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**AID FOR TRADE AND PUBLIC-PRIVATE PARTNERSHIPS**

*Note by the secretariat*

**SUMMARY**

Aid for trade has received increased attention, particularly since a recent ministerial declaration made explicit reference to the need for aid so that countries could increase their capacity to implement World Trade Organization agreements and build their supply-side responses. Such improvements would facilitate trade and enable countries to benefit from enhanced market access. The present document explores the need for, and the rationale behind, aid for trade in the Asian and Pacific region. It considers the role of the United Nations, in particular that of the regional commissions, in aid for trade. It highlights the fact that aid for trade is a multi-stakeholder and multi-actor initiative in which both Governments and the private sector have a role to play. It explores various modalities for aid for trade as it relates to Governments, international organizations, businesses and in particular public-private partnerships for the consideration of the Committee. The document reviews trade facilitation initiatives in the region, including the possible convening of an Asia-Pacific forum for efficient trade by the end of 2007. The last section discusses the issues for consideration by the Committee, with focus on the role of ESCAP in aid for trade.

CONTENTS

	<i>Page</i>
Introduction .....	1
I. AID FOR TRADE: BACKGROUND AND RELEVANCE TO THE ASIAN AND PACIFIC REGION .....	1
A. Background.....	1
B. Conceptualization and operationalization of aid for trade: an ongoing process .....	4
C. Aid for trade in Asia and the Pacific.....	6
II. PUBLIC-PRIVATE PARTNERSHIPS IN AID FOR TRADE.....	9
A. Concepts and modalities .....	9
B. Public-private partnerships in trade facilitation.....	13
III. THE ROLE OF ESCAP AND OTHER UNITED NATIONS AGENCIES .....	16
IV. ISSUES FOR CONSIDERATION BY THE COMMITTEE .....	19

## **Introduction**

1. Aid for trade has received increased attention, particularly since the Ministerial Declaration of the Sixth Ministerial Conference of the World Trade Organization<sup>1</sup> made explicit reference to the need for aid so that countries could increase their capacity to implement World Trade Organization agreements and build their supply-side responses. Such effects would facilitate trade and enable countries to benefit from enhanced market access. The present document is intended to shed light on the background and rationale for aid for trade, with particular reference to the Asian and Pacific region (section I). In particular, it highlights the fact that aid for trade is a multi-stakeholder and multi-actor initiative in which both Governments and the private sector have a role to play. For that purpose, it explores various modalities for aid for trade by Governments and business, in particular public-private partnerships, for the consideration of the Committee (section II). It also reviews public-private partnerships involving trade facilitation initiatives in the region, including the possible convening of an Asia-Pacific forum for efficient trade by the end of 2007. The experience of the ESCAP-initiated Asia-Pacific Business Forum is also relevant in this regard and is covered in a separate document. Section III discusses the issues for consideration by the Committee, focusing on the role of ESCAP in aid for trade.

### **I. AID FOR TRADE: BACKGROUND AND RELEVANCE TO THE ASIAN AND PACIFIC REGION**

#### **A. Background**

2. “Trade, not aid” is a well-known slogan, often quoted to the point of overuse. It is universally recognized that trade leads to economic growth and development. Since the end of the Second World War, official development assistance (ODA) has continued to increase. However, by the mid-1980s, it became evident that the impact of ODA had remained limited while trade barriers remained high. This situation prompted many developing countries to call for better access to markets in developed countries. At the same time, concerns were expressed with regard to the effectiveness of ODA, the absorptive capacity of developing countries and the perception that aid was often “tied” to donor-driven agendas and conditionalities, including the structural adjustment programmes of the Bretton Woods institutions. ODA flows were further put into perspective by the rapidly rising flow of private funds, in particular foreign direct investment. All these factors led to a decline in ODA flows. At the same time, market access increased as a result of the Uruguay round and the proliferation of regional trade agreements. Soon it became apparent that, even with better market access, developing countries might not have the capacity to compete internationally apart from their trade in traditional commodities, from which they were urged to diversify. Hence, trade-related official development

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<sup>1</sup> Held in Hong Kong, China, from 13 to 18 December 2005. See World Trade Organization document WT/MIN(05)/DEC.

assistance, once again assumed more importance and the concept of “aid for trade” gained momentum.

3. Since 1995 and the establishment of the World Trade Organization, trade-related technical assistance has continued to increase the impetus in this regard. The link between trade and development was emphasized in the preamble to the Marrakesh Agreement Establishing the World Trade Organization. The Marrakesh Declaration of the General Agreement on Tariffs and Trade (GATT) and WTO recognized “the need for strengthening the capability of GATT and WTO to provide increased technical assistance in their areas of competence, and in particular to substantially expand its provision to the least developed countries”. Thus, while the principal function of WTO is not development per se, the organization has been traditionally engaged in providing technical assistance to developing countries in order to ensure their effective integration into the multilateral trading system and to help them to benefit from it.

4. The emphasis on trade-related technical assistance for least developed countries received further momentum with the establishment of the Integrated Framework for Trade-related Technical Assistance for Least Developed Countries at the First Ministerial Conference of WTO, held in Singapore in 1996. The Integrated Framework represents the first attempt at providing trade-related technical assistance in an organized, multi-agency, multidonor-coordinated programme. The participating agencies are the International Monetary Fund, the International Trade Centre UNCTAD/WTO, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Bank and WTO. The objectives of the Integrated Framework are as follows:

(a) To “mainstream” (integrate) trade into national development plans, such as the poverty reduction strategy papers of the least developed countries;

(b) To assist in the coordinated delivery of trade-related technical assistance in response to the needs identified by the least developed countries. The Integrated Framework is built on the principles of country ownership and partnership.

