



Technical Assistance Report

Project Number: 40246
October 2006

Capacity Building for Designing, Negotiating, and Implementing Free Trade Agreements in Selected Asian Developing Member Countries (Financed by the People's Republic of China Regional Cooperation and Poverty Reduction Fund)

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
ASEAN SEOM	–	ASEAN Senior Economic Officials Meeting
DMC	–	developing member country
CAREC	–	Central Asia Regional Economic Cooperation
CGE	–	computational general equilibrium
FTA	–	free trade agreement
IPR	–	Intellectual property rights
GMS	–	Greater Mekong Subregion
OREI	–	Office of Regional Economic Integration
PRC	–	People's Republic of China
RCI	–	regional cooperation and integration
SAARC	–	South Asian Association for Regional Cooperation
SPS	–	Sanitary and phytosanitary
SWOT	–	strengths, weaknesses, opportunities, and threats
TA	–	technical assistance
TRIPS	–	Trade-Related Aspects of Intellectual Property Rights
WTO	–	World Trade Organization

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Industry and trade
Subsector	–	Trade
Themes	–	Sustainable economic growth, regional cooperation
Subtheme	–	Promoting macroeconomic stability

NOTE

In this report, "\$" refers to US dollars.

Head	M. Kawai, Office of Regional Economic Integration (OREI)
Senior Advisor	P. Rana, OREI
Director	S. Madhur, OREI
Team leader	C. Nguyen, Regional Cooperation Specialist, OREI
Team member	G. Wignaraja, Senior Trade Economist, OREI

I. INTRODUCTION

1. The recent proliferation of free trade agreements (FTAs) in Asia is placing increasing strains on the region's FTA negotiations capacity and creating a demand for new technical skills among government officials in such areas as services, intellectual property rights, and government procurement. These capacity constraints are particularly acute in poorer countries, which also lack institutions to provide training for their officials. These issues were highlighted at an FTA brainstorming seminar, which was attended by eminent policy-makers and members of academia in the region, in Manila in March 2006.¹ Subsequently, the Association of Southeast Asian Nations (ASEAN) requested capacity-building support for FTA negotiations from the Asian Development Bank (ADB) at a Senior Economic Officials Meeting (SEOM) in Kuala Lumpur on 24 March 2006.² In response, ADB's Office of Regional Economic Integration (OREI) conducted a fact-finding mission to the ASEAN Secretariat to determine how ADB could support trade-related capacity building in ASEAN countries.

2. This technical assistance (TA) is designed to strengthen the technical and analytical skills of officials from selected Asian developing member countries (DMCs) in designing, negotiating, and implementing effective FTAs. The design and monitoring framework is attached as Appendix 1.³

II. ISSUES

3. Many developing countries do not have sufficient trade-related capacity to benefit from the opportunities provided by the open markets of multilateral trading systems. As a result, at the global level, trade-related capacity building is at the heart of the deliberations of a new round of multilateral trade negotiations under the auspices of the World Trade Organization (WTO). The Doha Declaration issued by the WTO ministers in November 2001 identified trade-related capacity building as a critical element of the development dimension of the multilateral trading system. Subsequently, the WTO Ministerial Conference in Hong Kong, China in December 2005 called for a workable aid-for-trade package to respond to trade-related capacity building needs of developing countries. ADB and other regional development banks have committed themselves to supporting this initiative as it can provide significant opportunities for economic development and poverty reduction⁴ and increase participation by developing countries in world trade, thereby strengthening the multilateral trading system.

4. Since 2000, new trade and investment frameworks have been rapidly emerging in Asia. Many economies have been initiating and participating in negotiations on increasing numbers of bilateral or regional FTAs. The coverage, rules, and standards in several of these FTAs overlap. ADB estimates that there are currently over 175 FTAs⁵ that either have been signed or are under negotiation in Asia. East Asian economies have been involved in 95 of these and have been a major driver of FTAs in the region.

¹ Participants at the brainstorming seminar on free trade agreements: "Issues and Challenges in Designing Free Trade Agreements in Asia", which was organized by the Office of Regional Economic Integration (OREI), included HE Ms. Mari Elka Pangestu, Trade Minister of Indonesia, and Mr. Narongchai Akarasanee, Executive Chairman, Export-Import Bank of Thailand (former Trade Minister of Thailand).

² The Second Meeting of ASEAN Senior Economic Officials was attended by senior ASEAN economic officials at the director-general level.

