



# AID FOR TRADE IN ASIA AND THE PACIFIC

## Promoting Economic Diversification and Empowerment

### HIGHLIGHTS

JULY 2019

**Aid for Trade helps developing countries benefit from trade liberalization through improving their productive capacity, infrastructure and institutions. Globally, disbursements grew from a yearly average of \$13.1 billion for 2002–2005 to \$40.9 billion for 2016–2017. Developing Asia was among the largest recipients.**

From a low annual average of \$5.3 billion over 2002–2005, Aid for Trade (AFT) disbursements to developing Asia<sup>1</sup> nearly tripled, reaching an average of \$13.9 billion for 2016–2017 and accounting for more than a third of global AfT disbursements. Regional AfT disbursements have totaled \$137.5 billion since the launch of the World Trade Organization-led Aid for Trade Initiative in 2005, and cumulatively account for 32.9% of official development assistance. AfT flows to the region have mainly targeted economic infrastructure including the transport and storage, energy, and agriculture sectors. The most significant increases have been in energy,

tourism, and trade policies and regulations. This reflects the growing need for AfT to facilitate investment in productive capacities and the institutional capacity in the region.

**Trade costs are in gradual decline, but further progress can be made, particularly in the services trade vital to promoting economic diversification and empowerment for vulnerable groups.**

Trade costs in goods in Asia and the Pacific have declined slowly, but with wide geographical variations. Similarly, barriers to trade in services have fallen, especially those relating to digital networks and to the transport and distribution supply chain. Trade and regulatory reforms have helped to reduce trade costs associated with the logistical process of exporting and importing goods, and to lower barriers to trade and investment in services.

<sup>1</sup> Developing Asia refers here to 45 ADB developing member economies in Asia and the Pacific, See <https://www.adb.org/about/members> for details.

AfT support has made a strong contribution to these and other measures that cut trade costs further, such as trade facilitation, building infrastructure essential to expand trade capacity, and improving the business climate to increase competition.

**Trade needs to be better leveraged to promote economic diversification for more inclusive development.**

The global trade slowdown and declining commodity prices present a major challenge for developing countries, specifically those with narrow industrial and private sector bases for generating jobs, diversifying exports, and creating new sources of government revenue. To support diversification, economies with a few concentrated sectors must tackle issues related to limited industrial or manufacturing capacity, poor international competitiveness, and transport and network infrastructure challenges, among others.

The remarkable success of high-performing economies of the region over many decades demonstrates how trade (especially in manufactured goods) and participation in global value chains can help diversify the economic base and drive growth. However, wide variations persist in the level of economic diversification across Asian economies, with geographically challenged and low-income developing economies often struggling to diversify. Energizing policy efforts to leverage trade to expand narrow industrial bases and promote export diversification will be important to boost inclusive development.

In this regard, expansion of services throughout Asia and the Pacific is creating opportunities for economic and export diversification. Many promising tradable services for developing countries have emerged from recent advances in information and communications technology and improved digital connectivity. Along with facilitating services trade, it is essential that nations foster increasingly dynamic and functional services sectors to drive more sustainable economic diversification strategies.

**Aid targeted at tradable services can be a strong catalyst for greater economic diversification and more inclusive economic growth.**

In Asia and the Pacific, services employ 48.3% of the workforce (and 50.6% of the female workforce) and contribute an average of 53.4% to the national output of economies. Services sectors also account for more than a fifth of Asia and the Pacific's total trade. The region's

trade in services more than doubled from 2005 to 2018 to reach \$3.2 trillion, accounting for a quarter of global services trade.

Developing Asia is one of the major recipients of AfT for services. It received 38.2% of global AfT in services from 2002 to 2017. The largest beneficiaries have been South and Southeast Asian economies, while the largest sector recipients were transport and storage, and energy.

However, barriers to trade and investment in services remain higher than for merchandise trade. Policies that integrate trade liberalization with regulatory reform are critical for expanding services trade because they promote competition and help services form productive links with other sectors. Instances of regulatory reform in telecommunications, energy, transport, and financial services have spurred growth in services trade in many developing Asian economies. Along with providing support to economic infrastructure that is integral to promoting dynamic and functional services sectors, AfT can play an enabling role in the expansion of services markets through influencing policies, regulations, and institutional frameworks and improving the capacity of developing countries.

**Despite a narrowing of gender gaps in many social outcomes, women in Asia and the Pacific still have less opportunity to work and to get paid as much as men. Rising female entrepreneurship and greater participation of women-led firms in global value chains can unlock the potential of women to contribute to broad-based empowerment and overall inclusive development aims.**

Labor force participation rates have fallen across Asia and the Pacific for both men and women, with variations between subregions and countries. However, the female labor force participation rate remains stubbornly lower than that for men. Moreover, women are more concentrated in low-paid and low-skilled jobs, or in informal and vulnerable employment. In 2017, more than half of women in work were in vulnerable employment (only 36.5% of people in non-vulnerable employment were female). The gap in labor force participation and

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**Expansion of service sectors in Asia and the Pacific is creating opportunities for economic diversification and empowerment.**

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quality of employment persists despite economic growth and increasing education, in a disparity that is largely influenced by gender norms and compounded by social and structural constraints.

However, the region has made significant strides in support of women's entrepreneurship. For example, women-led firms in the region have become more likely to participate in global value chains, thanks to the rise of services and the enabling potential of digital technologies in recent years.

There is plenty of evidence that giving women an equal footing in economic opportunities, including through entrepreneurship, can lift economic growth and develop national productive capacities. Rising female entrepreneurship and employment in services across the region calls for trade policy and AfT to focus on how best to support trade in services while improving women's capacity to participate in trade and compete in global markets.

