

Approaches for Systematic Planning of Development Projects

Trade and Investment Promotion



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Since FY2002, the Japan International Cooperation Agency (JICA) has referred to scheme types such as Project-Type Technical Cooperation, Individual Expert Team Dispatch, and Research Cooperation collectively as Technical Cooperation Projects. However, since there is a possibility of confusion with the original names of scheme types, this report also uses the current term Technical Cooperation Projects with reference to projects that were started prior to FY2001 for consistency.

Similarly, collaborative projects with other entities such as NGOs have been collectively referred to as JICA Partnership Programs since FY2002, and this report, therefore, uses the term Partnership Program with reference to projects that were started prior to FY2001 for consistency.

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Foreword

The Japan International Cooperation Agency (JICA) has been working toward the enhancement of its country-specific and issue-specific approaches by formulating JICA Country Programs, implementing Project Request Surveys, and drafting Thematic Guidelines. At present there are significant differences between countries in terms of progress levels or categorizations of development issues and cooperation programs. To improve further JICA Country Programs and deal with important development issues requires appropriate formulation of programs and projects based on a fundamental understanding of development issue and effective approaches toward them, while recognizing that situations and issues differ from country to country. JICA must clarify the priority areas for cooperation, based on both the actual conditions of each target country and a systematic approach for each development issue.

Therefore in FY2001 as a part of an effort to promote country-specific approaches by enhancing issue-specific approaches JICA conducted the study on “Approaches for Systematic Planning of Development Projects” in four issues: Basic Education, HIV/AIDS, Rural Development, and Promotion of Small and Medium Enterprises (SMEs). The study systematized these issues and specified the indicators to be used as references in planning, monitoring and evaluating JICA’s activities. Furthermore, the study reviewed JICA’s previous projects and summarized their trends, matters of concern and representative cases for each issue, based on Development Objectives Charts.

Due to a growing demand for systematization of other issues as well, a further study was carried out in FY2002. Four new development issues were taken up: Poverty Reduction, Trade and Investment Promotion, Higher Education, and Information and Communication Technology. The results of this study will be adopted in the JICA Thematic Guidelines and further developed by the Agency Thematic Network.

In conducting the study and preparing this report, a task force was set up, chaired by Mr. Hiroshi Kato, JICA Director of Planning and Coordination Division, Planning and Evaluation Department, and comprising JICA staff of related departments, JICA Senior Advisors, Associate Specialists, and external consultants. A considerable number of JICA staff members, as well as external experts, further contributed by offering valuable comments on the draft report. I would like to take this opportunity to acknowledge the efforts and contribution of all of these individuals.

Finally, it is my sincere hope that this report will prove a worthwhile step in the enhancement of issue-specific approaches.

September 2003

Morimasa Kanamaru
Managing Director
Institute for International Cooperation
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Terms and Abbreviations

Terms/Abbreviations	Remarks
Trade and Investment	
AD	Anti-Dumping: As one of the WTO* agreements (annex), AD agreement recognizes the prices for exports being lower than their domestic prices to be the case for dumping. The agreement allows the importing countries to import dumping duties, maximum to the level equal to the dumping margin.
AFTA	ASEAN Free Trade Area: At the Fourth Summit of ASEAN* in 1992 the ASEAN member countries agreed to establish AFTA. Its primary goals are to promote trade among ASEAN members, to promote investment both within and outside the region, and strengthening international competitiveness of industries of the member countries.
APEC	Asia-Pacific Economic Cooperation: A consultative institution on multilateral economic cooperation among Pacific-Rim countries. It was established in 1989 and have 21 member countries as of 2003.
CAP	Common Agricultural Policy: A common policy of EU* to stabilize the internal price of agricultural products through intervening in the market as an internal policy and providing export subsidies as an external measure.
Common Market	An institution that liberalizes not only trade but also movement of factors of productions such as labor and capital within the area.
Customs Union	In addition to trade liberalization among the member countries, a customs union sets common external tariffs for non-members. Typical examples include MERCOSUR* and EU*.
DSU	Dispute Settlement Understanding: As a part of WTO agreements, it sets rules such as prohibition of unilateral measures, time limitation on dispute settlement procedures.
Economic Union	An institution that goes beyond a common market by incorporating coordination of economic policies such as monetary and fiscal policies. The European Union* which completed common internal market in 1993 and monetary integration in 1999 is an economic union.
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FTA	Free Trade Agreement: These institutions liberalize trade in goods and others among two or more countries. Typical examples include the North American Free Trade Agreement (NAFTA)* and the ASEAN Free Trade Area (AFTA)*. While abolishing import barriers such as tariffs and liberalizing trade among members, each member has its own tariff policy toward the non-member countries.
FTAA	Free Trade Area of Americas: An initiative to create an economic zone composed of 34 countries in the Americas (excluding Cuba).
GATS	General Agreement on Trade in Services: As a part of WTO agreements, this systematically sets the international rules on trade in services—first systematic rules in this area.
GATT	General Agreement on Tariffs and Trade: As the basic international rules of international trade, GATT has been in force since 1948. GATT was expanded and strengthened into the WTO, which was established in 1995, replacing the GATT.
GSP	Generalized System of Preferences: Under the objectives of expanding export earnings of developing countries and their development, the system allows developed countries to set tariffs on imports from developing countries that are lower than MFN tariff rates as preferential treatments to developing countries on tariff measures.
HS Classification	Harmonized System: Harmonized system of names and classification of merchandises. This system was set by the Customs Cooperation Council (CCC) in 1988 for the tariff classification purpose. The members of the HS agreement have obligations to conform to the product schedule in their own tariff schedules and statistical schedules to the schedule in the annex of the agreement (Harmonized Commodity Description and Coding System). For Japan, the customs tariff schedule, annex of Customs Tentative Measures Law, and import and export statistical schedules all conform with the HS.
IF	Integrated Framework for Trade-related Technical Assistance to Least Developed Countries: With an aim for efficient cooperation, this initiative was launched in 1997 among the six international organizations: World Bank*, IMF*, WTO*, UNDP*, UNCTAD*, and ITC*.

