

REPORT ON THE DISCUSSIONS HELD AT ESCAP SEMINAR ON “AID FOR TRADE AND SOUTH-SOUTH VALUE CHAINS”

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Session 1

The features of South-South value chains and role of tailored aid for trade:

In order to determine the role of Aid for Trade in South-South value chains, it is important to discuss what a global value chain (GVC) is, and how developing countries can establish a presence within GVCs. It was agreed by the participants and panelists that a South-South value chain is a segment of a GVC, including those with participation of developed countries within the overall chain. A South-South value chain may also exist only among developing country producers but it is more it will be a part of a larger (global) value chain or production network. Producers from a developing country looking to enter a GVC must first identify their competitive advantages; from there Aid for Trade can be appropriately funneled to support trade-supply capacity building at micro and higher levels and linkages.

Currently, the majority of Asia-Pacific's participation in GVCs has been within the manufacturing sector. In this sector, actors from Japan, Republic of Korea and most recently China have enabled producers in ASEAN member states to enter GVCs which has had many positive effects in these countries. However, despite business-to-business linkages and support through aid programmes and other policies, many key barriers to entry are still present within regional economies. These barriers include but are not limited to political instability, technological constraints, insufficient quantities of skilled workers, as well as still cost-rising tariffs and other regulatory barriers relevant to processing industries. Additionally, SMEs face the difficulty of dealing with an inefficient domestic services industry, which increases the cost of trade.

When developing Aid for Trade projects, it is important to look at the successes and failures of past projects. Panelists discussed recent successes in Lao People's Democratic Republic, such as projects focusing on building governmental research capacity, as well as projects establishing adequate trade facilities and institutions. Other projects discussed included efforts in Bangladesh to support local

producers in their efforts to meet the needs of suppliers. Regarding Chinese Aid for Trade and preferential trade initiatives, it was noted that the majority of the projects implemented are directed towards cotton producing countries in West Africa. The WTO Department of the Chinese Ministry of Commerce is looking to expand its Aid for Trade efforts to other regions.

Tailored Aid for Trade projects need to be demand driven and must focus on the individual needs and specific characteristics of the country concerned. This may not be fully possible given the rigid structure of classification of Aid for Trade types and perhaps global community would need to consider providing more flexibility in that regard. Ideas for future projects included increasing vocational training, facilitating technology transfer, and facilitating communication between stakeholders. The session ended with the suggestion that more effort and research should be devoted to making policy recommendations for governments especially making them accessible and also shared with other stakeholders.

Session 2

Role of triangulated and South-South cooperation in Aid for Trade:

Triangulated cooperation can have many different meanings, and is often interpreted very narrowly. It was agreed that bilateral aid flows allow for a donor country to address recipient country constraints, while triangulated cooperation builds on this to include other actors. In such relationships, donor countries often operate to achieve their own goals, for this reason development agencies can play a critical role in coordinating projects to help meet the needs of all stakeholders. This process is complicated by the difficulty of measuring results, which is often a result of inadequate data being provided by the developing partners. The second significant barrier to accurate measurement is time; the end result will not be apparent immediately, as recipient stakeholders need time to incorporate newly developed capacities into the existing frameworks.

According to ODI research, lower-middle income developing countries are the highest recipients of Aid for Trade, followed by least developed countries (LDCs). The following reasons were provided for why the donor-recipient relationships need to be expanded to include more actors (i.e. to become triangulated):

- 1) Global value chains are becoming increasingly significant for production and trade. Efficient border and transport systems are necessary to facilitate production processes;
- 2) Since the early 2000s, there is an increasing share of LDCs trading with middle income developing countries. Connectivity to middle income developing countries will allow LDCs to take part in dynamic production processes; and
- 3) Transit trade is critical for landlocked countries as well as LDCs. Transit trade is a significant component of high trade costs in LDCs and can be improved.

In order for participants to get a better idea of what triangulated and South-South Aid for Trade involves, panelists shared their past experiences with initiatives in which their respective organizations took part. The Mekong Institute is currently working on three pilot programs (Lao People's Democratic Republic, Myanmar and Viet Nam) which are focused on reconciling the tension between donor and recipient agendas by assessing the needs of the given stakeholders. ODI's efforts are more focused on identifying and assessing the effectiveness of Aid for Trade flows and on initiatives aimed at reducing the costs of transactions. GIZ focuses on achieving ground level impact and the creation of small scale triangular projects. Part of this process has included support provided to developing countries that are setting up their own development agencies.