5. The Integrated Framework served as a pilot that laid the foundations for aid for trade. Although it has encountered numerous problems, notably a lack of additional funding to implement trade-specific programmes, the Integrated Framework did pave the way for “more” coordinated delivery of trade-related technical assistance at the global level. Since 2006, efforts have been made to strengthen the Integrated Framework and enhance its implementation.

6. The need for trade-related technical assistance has been emphasized in various ministerial declarations of WTO. In particular, the Doha Declaration,<sup>2</sup> in launching the latest round of

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<sup>2</sup> The Doha Declaration on the Trade-related Aspects of Intellectual Property Rights Agreement and Public Health was adopted by the Fourth Ministerial Conference of WTO, which was held in Doha from 9 to 14 November 2001. See A/C.2/56/7, annex.

multilateral trade negotiations, that is the Doha Development Agenda, restated that “international trade can play a major role in the promotion of economic development and the alleviation of poverty” (paragraph 2). Paragraphs 38 to 41 specifically dealt with trade-related technical assistance and identified specific purposes for which such assistance should be delivered. In particular, it called for the following: “The delivery of WTO technical assistance shall be designed to assist developing and least-developed countries and low-income countries in transition to adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership, including drawing on the benefits of an open, rules-based multilateral trading system” (para. 38). Paragraph 39 recognized the need for coordination and underscores “the urgent necessity for the effective coordinated delivery of technical assistance with bilateral donors, in the OECD Development Assistance Committee and relevant international and regional intergovernmental institutions, within a coherent policy framework and timetable”. Paragraph 43 endorsed the Integrated Framework “as a viable model” for least developed countries’ trade development and urged development partners to significantly increase contributions to the Integrated Framework Trust Fund and WTO extrabudgetary trust funds in favour of least developed countries”.

7. Paragraphs 48 to 51 of the previously mentioned Ministerial Declaration adopted in Hong Kong, China, again reiterated the high priority that ministers give to the effective implementation of the Integrated Framework and their endorsement of the Integrated Framework as a viable instrument for least developed countries’ trade development, building on its principles of country ownership and partnership. In particular, the ministers highlighted the importance of contributing to reducing their supply-side constraints. Paragraphs 52 to 54 deal with trade-related technical assistance, re-emphasizing the need for such assistance and specifically inviting the WTO Director-General “to reinforce the partnerships and coordination with other agencies and regional bodies in the design and implementation of technical assistance programmes, so that all dimensions of trade-related capacity building are addressed, in a manner coherent with the programmes of other providers”.

8. Paragraph 57 of the Declaration for the first time makes reference to “aid for trade”, noting that it should be aimed at helping developing countries, particularly least developed countries, “to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to expand their trade”. As such, WTO members for the first time explicitly recognized that aid for trade and multilateral trade negotiations were inextricably linked. They also emphasized that aid for trade should not be linked to “quid pro quo” bargaining and that more aid should not be a substitute for increased market access benefits for developing countries. The Declaration called for a task force to make recommendations on how to operationalize aid for trade. The Aid for Trade Task Force established for the purpose presented its report to the General Council of WTO on 27 July 2006.<sup>3</sup>

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<sup>3</sup> See *Recommendations of the Task Force on Aid for Trade*, WTO, WT/AFT/1 of 27 July 2006.

## **B. Conceptualization and operationalization of aid for trade: an ongoing process**

9. The recommendations of the Aid for Trade Task Force are comprehensive. Its report stated that “the scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part”. It identified the following categories of aid for trade:

(a) Trade policy and regulations, including the training of trade officials, the analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards;

(b) Trade development, including investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private-sector networking, e-commerce, trade finance, trade promotion, market analysis and development;

(c) Trade-related infrastructure, including physical infrastructure;

(d) Building productive capacity;

(e) Trade-related adjustment, including supporting developing countries to put in place accompanying measures that would assist them to benefit from liberalized trade;

(f) Other trade-related needs.

10. The Aid for Trade Task Force also identified challenges and gaps and made recommendations concerning the operationalization of aid for trade, at the multilateral, regional and national levels. It recommended, inter alia, strengthening the “demand side” and using value-chain analysis as a valuable tool to identify trade needs. It made reference to, and recommendations for, an enhanced Integrated Framework, which implies that the Integrated Framework forms an integral part of aid for trade.

11. With regard to regional-level implementation of aid for trade, the report of the Aid for Trade Task Force recognized that “many countries require cross-border infrastructure and regional policy cooperation to trade more effectively. The ability to identify cross-border and regional needs should be strengthened at the country, regional and multilateral level”. In particular, the Aid for Trade Task Force recommended strengthening the following functions in relation to regional, subregional and cross-border issues: “diagnosis of needs; costing of projects; preparation of project proposals; and the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes, (e.g., cross-border infrastructure and policy-integration projects)”. In this context, it recommended that a regional aid-for-trade committee be set up, “comprising subregional and regional organizations and financial institutions, to oversee the

implementation of the subregional and regional dimensions of Aid for Trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation”.

12. For simplicity’s sake and without prejudging the final outcome of current international efforts to define and operationalize the concept, aid for trade could also be defined as financial and technical assistance from multiple sources for the following purposes:

(a) To increase the capacity of Governments to effectively negotiate, conclude and implement multilateral, regional and bilateral trade agreements, including accession to WTO;

(b) To increase the production capacity of businesses and the capacity to effectively compete internationally, i.e., to allow businesses to utilize gains effectively from the increased market access gained as a result of concluded trade agreements.

13. Within these two broad dimensions of aid for trade, many other subdimensions can be identified, the importance of which depend on individual country needs. Those needs are most urgent in the least developed countries, and other less developed countries with specific development constraints, e.g., being a landlocked country, a country in transition to a market economy, being a small country, or an island developing State.