Terms/Abbreviations	Remarks
LAFTA	Latin American Free Trade Association: Established in 1961.
Local Content	The ratio of locally produced materials and parts used by manufacturing companies operating overseas to their overall amount of investment. Some countries impose obligations of fixed ratios.
MERCOSUR	Mercado Comun del Sur (Southern Common Market): Customs Union established in 1995. There are four members: Brazil, Argentina, Uruguay, and Paraguay.
MFA	Multi-Fiber Arrangement: An arrangement for international trade of textile products. When trade friction was intensified over trade in textile products from the latter half of the 1960s to early 1970s, negotiations were conducted under the GATT* on cotton products, man-made fibers, and wool products. MFA came into force in 1974 as an independent rule for the textile trade. While MFA has allowed countries to take discriminatory import restrictions, it will be integrated under the general rules of GATT by the end of 2004.
MFN Treatment	Most Favored Nation Treatment: A principle that states that the most favored treatment granted to any one of the countries has to be granted to all other members. One of the basic principles of the WTO agreements.
NAFTA	North American Free Trade Agreement: A free trade agreement among the three countries of the United States, Canada, and Mexico, started in 1994.
National Treatment	A principle that states that the same treatment should be granted to both nationals and foreign nationals. Together with MFN treatment*, this constitutes the basic principles of the WTO agreements.
NTB	Non-Tariff Barrier: Non-tariff measures taken for the purpose of restricting imports of foreign products and protect domestic products. Specific NTBs raised by the WTO* includes export subsidies, countervailing duties, customs valuation procedures, industrial sanitary and safety standards, trade licenses, and import levies.
S&D Treatment	Special and Differential Treatment: Under the WTO* agreements, the developing country members are granted with “special” and “differentiated” (from developed country members) treatments in terms of exemption from or partial application of obligations and technical cooperation.
SITC	Standard International Trade Classification: Developed by the United Nations, this is one of the most common international standard classification systems of merchandise now. SITC (1950), which is referred to as “SITC Original,” was developed based on League of Nations’ Minimum List of Commodities for International Trade Statistics published in 1937.
SPS	Sanitary and Phytosanitary Measures: Set out as a part of the WTO Agreement Annex.
TBT	Technical Barriers to Trade: As a part of the WTO* Agreement Annex, this sets rules on international standards.
TRIMs	Trade-related Investment Measures: An agreement on trade-related investment measures. It prohibits trade-related investment measures which violate GATT Article 3 (national treatment: imports should not be treated more severely in duties and penalties than domestic products) and Article 11 (general prohibition of quantitative restrictions on imports and exports). Especially, it explicitly prohibits requirements of local content* trade balancing, foreign exchange controls, and export restrictions (requirements of domestic sale). It was agreed at the Uruguay Round.
TRIPS	Trade-related Aspects of Intellectual Property Rights: An agreement on trade-related aspects of intellectual property rights. It sets international rules on patents, copyrights, trademarks, and designs.
Development Assistance	
Capacity Building	Enhancing ability to implement and manage capacity in response to institution building. Establishment of self-reliance in implementing parties.
DAC New Development Strategy	A long-term DAC* development strategy for the 21st century, adopted at a high-level meeting in 1996, that focuses on: ownership and partnership; and setting specific development goals (such as halving the proportion of the population in extreme poverty in the world by 2015). The strategy increases the expenditure ratio for social infrastructure and seeks to rationalize and decentralize implementing institutions in recipient countries.
LDC	Least Developed Countries
Medium-term Policy on Official Development Assistance	A systematic and specific five-year guideline on Japan’s ODA since 1999, aiming for effective and efficient implementation of assistance.

