CHAPTER 4:
BOOSTING VALUE CHAINS VIA REGIONAL AID FOR TRADE

This chapter shows that regional aid for trade has a critical role to play in boosting the participation of particularly low income and least developed countries in regional production networks, and in enabling them to connect and move-up value chains. The chapter highlights that one of the main motivations of the trend towards regional integration is the need to reduce barriers in regional production networks. Barriers to trade, bureaucratic bottlenecks, and infrastructure deficiencies reduce the attractiveness of countries as spokes in the hubs of the production networks. Regional aid-for-trade programmes – which have increased significantly since the 2002-05 baseline – are an effective means to address these constraints. The chapter highlights that while regional aid-for-trade programmes are inherently complex because of the need to involve and coordinate multiple governments, their various agencies and a multitude of private stakeholders, they constitute a cost-effective approach to helping countries achieve their trade and development objectives.

INTRODUCTION

The trade agenda of developing countries is increasingly being pursued through regional economic integration and co-operation efforts, a fact noted at the 3rd Global Review of Aid for Trade in 2011. In this context, regional aid for trade can help boost trade and facilitate movement along value chains. In Asia regional co-operation is motivated by attendant benefits in regional production networks; fully two-thirds of Association of Southeast Asian Nations (ASEAN) exports can now be traced to participation in these networks (ADB and ADBI, 2013). In Africa, where small, fragmented markets impede trade and competitiveness, regional co-operation is one way national markets can be enlarged, specialisation can emerge and risks can be shared. Latin America, which has a long tradition of economic co-operation, is actively using regional forums to lower the costs of doing business and of trade across the region and with external partners.

This chapter shows that regional aid for trade has a critical role to play in boosting the participation of, in particular, low income countries (LICs) and least developed countries (LDCs) in regional production networks, and enabling them to move up the value chain. One of the main motivations of the trend towards regional integration, which has become a key component of the international commercial policy landscape, is the need to reduce barriers in regional production networks. Barriers to trade, bureaucratic bottlenecks and infrastructural deficiencies reduce the attractiveness of countries as spokes in the wheel of these production networks.

The chapter first considers the links between regionalism and regional integration in the context of production networks, followed by an analysis of the role of the current regionalism trend in development strategies and its implications for the development of value chains. Relevant results from the 2013 World Trade Organization-African Union-UN Economic Commission for Africa (WTO-AU-UNECA) surveys regarding regional aid-for-trade issues and its impact are summarised. The next section considers how regional aid for trade can be used as a cost-effective approach to reducing the binding constraints to regional integration and the formation of regional production networks. Case stories are used to underscore how regional aid for trade has directly and/or indirectly facilitated regional production chains and integration. The chapter concludes with general assessments.

REGIONALISM, REGIONALISATION AND THE ROLE OF VALUE CHAINS

As underscored in this volume, previous *At a Glance* publications and the considerable literature that has emerged on the topic, trade has played an increasingly important role in successful development strategies and aid for trade has been an instrumental, cost-effective approach to lifting binding constraints to international integration. This section analyses how multi-country and regional aid-for-trade programmes can support regional integration (or "regionalisation") and value chains and summarises the policy-relevant implications of bilateral and regional economic co-operation (or "regionalism") for emerging and developing economies. The section begins 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 with relevance to production networks. Next, it considers how regional co-operation can increase prospects for regional integration and production networks. Finally, complementary factors necessary for successful regional economic integration programmes are highlighted.

Regionalism in the global context

Some 546 notifications of Regional Trade Agreements (RTAs), defined by the WTO as reciprocal trading agreements between two or more countries, have been made to the WTO. There are 354 in force,[1] up from 300 at the end of 2005 and 130 at the beginning of 1995. RTAs have been one of the defining international policy changes in the period since the launch of the Aid-for-Trade Initiative. Developing countries, especially in Africa and Asia but also in Latin America and elsewhere, have become extremely active in the regionalism movement.[2] Driving much of this process has been the desire to promote regional production networks – as is explicitly the case, for example, in Asia. With no end to this process in sight (despite concerns over the relationship between the approaches of multilateral and bilateral trade rules), this trend can likely be a "building bloc" rather than a "stumbling bloc" if production networks prosper through openness and efficiency, not by creating discriminatory blocs (Plummer, 2007).

The economics of regional production networks

The potential gains to developing and emerging economies of regional co-operation can be large, provided that governments adopt an accommodating policy framework and are preparing the economy appropriately. Free trade areas (FTAs) remove discrimination between partner countries and domestic firms, leading to a positive productive efficiency effect ("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 negative terms of trade effects that may lead to a country purchasing imports from a higher-cost source, representing a loss to efficiency. Hence, trade diversion is especially problematic for production networks, which depend upon lowest-cost sourcing. This is a key reason why the regionalism movement, backed by production networks, should remain open and outward-oriented: trade diversion can prevent this anathema to those who favour 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"[3]– liberal, simple and symmetrical.

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. 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 explain not only why FTAs and other forms of regional co-operation are increasingly open in nature, but also why barriers to trade and investment have been falling globally. The cost of isolating economies from the international marketplace has always been high, but is increasingly so in a truly globalised economy (OECD, 2012).[4]

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 the costs of the production network geometrically (OECD, 2013). This magnification of protection along the value chain also holds for non-tariff barriers and behind-the-border impediments (see also Chapter 3). Hence, the efficiency effect of regional FTAs tends to be greater in the context of production networks. OECD (2013) underscores how various deep provisions in FTAs can significantly increase trade via supply chains. The role of regional aid for trade in facilitating production networks, and in meeting the goals of regional co-operation, is evident in this process.

Besides allocative efficiency benefits and greater FDI flows, further benefits to regional co operation include: the potential for greater economies of scale due to access to a larger market; technology transfer via FDI and other aspects of integration; and the potential for a more efficient policy framework due to behind-the-border and trade facilitation measures included in modern FTAs (*e.g.* with respect to quality standards, complex measures specific to the service sector, laws related to corporate and public governance, customs procedures and competition policy). All of these areas are pertinent to creating and enhancing regional production networks along the value chain, as discussed at length in this chapter.

