allocated in the past, is being implemented but it could well be strengthened.

Overall AFT does deliver. Nevertheless, there are a number of issues that could be adjusted in order to fully acquire the benefits beyond those of the project itself. Specifically, a set of multi-country and regional projects, when co-ordinated, should deliver a number of externalities in terms of promoting trade and economic growth that are still to be fully exploited. For instance, additional technical support to design strategic regional projects should be considered. Mesoamerica is currently integrated below its potential, not only because South and Central America are not physically connected, but also because Central America has been focused on its own sub regional integration while Mexico, Colombia and Belize have not engaged as much with the region.[45]

However, to fully integrate Mexico to Colombia decisive support is required in designing projects that should also benefit Central America including Belize. It is a major challenge to design regional projects aimed at integrating the region as a whole which ultimately will benefit, not only Mesoamerica, but also the rest of America.

Conclusions

The objective of this chapter was to consider the effectiveness of AFT in multi-country and regional projects in Mesoamerica for the period 2007-12, and draw lessons from associated experiences. It was done by identifying a number of projects and qualitatively analysing how close they come to meeting their proposed goals.

It was shown that over the last decade, Mesoamerica has been very active in the global market engaging in different FTAs and PAs both within the region and with the rest of the world. The region's exports increased continuously over this period, rising from USD 334.3 billion in 2007 to USD 489.3 billion in 2012. The United States remained the region's main trading partner, although recently the European Union (EU) and China have gained a non-negligible share.

Despite the above, Mesoamerica is still far from being a world-class competitive region, particularly with respect to export capacity. Roads are scarce, density is low and border-crossings fall short of desirable levels. The fact that such levels are similar to other Latin American countries does not imply that improving infrastructure is one of the region's most urgent needs.

There is no specific domestic agency that directly handles AFT and as a consequence each nation owns an AFT strategy, based on each country's national development agenda. Thirty donors have made commitments to Mesoamerican countries: twenty-seven in economic infrastructure (USD 1.98 billion), thirty in building productive capacity (USD 2.48 billion) and twenty in trade policy and regulations (USD 191 million). Aid is focused mostly on building productive capacity in most countries and within Mesoamerica, Colombia receives the most Aid for Trade (USD 1 026 million), followed by Nicaragua (USD 972 million) and Honduras (USD 798 million). However, relative to population, Belize receives the most (USD 50 per capita) while Mexico receives the least (USD 0.7 per capita).

A total of 58 ongoing AFT regional and multi-country projects involving the Mesoamerican countries were identified: 12 in economic infrastructure, 31 in building productive capacity and 15 in trade policy and regulation. Commitments for economic infrastructure projects added up to a total of USD 14.2 million, USD 13.3 million of which are devoted to the Mesoamerican Integration and Development Project. AFT projects related to technical co-operation within the economic infrastructure framework advance at a decent pace while achieving their purpose in helping in the development of key projects. Despite this success, aid on technical co-operation does not necessarily correlate with the implementation of the actual infrastructure related to the project. Co-ordination of economic infrastructure projects is smoother in Central America. Mexico has made important steps to develop its southern border but it still prefers to look north to the United States. Colombia has a strong geographical issue when trying to physically connect itself with Panama and, from there on, to the rest of Northern Mesoamerica. As a consequence, aid focused on bringing together Central America is likely to be more effective than attempts to co-ordinate efforts with its southern and northern border countries: Colombia and Mexico.

The building productive capacity projects, whose investments add up to USD 85.9 million, are diversified in various areas in Mesoamerica although Mexico and Colombia are less involved. Central American countries have stakes in 96% of all building productive capacity projects. Primarily, projects are oriented to Guatemala, Honduras, El Salvador and Nicaragua. As part of the North Triangle, or "Trifinio region", Guatemala, El Salvador and Honduras, also share projects involving tourism and SME competitiveness.

Trade policy and regulation projects concentrate on those that seek to ease border crossing between countries involved, for the most part Central America nations. Other projects seek to update customs codes and norms, and develop an institutional framework for a regional competition policy in Central America.

Overall, no significant overlap in the projects aimed at the Mesoamerican region is found. Projects cover different sectors that range from Small and Medium Enterprise (SME) to fishing; from sanitary and phytosanitary measures to poverty related ones. It is common that projects that focus on a similar topic tend to be supported by a variety of agencies but complementarity among them is the rule. Aligned nicely with the AFT initiative´s objectives, most of the projects are central in promoting competitiveness in the context of the various trade agreements signed by Mesoamerican countries.