Terms/Abbreviations	Remarks
MDGs	Millennium Development Goals: Based on the DAC New Development Strategy*, it was agreed at the United Nations General Assembly (Millennium Summit) in September 2000. Goals to be achieved by 2015 are: (1) eradication of extreme poverty and starvation; (2) universal extension of primary education; (3) gender equality and women's empowerment; (4) reduction of the infant mortality rate; (5) improvement of the health of pregnant women; (6) prevention of epidemical diseases such as HIV/AIDS and malaria; (7) creation of a sustainable environment; and (8) establishment of global development partnership.
New AID Plan	New Asian Industries Development (AID) Plan: Assistance package of Japan announced by then-Minister of International Trade and Industry, Mr. Tamura, in 1987 when he visited Bangkok, Thailand. This is a trinity-type of economic cooperation, integrating aid, direct investment, and trade. Japan uses this plan to foster export industries of ASEAN countries.
NGO	Nongovernmental Organization: Private nonprofit organizations.
ODA	Official Development Assistance
Official Development Assistance Charter	This charter established by the government of Japan in 1992 garners broader support for Japan's ODA through better understanding both at home and abroad and to implement it more effectively and efficiently. Japan attaches central importance to the support for the self-help efforts of developing countries toward economic take-off based on the idea that assistance was part of Japan's foreign strategy in the post-Cold War period.
OOF	Other Official Flows: Economic cooperation for developing countries based on the governmental resources but not included in ODA*.
Ownership	Self-help efforts by developing countries for their own economic and social development.
PRSP	Poverty Reduction Strategy Paper: Strategy paper for debt relief of the Heavily Indebted Poor Countries (HIPC). Concept introduced and agreed on at the annual meeting of the World Bank and IMF in 1999. Aims for the effective application of financial resources generated by debt relief measures for appropriate development activities and poverty alleviation.
Safety Net	Protective measures toward socially vulnerable people. Measures include food price assistance, employment insurance system, and public social security system.
Sector Program	A sectoral or sub-sectoral program coordinated by relevant parties in development, including donors, under the ownership of the recipient countries.
TICAD	Tokyo International Conference on African Development: Under the objective of African countries accelerating their development and the international community's support for such efforts, Japan organized this conference in Tokyo in 1993 in cooperation with the United Nations and the Global Coalition for Africa. The second conference was held in 1998, and the third conference was held in October 2003.
Two-step Loan	One of the types of ODA Loans. Two-step loans are implemented by development financial institutions of the recipient country where money is lent directly or through the government, and these loans provide funds for the promotion of small and medium enterprises, agriculture, and other specified sectors of the country.
WSSD	World Summit on Sustainable Development
Organizations	
ADB	Asian Development Bank
AfDB	African Development Bank
AOTS	Association for Overseas Technical Scholarship (Japan)
ASEAN	Association of Southeast Asian Nations
DAC	Development Assistance Committee: Coordinates the assistance policy of the OECD* to developing countries. One of three major committees of the OECD, along with the Trade Committee and the Economic Policy Committee. As of 2003 membership is 23 countries.
DAC High Level Meeting	A meeting held once a year in which high-level assistance officials from each DAC country attend to discuss and adopt recommendations on particularly important development issues. In the 1996 DAC High Level Meeting of the OECD*, the meeting adopted the goal of halving the 1990 ratio of people living in extreme poverty by 2015.
DFID	Department for International Development (UK)
ECA	Economic Commission for Africa: Established in 1958. One of five regional commissions under the administrative direction of United Nations headquarters.

Terms/Abbreviations	Remarks
EU	European Union
ISO	International Organization for Standardization
ITC	International Trade Center: Technical cooperation agency of UNCTAD and WTO for trade development. ITC supports developing economies, mainly LDC, in their efforts to realize their full potential for developing exports and improving import operations.
IMF	International Monetary Fund: Established in 1944. An organization that has supported post-war international finance along with the World Bank. While the World Bank has provided funding for reconstruction and development, the IMF has served to provide funds necessary for the fixed exchange rate system and for stabilizing currencies.
JBIC	Japan Bank for International Cooperation: Established in 1999 through the integration of the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund.
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JODC	Japan Overseas Development Corporation
NEXI	Nippon Export and Investment Insurance (Japan)
OECD	Organisation for Economic Co-operation and Development: Established in 1961 as a reorganized version of the Organisation for European Economic Co-operation (OEEC, established in 1948) to rebuild the European economy. Goals are economic growth, assistance to developing countries, and the expansion of multidirectional free trade. 30 member countries at present.
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
USAID	The United States Agency for International Development
WCO	World Custom Organization
WIPO	World Intellectual Property Organization
World Bank	Generally refers to the two organizations, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank Group includes the above two organizations and the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (ICSID).
WTO	World Trade Organization: A core organization of international trade established in January 1995 with a membership of 142 countries and regions (as of July 2001).
JICA Terminology	
Community Empowerment Program	Started in FY1997. Support related to maternal and child health, welfare of the elderly, the disabled and children, and poverty alleviation measures are commissioned by JICA for local NGOs. Carried out as a part of Technical Cooperation Projects* from FY2002.
Development Studies	Small-scale studies that involve the formulation of simple basic development plans and the analysis of various types of basic data related to those plans, as well as surveys to make up for deficiencies in official statistics. Performed under the initiative and direction of overseas offices.
Grant Assistance for Grassroots Projects	A form of grant aid cooperation executed through Japan's overseas diplomatic offices to support small-scale projects that are not suitable to be undertaken through usual Grant Aid cooperation. Implemented in response to requests from local governments and non-governmental organizations (NGOs) in developing countries.
Grassroots Partnership Program	JICA's entrusting of cooperation on NGOs, local governments, and universities to provide more tailored and swift assistance. The maximum implementation period is for one year with less than 10 million yen. Carried out as a part of JICA Partnership Programs* from FY2000.
JOCV	Japan Overseas Cooperation Volunteers: A volunteer system established in 1965 for participants between 20 and 39 years of age. Approximately 23,000 volunteers have been dispatched to 76 developing countries.
Local In-country Training (Second Country Training)	Training conducted in developing countries so that Japan's technical cooperation outcomes can be better disseminated throughout the developing country.

Terms/Abbreviations	Remarks
Master Plan Study	A study to draw up a comprehensive development plan on an overall country or a specific region, or a long-term development plan for a specific sector.
Partnership Program	Projects carried out by JICA as part of ODA to support cooperation activities targeting regional communities in developing countries through Japanese NGOs, universities, local governments, and non-profit foundations that intend to carry out international cooperation. Particular emphasis is given to the three areas 1) Technical Cooperation through personnel, 2) target projects or regions with a high urgency, such as in the case of reconstruction assistance, and 3) opportunities to promote the understanding of and participation of Japanese citizens in international cooperation.
Project-type Technical Cooperation	A form of technical cooperation that is planned, implemented, and evaluated within a 3-5 year cooperation period. The scheme combines the dispatch of experts, acceptance of trainees, and provision of equipment. Starting in FY2002 several types of assistance are grouped together under the name Technical Cooperation Projects*.
Technical Cooperation Project	A cooperation project with certain objectives that need to be achieved in a specific time frame with a logical relationship between the output/outcome and input/activities, in which cooperation can be made up of a combination of dispatch of experts, acceptance of trainees, and provision of equipment to meet the objectives.
Third-country Training	Training in a comparatively advanced developing country in which the training utilizes that country's personnel who have received training through Japan's technical cooperation and invites trainees from other developing countries.