Boosting regional production networks

Thus, 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, lead firms are able to organise production according to the respective comparative advantages of member countries. They create these networks using a number of channels, from FDI to licensing and contracting. The lead firms then engage in fragmented trade along value chains, increasing regionalisation. FDI inflows from within and outside the region rise, and with greater FDI inflows come myriad potential benefits to host economies, including increased employment, risk-sharing capital, foreign exchange, technological spill-overs and other productivity-enhancing knock-on effects. A regional presence allows lead firms 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 the trade performance of a country and create 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 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 lead firms generate important spill-overs 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 developing economies into the global economy in ways that would have been impossible two decades ago. Through production fragmentation, lead firms 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. Therefore, 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 – a process further encouraged by WTO accession in 2007. This has led to increased globalisation of the economy, higher inflows of FDI, technology spill-overs, increased employment of its labour force and decreased poverty. Over time, Viet Nam began to move up the value chain, becoming a middle income country in 2012. It hopes to replicate these successes through 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 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 AFTA and the ASEAN Economic Community (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 changes 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 (Standard International Trade Classification 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 percent 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 piezoelectric crystals. In other words, these exports are part of an electronics value chain in which ASEAN is the key link. A main goal of the AEC is to repeat this success in attracting value chains in other areas as well.

Complementary factors in fostering regional economic integration

In order for regional co-operation (or any trade policy innovation) to spur regional integration successfully, some essential preconditions need to be in place. First, the impact will depend on the soundness of its member countries' domestic economic policies. Few firms will be able to benefit from regional trade if there are macroeconomic instability, weak property rights, corruption, or opaque tax laws and business regulations. An FTA typically spurs reform in domestic economic policy; given that FTAs tend to be much deeper than what has been the case in a multilateral context, this underscores an important advantage of regionalism as a complementary trade policy strategy. For example, Mexico was able to use its commitments under the North American Free Trade Agreement (NAFTA) as part of a pervasive domestic economic reform programme, and the associated liberalisation of behind-the-border measures was "first best".

Second, success in attracting production networks via an FTA will also depend on the efficiency of transportation and other infrastructure, trade facilitation, and other policy-related measures. For example, to realise benefits from the FTA, the transportation 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.

Hence, in order for trade liberalisation to be successful, developing economies often require improvements in a variety of areas that have traditionally fallen under the central themes of the Aid-for-Trade Initiative: trade-related infrastructure, trade facilitation and creating a trade-enabling environment are essential for developing countries to benefit from trade liberalisation, regardless of the context. Regional trade agreements facilitate progress in these areas, as it is easier to address these (often politically sensitive) issues in the context of a small group of like-minded economies in the region than in, say, the multilateral context. Below, these complementary policies that help to determine the success of trade liberalisation and facilitation are surveyed, before proceeding to an analysis of how the emerging regionalism in the global economy is spurring production networks and fragmented trade along the value chain.

Transit/transport corridors

Transit/transport corridors are excellent examples of the advantages FTAs and other forms of regional economic co-operation offer 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 the 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. Thus, they limit the ability of economies to participate in production networks. Their significance in impeding trade resonates throughout the trade literature. For example, Limao and Venables (2001) estimated that the quality of infrastructure in developing economies accounted for 40-60 percent of the variation in transport costs, and that a 10 percent drop in transport costs subsequently increased trade by nearly 25 percent. Attention to transit corridors in aid-for-trade programmes in particular is therefore 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 through, for example, harmonisation of border controls, improvements in technology and communication, reduction of required paperwork, and improved efficiency of government agencies and border agents.

Taking a regional approach to developing transit corridors is efficient, but is often politically challenging (OECD, 2009). Countries bear different shares of project costs, so asymmetric incentives exist to expend the limited funds and resources for the corridor on other domestic projects, particularly when projections of which country "gains the most" are often highly disputed. In this sense, the role of an "honest broker", such as a multilateral or regional development bank, can help overcome the problem. Some examples include the role of the Asian Development Bank in the Greater Mekong Subregion (GMS) and the Central Asia Regional Economic Cooperation (CAREC), discussed below, in both of which it has invested heavily and plays the role of honest broker.

Tangible benefits of using a regional approach in place of a series of national approaches can range from standardisation of construction of railway lines, which would allow railway cars from each country within the region to use the lines along the corridor, to the development of regional weight standards. OECD (2009: Chapter 2) illustrates how regional co-operation organisations 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."[5] 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.

Trade facilitation

As it involves tackling many complicated and sometimes politically sensitive behind-the-border measures, trade facilitation tends to be more easily handled at the regional level than in multilateral negotiations. 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. Such impediments to trade reduce potential efficiency gains, productivity improvements, and subsequent growth possibilities that derive from increased exports and imports. They are also detrimental to the creation of production networks and often are responsible for countries being excluded from value chains.

Many aspects of trade facilitation, when addressed at the regional level, do not lend themselves to discrimination across trading partners and hence lead to greater efficiencies in global trade rather than just regional trade. Indeed, the Asia-Pacific Economic Cooperation (APEC) organisation has made significant progress in trade facilitation on a completely voluntary, non-discriminatory basis, including a set of trade facilitation principles devised in close consultation with the private sector (discussed elsewhere in this chapter).

Perhaps the most obvious argument in favour of regional trade facilitation initiatives relates to geography, as regional proximity allows for better information flows between traders, shared cultural practices, and common systems developed over time (Maur, 2008). As many non-tariff and behind-the-border barriers to trade are geographically located, regional solutions are logical. Specific regional trade facilitation initiatives related to geography might 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).

Second, regional trade facilitation can create efficiency gains through the elimination of costly procedures and services. Here, regional solutions can sometimes be easier to implement than multilateral approaches because of the complexity of trade facilitation deals and the fact that implementation of measures to decrease costs often necessitates regional co-operation on the ground. Eradicating costly procedures enables efficiency gains for firms and allows smaller scale operators to access export markets, a key problem in developing countries. Regional solutions include harmonisation, mutual assistance among authorities for customs valuation, and mutual recognition of rulings and of certification and testing (OECD, 2009).

Third, regional trade facilitation can also engender competition in trade-related activities. Regional agreements that generate increased transparency in regulations can, in turn, stimulate more efficient border management. Trade-related services that are dependent on regulatory co-operation benefit as well.