14. The trade negotiations dimension of aid for trade centres on human resource development and institutional capacity-building, including strengthening the legal framework for WTO compliance and enhanced capacity to negotiate and implement WTO agreements and commitments. With the adoption of bilateral trade agreements, some of which contain WTO-plus commitments, this dimension can be understood to include research and analysis on the design and contents of WTO-consistent agreements as well as the capacity-building needed to negotiate and implement such agreements.

15. The second dimension of aid for trade, supply-side capacity-building, has taken centre stage. This dimension not only addresses the need to raise the productive capacity of businesses but also to improve the environment in which businesses operate in order to allow them to compete effectively in international markets, for example through better institutional support and trade facilitation. The inclusion of infrastructure development, including transportation, energy and communications, is debatable and no clear consensus seems to exist on this issue, in particular as it is difficult to determine to what extent infrastructure development for trade purposes can be distinguished from other purposes. However, the Trade Capacity Building Database considers this category separately from trade-related technical assistance and capacity-building. Similarly, the issue of inclusion of debt relief for the purposes of aid for trade is also a moot point.

16. A recent WTO note<sup>4</sup> on aid for trade identified three principles for future work on aid for trade:

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<sup>4</sup> See “Aid for Trade: WTO Work Programme on Aid for Trade”, Background Note (WT/AFT/W/26), 29 May 2007.

(a) Aid for trade must be a complement to, not a substitute for, results from the Doha Development Agenda;

(b) Aid for trade must not have to compete for existing ODA flows with other development and poverty reduction priorities (this was a problem for the Integrated Framework);

(c) The case for attracting aid for trade to implement WTO agreements and build trade-related capacity more broadly must have the commitment of the ministers of trade, development and finance in developed and developing countries and least developed countries, and the support of private business, if it is to live up to its promise of catalysing their trade-related investment and production.

17. While there appears to be consensus that aid for trade is important, an emerging issue is to identify priority recipient countries. In this context, the Asian and Pacific region so far has not figured prominently. However, a cogent case can be made concerning why this region cannot and should not be ignored. This case is taken up in the next section.

### **C. Aid for trade in Asia and the Pacific<sup>5</sup>**

#### **1. Overview**

18. According to the Doha Development Agenda Trade Capacity Building Database of WTO and OECD, total trade-related technical assistance and capacity-building worldwide was US\$ 1.7 billion in 2005. Africa has emerged as the largest recipient of such assistance, accounting for 36.4 per cent of total trade-related technical assistance and capacity-building, while that for Asia and the Pacific amounted to almost US\$ 331 million in 2005, or about 19.3 per cent of worldwide trade-related technical assistance and capacity-building (table 1), but only about 1 per cent of total ODA for the region.<sup>6</sup> This share has declined from a high of 30.6 per cent of this type of assistance globally in 2002. Of the total amount for Asia and the Pacific, the Pacific subregion has received a negligible share, while the South Asian subregion received the highest share. The amounts have declined since they reached a peak of US\$ 473 million in 2002. However, it is difficult to assess the exact amount of aid for trade due to the different categorization of ODA and reporting formats among donor agencies and countries. For instance, according to the *2006 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building*,<sup>7</sup> a total of US\$ 3.1 billion was committed to such assistance and capacity-building worldwide, an increase from US\$ 2 billion in 2001. These figures were obtained from the previously mentioned database,<sup>8</sup> which is wide in scope and covers all global

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<sup>5</sup> Unless defined differently, the term "Asia and the Pacific" refers to the area covered by ESCAP <[www.unescap.org/about/member.asp](http://www.unescap.org/about/member.asp)>.

<sup>6</sup> The data from this database differ somewhat from those in the Trade Capacity Building Database and do not include cross-country and regional-level assistance. However, the Trade Capacity Building Database does not provide country-level data, and it defines Asia as including West Asia and the Middle East, making it difficult to disaggregate the data for ESCAP developing countries only.

<sup>7</sup> See <<http://tcbdb.wto.org/publish/2006%20Joint%20Report.pdf>> for the full report.

<sup>8</sup> See <<http://tcbdb.wto.org>> for further information on the database.



and regional programmes, including those related to tourism. According to this database, total trade-related technical assistance and capacity-building for Asia and the Pacific (defined as the Far East, South and Central Asia, including Caucasian countries and Afghanistan, and Oceania but not including the Islamic Republic of Iran or Turkey) amounted to about US\$ 420 million or 14.6 per cent of the global amount in 2005.

**Table 1. Regional breakdown of trade-related technical assistance and capacity-building, 2001-2005**

Region/year	2001	2002	2003	2004	2005
(thousands of constant 2004 United States dollars)					
East Asia <sup>a</sup>	42 066	79 329	82 528	42 184	20 322
South-East Asia <sup>b</sup>	94 257	191 561	159 766	172 026	128 943
South Asia <sup>c</sup>	70 965	126 610	140 792	131 252	130 191
Central Asia <sup>d</sup>	109 370	62 809	64 310	90 674	46 211
Pacific <sup>e</sup>	8 423	12 486	4 617	7 550	5 043
<b>Asia-Pacific</b>	<b>325 081</b>	<b>472 795</b>	<b>452 013</b>	<b>443 686</b>	<b>330 710</b>
<b>World</b>	<b>1 251 054</b>	<b>1 541 128</b>	<b>1 761 283</b>	<b>1 826 577</b>	<b>1 716 968</b>

Source: Doha Development Agenda Trade Capacity Building Database of WTO and OECD.

Note: Country-level data only; regional assistance is excluded.

<sup>a</sup> China, Democratic People's Republic of Korea and Mongolia.