Terms with * are listed in this chart.

Sources: Constructed based on International Development Journal, *Kokusai Kyoryoku Yogo Shu (Lexicon of International Cooperation)*, and Ministry of Foreign Affairs, "Gaimusho Yogo Setsumei Shu" ("Glossary of Terms Used by the Ministry of Foreign Affairs") (<http://www.mofa.go.jp/mofaj/annai/pr/yogo/index.html>)

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Outline of Study

1. Background and Purpose of the Study

This study is the second phase of the study on Approaches for Systematic Planning of Development Projects carried out in FY2001. The study was designed to enhance country-specific approaches by strengthening issue-specific approaches. In the first phase of the study, four major development issues (Basic Education, HIV/AIDS, Promotion of Small and Medium Enterprises (SMEs), and Rural Development) were systematized and effective approaches for them were identified. Furthermore, the study reviewed JICA's activities based on Development Objectives Charts and the results were summarized as a report "Approaches for Systematic Planning of Development Projects."

As there was a growing demand for similar systematization of other issues as well, JICA decided to conduct a new study in FY2002. As a result of coordination within JICA's relevant divisions, this FY2002 study targeted the four issues: Poverty Reduction, Trade and Investment Promotion, Higher Education, and Information and Communication Technology.

The results of this study are envisioned to be constructive in the following ways:

- As basic information when formulating and revising Development Objectives Matrices for JICA Country Programs
- As basic information for project formulation studies and project and program formulation.
- As basic information when evaluating programs or carrying out country-specific evaluations.
- As materials for the JICA staff and Experts to use when they explain JICA's views on issues to recipient countries and other donors during meetings.
- To be stored in an Agency Thematic Database and shared within JICA with respect to views and approaches to issues.

2. Organization of this Report¹

Chapter 1	Overview of the Issue (Current State, Definition, International Trends, Trends in Japanese Assistance)
Chapter 2	Effective Approaches for the Issue (Goals, Effective Approaches) *This chapter explains the systematized approaches and reviews JICA's activities on the basis of Development Objectives Chart.
Chapter 3	JICA's Cooperation Policy (JICA's Priority Areas, Points of Concern, and Future Direction)
Appendix 1	Major Activity Cases
Appendix 2	Basic Check List (including key indicators)
References	

¹ As the results of the study are intended to be utilized in JICA's Thematic Guidelines, the organization of this report was designed to be consistent with the standard organization of future Thematic Guidelines.

3. Structure of the Development Objectives Chart

In this study, a Development Objectives Chart similar to the following was created for each development issue.

Sample Development Objectives Chart (Information and Communication Technology)

Sample Development Objectives Chart (Information and Communication Technology)

Development Objectives	Mid-term Objectives	Sub-targets of Mid-term Objectives	Examples of Activities
1. Improvement of Ability to Formulate IT Policies	1-1 Establishment of Telecommunications Policy	Introduction of Competitive Market Principle	× Support formulation of foreign capital investment policy × Support policy to promote private investment × Support deregulation of market entry Support formation of competitive markets
Formulation of national IT strategy	Number of service subscribers Scale of telecommunications industry Advancement of liberalization	Number of new market entries Scale of telecommunications industry Price of communications	

Key Indicators

* Circled Numbers imply key indicators

* Marks in the column of Examples of Activities indicate how often JICA has implemented relevant projects.

: JICA has considerable experience, : JICA has certain experience,

: JICA has experience as a component of projects, and × : JICA has little experience.

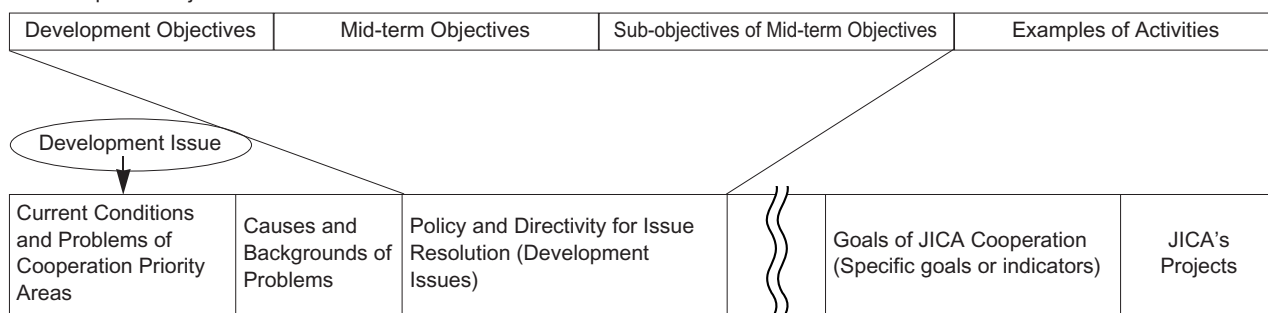
“Development Objectives,” “Mid-term Objectives,” and “Sub-targets of Mid-term Objectives” in the above sample chart show the break-down of each development issue.

Development Objectives Chart includes a summary of “Development Objectives” and “Mid-term Objectives” for the purpose of showing the overall picture of an issue as well as the chart for each Development Objective including its “Examples of Activities” and JICA’s relevant cases. A complete chart covering all items ranging from “Development Objectives” to “Examples of Activities” is annexed in the end of the report.