In short, experience suggests that transit corridors and trade facilitation are important to the success of any trade policy strategy, and that addressing associated issues tends to be easier and more efficient in the context of regional economic co-operation than in other approaches.

REGIONALISM AND PRODUCTION NETWORKS IN DEVELOPING ECONOMIES

The above analysis highlights 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 through regional trading arrangements reduces transactions costs associated with fragmented trade, and hence enables the creation of regional value chains (OECD, 2013). Orefice and Rocha (2011), for example, used a gravity model to capture the effects of deeper economic co-operation accords on production network-related trade. They estimate that these accords 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 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.

This section considers briefly the respective experiences of the most successful region in establishing value chains, Asia, and the least successful, Africa. In addition, it includes a review of efforts in the Caribbean, which has been an especially active sub-region in trying to promote value chains. It also considers inputs regarding "revealed" strengths and weaknesses of regional aid for trade as a catalyst for regional integration using results from the 2013 WTO-AU-UNECA surveys of donors and partner countries in Africa and the 2011 OECD/WTO regional aid-for-trade monitoring and evaluation exercise.[6] The next section discusses how regional aid-for-trade constitutes an effective means to promote value chains and contribute to the success of these regional agreements.

Regional co-operation in Asia: a successful vehicle for value chain promotion

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 means they tend to be easier to negotiate than in the case of, say, those with larger memberships or deeper accords such as customs unions. Moreover, a majority of these FTAs are with economies outside Asia. For example, ASEAN as a regional organisation has seven FTAs in place (with Australia, China, India, Japan, Korea, New Zealand and South Korea), and its member countries have ten separate agreements with East Asian economies outside ASEAN and nine entirely outside East Asia, with several of the latter accords being more comprehensive than even intra-ASEAN co-operation (Petri, *et al.,* 2012). A great deal of empirical work has been done on production networks and fragmented trade in the region and with external partners.[7]

The driving force behind regional co-operation in East Asia is market-based: FTAs are being sought in large part as a means of increasing 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 of the total (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 Trade in Value Added (TiVA) database for selected countries; for example, in nominal terms 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 the TiVA database, 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 suggest that these accords have had (or will have) a positive effect on the welfare of their member states, they 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 (through "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 partner countries.

Recognising these constraints, Asian governments have launched negotiations to create mega-regional accords, namely, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), a trend that has been called the "new regionalism" in Asia (Petri, *et al.,* 2012). As each would constitute approximately 40 percent 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 "Asian noodle bowl".

The TPP agreement negotiations were launched in 2008 and the 17th round of negotiations took place in May 2013. The TPP builds on a high-quality FTA between four small, open economies (Brunei Darussalam, Chile, New Zealand and Singapore), known as the "P4". In addition to these negotiating parties, the TPP includes Australia, Malaysia, Peru, the United States, Viet Nam, and more recently Canada and Mexico. Japan confirmed its intention to join in March 2013 and will likely begin to participate as a full member in July.

The TPP is distinct in terms not only of 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 and competition policy There are even sections on science and technology and on small and medium-sized enterprises. All of these areas are pertinent to production networks.

The RCEP is a much more recent initiative launched in November 2012. It is the first major initiative spearheaded by ASEAN as part of its strategy of "ASEAN centrality". The RCEP is initially to be negotiated only by ASEAN and its existing FTA partners (Australia, China, India, Japan, Korea and New Zealand). However, the Guiding Principles for Negotiating the RCEP, which were endorsed by ASEAN and its FTA partners' leaders, would allow the region's economic partners to accede to the agreement eventually. The RCEP is intended to be a "high-quality" agreement, although its focus on being more "flexible" than the TPP, as well as its membership, suggest that it will be less comprehensive. The RCEP leaders finished their first negotiating round, at which scope and methodology were discussed, in May 2013 with a second meeting planned for September. The leaders of the RCEP have targeted completion of the agreement by the end of 2015.[8]

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, their effect in enhancing production networks. For example, Petri, *et al.* (2012) use an advanced CGE modelling approach to estimate the economic impact of the RCEP and the TPP as tracks leading to the FTAAP in 2025.[9] 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 the Free Trade Area of the Asia-Pacific (FTAAP), or almost 2 percent of global GDP, a very significant impact mainly derived from China and the United States being included in the same FTA.

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, SADC, and the Economic Community of West African States, ECOWAS) and even monetary unions (*e.g.* the West African Economic and Monetary Union, known by its French acronym, UEMOA, for Union Economique et Monétaire Ouest Africaine). 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.[10] Like Asia, Africa has considered integrating its many FTAs in a "continental" or "pan-African" FTA. This 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 Asia has been far more effective in boosting intra-regional trade: intra-regional trade in Africa amounts to only about 10 percent 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, as in Africa, intra-regional trade in Asia has been hampered in the past by connectivity issues. South-East Asian countries 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.

For example, to this end the ASEAN Infrastructure Fund was created in 2012 and the Greater Mekong Subregion (GMS), with its secretariat at the ADB, has been highly successful in addressing key bottlenecks to trade in the Mekong region since its inception in 1992. 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, although not in all cases (intra-regional trade in ASEAN has only risen from 20 percent of total trade when AFTA was signed to about 25 percent today). But success in this regard should be measured by the effects on lowering costs, increasing competitiveness and attracting FDI, all of which have been a hallmark of the ASEAN success story over the past generation.

Moreover, "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. Further, the stress placed on services liberalisation in the context of the AEC and RCEP is indicative of this priority to attract value chains; as is clear from the TiVA database, international trade in services is much larger in terms of value-added (50 percent) than seemed to be the case in terms of nominal trade (around 30 percent). This difference is explained in large part by the prominent role the services sector plays in supporting international production networks. East Asian policy makers are now prioritising services.

