

KEY POINTS

- Aid for Trade disbursements and trade facilitation spending are up.
- Trade costs are trending down, but remain elevated in some subregions.
- The Pacific is increasingly focusing on value addition and niche exports.
- E-commerce is expanding rapidly and has potential to increase export participation by SMEs and women-led firms.

Download the report *Aid for Trade in Asia and the Pacific: Thinking Forward about Trade Costs and the Digital Economy*
www.adb.org/publications/aid-trade-asia-and-pacific-thinking-forward-about-trade-costs-and-digital-economy

AID FOR TRADE IN ASIA AND THE PACIFIC 2015¹

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INTRODUCTION

The way that trade is being undertaken is changing. In Asia and the Pacific, firms are moving online, joining value chains, and going niche. Aid for Trade (AFT) supports these efforts largely by building the physical infrastructure for trade, and increasingly, through trade facilitation spending.

Yet high trade costs persist in some subregions and inclusiveness continues to be a challenge. The 2015 report uses a review of Aft as a springboard to explore some new ways of thinking about how to address these issues. In particular, it considers how to build from established Aft spending on information and communications technology (ICT) and infrastructure connectivity.

The Pacific is the subject of specific focus. The report highlights the experience of exporters in order to illustrate the unique challenges and opportunities for trade-driven growth in a region where high trade costs are structural.

The report also explores the potential of the digital economy to improve the inclusiveness of Aft. The different trade cost structure of cross-border e-commerce can address some of the specific barriers to exporting that face both small and medium-sized enterprises (SMEs) and women-led firms. This brief details five key conclusions of the 2015 Aft report.

¹ The 2015 Regional Report on *Aid for Trade in Asia and the Pacific: Thinking Forward about Trade Costs and the Digital Economy* was supported by the Government of Australia's Department of Foreign Affairs and Trade.

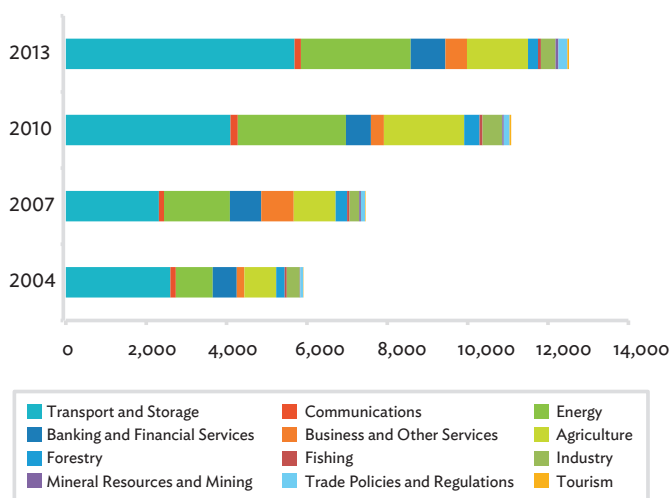
AFT PROMOTES CONNECTIVITY

Economies in Asia and the Pacific have in many ways been the foremost success story in international trade over the past decade. AfT has fueled this competitiveness.

Across the region, disbursements have gone mainly to transport, energy, and agriculture. This focus on economic infrastructure has had important impacts. An increase of 10% in AfT for infrastructure has been shown to increase exports by 0.3%.

In 2013, Asia and the Pacific was the second largest regional recipient of AfT dollars at \$14.9 billion of total disbursements (Figure 1). Within the region, the top country recipients were Viet Nam (\$2.6 billion), India (\$2.1 billion), Afghanistan (\$1.2 billion), and Bangladesh (\$903 billion). On a per capita basis, several Pacific economies including the Cook Islands and Tuvalu, are the largest AfT recipients in the world.

Figure 1: Aid for Trade Disbursements in Asia and the Pacific in 2004–2013 by Sector (\$ million)



Source: Organisation for Economic Co-operation and Development.

Significantly, disbursements in trade facilitation in Asia and the Pacific doubled from \$77.3 million in 2012 to \$155.3 million in 2013. The largest recipients include Myanmar, Afghanistan, Pakistan, and Viet Nam.