<sup>b</sup> Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Thailand, Timor-Leste and Viet Nam.

<sup>c</sup> Includes Afghanistan, Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan and Sri Lanka.

<sup>d</sup> Includes Armenia, Azerbaijan and Georgia.

<sup>e</sup> Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia (Federated States of), Nauru, Niue, Palau, Papua New Guinea, Solomon Islands, Samoa, Tonga, Tuvalu and Vanuatu.

19. Trade-related technical assistance and capacity-building as accounted for by the above-mentioned statistics is divided into two categories: (a) trade policy and regulations and (b) trade development.<sup>9</sup> Trade development has routinely captured the largest share in any given region. In 2005, the total volume of commitments worldwide for trade policy and regulation amounted to

<sup>9</sup> Trade policy and regulations cover support to the effective participation of aid recipients in multilateral trade negotiations, analysis and implementation of multilateral trade agreements, trade policy mainstreaming and technical standards, trade facilitation including tariff structures and customs regimes, support to regional trade arrangements and human resources development in trade. Trade development covers business development and activities aimed at improving the business climate, access to trade finance and trade promotion in the productive sectors (agriculture, forestry, fishing, industry, mining, tourism and services), including at the institutional and enterprise levels. See <<http://tcbdb.wto.org>> for further information.

US\$ 906 million, while for trade development the amount was US\$ 2.17 billion. For Asia and the Pacific (excluding the Islamic Republic of Iran and Turkey), the amounts were US\$ 135 million and US\$ 285 million respectively. However, when the much wider definition of aid for trade recommended by the Aid for Trade Task Force is used (consisting of trade policy and regulations, trade development, economic infrastructure, building productive capacity and trade-related adjustments), total global committed aid for trade in 2005 amounted to almost US\$ 26 billion or a combined share of 36.5 per cent of the global sector-allocable ODA.

20. It is expected, though, that aid for trade will continue to grow in absolute terms, especially if the Doha Development Agenda is concluded. However, concerns have been raised not so much about the volume of aid for trade but rather about its effectiveness.<sup>10</sup>

## **2. Relevance of aid for trade for the Asian and Pacific region**

21. How relevant is aid for trade for the Asian and Pacific region? The region is home to the world's fastest growing economies, in particular China and India, both of which have amassed huge foreign exchange reserves. Against this backdrop, one question arises: Compared with other developing regions of the world, is there really a need for trade-related technical assistance and aid for trade in this region?

22. To answer the question, the following facts should be considered:

(a) Asia and the Pacific constitutes the largest and most diversified region in the world, both geographically and in terms of population. However, two thirds of the world's poor live in the region. Besides being home to some of the poorest people on Earth, the region hosts some of the world's richest countries;

(b) In this context, it is worth noting that the Asian and Pacific region accounts for 14 of the total of 50 least developed countries in the world. These countries face severe capacity constraints and they do not necessarily have access to finance from the capital-surplus countries. In addition, despite the significant progress some of them have made, the incidence of poverty remains high in some of the countries that also recorded high levels of economic growth. It is worth noting that the least developed countries have significantly increased their share in aid for trade since 1995;

(c) Despite the availability of capital surpluses in some countries, such surpluses are not necessarily easily available for investment purposes or as sources of finance for development. In particular, foreign reserves by themselves do not constitute investment capital. Some countries actually experience huge capital outflows to developed countries (in particular, to the United States of America) as a result of the long-term willingness of some countries to swap high-return domestic investment with low-yielding (United States) government bonds and other securities;

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<sup>10</sup> See, for instance, "Aid for trade: Making it effective", *OECD Journal on Development*, vol. 8, No. 1, pp. 64-96.

(d) The Asian and Pacific region also accounts for a large number of economies which have not yet become members of WTO, 12 of these have observer status and are involved in negotiations for full membership;

(e) While the region may have more advanced developing countries and developing countries with greater potential than some other regions of the world, it could be argued that such countries may merit increased aid for trade in order to ensure that they could take full advantage of the emerging opportunities for trade. In other words, countries which show promise for development should be actively supported in order to enable them to maintain their development momentum. Not surprisingly, middle-income countries have seen their share of total aid for trade grow significantly, to almost 40 per cent since 1995. There is also evidence that, of all regions globally, the impact of aid for trade has been the greatest in Asia;<sup>11</sup>

(f) While the Asian and Pacific region is awash with capital, the demand for investment capital tends to outstrip supply. Already the need for infrastructure financing far surpasses the available of resources, both public and private.

23. For that reason, there is a strong argument in favour for delivering aid for trade to those most in need, particularly in the Asian and Pacific region, as this region is the most dynamic in the world and the opportunities for economic growth and development as well as for economic integration through trade and investment are abundant. It would be unfortunate if those opportunities were missed as a result of capacity constraints and inadequate aid for trade to address those constraints. For instance, there are strong indications that sustained technical and financial assistance from multiple donors played a significant role in facilitating the accession to WTO of least developed countries such as Cambodia and Nepal. While there is a Joint Integrated Technical Assistance Programme for Africa, no such programme exists for Asia and the Pacific. A convincing argument could be made that a similar programme should be developed for Asia and the Pacific. Such a programme should have strong linkage with the Integrated Framework, and ESCAP could take a leading role in the coordination of such a programme.

24. Section III below considers some modalities for public-private partnerships which could enhance the effectiveness with which aid for trade could be delivered in the Asian and Pacific region.