Thus, the fact that Africa has not been able to create regional production chains has been an important factor behind this underperformance in terms of regional integration. The lack of intra-industry trade, and insufficient development of production networks as impediments to closer regional integration, have been underscored in the African Development Bank'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. Among other things, 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, too, have been addressing these core binding constraints to intra-regional trade in Africa. The 2013 WTO-AU-UNECA surveys were undertaken as part of the monitoring and evaluation preparations for the 4th Global Review of Aid for Trade. The WTO, in collaboration with the African Union (AU) and the UN Economic Commission for Africa (UNECA), designed an online questionnaire aimed at assessing how aid for trade can best support the AU objective of increasing intra-African trade. The questionnaire was circulated by the AU and ECA to African countries and regional economic co-operation organisations (RECs), as well as donors and Southern partners. Overall, 51 responses to the questionnaire were received, including 30 from African countries, five from the RECs and 16 from donors (eight bilateral and eight multilateral).

With respect to regional co-operation and integration, the donor survey 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.
- More than three-fourths of donors said the demand for assistance with 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"). Almost all donors noted that their support has been aligned with various AU trade initiatives, especially the African Productive Capacity Initiative (approximately 90 percent) and the Programme for Infrastructure Development in Africa (two-thirds).
- Over 80 percent of donors have participated in pan-African projects to promote regional trade co operation and integration, and over half of these reported involvement in various sub-regional initiatives as well, including the East African Community (EAC) (63 percent), ECOWAS (56 percent) and SADC (50 percent).
- Evaluations of donor programmes on regional trade co-operation suggest that these programmes have been highly successful: about two-thirds of donors found that these programmes had led to increased exports and trade, over two-fifths found that they had led to increased economic growth and reduced poverty, and slightly over one-third noted that the programmes had helped with export diversification.

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

The accompanying 2013 WTO-AU-UNECA partner survey corroborated many of these themes.[11] According to this survey, trade-related infrastructure and transport are key sectors in regional trade strategies, as are agriculture, trade in services, and services to support exports. Respondents also reported that their regional co-operation strategies were developed through consultation with donor partners, regional partners and needs assessment, but added that consultation with the private sector (domestic and foreign) was an important part of the process. The EU was cited as by far the most important source of assistance for regional trade integration.[12] However, the notion that backing for regional trade programmes since 2005 had increased significantly was supported by less than 10 percent of the respondents, with less than half noting that it had increased somewhat. This finding may be suggestive of unmet demand for regional assistance.

Priority sectors for regional co-operation were similar to those cited by the donors, but recipient countries appeared to believe that donor support was less aligned with their own strategies, with only one-tenth saying it was well-aligned and two-thirds saying it was moderately aligned. Two-thirds indicated that they had not requested help with AU initiatives. The most important difficulties in implementing regional and/or sectoral trade strategies cited were 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 to those of 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. Half of the respondents said regional aid for trade had increased as a result, whereas less than 20 percent of the donors believed this to be the case.

In short, while regional co-operation can be an important stimulus to regional trade in Africa, as noted elsewhere in this chapter, support for soft and hard infrastructure and other complementary policies needs 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 an important effect on regional integration. Hence, regional aid for trade is particularly effective in creating a better environment for value chains. The 2013 WTO-AU-UNECA surveys suggest that regional aid for trade has been effective, but that much more can be done.

The Caribbean: using regional aid for trade to promote integration

The Caribbean Community (CARICOM) is an organisation made up of 15 member states and dependencies. 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 and free flow of goods, services, labour and capital.[13] Together with the Dominican Republic, CARICOM is linked to the EU through an Economic Partnership Agreement, which began in 2013. It also has a special FTA with the United States (the Caribbean Basin Initiative, CBI).

CARICOM has already been active in using regional aid for trade to foster regional integration and strengthen co-operation. In December 2012 it launched the Caribbean Community Regional Aid for Trade Strategy 2013-2015 (CARICOM, 2012), which outlines its regional aid-for-trade priorities and objectives for the next few years. It indicates that despite the best of intentions in terms of economic co-operation, its intra-regional economic interaction is operating at less than 50 percent of what it could – and should – be. CARICOM (2012) 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 the measures mentioned 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 of the Strategy.

What do partners report as the main challenges?

Responses to the 2011 OECD/WTO monitoring survey from regional organisations highlighted what they believed to be the most important impediments to trade, both in intra- and extra-regional contexts. The results are summarised in Table 4.1. In general, competitiveness, limited export diversification and inadequate transport links were deemed the most important impediments to intra- and extra-regional trade, with significant overlap across the two categories. Soft and hard infrastructure-related issues were cited across all regions, with trade finance and limited export diversification also being significant constraints for several regions. Standards and compliance issues were also cited frequently, especially in regard to the external trade of most African sub-regional organisations and CARICOM.

Table 4.1 Overview of constraints to intra- and extra-regional trade

Regional organisation	Most important constraints to intra-regional trade	Most important constraints to 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

Source: OECD/WTO Questionnaire 2011, *www.aid4trade.org*.

In addition, the responses highlighted differences in perception even between organisations 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 according to the Northern Corridor Transit Transport Coordination Authority (TTCA-NC), but they were not considered key constraints by SADC (or the Organisation of Eastern Caribbean States, OECS). Limited access to trade finance was a significant constraint to intra-regional trade for SADC and OECS and to external trade for the latter. Competitiveness was given high importance except by 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 there is an interpretation problem; for example, the costs of transport services raise costs and reduce competitiveness.

In any event, according to the survey responses 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 effective in addressing all these issues except trade finance.

REGIONAL AID FOR TRADE AS AN EFFICIENT CATALYST OF VALUE CHAINS

For developing economies to attain the benefits of regional integration and co-operation, they must address a variety of market failures and constraints. This is where multi-country and regional aid for trade can play an important role. As is evident in the regional aid for trade case stories (OECD/WTO, 2011) and the 2013 WTO-AU-UNECA surveys, there are many areas in which regional aid for trade is efficiently and effectively addressing bottlenecks that impede closer bilateral and regional integration, in the context of a formal regional accord or by other means.

Regional aid for trade can play a cost-effective role in supporting regional integration and co-operation. It is a critical area in which donor and recipient countries can get the "biggest bang for their buck". This begs the question of the extent to which recipient and donor countries have thus far responded to the evident need for regional aid for trade. How has regional aid for trade fared in terms of growth in aggregate flows? How do these flows compare to overall aid-for-trade flows? Which sectors are receiving the largest regional aid-for-trade flows? And have there been significant regional differences in the distribution of regional aid-for-trade flows at the regional level?