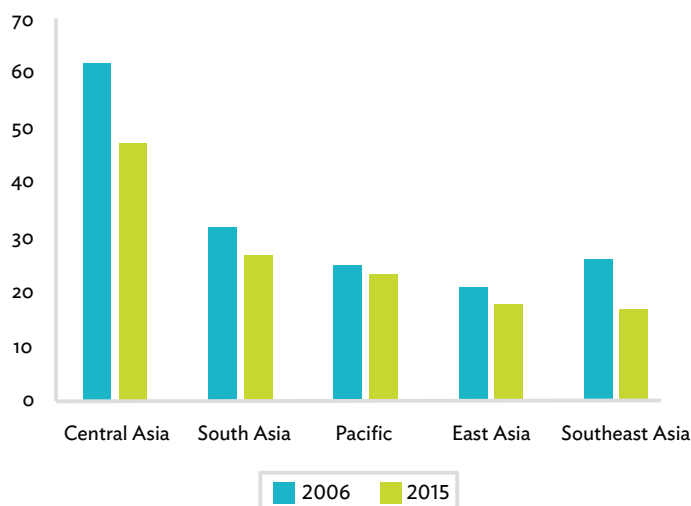
TRADE COSTS ARE TRENDING DOWN

There are significant variations in trade cost profiles across the region. While Singapore; Hong Kong, China; and the Republic of Korea set the frontier of best practice in trading across borders, the region as a whole is about 35 percentage points away.

Positively, most indicators that measure the time and cost of trade have improved significantly over the past decade, particularly for Central Asia and Southeast Asia.

In every subregion, time to export and import have come down and some countries have made significant strides (Figure 2). For example, in 2006 it took 43 days to export a product from Cambodia, in 2015 it only takes 22 days. Armenia has similarly cut the number of days from 37 to 16. Georgia has slashed export time from 54 days to 9.

Figure 2: Time to Export by Subregion, 2006 vs. 2015 (days)



Source: *Doing Business* database, The World Bank.

PACIFIC EXPORTERS SEEK TO SEGMENT MARKETS

Geographic remoteness and small market size simultaneously raise the costs of trade and make the region absolutely dependent on it. Even in the best performing economies in the Pacific, trade costs are above comparator countries. In Fiji for example, it takes 19 days to export compared to the Caribbean average of 13 days.

AfT flows targeted at regional connectivity, through improved transport and ICT infrastructure, have contributed to declining trade costs. Among all subregions, the Pacific has made the greatest improvements in the Logistics Performance Index from 2007-2014.

Using surveys and interviews, the report showcases how successful Pacific exporters survive in world markets. There are two standout features. First, community-based production methods are typical of processed exports and some agricultural exports. This suggests social spillovers of exports may be underestimated. Second, niche marketing is leveraging remoteness and tourism flows to promote high-cost exports.

WOMEN-LED FIRMS NEED TARGETED SUPPORT TO BENEFIT FROM TRADE

Women-led firms face a number of well-known barriers to growth. Firms tend to be informal, underfinanced, and often operate in the low-value added sectors. This is reflected in regional data. In the formal sector, only 18% of all firms in Asia and the Pacific are led by women.

Yet, tellingly, women-led firms are just as likely to export as their male counterparts, and in fact are more likely to export in Central Asia, East Asia, and South Asia (Figure 3). In addition, a recent study showed that women-led firms in Malaysia, Philippines, and Thailand hired 17% more female employees than their male counterparts. This suggests that breaking the barriers to growth and upgrading of women-led firms can have particularly large social and economic returns.

The challenges to upgrading that differentially affect women include time poverty and limited physical mobility related to childcare duties. These make networking, skills building, and business development more difficult.

Mobile and internet connectivity have been identified as channels to address these issues by increasing access to information, and opening opportunities for networking and skills building among others. But a gender digital divide related to both access and usage still exists. In Azerbaijan for example, a 2014 survey of women entrepreneurs revealed that while 41% had an internet-capable phone, only 16% had activated it and only 6% used it for business activities.