## **II. PUBLIC-PRIVATE PARTNERSHIPS IN AID FOR TRADE**

### **A. Concepts and modalities**

25. Aid for trade is a multi-stakeholder and multi-actor initiative in which both Governments and the private sector have a role to play. In particular, it is increasingly evident that Governments cannot

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<sup>11</sup> See, for instance, the report of the OECD Policy Dialogue with Non-Members on Aid for Trade: From Policy to Practice, Doha, 6 and 7 November 2006; para. 57; <[www.oecd.org/dataoecd/24/55/37819542.pdf](http://www.oecd.org/dataoecd/24/55/37819542.pdf)>.

do the job on their own while the role of private capital as a source of finance for development has increased considerably.

26. While trade negotiations seek to create new trading opportunities, the gains are meaningless unless the business sector actually benefits through enhanced trade. However, businesses often find that they lack the capacity to compete effectively at the global or even regional levels. While aid for trade also seeks to develop government policies that will strengthen supply-side capacities, a cogent case can be made for businesses to participate actively in this initiative. After all, they are the principal agents for trade and investment.

27. Aid for trade delivered through public channels remains limited, while the needs are real and increasing with the expanding complexities that exist in the global and regional trading environments in the current era of unabated globalization and regionalization. As trade and investment are primarily business transactions, the argument can be made that businesses could also assume an increasing role in providing Governments and other, smaller and weaker businesses, with technical and financial assistance.

28. With regard to business support for Governments, public-private partnerships could be conceived which would set and formulate the national agenda for international trade negotiations. Government and business could also collaborate in the implementation of trade agreements and commitments, including joint initiatives for reforming and strengthening the national legal and institutional framework for trade and making it WTO-consistent. Such collaboration would require active and institutionalized government-business dialogue and cooperation. The absence of serious and inclusive dialogue in some countries has made more difficult the acceptance of international trade obligations at the national level and, hence, their implementation and compliance. Businesses, including small and medium-sized enterprises, have an important stake in the successful outcome of negotiations, and Governments need in-depth knowledge of the needs and the requirements of business to be able to formulate the intended outcome and negotiation strategies. If Governments face capacity constraints on their capacity to conduct those negotiations effectively, then they could be aided by businesses, in particular the more experienced and resourceful ones, which could, for example, provide expertise and assistance in compiling the needed background information.

29. Public-private partnerships are also useful in developing supply-side capacity. For instance, in the agrofood sector, Governments (which provide the incentive and the enabling legal environment), farmers (who need access to markets) and businesses (which sell seeds and provide farmers with technical support) could combine market potential, technical competence and managerial skills in order to build the supply-side capacity of the sector.<sup>12</sup>

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<sup>12</sup> This point was made at the recent OECD Policy Dialogue with Non-Members on Aid for Trade: From Policy to Practice, which was held in Doha, on 6 and 7 November 2006.

30. With respect to the supply-side dimension of aid for trade, businesses could also provide other businesses with assistance. This argument is particularly relevant when one recognizes that competition takes place more and more at the level of supply chains rather than at the level of individual businesses. The supply chains have assumed regional and global dimensions. Within those supply chains, the larger businesses, not only transnational corporations but also large domestic enterprises, could benefit by providing assistance to their smaller suppliers such as an agrofood business providing technical support to farmers. This could be done in the form of capacity-building so that businesses could comply with prevailing standards in a given industry as well as by providing smaller businesses with financial support and training to facilitate their adoption of the latest production technologies, management techniques and practices, and quality certificates, among others. The supply chain, after all, is only as strong as its weakest link. Businesses could help each other to optimize the strength of the whole supply chain. This is indeed already taking place in some supply chains, but the process could be more actively promoted. However, businesses could also help Governments and aid agencies to analyse value chains in order to determine the need for aid for trade.

31. In considering the modalities for business involvement in aid for trade one has to realize that increasingly the United Nations and official international organizations are seemingly being assigned the role of government by the donors in aid for trade programmes. Thus, while the modalities below are based on a business-government relationship, in some of them the Government's role can be complemented and/or replaced by the United Nations or international organizations. In general, the following possibilities exist:

(a) Business-to-government assistance: businesses could provide financial and technical assistance to Governments to strengthen the capacity of Governments to negotiate, conclude and implement international trade agreements and facilitate accession to WTO. For this purpose, they could also fund public projects implemented by multilateral aid organizations, such as the United Nations agencies;

(b) Business-government-business assistance: businesses could help Governments (and the United Nations agencies) to provide assistance to other businesses in order to develop their trade capacity either through bilateral aid or through multilateral organizations, such as the United Nations agencies, or by providing direct technical expertise, such as participating in technical assistance activities as a resource person/consultant at one's own cost;

(c) Direct business-to-business assistance: businesses fund and implement their own assistance within their own supply-chain or industry cluster. Such assistance already takes place. More often than not, it is transnational corporations which provide their overseas suppliers, which are often small and medium-sized enterprises in developing countries, with financial and technical assistance (including training). Often, such assistance is provided in order to enable the suppliers to comply with the standards they set as buyers. Governments, in turn, could help by forging such

linkages and strengthening the international supply chains which integrate their small and medium-sized enterprises into the global economy.

32. Businesses are naturally indisposed to provide funding for public projects without a clear financial return. After all, Governments are supposed to implement such projects on the basis of the revenue to be obtained, not for the taxes that they obtain from businesses and that they impose on their transactions, that is, trade and investment. Often, the levels of taxation and the modalities for levying taxes are cited as barriers to business and investment. Businesses will therefore be understandably wary of providing additional funds to public agencies. However, such funding is not without return. If Governments simply have no capacity for negotiating international trade agreements, the results may have adverse effects on the business sector. Businesses therefore have a stake in being closely involved in the negotiation process. They should at least provide in-kind assistance by maintaining a close dialogue with the Government and participate in consultations regarding negotiation needs. More likely though, and already increasingly common, is the support businesses give to other businesses, often in the same supply chain and to the benefit of all concerned. Such support does not have to be financial (unless a return on investment is expected), but it can consist of providing technical expertise in order to ensure that the whole supply chain functions at the optimum level of efficiency and delivers a final top-quality product or service. Finally, business support does not have to be financial, but can consist of technical expertise rendered free of charge to Governments and aid agencies. For instance, members of the ESCAP Business Advisory Council have participated in ESCAP-organized forums at their own cost.