There are a number of findings which donors and partners could use in order to exploit the full potential of international trade in Mesoamerica. For instance, Central America, particularly its Spanish-speaking countries, tends to be more willing to strengthen ties within than with the rest of Mesoamerica. When AFT invests in regional projects in Mesoamerica they find more receptiveness in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and, in some cases, Panama, than in Belize, Mexico or Colombia. In Central America, but also in Colombia, a common issue is the need to develop infrastructure as way to gain competitiveness in global markets. Recognising scale issues, Colombia, Costa Rica, El Salvador and Nicaragua promote SME producers as vehicles to drive the countries´ presence in regional and world markets. In general, the effectiveness of regional and multi-country projects seems to depend on how similar or different the countries involved are. However, aligning the region in the same direction could achieve a stronger impact on trade.

No significant overlap in the projects aimed at the Mesoamerican region is found. Challenges are strongly related to the need to develop infrastructure, improve border-crossing between countries and build human capital able enough to support the requirements of a developing region. A number of specific issues arise in certain project such as those that try to implement regional norms, rules or standards. It is not clear that there is a well-developed strategy to guarantee cross-country enforcement despite donors' and partners' awareness of the issue.

AFT is sustainable, understood as the engagement of local level institutions and individuals in the project design and implementation. Local agents actively participate in the project even if they are unaware that they are AFT projects. However, if sustainability is understood as the ability of donors to continue to support the project over time, AFT may not be sustainable, particularly in BPC projects. AFT tends to fund technical studies for infrastructure projects. The actual construction, however, has to be done by the government or, in the case of regional multi-country projects, by more than one government. Given that this type of projects tend to require large financial needs, it is relatively common for there to be non-negligible delays in these projects. It is an interesting challenge to better assist in co-ordinating how to implement these multi-country infrastructure projects.

An issue detected in a number of countries is that domestic agencies receiving aid are not aware that resources flow from the AFT initiative. With the notable exception of the Mesoamerican project, which controls its AFT funds despite managing significant funding beyond AFT, knowledge of AFT involvement is very low.

Finally, an important roadblock to analyse the impact of AFT from a micro perspective is the lack of up-to-date information at the project level. In order to facilitate assessment, it is important to improve the rich dataset that is already available, which would ease the micro level analysis across countries.

Overall, although AFT delivers, a stronger co-ordination of multi-country and regional projects could generate a number of externalities that could be commonly utilised in order to promote regional trade and economic growth while exploiting the full potential of Mesoamerica's commercial integration.

Table 6.5.A. **Mesoamerican FTA agreements compared to rest of world**

As of May 2013

Free trade agreement in Force	Signed agreements	Agreements under negotiation
Bolivia-Mexico (2010)	Central America-European Union (2012)	Andean Community-SICA
Canada-Colombia (2011)	Colombia-European Union (2012)	Canada-CARICOM
Canada-Costa Rica (2002)	Colombia-Korea (2013)	Canada-Central American-four
Canada-Panama (2013)	Costa Rica-Peru (2011)*	Canada-Honduras
Central America-Chile (2002)	Costa Rica-Singapore (2010)	CARICOM-SICA
Central America-Dominican Republic (2001)	Guatemala-Peru (2011)	CARICOM-MERCOSUR
Chile-Colombia (2006)		Central America-EFTA
Chile-Mexico (1999)		Central America-MERCOSUR
Chile-Panama (2008)		Colombia-Costa Rica
Colombia-EFTA (2011)		Colombia-Israel
Colombia-United States (2012)		Colombia-Japan
Costa Rica-China (2011)		Colombia-Panama
Ecuador-Guatemala (2013)		Colombia-Turkey
El Salvador-Taiwan (2008)		Colombia-Uruguay
Guatemala-Taiwan (2006)		Ecuador-Mexico
Honduras-Taiwan (2008)		MERCOSUR-SICA
Mexico-European Union (2000)		MERCOSUR-Mexico
Mexico-Israel (2000)		MERCOSUR-Panama
Mexico-Japan (2005)		Mexico-Korea
Mexico-EFTA (2001)		Mexico-Paraguay
Mexico-Peru (2012)		Mexico-Singapore
Mexico-Uruguay (2004)		Panama-Trinidad and Tobago
NAFTA (Canada-Mexico-USA)(1994)		
Nicaragua-Taiwan (2008)		
Panama-Peru (2012)		
Panama-Singapore (2006)		
Panama-Taiwan (2004)		
Panama-United States (2012)		

Notes: Free trade agreements in force date in parenthesis. Signed agreements signature date in parenthesis. * Entering into force June 2013 .