³ The TA first appeared in the ADB *Business Opportunities* on 13 July 2006.

⁴ See press release of Inter-American Development Bank on 8 June at <http://www.iadb.org/NEWS/articledetail.cfm?font=3&artid=3122&language=English>

⁵ <http://aric.adb.org/regionalcooperation/index.asp> accessed June 2006

5. The growing number of FTAs in Asia and the Pacific is in part a response to the uncertain progress of multilateral trade liberalization under the auspices of WTO. There is also a precautionary motive behind them as countries seek to avoid being placed at a competitive disadvantage by the other regional trading arrangements that are taking shape in the rest of the world. Another factor behind the spread of FTAs is that many economies that are geographically close to each other have already established strong trade and investment relationships and now wish to deepen their economic cooperation. For example, ASEAN has established closer economic partnerships with the “+3” countries (the PRC, Japan, and the Republic of Korea) and other trading partners (Australia, New Zealand, and India). The outcome of these agreements has been the establishment of various FTAs between ASEAN and these countries.⁶

6. There are positive and negative implications of the spread of FTAs in Asia. On the positive side, the proliferation of FTAs can help countries to pursue their dynamic comparative advantage and allocate resources efficiently. Against a backdrop of slow progress in global trade negotiations, FTAs can promote continuing liberalization, induce domestic and structural reforms in the countries concerned, and widen market access across the region. Trade arrangements with dynamic, competitive partners can also encourage the spread of efficient production practices.

7. However, the demands of negotiating many trade agreements place increasing strains on scarce trade-negotiation resources of many countries, especially given the expanding scope, content, and increasing complexity of recently negotiated FTAs in the region. These capacity constraints are particularly acute in DMCs that also lack institutions to support capacity building for their officials. These countries may not be well equipped to manage the analytical and technical aspects involved in designing, negotiating, and implementing effective FTAs. This is particularly the case in DMCs that need to simultaneously pursue significant domestic structural reforms, thereby introducing greater openness and increasing domestic competition.

8. The recent proliferation of FTAs also implies that they are fast becoming a trade policy instrument of choice in many DMCs. Capacity building on FTA design, negotiations, and implementation for DMCs has thus become increasingly important. However, the *2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building* notes that international support for trade capacity building declined from \$204 million in 2002 to \$118 million in 2004.

9. ADB is well placed to strengthen the FTA negotiation capacities of DMCs in Asia. ADB has a track record in supporting trade facilitation in Asia and the Pacific through its support for regional and subregional cooperation programs such as the Greater Mekong Subregion (GMS) Program and the Central Asia Regional Economic Cooperation (CAREC) Program. ADB has also supported regional capacity-building programs for trade facilitation in Asia, such as a High-Level Meeting on the WTO Trading System and training courses on trade facilitation, the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the WTO

⁶ To date, ASEAN has signed framework agreements on comprehensive economic partnerships with the People's Republic of China [PRC], India, Japan, and the Republic of Korea. The negotiations on FTAs, which have already started with these countries, cover trade in goods, services, and investment. The basis for FTA negotiations between ASEAN and Australia and New Zealand is the Joint Declaration of the Leaders at the ASEAN-Australia and New Zealand Commemorative Summit, which was signed in November 2004. The Trade in Goods Agreement with the PRC was signed in November 2004 and its implementation began in July 2005. Other agreements are under negotiation with a targeted completion year of 2007.

Customs Valuation Agreement in 2002;⁷ a high-level meeting on key WTO issues and training courses on anti-dumping activities, rules of origin, and investment in 2003;⁸ and a high-level meeting on key WTO issues and two training courses on accession and WTO dispute settlement mechanisms in 2004.⁹

10. In line with ADB's mandate to play a proactive role in facilitating and promoting regional cooperation and integration in the Asia and Pacific region, ADB should help to build up capacity of selected Asian DMCs in designing, negotiating, and implementing FTAs. This would also be a contribution by ADB to the Aid-for-Trade program of WTO.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The objective is to strengthen the technical and analytical skills of officials from selected Asian DMCs in designing, negotiating, and implementing effective FTAs. The intended impact is the development of effective FTAs. The expected outcome is improved technical and analytical capability of Asian DMCs' officials in FTAs.