THE RISE OF E-COMMERCE OPENS NEW POSSIBILITIES FOR SMES

Though SMEs are the majority employers in the region, their rates of export participation are generally below 30% and in the single digits for most countries. In Mongolia, only 5% of SMEs are direct exporters.

It is in this context that the rise of e-commerce is gaining attention. Asia and the Pacific is the world's leading e-commerce market at nearly half of global business-to-consumer transactions. And transactions are growing at an average of 50% annually for the region.

This trend opens up the possibility of a number of important benefits for SMEs in particular. Simply marketing online can help SMEs access a wider variety of potential consumers. It can

Figure 3: Firms' Export Participation by Gender of Owner and by Subregion (%)



Note: Data not available for all economies.

Source: Enterprise Surveys 2014, The World Bank.

also leverage tourism flows beyond physical time in country. Businesses that are online tend to have better odds at survival in export markets as well as higher export diversification. These are key goals for the region.

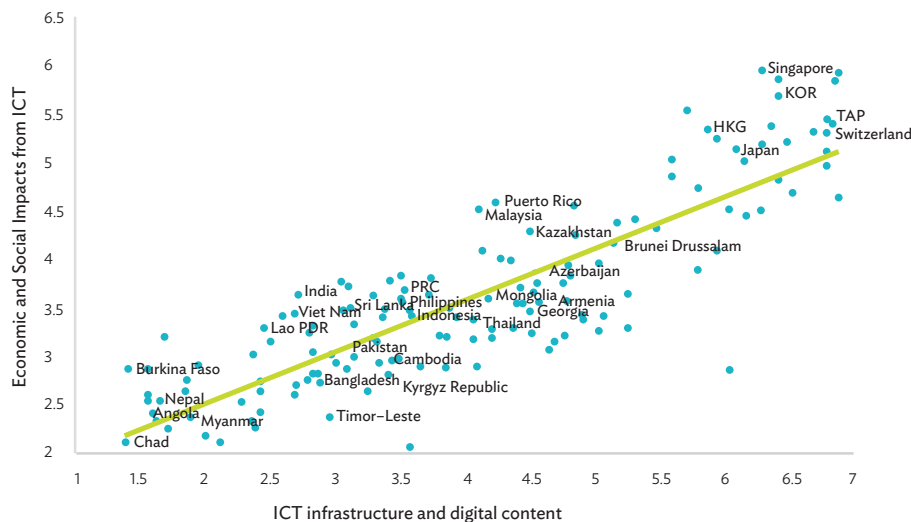
AfT has facilitated this rise by building the ICT infrastructure and supporting the enabling regulatory environment that is needed for such growth. In the Greater Mekong Subregion, more than 80% of ADB lending is for transport connectivity. This, in combination with ASEAN’s e-ASEAN initiative, introduces the conditions for strong e-commerce growth in Southeast Asia.

However, countries in Asia and the Pacific represent two extremes: those that have substantial ICT connectivity and attain economic and social gains from it, and those that have poor ICT

infrastructure and below average social and economic gains. The potential gains from digital connectivity are greatest for the Pacific and in parts of Central Asia where distance to markets is a significant barrier (Figure 4). However, it is also in these regions where the gap between infrastructure and social gains are the widest.

Propelling e-commerce and digitization further in Asia and the Pacific will require nuance and appropriate sequencing. In some economies, infrastructure issues are paramount; in others, the legal framework or other policy variables need shoring up. Building the capacity of entrepreneurs to appropriately utilize ICT and the internet may also necessary. These areas can be fruitful targets of future AfT support.

Figure 4: Quality of ICT Infrastructure and Economic and Social Impacts from ICT in 2014, Selected Economies



Notes: PRC=People’s Republic of China; HKG=Hong Kong, China; KOR=Republic of Korea; Lao PDR=Lao People’s Democratic Republic; TAP=Taipei, China
 Source: Global Information Technology Report 2014, World Economic Forum.

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