Source: Organization of American States (OAS) (2013), Foreign Trade Information System, www.sice.oas.org.

Table 6.5.B. **Trade agreements within Mesoamerica**

Free Trade Agreement	Signature date
Mexico-Central America	2011
Mexico-Northern Triangle	2000
Mexico-Nicaragua	1997
Mexico-Costa Rica	1994
Mexico-Colombia	1994
Colombia-North Triangle	2007
Costa Rica-CARICOM	2004
Panama-Central America	2009

Note: Northern Triangle (El Salvador, Honduras, Guatemala). Central America (Costa Rica, Guatemala, Nicaragua, Honduras, El Salvador).FTA Mexico–CA not in forced for Costa Rica and Guatemala.

Source: Organization of American States (OAS) (2013), Foreign Trade Information System, www.sice.oas.org.

Table 6.5.C. **Infrastructure, business and trade facilitation indicators: Mesoamerica**

Indicator	Belize	Colombia	Costa Rica	El Salvador	Guatemala	Honduras	Mexico	Nicaragua	Panama
Transport infrastructure		2.64	3.11	3.44	3.20	3.59	3.58	4.08	4.22
Quality and reliability of electricity supply		5.1	5.5	4.9	5	3.6	4.6	3.7	5.5
Quality of air transport infrastructure		3.8	4.9	5.4	4.9	4.5	4.8	4.2	6.4
Starting a business									
Number of procedures to start a business	8	9	12	8	12	13	6	8	6
Time (days)	60	14	60	17	37	14	9	39	8
Trading across borders									
Documents to export	6	5	6	8	9	6	5	5	3
Time to export (days)	19	14	13	14	17	12	12	21	9
Documents to import	7	6	6	8	8	8	4	6	3
Time to import (days)	20	13	14	10	17	16	12	20	9

Note: The scores range from 1 to 7 for those variables that are all collected from the executive Opinion Survey. Transport infrastructure includes: quality of roads, ports and railroad. Data for Belize not available for transport indicators.

Source: The World Bank (2013), "Economy Rankings", Doing Business Data, www.doingbusiness.org/rankings. World Economic Forum (2013), *Global Competitiveness Report 2012-2013*, http://reports.weforum.org/global-competitiveness-report-2012-2013.

Notes

1. Recommendations of the WTO Task Force on Aid for Trade [WT/AFT/1], 27 July 2006. (WTO, 2006)
2. GDPs per capita are adjusted by PPP International Monetary Fund (IMF).
3. China trade flows include Mainland China, Hong Kong, and Macao.
4. 2012 data are preliminary for each country. COMTRADE does not report data for Honduras in 2008, 2010, and 2011 or for Panama in 2004 and 2012.
5. Members of CARICOM are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
6. Preferential agreements are defined as those where a given country gives preferential access to number of products from certain countries. These preferences can be given unilaterally and access is generally implemented by reducing tariffs for a limited time period.
7. In August 2013, the FTA between Colombia and the EU is partially in forced. It is not included in Figure 5 and Figure 7.
8. There are still no significant estimates of the effect of the CA-Mexico FTA.
9. Belize is not included in the sample of countries considered in the Global index 2012-13.
10. Limao and Venables (2001), find that a deterioration of infrastructure from the median to the 75th percentile raises transport costs by 12 percentage points and reduces trade volume by 28%. Specifically in the case of Africa, they argue that trade flows are low due to poor infrastructure.
11. Road density is the ratio of the length of the country's total road network to the country's land area.
12. Roads are defined in the World Development Indicators as motorways, highways, and main national roads, secondary or regional roads, and all other roads in the country.
13. In principle, an indicator based on paved roads would be preferred. However, these data are scarce and they are not available for Belize, Colombia and Honduras.
14. Data are taken from the World Bank, The World development indicators 2009 (databank). Belize and Honduras did not report. OECD countries report data for at least one year.
15. The last report was issued during the commissioners' meeting held in Costa Rica on September 18 2013 (Marco Trade News, 2013).
16. The report states that 63% of the Corridor plan has been started to some degree. It is not clear, however, if overall they are advancing at the expected pace.
17. The North American Landbridge is a long distance rail freight corridor connecting Southern California and New York/New Jersey, the two major gateway systems in North America.
18. Data as reported by the World Bank, The World development indicators (databank).