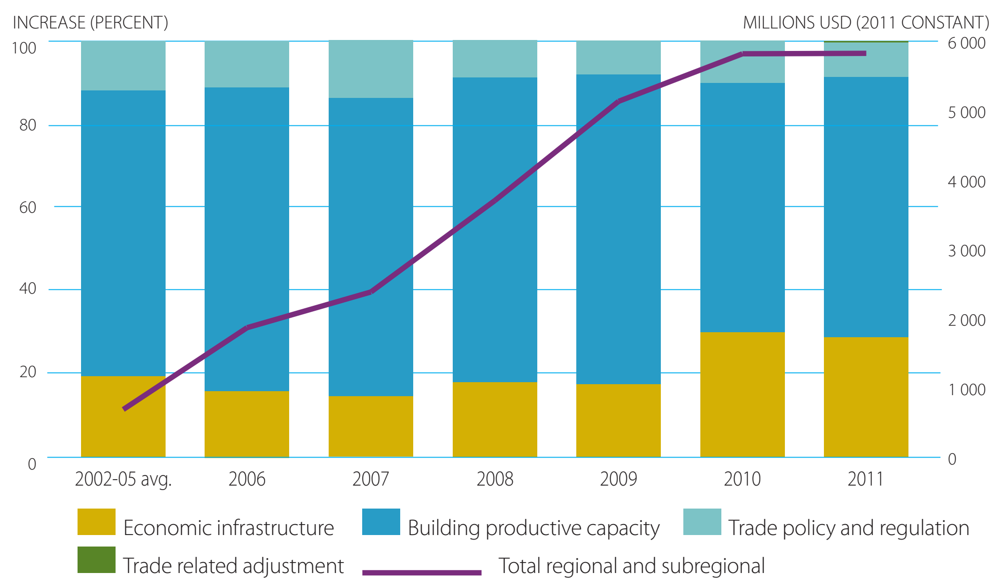
Chapter 2 notes that while aid-for-trade commitments continue to be strong relative to the 2002-05 baseline, they have been declining of late, concomitant with overall development assistance. While aid for trade has fared reasonably well during this difficult period, some cutbacks were perhaps inevitable. This highlights the importance of ensuring that aid for trade is as efficient and effective as possible. The remainder of this section considers trends in multi-country and regional aid for trade at the sectoral level. The next section provides examples of regional aid for trade in action. These experiences underscore the beneficial role of regional aid for trade in supporting the economic co-operation process.

Trends in regional aid-for-trade flows

Chapter 2 gives a thorough overview of the trends in overall aid-for-trade flows in the context of aggregate official development assistance (ODA) flows. Regional and sub-regional aid for trade – as defined in the Creditor Reporting System (CRS) – constitutes a relatively small share of total aid-for-trade flows, but it has been rising. In 2006 total disbursements under regional and sub-regional aid for trade came to USD 2.6 billion. In 2011 they rose to roughly USD 6.2 billion. Hence, the share of regional and sub-regional aid for trade in total aid for trade grew from about 12 percent in 2006 and 19 percent in 2011. While total aid-for-trade flows grew by about 50 percent over the 2006-11 period, regional and sub-regional aid for trade increased by 2.5 times as much.

At the sectoral level, there are significant differences in regional and sub-regional aid-for-trade flows compared to overall aid for trade. Since 2006, building productive capacity has consistently been the most important component of regional and sub-regional aid for trade by far (Figure 4.1). The share of disbursements to this sector remained fairly stable over the period 2006-09, in the range of 69-74 percent. However, building productive capacity experienced a decline of roughly 7 percent from 2009 to 2011, mostly in favour of economic infrastructure and, to a lesser extent, trade policy and regulations (Figure 4.1).

Figure 4.1. Regional and global programmes by category (disbursements)
Percent share and total value

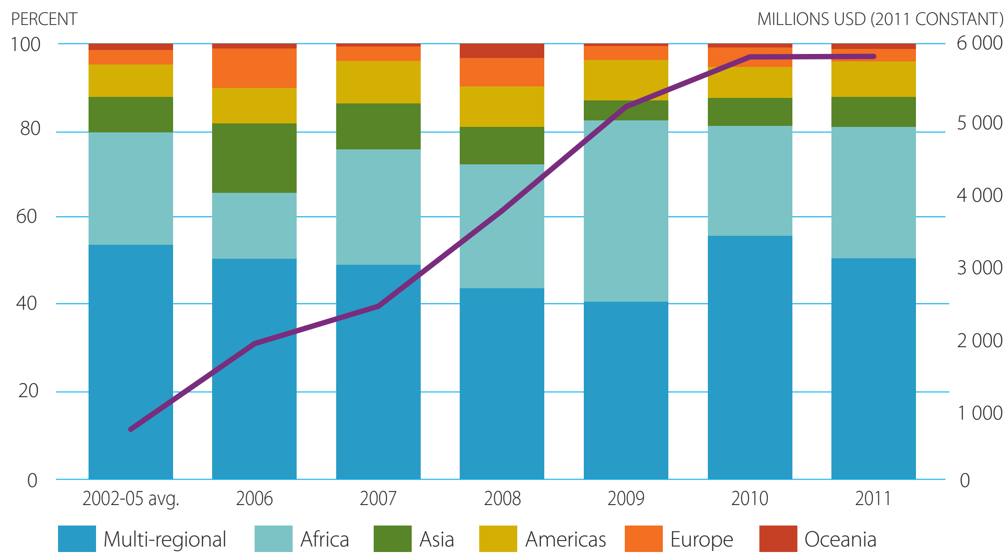


Source: OECD Creditor Reporting System Database, *http://stats.oecd.org/index.aspx?DataSetCode=CRS1#*.

Figure 4.2 presents data for total and regional and subregional aggregates by region. Aggregates for Africa, Asia, and the Americas, Europe, Oceania and a "global (multi-regional)" category are included. The distribution of aid-for-trade disbursements differs widely across the total and regional and subregional categories, as one would expect given the nature of regional and subregional flows. The global category is the largest and reflects projects related to South-South co-operation, which 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.

