
Chapter 3 Points of Concern and Directions for the Future Cooperation

JICA's basic approaches for its cooperation:

- Harmonized with the international trend under the current liberal trade system
- Consider the stage of economic development and social conditions of recipient countries
- Formulate individual assistance policy for each country based on the needs identified from the above consideration as well as resource availability in Japan

As the world experiences rapid expansion in both trade and foreign direct investment, the international rules on trade policies are now being enforced with more effectiveness under the World Trade Organization (WTO), which was established in 1995. Even for the developing countries, it is thus essential to maintain consistency with the international trend in the field of international economic activities.

In addition to the liberal trade system that is expanding around the WTO, we now see rapid developments in both regional economic integration initiatives – such as the North American Free Trade Agreement (NAFTA) and the ASEAN Free Trade Area (AFTA) – and bilateral free trade agreements (FTAs). While seeking to capture the benefits from international economic activities such as trade and investment by effectively utilizing the current liberal trade system, the government of a developing country in this environment now faces yet another important policy task of properly exercising the benefits granted by the WTO agreements and avoiding the losses emanating from trade.

Liberalization toward external trade and foreign direct investment inflows has two faces. On one hand, it brings positive impacts to the economy in the form of expanding varieties of choices among goods and services, enhancing the possibility of accessing overseas markets, generating domestic job creation, and transferring skills and technologies. On the other hand, it also brings negative impacts such as leaving behind uncompetitive local industries and firms or enlarging the income gap between the poor and the rich while wealth concentrates in a limited number of entrepreneurs (that is, the expansion of the urban-rural gap). Thus, developing countries face an important social policy issue of stabilizing the economy and the society, while simultaneously addressing the economic policy issue of how to capture the benefits from trade and investment liberalization. Thus, **the basic approach that JICA takes in extending cooperation 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.**

In the following, this report lists the points for attention as JICA extends its assistance in this area.

3-1 Points of Concern for the Future Cooperation

Points of concern:

- Verifying consistency with national development strategy or PRSP
- Assistance corresponding to the beneficiary countries' stages of commitment as well as stages of development
- Maintaining harmony with undertakings by international organizations and regional agreements
- Consideration for donor coordination
- Strengthening partnership with private sector
- Coordination with other agencies in Japan

(1) Verifying Consistency with National Development Strategy or PRSP

In formulating projects, JICA must first examine 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.

The recent discussion among donors points out the need to mainstream trade in the national development plans or Poverty Reduction Strategy Papers (PRSP) of developing countries. **In formulating projects, it is necessary to examine how trade and investment are placed in the national development strategy and to build the substance of cooperation with due consideration to development and poverty reduction policies.**

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

The stage 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. Middle-income countries, such as Thailand and Malaysia, have almost achieved Development Objective 1 and are undertaking some efforts toward the second and the third Development Objectives. Because the basic institutions and physical infrastructure have already been established to some degree in these countries, proper implementation and enforcement of existing laws and regulations and simplification and optimization of procedures then become more important. In contrast, least developed countries, many of which can be found in Africa, have many domestic problems, such as unstable political conditions caused by domestic conflicts, low level of governance, unstable macroeconomic management, and insufficient infrastructure and human resources. In these countries, the priority must be to build the basic conditions for active economic activities, in line with the first development strategy goal, before they can embark on trade and investment promotion with some government interventions, as prescribed under the Development Objectives 2 and 3. This, however, has to be based on the fundamental prerequisite that the countries undertake efforts to improve political conditions, domestic security, macroeconomic conditions, and governance – elements that are taken as given in this report.

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.²⁰

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

In the area of trade and investment, there are various international organizations and other institutions active, such as WTO, United Nations Conference on Trade and Development (UNCTAD), APEC, and ASEAN. There are also many international trade agreements including regional agreements, such as AFTA, NAFTA, MERCOSUR (Mercado Comun de Sur), and many bilateral FTAs. **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.**

Also, the agencies in charge of trade liberalization negotiations at such forums as the WTO need to bear in mind that technical assistance provided by the developed countries toward the developing countries is implemented on a neutral basis as a tool for maintaining and developing a liberal trade system and is outside of the political interests of individual countries at the multilateral trade negotiation table. Furthermore, **in extending assistance in this area 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