**AfT can advance gender equality and empower women by expanding their access to trade and economic opportunities—through increasing gender mainstreaming in aid for economic infrastructure and helping to improve gender targets in trade policies and regulations.**

More aid can go to programs that support women's participation in trade and economic empowerment—by promoting gender mainstreaming in economic infrastructure and building productive capacities in sectors where women are concentrated. Tailoring trade policies and regulations to support women's empowerment is also needed. Indeed, AfT support for gender equality and women's empowerment in developing Asia has been increasing. From 2009 to 2017, AfT disbursements that integrate gender equality as either a principal or secondary objective nearly tripled to \$2.7 billion, accounting for 24.0% of AfT.

By AfT categories, gender equality is more strongly mainstreamed in aid for building productive capacity (35.1% of the total in 2009–2017), particularly banking and financial services, business and other services, forestry, agriculture, and tourism. This is followed by trade policies and regulations (22%). The proportion of gender-targeted aid is lowest in aid for economic infrastructure at only about one-tenth. Noting that aid for economic infrastructure comprises the largest shares of total AfT, increasing AfT's impact on gender equality and women's empowerment would entail increasing gender targeting of aid in these sectors.

AfT should now seek to strengthen country ownership of integrated gender equality programs and ensure they are aligned with national and regional priorities, while improving institutional capacity to implement them. Integrating and scaling up that focus in other official development assistance (ODA) priority areas besides AfT is also essential. Ultimately, because gender equality cuts across all areas of sustainable development, and is not limited to trade-related activities, a strategic focus on gender in development interventions can significantly boost volumes of gender-targeted aid, and hence increase support for women's empowerment.

**Holistic and integrated policy support for small firms, including women-owned firms, promotes inclusive growth. Targeted AfT can help such firms overcome barriers to international markets.**

Micro, small, and medium-sized enterprises (MSMEs) have long been recognized engines of growth particularly in developing countries: they can create jobs, promote competition, and make major contributions to outputs. The potential for improving inclusive development through support for MSMEs is enormous given that firms with female owners, managers, and mostly women in their workforces are more likely to be small than large. MSMEs also typically operate in local markets, where they provide economic opportunities for vulnerable and disadvantaged people, and are often located in areas neglected by large firms. However, small firms do not participate in international markets as much as large firms. Data show that, on average, only one in five SMEs in developing Asia are exporters, compared with more than a third of large firms. This is primarily because they struggle to access key economic and financial resources and face other supply-side capacity constraints.

To help small firms break barriers to international markets, key stakeholders including governments, donors, and the private sector should consider the following support programs and policy actions: (i) improving access to finance, including through gender-sensitive and innovative financing models; (ii) fostering more conducive regulatory and institutional frameworks, especially around market entry, competition, and formalization of economic activities; (iii) building capacity through business development advisory and training services; (iv) promoting new technologies and online platforms; and (v) integrating MSME development in trade policy and trade facilitation initiatives. Ultimately, the private sector must be facilitated to strengthen trade capacity and to improve trade inclusiveness.

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## Aid for Trade can help establish a business and policy environment conducive to digital trade.

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**Digital connectivity is emerging as an important driver of inclusive economic growth, and economies in Asia and the Pacific are rapidly becoming leaders in the global market for information and communications technology (ICT).**

The role of digitalization as an accelerator of sustainable and more inclusive development is increasingly recognized. ICTs, e-commerce, and other digital platforms can be leveraged to lower information and market frictions, reduce economic costs for MSMEs, create new economic opportunities, and promote entrepreneurship. They can foster productive activities and decent job creation, as well as support the growth and formalization of MSMEs by increasing access to financial services and helping firms integrate into global value chains and markets.

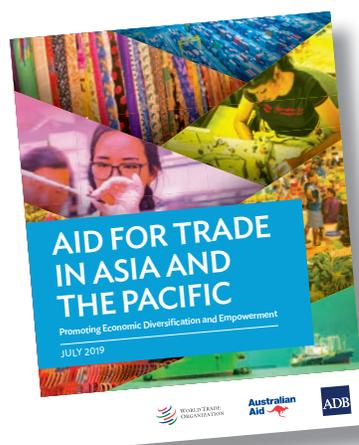
The center of gravity of global e-commerce markets continues to shift toward Asia and the Pacific, with the region accounting for 59% of global online retail sales, dominated by the People's Republic of China. Cross-border online shopping keeps on growing, while digital technologies used in trade facilitation are supporting greater trade integration around the globe. Trade in ICT-enabled and digitally deliverable services is also quickly gaining ground,

with Asia and the Pacific accounting for around a fifth of the global trade in such services since 2005. More widespread adoption of digital technologies and further growth in these services is, however, constrained by the quality of digital and logistics infrastructure and complex cross-border regulatory issues. Cuts to digital trade restrictions must be accelerated to promote sustained growth and high-productivity sectors such as services.

**AfT can be a catalyst in leveraging digital trade for economic diversification and empowerment.**

In particular, AfT can play a catalytic role in tackling ICT infrastructure issues and overcoming the connectivity challenges faced by developing Asian economies, especially those with geographic constraints and underdeveloped digital trade. Moreover, AfT can help establish a business and policy environment conducive to digital trade. AfT can help strengthen domestic institutions' capacity for paperless trade and digital transactions while improving domestic e-commerce strategies and facilitating digital trade.

AfT that targets ICT-enabled services, however, remains a small fraction of total AfT. It accounted for just 8.5% of total AfT over 2002–2017, despite nearly doubling from an annual average of \$375.3 million over 2002–2005 to \$646.2 million for 2016–2017. Clearly, the potential for shoring up aid in ICT-enabled services is great, especially given the growing contribution these sectors make to diversifying product and export markets and encouraging more inclusive trade.



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