B. Methodology and Key Activities

12. The TA includes a high level seminar for senior officials and three training courses for middle level officials to be jointly conducted by ADB in collaboration with leading international experts on FTA negotiations. The training courses target middle-level and junior officials at various concerned ministries of selected Asian DMCs who are responsible for coordinating FTA design, negotiation, and implementation. Participation would include a mix of officials mainly from ASEAN countries (in response to the specific request of the ASEAN SEOM) and other Asian DMCs, as appropriate.

13. The seminar would enable senior officials to better understand complex trade, economic, legal, institutional, and other policy issues relating to FTAs. This would strengthen their strategic and managerial skills in designing, negotiating, and implementing FTAs.

14. The tentative outline of each training course is made up of three main sections. The introductory section will provide the participants with some important background concepts and trends. It will cover (i) international trade theory and the economics of FTAs (including trends in the Americas and Europe), political and economic driving forces of Asian FTAs, the main features of Asian FTAs, and the case for an emerging Asia-wide FTA; (ii) the concepts of business competitiveness, national economic performance, and strengths, weaknesses, opportunities, and threats (SWOT) analysis to analyze competitiveness; and (iii) how to use SWOT analysis to analyze an economy's strengths and weaknesses, trade competitiveness, and policies on trade in goods, services, and investment.

15. The second section will focus on designing effective FTAs (i.e., FTAs that are in line with WTO provisions). The section will cover the following: (i) general principles in designing an

⁷ ADB. 2002. *Technical Assistance for Capacity Building for Developing Member Countries on the World Trade Organization System*. Manila (TA 6035-REG).

⁸ ADB. 2003. *Technical Assistance for Capacity Building of Developing Member Countries on Selected WTO Issues*. Manila (TA 6220-REG).

⁹ ADB. 2004. *Technical Assistance for Capacity Building of Developing Member Countries on Selected WTO Issues*. Manila (TA 6142-REG).

effective FTA, such as clear political and economic objectives, WTO consistency and compliance, removing trade and investment barriers, maximizing sectoral coverage, and identifying sensitive and exclusion lists; (ii) how to manage FTA stakeholders' divergent expectations and concerns and how to engage the business community while factoring in their aspirations and concerns; (iii) quantitative estimates of the macro-effects of FTAs (including modeling techniques and caveats and sample results of computational general equilibrium [CGE] modeling); (iv) negotiating trade in goods (liberalization and facilitation), services and investment provisions; and (v) alternative approaches to dispute settlement.

16. The third section, which is the main focus of the training, will concentrate on strategizing FTA negotiations and implementations. This will include: (i) country preparation for entering into an FTA, such as choice of FTA partner, type of FTA or economic accord, distinguishing between short-term structural adjustment costs and static and dynamic gains, and identifying necessary domestic changes in legal, regulatory, and institutional frameworks, and economic reforms; (ii) issues related to the Harmonized Rules of Origin; (iii) trade facilitation measures (e.g., transportation, logistics, communication infrastructure, customs clearance and processing); and (iv) emerging problems in implementing FTAs (e.g., adaptation of sanitary and phytosanitary measures, enforcement of intellectual property rights, implementation of rules of origin, dispute settlement, role of private sector, and interagency coordination).

17. The courses will involve a mix of formal presentations, seminars, case studies, group work, video conferencing with experienced trade negotiators, a panel discussion on regional FTAs, and simulation exercises. Course flexibility will allow training programs to be tailored to suit the different development stages and degrees of economic openness in selected Asian DMCs. Training materials can subsequently be duplicated for other subregional training programs on trade issues, such as the regional TA for Support to Trade Facilitation and Capacity Building in GMS.¹⁰

C. Cost and Financing

18. The total cost of the TA is estimated at \$500,000, which will be financed by the People's Republic of China Regional Cooperation and Poverty Reduction Fund and administered by ADB. The budget will cover travel and per diem for senior and mid-level officials of selected Asian DMCs, and remuneration for resource persons, international and national consultants, other costs related to the organization of the high-level seminar and training courses, and other miscellaneous costs. A detailed cost breakdown and the proposed financing plan are in Appendix 2.

D. Implementation Arrangements

19. The regional TA is expected to begin in September 2006 and to be completed in October 2008. ADB will be the Executing Agency. OREI will implement the TA, in collaboration with Economics and Research Department, and other ADB departments and offices.

20. Each training course for mid-level officials will run for two weeks. The courses are targeted at officials actively involved in designing, negotiating, and coordinating the implementation of FTAs (e.g., officials from ministries of trade, finance, customs, and foreign affairs). The participants will have the following minimum qualifications: (i) a bachelor's degree

¹⁰ ADB. 2006. *Technical Assistance for Support to Trade Facilitation and Capacity Building in the GMS*. Manila (TA 3904-REG).