Figure 4.2 Geographical distribution of regional and global programmes (disbursements)

Percent share and total value



Source: OECD Creditor Reporting System Database, *http://stats.oecd.org/index.aspx?DataSetCode=CRS1#*

At the regional and subregional levels, the share of aid for trade disbursed to Africa is about four times that disbursed to Asia: excluding global flows, Africa's share has almost doubled from 31 percent in 2006 to 61 percent in 2011, whereas Asia's share has more than halved from 32 percent to 14 percent over the same time period. This is no doubt a reflection of the high priority placed on regional integration by African leaders.

In sum, the share of regional and sub-regional aid-for-trade flows has increased since the 2006 in spite of a very slight decrease in dollar amounts of total and regional flows from USD 6.3 billion in 2010 to USD 6.2 billion in 2011. Nevertheless, regional aid for trade continues to be relatively small, particularly given its potential, as noted above, and its proven effectiveness as described in the next section

Although the composition of these flows has changed somewhat over time, the "building productive capacity" and "economic infrastructure" sectors have consistently dominated regional flows. The literature on binding constraints to trade suggests that this focus is well merited, and the case studies reviewed below describe a number of successful projects. Still, trade facilitation, more efficient and practical accommodating policies, and facilitation of structural change are increasingly important to successful development strategies in general and to regional co-operation and integration in particular. Therefore, they constitute potentially high impact areas for future regional aid-for-trade programmes.

CASE STORIES OF REGIONAL AID FOR TRADE USED TO PROMOTE VALUE CHAINS

The above makes a strong case in favour of regional aid for trade as an effective way of lowering barriers to the creation and expansion of production networks, and of facilitating participation in value chains. However, realising 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, and whose benefits cannot be appropriated nationally. Consequently, much of the focus of the Aid-for-Trade Initiative has been at the national level; instruments to support multi-country and regional programmes are less well developed. Coupled with declining ODA resources globally, augmenting regional aid for trade poses many challenges. But the above analysis strongly supports the notion that increasing regional aid for trade will pay rich dividends; well-targeted regional aid for trade can go a long way in offering firms in developing countries a stepping stone towards international production networks, regional integration and competitiveness globally.

There is ample empirical evidence that this is the case. In July 2010, the OECD and WTO solicited case stories for the Global Review of Aid for Trade 2011 from interested stakeholders (OECD/WTO, 2011). About 10 percent 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. Below are summarised some of the key case stories and other projects pertinent to how regional aid for trade can contribute to production networks and deepening involvement in value chains.[14]

Insights from the regional case stories

In order to organise the case stories systematically, this section divides the projects into several categories: economic infrastructure, trade facilitation, trade-related policies, building productive capacity and value-chain promotion. It should be noted, however, that this is done for convenience rather than by economic design or priority. Indeed, many projects would comfortably fit under more than one category and all projects below have played an important role in addressing some binding constraint to regional integration and production networks.

Economic infrastructure

As noted above, insufficient economic infrastructure is a key constraint to regional economic integration and value chain creation in emerging and developing economies, particularly LICs. The case stories underscore that regional aid for trade for economic infrastructure projects and programmes must unavoidably rely upon close pluri-national co-ordination, and that 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. Economic infrastructure requires some form of on-going funding and accompanying capacity-building measures 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 communications technology backbones. These are all essential to promoting production networks and moving up the value chain.

The *Nacala Corridor Economic Development* Strategies programme, funded by the Japanese International Cooperation Agency (JICA) in close co-operation with the Government of Mozambique that aims to formulate development strategies to guide appropriate development and investment. Also, it could benefit the regional value chains and value-added through business services.[15] The Nacala Corridor has historically been an important transit corridor in southeastern Africa, but was disrupted due to the civil war in Mozambique that ended in 1992. With infrastructure in ruins, the corridor became an important priority for international donors. This programme seeks to formulate an integrated development strategy for the Nacala Corridor and create an effective planning framework. It takes both a regional approach, including regions in Mozambique and connections to neighbouring Malawi, Tanzania and Zambia; and a sectoral approach, including logistics, tourism, mining, industry, forestry, agriculture, water resources, electricity, communication, social infrastructure and transport infrastructure, enabling the programme to prioritise and formulate projects in an integrated way. In addition to improving available databases in areas relevant to both social development and business, the programme has reviewed development plans, prioritised development projects and public and private investments, analysed capacity constraints, and identified constraints to development in the Nacala Corridor, with a view to informing project selection and planning.

Founded in 2001, the Central Asia Regional Economic Cooperation (CAREC) programme is composed of ten Central Asian countries (including China) and supported by six multilateral institutions with the goal of enhancing economic development through regional co-operation.[16] It boasts regional projects in transport, economic corridor development, trade facilitation, energy, and trade policy, with 140 projects worth USD 21 billion to date. Arguably the greatest benefits thus far have been in the areas of "better connectivity", reducing the cost of doing business at home and across the CAREC region, and stimulating trade.[17]

Trade facilitation

As noted elsewhere in this chapter, trade facilitation has an important bearing on the creation of production networks. Lowering the costs of economic integration through trade facilitation is frequently cited by the private sector as a top priority in enabling production networks and boosting international trade, as well as ensuring that efficiency improvements in hard infrastructure translate into lower costs. Regional aid for trade can play a catalytic role in reducing these barriers to interchanges.

Various trade facilitation initiatives under the APEC framework offer excellent examples of how regional co-operation can lower the costs of economic interaction and promote value chains.[18] APEC economies were able to lower business transaction costs across the region by 10 percent through two Trade Facilitation Action Plans over the 2002-10 period. A Single Window Action Plan (2007) for customs and has also been promulgated, and an APEC webpage on tariffs and rules of origin ("WebTR") has been initiated. In addition, an APEC Business Travel Card has been created that reduces costs of business travel by allowing travel without visas and special express lanes at airports.

In the Americas, the FTA between the United States, Central America and the Dominican Republic stressed the importance of trade facilitation and Ministers launched the Trade Facilitation Initiative in 2011, with the goal of identifying key barriers to economic interchange in the region.[19] The three central areas were: customs and trade facilitation; logistics and the supply chain; and technical standards, including sanitary and phytosanitary (SPS). Surveys of stakeholders found that the areas requiring the most improvement were: customs administration, including risk management; logistics and related infrastructure; the need for integrated border management; and heavy bureaucracy at the borders. Such regional co-operation is effective in helping the region prioritise the greatest challenges to regional integration.