33. Of course, businesses already indirectly supply financial support that is used in aid for trade. As recognized by the Monterrey Consensus,<sup>13</sup> trade is a major source of financing for development, including trade development. As businesses are the primary agents of trade, obviously their activities provide revenue for development purposes. However, the exact linkages, other than through taxes on business revenue, to financing for development need further research and elaboration in order to more closely identify the modalities for business involvement in aid for trade.

34. Although consistent calls are made for an increase in ODA at the global levels, including for trade purposes, ODA remains limited and is subject to periodic declines. In fact, where ODA has increased, it is often linked with foreign policy and security objectives, such as the eradication of terrorism, or humanitarian objectives, such as disaster relief, rather than for purposes, such as aid for trade. Therefore, the capability of the public sector to provide sufficient funding for aid for trade will remain limited. As a result, and in their own interest, the role of businesses in aid for trade may be expected to increase.

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<sup>13</sup> Monterrey Consensus of the International Conference on Financing for Development (*Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex).

35. Trade facilitation is one of the areas that have generally been recognized as providing a significant contribution to trade, growth and development. It is now accepted fact that, in countries where trade facilitation is not developed and functional, trade cannot flourish. Without such facilitation, economic growth lags behind. Therefore, it is relevant to explore further how public-private partnerships could be harnessed in order to increase the effectiveness of aid for trade in the area of trade facilitation.

## **B. Public-private partnerships in trade facilitation**

### **1. Overview**

36. During the 1980s and 1990s, many small developing countries undertook comprehensive programmes of policy reform, structural adjustment and trade barrier reduction. Although open trade is essential for success in trade, those programmes are far from being a sufficient condition. Countries also need infrastructure and institutions that will enable them to take advantage of export opportunities and compete in the global trading system. However, since the inclusion of trade facilitation in the Doha Development Agenda, more attention and recognition have been given to its importance as an enabling tool for developing countries to participate in, and benefit more from, global trade. Moreover, trade facilitation is a very important work area of aid for trade.

37. Trade facilitation involves many customs and other trade procedures that are required in order to move goods and services across national borders. In many developing countries, often complex customs, inspection and logistics requirements deter the use of the most cost-effective trade corridors. Inadequate trade facilitation systems create an “efficiency penalty”. According to the World Bank, antiquated trade administration in poor countries, combined with the failure to adopt information technology in support of trade facilitation, accounts for a 7 per cent loss in the value of the goods shipped. Facilitating trade requires simplifying the administrative and commercial procedures for the movement of goods and services, investing in a supporting infrastructure and removing other barriers to trade flows. Both the public and the private sectors need to act in order to facilitate trade. Governments need to examine carefully their trade policies and procedures in order to ensure that these do not unnecessarily restrict trade. They must also commit to reducing delays and eliminating an environment that fosters the illegal payment often associated with implementing the policies and procedures that are in place. The private sector needs to lobby for reform and monitor the implementation of reform.

38. In trade facilitation, collaboration among stakeholders, both private and public, enables the identification of critical trade and transport impediments; it also helps in defining alternative ways to achieve similar objectives at lower cost. Public-private partnerships can provide a forum where stakeholders can develop strategies to remove the barriers to efficient trade. By involving private parties which possess competency in trade and which have a vested interest in the success of their

businesses, public-private partnerships can develop the most efficient and properly regulated supply chains.

39. The United Nations Centre for Trade Facilitation and Electronic Business put forth a recommendation specifically addressing the purpose, methods of creation and operating structures of public-private partnerships under Recommendation No. 4, *National Trade Facilitation Bodies*.<sup>14</sup> The recommendation emphasizes the importance of these partnerships in order to accomplish the following, among other purposes:

- (a) Identify issues affecting the cost and efficiency of a country's international trade;
- (b) Develop measures to reduce the cost and improve the efficiency of international trade;
- (c) Assist in the implementation of those measures;
- (d) Provide a national focal point for the collection and dissemination of information on best practices in international trade facilitation;
- (e) Participate in international efforts to improve trade facilitation and efficiency.

40. To be successful, potential parties in any partnership must overcome their traditional beliefs about government and business intentions. For example, the trade community frequently hesitates to meet with government representatives and express its thoughts and concerns for fear of possible retribution through government action. The Government often shares this type of reluctance, but for fear that the trader might somehow find a technicality in regulations that enables non-compliance with the rules. However, an environment in which trust exists between both parties becomes a precursor to a good public-private partnership.

## **2. Public-private partnerships in trade facilitation in Asia and the Pacific**

41. As discussed above, aid for trade often uses the channels of public-private partnerships; this also applies to the area of trade facilitation. Institutionally, public-private partnerships could be promoted at three levels, namely the national, subregional and regional levels. The functions of institutions at the subregional and regional levels are identical except for the coverage of a larger membership at the regional level.

42. At the national level, national trade facilitation bodies can represent their countries in international and regional initiatives aimed at facilitating trade. Many of the public-private partnerships created to improve the efficiency of the supply chain are formed by the government entity with the greatest interest in modernizing the existing process. Smaller, growing economies can benefit greatly from the use of public-private partnerships in trade facilitation because such

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<sup>14</sup> United Nations Economic Commission for Europe, *National Trade Facilitation Bodies*, ECE/TRADE/242, Geneva, October 2001, p. 2.



partnerships produce inputs for aspects of the economy that governmental partners would address in larger economies.