(or the equivalent) in international trade, economics, finance, or other related fields; (ii) at least 3 years' relevant professional work experience, with a strong background in international trade; (iii) fluency in written and spoken English; and (iv) currently working with a department undertaking FTA negotiations.

21. The TA will require approximately 4 person-months of international consulting services and 2 person-months of national consulting services. Recruitment will follow the *Guidelines on the Use of Consultants*. The scope of work and outline terms of reference for the consultants are in Appendix 3.

22. International consulting services will be utilized to support the organization of the high-level seminar and preparation of the seminar report. The consultant(s) will have expertise in international trade policies, regional economic cooperation, and trade negotiations, and extensive knowledge on the bilateral or subregional FTAs in Asia.

23. Two international consultants will be engaged on an individual basis for the training courses. The consultants will prepare and facilitate training courses on designing, negotiating, and implementing FTAs targeted for mid-level officials in selected Asian DMCs. One subject specialist consultant from WTO will be invited to deliver lectures on selected technical topics during the training courses. A national consultant will also be involved to support the organization of the training courses.

24. The first training course is tentatively scheduled for 16–27 October 2006. The second will be held in October 2007, and the third in 2008. The high-level seminar is tentatively scheduled for March 2007.

IV. PRESIDENT'S DECISION

25. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$500,000 to be financed on a grant basis by the People's Republic of China Regional Cooperation and Poverty Reduction Fund for Capacity Building for Designing, Negotiating, and Implementing Free Trade Agreements (FTAs) in Selected Asian Developing Member Countries, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Effective FTAs</p>	<ul style="list-style-type: none"> • FTAs consistent with WTO rules • Broad stakeholder participation • Strong interest of business community in FTAs • Increased market access for participating countries 	<ul style="list-style-type: none"> • Reports of selected Asian DMCs • Primary data from the private sector and government officials 	<ul style="list-style-type: none"> • Macroeconomic stability • Commitment of governments of selected Asian DMCs
<p>Outcome</p> <p>Improved analytical and technical skills of officials in selected Asian DMCs involved in designing, negotiating, and implementing FTAs</p>	<ul style="list-style-type: none"> • Better understanding of international trade theory and the economics of FTAs • Improved skills in applying SWOT analysis to analyze competitiveness • Better understanding of general principles in designing effective FTAs • Increased knowledge on how to manage FTA stakeholders' divergent expectations and concerns and how to engage the business community while factoring in their aspirations and concerns • Improved understanding on quantitative estimates of macro-effects of FTAs: ABCs of modeling techniques and caveats and sample results of CGE modeling • Better knowledge on how to strategize and implement FTA negotiations 	<ul style="list-style-type: none"> • Review and assessment by independent institutions such as the informal advisory group or the ASEAN Secretariat and the SAARC Secretariat • Evaluation by Operations Evaluation Department of ADB • Feedback from participants 	<ul style="list-style-type: none"> • Commitment of governments of selected Asian DMCs • International consultants and resource persons are available • Invited officials are available
<p>Outputs</p> <p>1. Effective high-level seminar for senior officials of selected Asian DMCs 2. Quality training courses for mid-level officials of selected Asian DMCs</p>	<ul style="list-style-type: none"> • High-quality presentation papers at the high-level seminar • High-quality training curriculum for the training courses • High-quality case studies on FTAs negotiations • Comprehensive reading list • Number of participants 	<ul style="list-style-type: none"> • Progress reports by consultants • Feedback from participants 	<ul style="list-style-type: none"> • Inputs of consultants to the high-level seminar and training courses are of high quality

Activities with Milestones	Inputs
<p>For the training courses</p> <ol style="list-style-type: none"> 1.1 Field international consultants 1.2 Prepare training outline and reading list 1.3 Identify participants 1.4 Organize training courses 1.5 Prepare final reports on the training courses <p>For the high-level seminar</p> <ol style="list-style-type: none"> 2.1 Identify subject of the seminar 2.2 Identify resource persons 2.3 Seek nominations of senior officials 2.4 Organize the seminar 2.5 Prepare the proceedings of the seminar 	<ul style="list-style-type: none"> • ADB staff • Agencies of selected Asian governments • Media • Consultants and resource persons (\$155,000) • High-level seminar and three training courses (\$290,000) • Miscellaneous administration and support (\$5,000) • Contingencies (\$50,000) <p>Total Cost: \$500,000</p>