In addition, the International Transit of Goods programme, launched in 2008 by the Inter-American Development Bank (IDB), created a single electronic document to be used at the El Amatillo border crossing between El Salvador and Honduras, which has the highest volume of trade in Central America, with the goal of simplifying and harmonising border processes.

Another project related to trade facilitation and cost reduction has been spearheaded by Trademark South Africa (TMSA). At the Chirundu border crossing, Africa's first one-stop border post (OSBP) along the North-South Corridor, trade facilitation improvements are evident in transit cost reductions for the private sector and increases in government tax collection. Between June 2010 and June 2012, border crossing time fell by 36 percent to an average 25 hours, while during the same period the border post became much busier with the number of vehicles increasing by 65 percent. As a result, the private sector was averaging savings due to faster transit times of about USD 20 million per month by mid-2012. Without increasing tax levels, more efficient customs operations led to a doubling in the government of Zambia's trade tax from 2009 to 2012.

Trade-related policies

As noted elsewhere in this chapter, 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.[20] In other words, this sector considers part of the "soft" infrastructure for regional co-operation and integration. Nevertheless, the OECD/WTO and WTO-AU-UNECA surveys reviewed above stress the importance of improving trade-related policies in order to boost regional integration and competitiveness.

Hence, regional aid for trade in the "trade policy and regulations" area can be important in facilitating intra-regional integration and building "soft" capacity in government agencies. While at present the allocation of regional aid for trade to trade policy and regulations is not high, it has great potential in the future, particularly as new configurations of regional trade arrangements emerge (for example, the proposal for the pan-African FTA and the RCEP noted above). Moreover, the potential gains from greater trade facilitation in multi-country and regional contexts will render this area increasingly attractive in terms of aid for trade.

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) programme, also supported by the United Kingdom and administered by CARICOM and CARIFORUM, started in 2009 as a demand-driven mechanism to support Caribbean implementation of EPAs with Europe and the CARICOM Single Market and Economy. By 2011, 18 projects had been approved in eight CARIFORUM states, of which five were regional and 13 national projects, accounting for approximately 70 percent of available funding with demand surpassing available resources. The establishment of the fund is especially notable as it is truly a joint effort across donor and recipient regional organisations.

The economic literature (*e.g.* Park and Lippoldt, 2008) suggests a clear link between FDI, intellectual property rights (IPR) protection, and moving up the value chain. However, there are often misconceptions about the desirability of IPR protection and this has sometimes led to policies that have reduced the potential for attracting regional production networks. The OAS Intellectual Property Value Capture Export strategy project, sponsored by the Organization of American States (OAS), endeavours to increase awareness on the part of domestic and regional actors regarding potential increases in export income through the use of intellectual property (IP) strategies. Key to the success of this programme is the involvement of both local and regional stakeholders in selecting 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.

The lack of harmonisation of standards- and conformance-related policies can impede the functioning of regional production networks, as well. The German-financed Establishing a Regional Quality Infrastructure (QI) in the East African Community (EAC) project is designed to improve the regional quality infrastructure in East Africa. This involves standardisation, quality assurance, accreditation and testing. The project, which runs from 2004 to 2013, began working on the establishment of a regional QI compatible with WTO requirements. A Standards, Quality, Metrology and Testing Act passed in the EAC in 2007 established the framework for harmonisation of standards and co-ordination of activities. A regional QI system was created nearly from scratch: 1 100 standards were harmonised, although 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.

The COMESA-EAC-SADC Tripartite non-tariff barrier (NTB) notification and resolution system is web-based, but has been made accessible to the entire spectrum of traders through the use of a mobile phone functionality. Furthermore, the system has been embedded solidly in regional economic community, national government and private sector institutional structures and approaches. By the end of March 2013, 73 percent of NTB complaints had been resolved, often within days or weeks rather than the lengthy periods (months and even years) experienced in the past. The most frequently logged complaints include those related to lengthy and costly customs procedures throughout the Tripartite region; issues related to the application of rules of origin; costly road user charges; and issues related to the application of sanitary and phytosanitary standards. Lifting a ban on cross-border buses and heavy vehicles passing through the Kariba Border Post, has, among other things, boosted small-scale trade, increased the volume of cross-border trade, reduced travel and transit times, and boosted employment and clearing capacity.

Building productive capacity

From the case stories, it is clear that engaging and mobilising the private sector is a key but constant challenge when building regional productive capacity.[21] Yet the private sector constitutes the basic core of international and regional integration and production networks. Regional aid-for-trade projects are quite effective in addressing some of the greatest difficulties faced by the private sector in developing regions.

For example, the EU-sponsored Caribbean Trade and Private Sector Development Programme (CTPSD) – Phase II Caribbean Export Component contributed to the Caribbean Export Development Agency ("Caribbean Export"), which is a regional export and trade promotion agency, to support the private sector in the signing of the EU and CARIFORUM Economic Partnership Agreement. The programme's aim is to work at the regional level to use regional organisations more effectively to achieve the goals of strengthening export capacities within the region. Involving Caribbean Export as a partner was deemed to be a 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 participants at the regional level.

An interesting example of a more advanced developing economy sharing its experiences in order to promote best practices at the regional level is the OAS-sponsored Strengthening the Official Sanitary System of Agricultural Goods for Export Markets in CARICOM Member States programme. The Government of Chile, through the Secretariat of the OAS, shared its SPS management rules and practices with the CARICOM countries. The success of this programme demonstrates the effectiveness of South-South co-operation.

The Canadian-sponsored Program for Building African Capacity for Trade (PACT) was a joint project implemented by the ITC, the Trade Facilitation Office Canada and various African organisations, with the objective of expanding and diversifying exports in the recipient African countries and building SME export capacity. The programme focused on offering training in export readiness and information and communications technology-based delivery of market information, expert advice on market readiness and market access missions. It 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 United States. Furthermore, "Access! African Businesswomen in International Trade" provided export training and business counselling 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 that 50-60 percent established business linkages with a distributor in the importing country, and 20 percent actually received orders or were in the process of doing so.