Generally, the relationship between the Development Objectives Chart and JICA Country Programs varies depending on the specific conditions of each country and sector. However, if “Development Issue” of this report corresponds to a “Priority Sector” of Development Objectives Matrix in JICA Country Program, “Development Objectives”, “Mid-term Objectives,” and “Sub-targets of Mid-term Objectives” in the Development Objectives Chart show the breakdown of “Policy and Directivity for Issue Resolution (Development Issues)” in the latter. (The goal level corresponding to the Development Issue differs depending on country or field.)

Relationship between the Development Objectives Chart and the Development Objectives Matrix of JICA Country Program

<Development Objectives Chart>



<JICA Country Program, Development Objectives Matrix>

4. Task Force

The task force of this study is listed below. The task force was composed of four groups, and each group was responsible for drafting the respective article. The final study report was completed as a result of revisions of the draft articles based on the discussions at the Study Group meetings and a number of comments received from JICA staff of overseas offices and headquarters as well as external experts.

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Overview of Effective Approaches for Trade and Investment Promotion: Executive Summary

1. Development and Trade-Investment

1-1 Current State of Trade and Investment in Development and their Importance

It is considered by many that promoting trade and attracting foreign direct investment will lead to an expansion of domestic employment and will stimulate the private sector, development, and inflows of new technologies, thereby significantly contributing to economic development. Because the private sector is the primary actor in trade and investment, the major role of a developing country government in promoting trade and investment should be creating an environment for promoting and stimulating private economic activities. However, as globalization of the economy progresses rapidly and becomes irreversible, it has become difficult for many developing countries to achieve their economic growth without being integrated into the globalization. Thus, developing country governments now face the immediate and critical tasks of achieving integration into the international liberal trade regime as represented by the World Trade Organization (WTO) and capturing the full benefits from such integration.

As specifically indicated in the United Nations' Millennium Development Goals (MDGs), there is now a common view in the international community and the donor community that poverty reduction is the most important task in the development agenda of developing countries. Many believe that development assistance has to focus directly on the alleviation of poverty to produce concrete results from limited aid resources. There is an equally compelling view, however, that poverty reduction and economic growth are inseparable and that the goal of poverty reduction has to be pursued not only by methods of reactive treatments but by putting a proper priority on growth-oriented cooperation in areas such as trade, investment, and infrastructure provision.

Traditionally, Japan has placed more significance on the latter view, from its experience of official development assistance (ODA) provided to the East Asian countries. In these countries, Japanese assistance has been recognized as pivotal to the region's economic growth, which in turn has led to poverty reduction in the region. Some other donors also seem to be shifting toward the latter. We now observe a tendency among donors to place more importance on the growth-oriented cooperation in such areas as trade and investment, even in the goal of reducing poverty.

However, a practical issue has emerged: Domestic resources in developing countries and official resources, such as ODA received, alone cannot sufficiently finance the endeavor to achieve such goals. Direct investment and other forms of private sector cooperation are now viewed as impartial agents in meeting the demand for sufficient development resources. ODA could be used to create an appropriate environment in channeling such private resources toward development of developing countries. The significance of investment-related cooperation in ODA is now being reevaluated and found to be an important tool in development.

1-2 Definition of Trade and Investment

Trade is defined as cross-border commercial transaction. That used to mean mostly trade in goods, but trade in services is an increasingly larger and more significant component in trade in recent years.

Investment is defined as international movements of capital and is largely categorized into either foreign direct investment or foreign portfolio investment. In addition to the transfer of financial resources, direct investment also comes with transfer of technologies and management skills and knowledge. And because of this, direct investment is considered to play an important role from the perspective of development.

1-3 International Trends

As globalization of the economy progresses, developing countries are increasingly divided between the winners, who can successfully reap the rewards of liberalization, and the losers, who cannot. Individual donors have started to cooperate with developing countries to help them build capacity to properly fulfill the obligations and exercise their privileges in the multilateral trade system as represented by the WTO and to set up proper domestic institutions to enjoy the full benefits of economic liberalization. The Third Ministerial Conference of WTO held in Seattle (November 1999) failed to launch a new round of trade negotiation because of conflicting interests between developed and developing countries. The following Fourth Ministerial Conference in Doha (November 2001) therefore incorporated more consideration for the positions of developing countries, and as the outcome of negotiation, adopted the Ministerial Declaration, which called for an improvement in market access for developing country products and made reference to the need for technical cooperation in developing countries at various places in the text.

Many donors focus their activities on the creation of a so-called enabling environment — that is, a business environment supportive of the private sector in conducting its economic activities — rather than directly on trade and investment promotion. There is an emerging recognition that it is critically important that such cooperation builds the capacity of the developing countries to establish their trade-related policies and institutions and to implement them on their own. As indicated by the Organization for Economic Cooperation and Development (OECD) guidelines adopted April 2001, there is a consensus among donors that the following points are important for effective capacity building: 1) comprehensive approach; 2) ensuring ownership which enables stakeholders' involvement; 3) emphasis on the cooperation process; 4) need-based tailor-made cooperation; and 5) donor coordination and donors' own capacity-building.