19. Panamax ships are those that are able to traverse the Panama Canal since the opening of the canal in 1914. Post-Panamax ships are those larger ships that currently do not fit but will as soon as the new set of locks are finished.

20. Belize did not report burden of customs data in 2012.

21. This indicator is based on the efficiency of customs in the clearances process, quality of trade and transport related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to trace consignments, and frequency with which shipments reach the consignee within the scheduled time.

22. Table 6C is in the annex and it refers to Mesoamerican countries individually.

23. On occasions these institutions prepare studies to detect the needs of partner countries and then proceed to submit a proposal to the various countries interested in order to develop a regional initiative.

24. As in Adhikari (2011), commitments are used for several reasons. First, project implementation usually requires more than one year and hence there is a natural gap between commitment and disbursements. Second, disbursement may not be as expected because of a change in government, which might lead to changes in priorities. Third, on occasions funds are released on a reimbursement basis. In such cases there is a delay in disbursement that is reflected in the data. Fourth, partner countries might be unable to absorb capacity at the required speed. Finally, disbursements are only reported routinely by DAC members and some multilateral organisations such as the World Bank and the United Nations (Vijil & Wagner, 2012).

25. Recipient countries of AFT submit to the OECD-WTO a partner country questionnaire that allows each country to rank trade-related priorities according to each country's development strategy on AFT.

26. Projects have not yet received AidData sector and activity codes. Therefore classification was made based on project descriptions using AidData information.

27. The DAC Survey on Donors' Forward Spending Plans collects on a country basis detailed information from both DAC and multilateral sources on their future spending plans for three years ahead, with the objective of addressing uncertainties about future aid levels at the global, regional and country level (OECD, 2009).

28. Ministry of foreign Trade, 2012.

29. In order to classify them, the decision was based on the projects scope.

30. It should be noted that a significant portion of the qualitative information compiled of each projects was possible thanks to the co-operation of individuals involved either in the project or in the agency channelling the funds. This information is used extensively and appreciation for their help is acknowledged.

31. Despite the apparent success, information on the project suggests that it requires an extension of due dates and ideally extra budget to improve and complete personnel training.

32. Anecdotal evidence collected in direct communication from the project technical operations co-ordinator.

33. The total cost of the projects were the IDB is involved is USD 22.6 million. Thus, IDB involvement represents 66% of the total costs of the project.

34. The Swiss Cooperation and Development Agency, has Nicaragua and Honduras as priorities for aid in projects involving agriculture technologies and networks. Given that the funds were channelled through SICA, the project was expanded to cover all SICA members.

35. As of November 2012, there were 50 certified firms by Mexico, 2 by Costa Rica, 2 in Dominican Republic and 6 in Argentina.

36. USAID projects are "Interagency agreements to promote food security by seeking phytosanitary and zoo sanitary standards plus other interventions that seek to strengthen the food industry in Central America and the Dominican Republic." The Taiwan Agency project is a "support to improve productivity and raise food production quality in order to contribute to food security in Central America and Dominican Republic".

37. Projects referred to are Taiwan´s "project to strengthen integration and tourist promotion in Central America" and SDC "project to improve doing business relative to sustainable tourism development".

38. Projects referred to are the "regional poultry health programme for backyard birds" and "regional prevention, control and eradication programme of poultry diseases in Central America (PREA)".

39. Projects refer to the "regional programme quality support and the application of sanitary and phytosanitary measures in Central America (PRACAMS)", and from the IDB "Strengthening the implementation of agreements on SPS in CA", and "Enhancing LAC countries ability to comply with standards & technical regulations".

40. Information based on talks with the project coordinator of RUTA.

41. Information supported by the project manager at Superintendencia de competencia de El Salvador.

42. Information gathered in talks with the Executive Directorate of Revenue in Honduras, project managers.

43. The project had three components: *i)* diagnostics on the state of market regulation and supervision per country; *ii)* identification of the best international practices and a definition of common regional standards for market regulation and supervision; and *iii)* proposal of plans of action in each country.

44. Hallaert J. J. (2010), pp. 4.

45. This strategy is not flawed; it simply seems insufficient to achieve the entire benefits of trade.

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