In conclusion, participants stated that the promotion of private sector networking is critical as is the need to consider the value chain as a whole when formulating projects. Four key considerations relating to increasing the effectiveness of triangulated Aid for Trade were identified:

- 1) The need for inclusive institutions for aid coordination;
- 2) Active promotion of public-private dialogue;
- 3) Private sector networking should be strengthened; and
- 4) Recipient countries need to take the lead in monitoring flows and measuring impact.

Session 3

How to engage the private sector in transforming Aid for Trade into investment for sustainable development:

The capacity for the private sector to promote development needs to be considered when discussing its potential role. In many LDCs, the private sector is underdeveloped and would be unable to participate in a meaningful way. In countries where there is a significant private sector, public-private partnerships (PPPs) need to be improved and established. On the government's side, trade policy assessments need to be conducted in order to inform long-term national plans, as trade related reforms take time. Private sector needs and their engagement must be appropriately reflected in both long-term and medium-term plans. Additionally, the government should not only focus on the large scale producers, but also SMEs. The private sector can participate by encouraging proper governance and by refraining from corrupt practices.

PPPs can be improved by increasing dialogue to enable governments to be better informed and to prioritize development targets. Currently, the engagement of PPPs in GVCs has increased significantly in East Asia, however such engagement is lacking in South Asia.

Session 4

Regional integration, infrastructure and South-South cooperation to promote value chains:

The best way to promote cooperation and integration is by encouraging dialogue. Through public-private dialogue, governments can better position themselves to make informed reforms and prioritize development targets. Additionally, dialogue can assist with creating the necessary linkages for the formation of a value chain. The work of EIF was discussed in relation to value chains, much of which is focuses on removing supply constraints. It was emphasized that facilitating linkages and coordination between producers, processors and all other stakeholders is crucial to the development of a supply chain.

Participants agreed that value chains and regional integration need to be discussed together. Discussion revolved around the issue of enhancing cooperation between Latin America and Asia-Pacific, where it was agreed reforms are needed. However, one panelist pointed out that promoting integration may result in restrictions in promoting national reforms, which is currently needed within Latin America. It was proposed that some or all of these national reforms may need to take place before regional integration can be successfully achieved.

The role of Aid for Trade in promoting regional integration and South-South cooperation was discussed in detail. Funding for such projects was the primary area of deliberation. It was noted that the financial sector is weak in many developing countries, which in many cases has left NGOs and international organizations to provide funds. One example of this occurring that was provided was a joint venture involving the UNDP, ILO and Gulf-based donors. The expected results of the project are as follows:

- 1) Bridging capacity gaps;
- 2) Building capacity within the region;
- 3) Enhancing the involvement of stakeholders;
- 4) Creating a regional platform;
- 5) Providing tailored solutions; and
- 6) Developing skills.

With regards to infrastructure, the work of EIF was discussed. Currently, EIF supports the improvement of small-scale logistic infrastructure to facilitate the establishment of supply chain in prioritized sectors. EIF support is provided as a catalyst to bring donors and key actors together and to create necessary momentum for targeted sectors.

Session 5

Building capacity to take part in South-South value chains through Aid for Trade:

Building capacity to manage Aid for Trade is crucial for developing countries. To allow for better coordination and management of donor initiatives, countries are increasingly relying on Trade SWAp mechanisms. Cambodia was suggested as a prime example of the successful implementation of a SWAp, with Nepal following in its footsteps.

Participants agreed that building the capacity of the private sector is crucial as it is the private sector that is the integral part of the value chain. It was also noted that connecting to global value chains is a complex matter that requires careful consideration, and that a 'one size fits all approach' is insufficient. Cambodia, for example, boosted its participation in value chains by taking advantage of the rising labor costs in China to help increase FDI. Singapore brought in FDI due to its reputation as being politically stable and having a strong legal system. China has provided support to many SMEs based in Shanghai to help them create linkages.

Suggestions for how to build capacity to enable value chain participation included SME incubators, agricultural trust funds as well as investment in skilled labor. The session finished with discussion surrounding the need to enhance the utilization of academic networks.

Recommendations:

- 1) Establish mechanisms for the promotion and strengthening the effectiveness of private-public dialogue. Well-informed policy-making is crucial to establishing the proper business conditions that allow for exporters to participate in GVC's. Foreign and domestic investors should be fully informed of government policies and trade integration strategies. Dialogue allows for the government to be informed of the needs of the domestic producers, but it also creates a stable and predictable business environment that will encourage investment;
- 2) Aid for Trade programs need to be tailor-made to suit the individual needs of each country. No

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