1-4 Trends in Japanese Assistance

It has been pointed out in documents such as the New Asian Industries Development (AID) Plan (formulated in the late 1980s), Japan's Official Development Assistance Charter (1992), and Japan's Medium-Term Policy on Official Development Assistance (1999) that Japanese ODA has to be implemented in the way in which it is integrated with trade and direct investment by the private sector, all of which together must contribute to the development of developing countries. In addition to the trend toward cooperation based on the "development perspective" as described above, Japan has been pursuing "trade perspective" cooperation in recent years for the purpose of maintaining the multilateral trade system. Because of the necessity of launching the new round of trade liberalization under an agenda that is well balanced, inclusive, and wide ranging, it has become an important task for the international community to foster capacity building in developing countries that strive to achieve proper participation in the WTO system. Based on such perspectives, the Government of Japan proposed to formulate a capacity-building program ("APEC Strategic Plan") to help the APEC developing country members implement their obligations in participating in the WTO system. Following this APEC initiative, the Japan International Cooperation Agency (JICA) has been conducting a Development Study, "WTO Capacity Building Program on the Implementation of WTO Agreements in APEC Countries," in four ASEAN countries, including Thailand and Indonesia, since 2002.

2. Effective Approaches for Trade and Investment Promotion

2-1 Goals of Cooperation for Promoting Trade and Investment

The private sector is the primary actor in trade and investment, and so the role of the government is to be found in creating an appropriate environment in which such private sector activities are effectively promoted. The most effective approaches for promoting trade and investment is therefore to establish essential foundations for

economic development (basic legal systems, rules, and physical infrastructure) and to address issues linked to individual areas from the perspective of promoting trade and investment. However, many developing countries face issues both in the essential parts of economic development and in areas directly related to trade and investment. JICA's approach for systematic planning for trade and investment promotion clusters the issues faced by the developing countries into two groups: underdeveloped foundations for economic development; and capacity shortage in the area of trade and investment. The development objectives are established accordingly.

2-2 Points for Consideration in Relation to Development Objectives Chart

JICA is not the sole governmental agency in Japan playing such a role. In the area of technical cooperation, the Japan External Trade Organization (JETRO) and the Japan Overseas Development Corporation (JODC), and other agencies are also conducting various activities. For financial assistance, the Japan Bank for International Cooperation (JBIC) and other agencies are conducting activities. The Development Objectives Chart includes the areas in which these agencies are also active.

2-3 Effective Approaches for Trade and Investment Promotion

Development Objective 1: Strengthening Responsive Capacity for Promoting Trade and Investment within the International Framework

Mid-term Objective 1-1: Establishing Basic Conditions for Promoting Trade and Investment

Developing a domestic legal system in which individual laws are consistent is indisputably a fundamental prerequisite for ensuring stability in a country's economy, its society, and the living conditions of its people. Also, the establishment of an appropriate legal regime and its sound implementation will help a country gain recognition and credibility with other countries.

In promoting trade and investment, provision of economic infrastructure is a critically important factor for improving aggregate efficiency in the process of trading activities and creating a sound investment climate. Both hard and soft infrastructure need to be established. Such infrastructure includes transportation network (railroads, ports, roads, and airports), communication network, energy, financial system, standards and conformity assessment system, and statistics.

Creation of Sound Business Environment for Domestic Industries is an important factor for promoting their competitive product development, production, and sales and for fostering supporting industries that have the capacity to supply credible parts and raw materials.

Human resource development is the most important issue not just in trade and investment but also in all other areas of development. The availability of a capable labor force is essential for promoting industries, trade, and investment. Corporate activities that abide by laws and proper execution of administrative processes constitute the foundation of the country's investment climate and lead to an improvement in the country's industrial competitiveness.

Mid-term Objective 1-2: Strengthening Capacity to Respond to International Trade and Investment Rules of the WTO and Others

Developing countries need to have a proper understanding of the costs and benefits of trade and investment promotion and need to choose policies that contribute to their own economic development. In the current global trend of trade and investment liberalization, they need to be able to navigate the global trade and investment systems as represented by the WTO.

As of January 15, 2003, there are 145 WTO member economies, with nearly 30 more countries currently in the process of accession. It is not an overstatement that global economic activities are now conducted on the basis of the WTO regime. Therefore, not only current members but also countries under the accession process, and even non-members need to formulate and implement their economic policies in line with the WTO regime as an initial condition. Assistance for accession to the WTO and others should be extended on different approaches depending on the stage of accession preparation of a recipient country.

For developing countries to properly capture the benefits from participating in the WTO framework, they must have sufficient understanding of the content of individual WTO agreements, must implement these agreements through domestic laws, and must correctly execute the privileges and the obligations. For these to be done, the following measures need to be undertaken in the context of donor's assistance: Formulate trade policies and establish domestic legal institutions that are consistent with the WTO and other international rules. Provide assistance in implementing and managing WTO-consistent policies and institutions. Develop institutions and human resources in the area of trade and investment promotion, responsive to the developments at the WTO.

Development Objective 2: Capacity Building for Trade Promotion

Mid-term Objective 2-1: Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation

For developing countries to participate in a liberal trade regime in a way consistent with their own national interests and to continuously benefit from it, it is essential that their industrial and trade policies are formulated and implemented based on medium- to long-term perspectives. However, many countries lack a sufficient knowledge base to understand international rules such as the WTO agreements and to reflect them in their own trade policies. They also have only weak domestic administrative systems to realize those policies. Therefore, in many cases, they do not have sufficient policy formulation capacity in setting strategies to develop their domestic industries in a way consistent with the international rules, nor do they have the capacity to implement such strategies.

One of the problems that developing countries face is the presence of high tariff and non-tariff barriers that impedes the active private sector activities. Although the lack of medium- to long-term policies lies at the heart of these problems, an additional problem is that the government lacks staff resources knowledgeable on WTO agreements and economic laws in general, lacks sufficient knowledge on the appropriate legal contents of rules for implementing policies, and lacks sufficient understanding of domestic laws and regulations. Developing countries may face dispute settlement cases filed by other countries if their domestic laws and regulations are not consistent with the WTO agreements or if their domestic laws are not properly enforced. The possibility of dispute settlement cases heightens the need for assisting developing countries in the area of legal institutions.