43. Given the multidisciplinary nature of trade facilitation and the involvement of a large number of stakeholders from the public and private sectors, the benefits of trade facilitation can be maximized, if trade facilitation is undertaken on the basis of public-private partnerships. Effective cooperation and coordination among all stakeholders is a fundamental prerequisite for success in trade facilitation. A partnership between the public and the private sectors could help to define better real needs, improve transparency and information flows, and encourage viable and sustainable solutions. Several members of ESCAP, including Azerbaijan, Armenia, Mongolia, Kyrgyzstan, Pakistan and Sri Lanka, have already established, or are in the process of establishing, national trade facilitation committees or other national trade facilitation coordination mechanisms.

44. Public-private partnerships at the national level however should not be confined to the establishment of national trade facilitation bodies alone; they may also extend to subsets of trade facilitation measures, such as the operation of single-window systems. Prime examples of successful public-private partnerships in trade facilitation are TradeNet of Singapore, Dagang Net of Malaysia and Tradelink of Hong Kong, China. There are other areas of trade facilitation where public-private partnerships can operate successfully. These areas should be explored further.

45. There are also many active subregional groupings such as SAARC, ASEAN, and the Pacific Islands Forum. Since these groupings are all the creation of their own members, it would be useful if the various national trade facilitation committees within such subregional groupings could be organized or grouped into a subregional trade facilitation forum since they face many similar problems. As and when a region-wide forum is established, the subregional groups could then be invited to become members of that forum.

46. At all levels, trade facilitation networks that are built on public-private partnerships could articulate appropriate recommendations for strategies and action plans for the implementation of relevant international and regional conventions, standards and tools and develop regional knowledge in order to improve the trade facilitation environment of the countries concerned. Furthermore, they could provide the stakeholders with a platform for coordination and harmonization of trade facilitation measures among countries and subregions. For example, for those trade facilitation measures that employ modern information and communication technology solutions, such as automated customs procedures, electronic single-window facilities and paperless trade environments, it would be crucial to ensure their interoperability at the regional level. In these situations, such regional networks could play a vital role.

47. Several intergovernmental meetings have sought to establish an effective regional mechanism to encourage more collaborative efforts in order to improve the implementation of international and regional conventions, standards and best practices, as well as to harmonize trade facilitation policies

and measures in the Asian and Pacific region. Initially, the establishment of such a regional collaboration platform was proposed by the participants in the UNDP-ESCAP Regional Consultation on Issues in Trade Facilitation and Human Development, held in Bangkok on 16 and 17 August 2005, and the International Conference on Strengthening Regional Cooperation for Managing Globalization, held in Moscow, from 28 to 30 September 2005, as well as the sixty-third session of the Commission, held in Almaty, Kazakhstan, from 17 to 23 May 2007. A similar request was made by the representatives of some members of ESCAP at the second session of the Committee on Managing Globalization, which was held in Bangkok, from 12 to 14 October 2005.

48. In pursuance of these requests, ESCAP has been promoting a regional network of subregional and national trade facilitation committees and other coordination mechanisms in the Asian and Pacific region which are based on public-private partnerships. The purpose is to contribute to the effective implementation of trade facilitation in a coordinated and harmonized manner, and thus to increase trade within the region and the competitiveness of the countries concerned. This initiative, an Asia-Pacific forum for efficient trade, would champion efforts and initiatives aimed at boosting trade and competitiveness by streamlining trade and border-crossing operations, building capacity and enhancing cooperation in Asia and the Pacific.

49. Such a forum could provide countries in the ESCAP region with a regional platform and voice in (a) defining trade facilitation strategies and action plans at the regional and subregional levels, and (b) promoting the implementation of international and regional trade facilitation and border-crossing conventions, standards, best practices and other tools. The forum could also serve to showcase and exchange information on the best practices and lessons learned in implementing trade facilitation measures and monitoring and evaluating the impact of such measures at the national level.

50. The above-mentioned aspirations could be achieved through a network of government agencies in member countries, such as ministries of trade and finance, customs authorities and other organizations such as national trade facilitation committees, chambers of commerce and single-window operators, which are willing to commit their own resources to deliver products in order to cater to the trade facilitation needs and priorities of policymakers and practitioners. Regular forum events could be organized to provide opportunities for the representatives of Governments, business, civil society and academia to discuss current problems and to plan future directions. The first such event is expected to be held by the end of 2007.

### **III. THE ROLE OF ESCAP AND OTHER UNITED NATIONS AGENCIES**

51. Various agencies in the United Nations system, including ESCAP and the other members of the European Commission – Eastern and Southern African Countries Trade Cluster, UNCTAD, the other regional commissions, UNDP and UNEP, among others, have been mobilized to sustain the momentum towards the operationalization and implementation of the aid-for-trade initiative. The

United Nations system is supportive of the aid-for-trade initiative and its developmental goals of helping countries to achieve sustainable development and reduce poverty, as called for in the United Nations Millennium Declaration<sup>15</sup> and the 2005 World Summit Outcome,<sup>16</sup> among other such mandates. To this end, to be effective, the United Nations system needs to promote a more coherent approach that could result in coordinated implementation of the aid-for-trade initiative. Currently, collective efforts are being undertaken to formulate a coordinated United Nations approach to aid for trade within the context of the previously mentioned Trade Cluster.<sup>17</sup> In recognizing the important role of the regional commissions, it was pointed out that they have "...much experience and significant analytical capacity on trade matters...including, in particular, in the context of regional and subregional trade agreements. The Commissions could thus contribute effectively to the aid-for-trade initiative, especially in relation to regional reviews and their follow-up".<sup>18</sup>