Value chain promotion

Each of the above case stories had a direct or indirect bearing on improving prospects for integration into value chains. However, several case stories also 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 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.

CONCLUSIONS

The above analysis comes to the following general conclusions: regional production networks are becoming increasingly important to the success of the trade agenda of developing economies; in addition to increasing trade performance and generating many of the same gains that accrue from a more open trade and investment environment, 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; and regional aid for trade can facilitate regional integration and value chains. The increasing share of regional aid for trade in overall aid-for-trade flows, coupled with responses to the 2013 WTO-AU-UNECA surveys, underscore the rising awareness among partners and donors about the effectiveness of regional aid for trade in meeting trade and development goals.

The OECD/WTO publication *Aid for Trade at a Glance 2009* highlighted the great impact that regional aid-for-trade projects can have, but also the problems associated with regional projects. In particular, it delineated two major challenges for the future: the need for better co-ordination at the regional level, and the need to strengthen human and institutional capacities. Concerning the first challenge, this chapter has identified three key problems: weakly articulated demands for regional aid for trade; lack of coherence between national and regional priorities; and lack of effective co-ordination at the regional level. Concerning the need for strengthened capacities, this chapter highlights that RECs have widely varying institutional and human capacities, which has significant ramifications for absorptive capacity for regional aid for trade. Moreover, the existence of multiple and overlapping regional integration arrangements and organisations can make establishing a stable donor-recipient relationship difficult.

From the 2013 WTO-AU-UNECA surveys of donors and partner countries in Africa and the case stories reviewed above, it appears that there has been substantial progress since 2009 in articulating demands for regional aid for trade and in fostering closer co-operation between donors and partner countries, although there is room for improvement. Strengthening the coherence between national and regional priorities remains a medium/long-term challenge, however. Enhancing the capacity of human and institutional capacities is also a medium/long-term challenge in the development process. However, donors and regional organisations have placed strong emphasis on relaxing this constraint with considerable success, and the movement towards mega-regional arrangements, especially in Asia and Africa, should reduce problems of overlapping arrangements.

It is difficult to generalise about experiences from regional projects and programmes, as they are so diverse in terms of their objectives, contextual situation, country composition and size. However, research and surveys undertaken by the OECD, WTO and other international organisations suggest that the "recipe for success" would be:

- Emphasising *ownership* on the part of stakeholders needs to be a high priority in order for the project to be successful.
- Related to the point above, active "buy-in" on the part of stakeholders is needed in order to ensure that a project will have support throughout its life. This is particularly important for regional and multi-country projects.
- Consistent and corrective monitoring and evaluating regimes need to be incorporated into project design, allowing comparisons across the regional/national dichotomy. CAREC is an example of best practice in this regard.
- Projects need to have clear, realistic goals. Timing needs to be practical and realistic, but not overly conservative. However, there also needs to sufficient, built-in flexibility to manage unanticipated events.

- While different projects have different goals, sustainability should be an important consideration for most projects, particularly in the economic infrastructure category.
- In regional aid-for-trade projects, particularly in the economic infrastructure and in building productive capacity sectors, it is important to engage the private sector and other non-government-affiliated partners, a point that was underscored in the WTO-AU-UNECA partner survey.

While regional aid-for-trade projects are inherently complex because of the need to involve and co-ordinate multiple governments, their various agencies and a great multitude of private stakeholders, they represent a cost-efficient approach to helping developing economies meet their trade and development objectives. At a time when fiscal budgets in donor countries are stretched, regional aid for trade offers an excellent example of producing large benefits for any given outlay. ■

NOTES

1. *www.wto.org/english/tratop_e/region_e/region_e.htm.*
2. For a list of these, updated to 13 January 2013, see *www.wto.org/english/tratop_e/region_e/region_e.htm.*
3. "Trade deflection" refers to the possibility of non-member economies diverting exports to the lowest-tariff country in an FTA.
4. A formal approach to this changing reality was developed in the "endogenous tariff" literature.
5. See H. Kuroda, M. Kawai and R. Nangia (2007).
6. Details regarding the 2013 WTO-AU-UNECA surveys are discussed later in the section.
7. Kimura and Obashi (2011) offer an extensive survey of the literature.
8. See the "Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership", *www.meti.go.jp/press/2012/11/20121120003/20121120003-2.pdf.*
9. In the actual Petri, *et al.* (2012) publication, the RCEP calculations only include the "ASEAN+3" economies, that is, ASEAN, China, Japan and Korea, while the TPP simulations do not include the three members that joined in the past year, Canada, Japan and Mexico. However, the website supporting the book *(www.asiapacifictrade.org)* includes numbers for RCEP ("ASEAN+6") and the TPP 12.
10. *www.afdb.org/en/.*
11. While the response rate to the partner questionnaire was fairly good, with 30 countries responding, responses to many questions were received from only a fraction of these countries, with most questions being answered by only about five respondents.
12. OECD (2009), Chapter 2, gives a good overview of EU assistance to African countries in implementing Economic Partnership Agreements (EPAs).
13. For details on the CARICOM Single Market and Economy, see *www.caricom.org/jsp/single_market/single_market_index.jsp?menu=csme.*
14. Before beginning, it might be noted that these are case *stories* as opposed to case *studies;* that is, they tend to be descriptive and informational rather than analytical. Benefit-cost analysis was not part of the exercise, for example.
15. *www.jica.go.jp/project/english/mozambique/002/outline/index.html.*
16. *www.carecprogram.org/index.php?page=carec-development-effectiveness-review.*
17. For a "stocktaking" of progress after ten years, see *www.carecprogram.org/uploads/events/2010/9th-MC/Draft-10Year-Commemorative-Study-Main-Text.pdf.*
18. *www.apec.org/About-Us/About-APEC/Achievements-and-Benefits.aspx*.
19. *www.iadb.org/intal/intalcdi/PE/2013/11612.pdf.*
20. In the CRS database it also includes trade-related adjustment, but this component is negligible in size in terms of regional aid-for-trade flows.
21. In the CRS database, building productive capacity includes projects related to banking and financial services; business and other services; and agriculture, forestry and fishing.

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