In addition to the problems in laws, regulations, and institutions themselves, another serious problem in developing countries is that the transaction costs for the private businesses are significantly high as the result of complicated enforcement of systems and procedures related to imports and exports, and the lack of transparency in such enforcement. These issues of trade facilitation differ from trade liberalization issues in the sense that developing countries would not have strong objection to promoting trade facilitation, because, unlike trade liberalization, trade facilitation does not potentially conflict with domestic industrial policies. Furthermore, it is an effective means of promoting trade because it reduces transaction costs among businesses.

Mid-term Objective 2-2: Strengthening Information Services to the Private Sector

Many firms in developing countries face difficulty in developing their international markets by themselves due to lack of sufficient information regarding the markets and lack of sufficient human resources. Given that perspective, the following types of support become necessary for private businesses in developing countries. First,

the government could effectively support the private sector activities through providing information on the overseas markets as well as on the trading systems, procedures, and commercial practices of foreign countries. Second, the government could provide information regarding its trade policies in general and information regarding the export promotion policies and financial services it extends to the private sector.

Mid-term Objective 2-3: Fostering Viable Private Sector

It is often the case for firms in developing countries that they lack sufficient productive capacity because of a shortage in human resources, skills, management knowledge, capital, and equipment. As a result, these firms are often weak in competitiveness (or have no international competitiveness in exports). For the developing countries to be able to receive benefits from the liberal trade regime – and establish an environment for trade liberalization and facilitation – cooperation must help governments to support the private sector to overcome the above-mentioned problems and strengthen its competitiveness. However, it would take long time for such assistance to bear fruit in terms of export growth. The outcome is also dependent on the condition of international market and other external factors. Thus, it is difficult to set a specific goal in export growth. A more suitable goal is perhaps to place strengthening export competitiveness in the context of small- and medium-enterprises development or supporting industry development, as well as in the context of promoting small-, medium- and micro-scale enterprises as a part of agricultural development.

Development Objective 3: Capacity Building for Foreign Direct Investment Promotion

Mid-term Objective 3-1: Developing System for Formulating Investment-related Policies and Institutions and their Appropriate Implementation

Although many developing countries have policies to attract foreign direct investment, they often lack sufficient administrative knowledge and human resources to formulate policies that are appropriate. To promote investment it is necessary to formulate a comprehensive investment promotion policy that is consistent with the domestic industrial policies and export promotion policies, followed by developing relevant legal institutions and their necessary adjustments. With regard to institutional building, any policies and institutions that restrict competition and investment activities need to be reformed, and the legal system for promotion of investment liberalization needs to be established.

Equally necessary is maintaining some level of consistency in policies and legal institutions by avoiding sudden changes and improving transparency and gaining credibility in the market by establishing dispute settlement mechanism and coping with the corruption problems during the implementation stage. More specifically, an institution that smoothes the process of production [that is, location decision > raw materials sourcing (domestically or internationally) > processing and production > transport and export the products] for foreign investors is particularly necessary.

Moreover, measures such as establishing export processing zones with proper support of policies or extending preferences to foreign investment that package together both hardware and software components not only make it possible for the country to efficiently provide an attractive investment climate for foreign investors but also serve as effective tools for domestic regional development.

Mid-term Objective 3-2: Strengthening Information Services to the Private Sector

It is important for developing country governments to properly and effectively inform potential investors of their countries' investment climate in an attractive manner. To create an investment climate in response to market needs, governments need to have a firm grip on global market trends as well as developments in the economy and industries of the countries where the foreign investors reside. However, many developing countries lack not only sufficient information regarding their own investment climate (for example, lack of industrial statistics), but also,

more fundamentally, lack understanding of what type of information is necessary in facilitating investment promotion for the countries. The above aspect signifies the effectiveness of providing investment-related information and other services to the potential investors. Here the quality of information provided also matters. So, credible statistical databases and a system for their maintenance need to be in place.

3. Points of Concern and Directions for the Future Cooperation

The basic approach of JICA in extending cooperation for trade and investment promotion is to become harmonized with the international trend on trade and investment under the current liberal trade system and, at the same time, to formulate specific assistance policies tailored for each country based on in-depth consideration of its stage of economic development and its social conditions, together with the question of resource availability on the donor side.

3-1 Points of Concern for the Future Cooperation

(1) Verifying Consistency with National Development Strategy or PRSP

In formulating projects, what must be examined first how trade and investment are placed in the national development strategy of each beneficiary country. The substance of cooperation has to be formulated on the basis of linking the benefits from trade and investment liberalization to the goal of development and poverty reduction.

(2) Assistance Corresponding to the Beneficiary Countries' Levels of Commitment as well as Stages of Development

The level of development obviously differs among the countries in which JICA conducts its activities. The Mid-Term Objectives and their Sub-Targets in the Development Objective Charts will have different levels of significance among these countries, depending on their domestic conditions. Also, the methods of assistance would vary depending on whether the country is a member of the WTO or is associated with any regional agreement, as well as on its policy toward such institutions. Therefore, to improve project effectiveness, it is important to formulate projects based on a recipient country's stage of commitment and development.

(3) Maintaining Harmony with Undertakings by International Organizations and Regional Agreements

The projects should be formulated on an understanding of the characteristics of international organizations and institutions and international and regional trade agreements that the beneficiary countries participate in or are affiliated with, and an understanding of how they approach these organizations, institutions, and agreements. And it is essential to build the substance of cooperation that is in harmony with these organizations, institutions, and agreements. Furthermore, it is crucial to draw attention to the position of the Japanese government, which underscores the importance of maintaining and developing the WTO system.