52. As one of the five regional commissions, ESCAP has long maintained a strong trade and investment programme in recognition of the need for regional-level trade-related technical assistance. That programme addresses both the market access and supply-side capacity-building aspects of aid for trade. As the mandate of ESCAP is focused on promoting regional economic cooperation and because trade and investment are by definition cross-border economic phenomena, trade and investment have assumed a central role in the secretariat's activities in recent years within the thematic group concerned with managing globalization. In parallel, the above-mentioned Aid for Trade Task Force has clearly identified a need for a regional dimension to aid for trade. In this context, the following considerations are pertinent to the discussion:

(a) The need for aid for trade is enormous, especially in the area of training and skills development. No agency by itself has the resources or capability to address all those needs;

(b) At the same time, it is recognized that effective aid for trade requires a multidisciplinary approach, an aptitude which few agencies possess. However, the strength of ESCAP is precisely the multidisciplinary expertise that is available in the secretariat;

(c) UNCTAD, as the principal United Nations agency working in the area of trade and development, is the global forum for the integrated treatment of trade and development and the related issues of finance, investment, technology and sustainable development. WTO, on the other hand, is the non-United Nations platform for negotiating multilateral trade rules, monitoring their implementation and handling trade disputes. WTO is not a donor agency. Although it provides developing countries with technical assistance, it is supposed to find global and regional partners for

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<sup>15</sup> See General Assembly resolution 55/2 of 8 September 2000.

<sup>16</sup> See General Assembly resolution 60/1 of 16 September 2005.

<sup>17</sup> A concept paper on this issue is being developed by the Cluster, and a joint event involving the United Nations Conference on Trade and Development and the regional commissions will be organized in parallel with the twelfth session of UNCTAD, which will be held in Accra, from 20 to 25 April 2008.

<sup>18</sup> See Summary of Conclusions of the United Nations System Chief Executives Board for Coordination, on its first session, held in Geneva on 20 April 2007, CEB/2007/2-CEB (Rev. 24 May), p. 10.

dispensing trade-related technical assistance. The International Trade Centre UNCTAD/WTO handles strategic and operational aspects of trade development, focusing on exports. Unlike UNCTAD and WTO, the Centre deals directly with the business sector. None of these global trade-related institutions have regional offices;

(d) ESCAP is the only United Nations agency in Asia and the Pacific that addresses comprehensive trade, investment and economic integration issues having a regional focus. It focuses on multilateral trade issues by providing concrete training programmes in cooperation with WTO. ESCAP addresses the proliferating bilateral and regional trade agreements in the region by tracking and rating them in an attempt to forge their consolidation and integration as building blocks of the multilateral trading system. In addition, ESCAP provides regional-level support to supply-side capacity-building in areas such as investment promotion, enterprise development and trade facilitation;

(e) In recent years, a number of regional and subregional agencies have started trade-related programmes, for example the Asian Development Bank and UNDP. In view of its long experience, accumulated expertise and analytical capacity in this area, ESCAP offers effective support to such agencies;

(f) The work of ESCAP therefore is complementary to that of the other agencies rather than duplicative, and it is positioned to increase the impact of its activities through concrete partnerships. Such partnerships do indeed exist, such as the WTO/ESCAP Technical Assistance Programme. There is scope to further expand on such partnerships as recommended by the Aid for Trade Task Force.

53. No matter how it is defined, aid for trade needs to be provided on a multilateral, regional and national basis as recommended by the Aid for Trade Task Force. While WTO, UNCTAD and ITC are ideally suited to provide such assistance at the global level, the regional commissions are properly placed to fill the regional dimension, particularly because each commission has a strong, long-established and well-recognized trade programme, as mentioned above. At the national level, UNDP could take the lead. The Aid for Trade Task Force made a strong case for donor and agency coordination and effective monitoring and evaluation of aid for trade in all its dimensions. The role of the regional commissions is further enhanced in the joint efforts of the United Nations agencies to operationalize the concept of aid for trade. In those efforts, due reference should be made to the recommendations of the Aid for Trade Task Force.

54. In past years, ESCAP launched various cooperative programmes with global organizations, such as UNCTAD, WTO and ITC, and subregional partners, such as ASEAN, SAARC, ECO, EurASec and SCO, as well as with national institutes in member countries. Such cooperation constitutes an excellent example of the division of labour and the joint efforts that have been made to produce greater impacts in serving the member countries.

#### IV. ISSUES FOR CONSIDERATION BY THE COMMITTEE

55. ESCAP could play a leading role in developing a joint integrated technical assistance programme for Asia and the Pacific, similar to that for Africa, and develop an Asian and Pacific framework for donor implementing agencies and for the implementation of trade-related technical assistance at the country level. In this context, ESCAP could also assume a leading role with regard to the regional dimension of the Integrated Framework. ESCAP could also convene and chair a regional aid-for-trade committee. In addition, ESCAP could promote public-private partnerships for aid for trade, for instance through the Asia-Pacific Business Forum, and undertake value-chain analysis to determine trade needs, as recommended by the Aid for Trade Task Force.

56. The Committee is invited to deliberate on these concrete suggestions, provide guidance to the secretariat on its overall role in aid for trade and the Integrated Framework, and identify focus areas in this regard. With regard to public-private partnerships in trade facilitation, the Committee is also invited to consider the following functions that could be performed by ESCAP: (a) encouraging member countries to establish national trade facilitation bodies based on the principle of public-private partnerships; (b) promoting the establishment, where feasible, of a subregional trade facilitation forum; (c) supporting the establishment of a region-wide trade facilitation forum, such as the proposed Asia-Pacific forum for efficient trade; (d) using aid for trade to advocate and support the establishment of such public-private partnerships in the region, as well as to foster the reform needed for providing technical assistance and capacity-building for trade facilitation.

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