It has only been recently that the issue of "development and trade-investment" has come to be recognized as important and conceptualized among donors. Currently, individual donors have started building their own stock of experiences, establishing a guideline for cooperation in this area, and exchanging information with regard to their activities. For any donor, this is a new area of cooperation. Although the relevant concepts are still being developed, including the definition of "trade- and investment-related capacity-building" and the implementation tools for the assistance, what is unique for this area of assistance is that donor coordination is already in progress as represented by the Integrated Framework (IF) organized by the World Bank, the WTO, and

²⁰ The readers are advised to refer to JICA (2002a) pp.14-17 and pp.95-96 with regard to different methods of assistance differentiated according to the stage of accession to the WTO and other institutional affiliation.

four other international organizations. Thus, **JICA, when formulating projects, needs to consult with other donors' directions of assistance and give consideration for donor coordination.** In particular, the countries in the process of negotiation for the WTO accession will need assistance from various sources in a limited time frame, and we will see the assistance rather concentrated on these countries. Assistance of the type of general discourse, such as building the basic knowledge on the WTO system or providing overviews of individual WTO agreements, may likely be duplicated by multiple donors. Donors should avoid unnecessary overlaps in their activities and try to implement their assistance efficiently in a coordinated manner. At the same time, **it is nonetheless 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. In this context, **we expect that project formulation that effectively links the roles of both the private sector and the government** (for example, the government support of business support activities by the private sector) **will become meaningful.**

The cooperation under the Development Objectives 2 and 3 is particularly relying on the notion that the private sector is the ultimate actor of trade and investment. From this perspective, **the views of not only the administrative authorities in the beneficiary countries but also of the businesses and persons who are actually involved in trade business in the countries must be incorporated into formulating projects. It is critically important to have a firm understanding of their concerns and needs in the project formulation.**

(6) Coordination with Other Agencies in Japan

As mentioned above under 2-2(2), there are some Japanese agencies other than JICA, such as JETRO and JODC, that are operating in the area of trade and investment promotion for developing countries. These agencies are involved with various activities and have rich knowledge and experiences in the area. Through providing information regarding investment climate of developing countries, dispatching advisors, and providing technical assistance to the local small and medium industries, the activities of these institutions are primarily justified on the ground of their ultimate objectives of promoting and stimulating the international operations of Japanese enterprises and building smooth trade relations with other countries. In contrast, JICA maintains its ultimate objective to be economic development and poverty reduction of developing countries. Its cooperation in promoting trade and investment is linked to its support for

developing countries to achieve macroeconomic growth, secure domestic employment, and improve technological level of local small and medium-sized enterprises. There is, **however, 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.**

Issues to be considered for future activities:

- Efficient use of domestic resources and their expansion
- Development indicators and evaluation tools

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. Based on the experiences of JICA in conducting cooperation activities in this area, 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.

From the point of view of extending effective cooperation from limited resources, such approaches as setting different priorities for different regions or formulating effective projects based on the strength of Japan are quite important and worth consideration for future activities.

Thus, 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. For this reason, the outcome of cooperation in this area cannot be evaluated explicitly. Moreover, the results of programs will not be realized in a short period of time, which makes the evaluation even more difficult. 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.

Future directions of cooperation:

- Extending cooperation corresponding to the level of development
- Extending cooperation from the cross-cutting point of view

3-3 Future Directions of Cooperation

In conclusion, we would like to present some ideas for the future directions of cooperation based on the basic approach of JICA in this area as described at the outset of this chapter. Specifically, we would like to raise the following two points: **extending cooperation corresponding to the level of development;** and **extending cooperation from the cross-cutting point of view by considering the social conditions of individual countries.**

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

As has been discussed, each individual item in the Development Objective Charts does not have equal significance for all countries. The significance varies among countries depending on the situations of individual countries and regions.

In the following, we would like to elaborate on our cooperation that corresponds to the level of development.