(4) Consideration for Donor Coordination

Donor coordination is already in progress on the issue of trade and investment as represented by the Integrated Framework (IF) organized by the World Bank, the WTO, and other international organizations. Thus, it is necessary to consult with other donors' directions of assistance and give consideration for donor coordination. It is also important that Japan formulates projects in consultation with the beneficiary countries and other donors that are founded on its strength and accepted by the beneficiary countries.

(5) Strengthening Partnership with Private Sector

It is now established among donors that integrating partnership and coordination with the private sector and NGOs into the process of aid provision is crucially important. We expect that project formulation that effectively links the roles of both the private sector and the government will become meaningful.

(6) Coordination with Other Agencies in Japan

There are some Japanese agencies other than JICA, such as JETRO and JODC, that are operating in the area of trade and investment promotion. Some overlap in the activities in the field by JICA and other agencies. Close partnership and coordination among all related Japanese agencies are therefore crucial.

3-2 Issues to be Considered for Future Activities

(1) Efficient Use of Domestic Resources and their Expansion

Not only for the trade policies but also for specific enforcement functions and procedures under such policies, significant domestic resources can be found among customs officials and administrative officers in relevant agencies, who are directly engaged in the trade- and investment-related work in Japan. There are only a limited number of scholars and researchers in Japanese academia today who are truly familiar with international economic and trade policies from the perspective of international trade laws such as WTO agreements and international trade and investment rules. In this situation, the key aspect for JICA to expand its cooperation in this area is the efficient use of domestic resources, which includes harmonizing and coordinating with the domestic agencies in Japan on the policies and the approaches for international cooperation, as well as building partnerships with universities particularly in view of developing the pool of human resources for assistance activities.

(2) Development of Indicators and Evaluation Tools

As an indicator to evaluate the outcome of assistance in this area, one may consider growth in the number of cases of foreign investment or growth in the amount of exports of specific industries and products. However, these indicators are not necessarily appropriate as a tool to evaluate the outcome of assistance, because JICA provides its assistance to the government of the beneficiary country rather than directly assisting the private sector, based on the notion that the private sector should be the primary actor in trade and investment. Moreover, such indicators are more often affected by recessions in global economy, which are factors external to the cooperation. Nevertheless, it remains true that results without proper evaluation make it difficult to gain domestic support from taxpayers. The development of evaluation tool in this area is a common agenda for all the donors. Knowledge sharing among donors is essential in this regard.

3-3 Future Directions of Cooperation

3-3-1 Cooperation Corresponding to the Level of Development

(1) Middle-income Countries

These countries have made progress in establishing domestic legal institutions consistent with the WTO agreements. However, they still face a challenge in properly enforcing and implementing the institutions, for which there is still scope for assistance. Assistance to be considered in these countries include assistance in the area of trade facilitation, which includes reducing transaction costs, and shortening time requirement for transactions through simplification and optimization of procedures related to trade and investment. Furthermore, these countries would provide important resources for South-South cooperation.

(2) Low-income Countries

Among low-income countries, those which have not yet become members of the WTO would face the need for assistance in their process of acceding to the WTO — perhaps toward their accession negotiation and their implementation of trade liberalization schedules as a part of their accession process. It is important in assisting their accession to support various policies related to liberalization by analyzing how the beneficiary countries would be affected by their trade and investment liberalization, by examining the timing and the order of liberalization to minimize the negative impacts, and by providing recommendations for building a social safety net. There are many WTO members that still face problems in developing a WTO-consistent domestic legal system and implementing and enforcing such a system. Effective assistance for these countries includes support to promote understanding on the basic issues, such as projects similar to the capacity-building assistance program conducted in ASEAN countries, which have focused on the domestic implementation of the WTO agreements and the exercise of member benefits. Also important is assistance toward integrated trade promotion policies, which include enhancement of administrative capacity in general trade-related procedures, and human resources development in trade.

(3) Least Developed Countries

Africa is the host to a large number of least developed countries. In the current conditions of trade and investment, it is generally recognized that Africa has difficulty receiving benefits from economic globalization and the multilateral trade system. These countries need to have their development in the area of trade and investment to be integrated with a comprehensive approach based on the common strategy toward poverty reduction. In the short run, they need assistance in minimizing the negative impacts from trade and investment liberalization and need technical assistance and policy support to strengthen competitiveness and promote exports of agricultural products, which are the main export products of the region. In the long run, assistance needs to be directed toward domestic industry development policies for building viable industries to take initiative in promoting trade and investment, along with assistance toward the basic human resources development through primary and secondary education and manufacturing training.

3-3-2 Cooperation from the Cross-cutting Point of View

In relating trade and investment liberalization to economic growth and poverty reduction in a country, it is critical to respond to the short-term issue of economic and social instability, such as an increase in job losses as a result of shrinkage of uncompetitive domestic industries and businesses.

At the same time, in the long run, assistance should be given to building the policies and institutions that aim to distribute the growth benefits from trade and investment liberalization widely among various segments in the society, including the low-income segment, and to avoid a situation in which only the rich or the urban population receive such benefits. For concrete examples of assistance, expansion of educational opportunities and improvement in education are the key.

Rather than being specific to individual issue area such as trade- and investment-related assistance, poverty reduction-related assistance, or education-related assistance, the projects that reflect JICA's unique advantages in covering a wide range of issues should be formulated on the basis of macro perspective of the beneficiary country's development and poverty-reduction policies and should intertwine to form parts of efforts toward the larger goals of development and poverty reduction.