ADB = Asian Development Bank; CGE = computational general equilibrium; FTA = fair trade agreement; SAARC = South Asian Association for Regional Cooperation; SWOT = strengths, weaknesses, opportunities, and threats; WTO = World Trade Organization.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. People's Republic of China Regional Cooperation and Poverty Reduction Fund Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. Consultants	105.0
b. International and Local Travel	50.0
2. Seminar and Training Courses	
a. Per Diem	160.0
b. International and Local Travel	100.0
c. Venue and Logistics	30.0
3. Miscellaneous Administration and Support Costs	5.0
4. Contingencies	50.0
Total	500.0

^a Administered by the Asian Development Bank.
Source: Asian Development Bank estimates.

OUTLINE OF TERMS OF REFERENCE FOR CONSULTANTS

A. High-Level Seminar for Senior Officials

1. Trade Economist (1 international, 1 person-month)

1. The international consultant will have expertise in international trade policies, regional economic cooperation, and trade negotiations and substantial knowledge of the bilateral or subregional free trade agreement (FTA) under study. In consultation with the Office of Regional Economic Integration (OREI), the consultant will:

- (i) prepare background information;
- (ii) prepare presentation papers as requested;
- (iii) draft opening speeches and remarks for the Management as appropriate;
- (iv) identify relevant resource persons for the seminar;
- (v) facilitate the seminar and group discussions;
- (vi) prepare the final seminar report; and
- (vii) undertake other tasks as required by the assignment.

B. Two-Week Training Course on Designing and Negotiating FTAs for Mid-Level Officials

1. Trade Economists/Trainers (2 international, 2 person-months)

2. The consultants will have in-depth expertise in international trade policies, regional economic cooperation, and trade negotiations and substantial knowledge on FTAs in Asia. In consultation with OREI, the consultants will:

- (i) develop a detailed curriculum for a 2-week training course with a day-by-day schedule covering the following topics:
 - (a) overview of international trade policy and competitiveness;
 - (b) FTA trends in Asia and their implications;
 - (c) general principles of designing “effective” FTAs;
 - (d) estimating costs and benefits of FTAs;
 - (e) negotiating in trade in goods, services, and investment provisions;
 - (f) technical barriers to trade, rules of origin and customs procedures, dispute settlement, trade liberalization and treatment of sensitive sectors and products, and other issues;
 - (g) country’s overall trade and investment strategies;
 - (h) implementing and evaluating an FTA agreement; and
 - (i) other relevant topics and issues on FTAs;
- (ii) prepare course materials, including reading lists, handouts, and others for distribution to participants;
- (iii) deliver lectures as required;
- (iv) design and facilitate group exercises as required;

- (v) prepare course evaluation forms and produce a summary of the results, incorporating suggestions and lessons into the curriculum of the follow-up course;
- (vi) prepare a course folder with all the documents used during the training course for submission to OREI; and
- (vii) undertake other tasks as required.

2. Trade Policy/Subject Specialist from WTO (1 international, 1 person-month)

3. The consultant must have substantial experience of teaching short courses and substantial knowledge of specific topics in designing, negotiating, and implementing effective FTAs. In consultation with OREI and the principal trainers, the consultant will:

- (i) deliver lectures on the following topics:
 - (a) WTO rules and procedures related to FTAs;
 - (b) technical barriers to trade;
 - (c) rules of origin;
 - (d) telecommunications services liberalization and e-commerce provisions in an FTA;
 - (e) dispute settlement mechanisms; and
 - (f) FTA negotiation strategies;
- (ii) prepare the relevant course materials including reading lists and handouts for distribution to participants;
- (iii) design and facilitate group exercises as required;
- (iv) submit a copy of all documents used during the lecture for submission to the principal trainers;
- (v) undertake other tasks as required by the assignment.

3. Economist/Conference Coordinator (1 national, 2 person-months)

4. Apart from knowledge of international trade policies and trade negotiations, the national consultant should also have a strong statistical background in data processing and analysis. In consultation with OREI and the international consultants, the consultant will:

- (i) assist in the preparation of the curriculum;
- (ii) help facilitate the training course, including the preparation of reading lists, handouts, and other relevant course materials for distribution to participants; and
- (iii) undertake other administrative tasks as required by the assignment.