(1) Middle-income Countries

Middle-income countries, such as China, Southeast Asian countries, and some Latin American countries, are already members of the WTO, have been active in the formation of regional economic areas and bilateral FTAs, have certain levels of infrastructure and competitiveness in their domestic industries, and have actively been promoting trade and investment. These countries have a good understanding of the economic impact of trade and investment promotion and 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.** Specifically, the areas where the assistance is most needed are proper implementation and enforcement of customs valuation (statutory tariffs are not properly enforced in practice, or transparency still lacks in their enforcement), reduction in non-tariff barriers, and protection of intellectual property rights. Countries at this level of development also need **assistance in the area of trade facilitation, which includes reducing transaction costs, improving predictability, and shortening time requirement for transactions through simplification and optimization of procedures related to trade and investment.**

Furthermore, these countries are expected to have a role as partners in assisting low-income countries, providing resources for South-South

Middle-income countries:

- Assistance for proper enforcement and implementation of the WTO agreements
- Assistance in the area of trade facilitation through simplification and optimization of procedures
- Possible resources for South-South cooperation

cooperation.

(2) Low-income Countries

Low-income countries are mostly found in Asia and Latin America. Many have not yet become members of the WTO and 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 both positively and negatively, by examining the timing and the order of liberalization to minimize the negative impacts, and by providing recommendations for building a social safety net. Such assistance would also be effective for countries that are already members of the WTO but foresee the need for further liberalization. There are many WTO members that still face problems in developing, implementing and enforcing a WTO-consistent domestic legal 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 customs, quarantines, and other general trade-related procedures, trade financial management, and human resources development in trade**.

Low-income countries:

- Assistance for negotiation and preparation for WTO accession
- Policy support for trade and investment liberalization
- Enhancement of understanding on the WTO agreements
- Enhancement of administrative capacity in general trade-related procedures
- Human resources development in trade

Least-developed countries:

- Area where comprehensive approach is most needed
- (Short-run) Assistance to minimize the negative impacts from liberalization and assistance to strengthen competitiveness and promote exports of agricultural products, which are the main export products of the region
- (Long-run) Development of primary and secondary education, and domestic industry promotion

(3) Least Developed Countries

Africa is the host to a large number of least developed countries. Although Japan does not have strong trade relations with African countries, the region is one of the important regions in the recent trend in donor assistance strategies. There has been a consensus among donors to coordinate their efforts in providing development resources to the region. 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. As all sectors face serious challenges in Africa, poverty reduction is now a fundamental feature that cannot be bypassed in any sector. Thus, this region has a pressing need for **development in the area of trade and investment to be integrated with a comprehensive approach based on the common strategy toward poverty reduction**. Some examples of specific assistance programs needed in the short run include: **assistance to minimize the negative impacts from trade and investment liberalization** (for example, capacity building in relation to exemptions granted under the WTO); **and technical assistance and**

policy support to strengthen competitiveness and promote exports of agricultural products, which are the main export products of the region. Also, long-term perspectives are crucial for the undertakings in the region to solve the fundamental problems in promoting trade and investment. Such long-term perspectives include **assistance toward domestic industry development policies** for building viable industries to take initiative in promoting trade and investment, along with assistance for **the basic human resources development through primary and secondary education and manufacturing training.**

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

- Build safety net for the short-term negative impacts
- In the long-run, strengthen educational opportunities (as an example)
- Formulation of projects based on cross-cutting and macro point of view

The three development strategy goals presented in this report are constructed based on the perspective of how developing countries can participate in economic globalization in ways consistent with their own national interests and how they receive the benefits from doing so. On one hand, trade and investment liberalization can positively impact economic development in a long run. On the other hand, it can negatively impact economic development in the short run, for example, diminishing domestic industries and businesses that are not competitive enough to offset the external competitive pressure. As mentioned earlier (in 3-1), the inter-linkage between the issue of development and poverty reduction policies and the issue of trade and investment has increasingly become a significant agenda among the donors. **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.** Many developing countries lack enough capacity to properly predict the impacts related to trade and investment liberalization and to formulate policies to cope with the negative effects. In such countries, there is scope for JICA to play a significant role in providing technical assistance. As concrete examples, JICA could extend its assistance to such public support programs to provide a social safety net, such as vocational training for unemployed people, unemployment insurance, or lay-off allowances and to conduct grassroots-level assistance in cooperation with NGOs to protect and empower the impoverished population in the society, who would likely be most negatively affected by liberalization in terms of maintaining or increasing their income level.

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. Building

appropriate human resources is essential for new industries and businesses to be able to emerge domestically to replace diminishing inefficient ones. Also, human resources development through basic and higher education should be considered as a part of long-term strategy for promoting the employment at these new industries and businesses.

Cooperation to social safety nets and education are not generally seen as trade- and investment-related. However, rather than being specific to individual issue areas (for example, 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.**

