

# **Approaches for Systematic Planning of Development Projects**

**Trade and Investment Promotion**

**March 2004**

Institute for International Cooperation  
Japan International Cooperation Agency

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  
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## Terms and Abbreviations

Terms/Abbreviations	Remarks
<b>Trade and Investment</b>	
AD	<b>Anti-Dumping:</b> 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	<b>ASEAN Free Trade Area:</b> 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	<b>Asia-Pacific Economic Cooperation:</b> 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	<b>Common Agricultural Policy:</b> 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	<b>Dispute Settlement Understanding:</b> 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	<b>Free Trade Agreement:</b> 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	<b>Free Trade Area of Americas:</b> An initiative to create an economic zone composed of 34 countries in the Americas (excluding Cuba).
GATS	<b>General Agreement on Trade in Services:</b> As a part of WTO agreements, this systematically sets the international rules on trade in services—first systematic rules in this area.
GATT	<b>General Agreement on Tariffs and Trade:</b> 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	<b>Generalized System of Preferences:</b> 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	<b>Harmonized System:</b> 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	<b>Integrated Framework for Trade-related Technical Assistance to Least Developed Countries:</b> 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.
<b>Development Assistance</b>	
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
<b>Organizations</b>	
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).
<b>JICA Terminology</b>	
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>)



# Approaches for Systematic Planning for Development Projects < Trade and Investment Promotion >

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## Outline of Study

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### 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 Report<sup>1</sup>

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	

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<sup>1</sup> 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	<ul style="list-style-type: none"> <li>× Support formulation of foreign capital investment policy</li> <li>× Support policy to promote private investment</li> <li>× Support deregulation of market entry</li> <li>Support formation of competitive markets</li> </ul>
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.

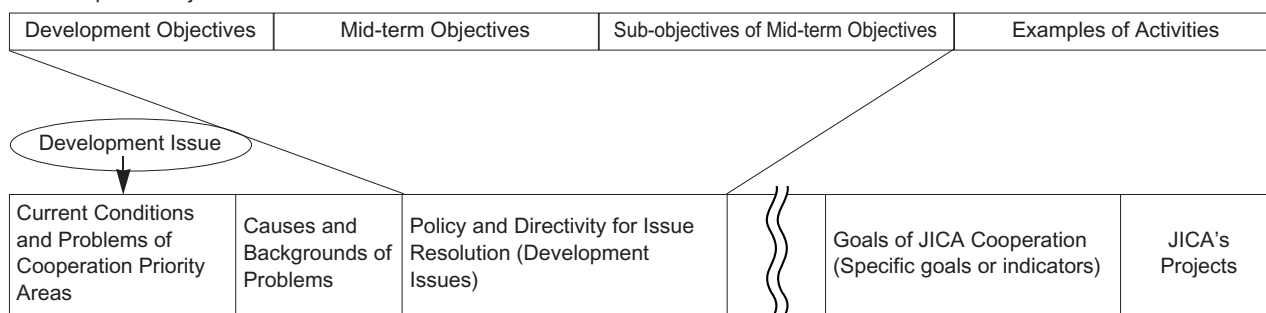
“Development Objectives,” “Mid-term Objectives,” and “Sub-targets of Mid-term Objectives” in the above sample chart show the break-down of each development issue.

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.



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## Chapter 1 Development and Trade-Investment

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

#### 1-1-1 Importance of Trade and Investment in Development

##### (1) Trade-Investment and Economic Growth

Trade- and investment-related cooperation is growth-oriented cooperation.

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. **With its ultimate goal of economic growth in developing countries, trade- and investment-related cooperation toward these countries is a typical form of growth-oriented cooperation.**

##### (2) Globalization of the Economy and the Role of Developing Country Government

Developing country governments face the task of achieving integration into the international liberal trade regime.

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.**

For such appropriate integration to be made, the governments of developing countries are expected to set and implement comprehensive policies that include the following elements. The governments need to analyze their domestic conditions and the external economic environment surrounding their countries and then set appropriate schedules for economic liberalization with consideration of the appropriate order and pace of trade and investment liberalization. They also need to establish domestic implementation systems for the rules required by the liberal trade regime and to implement national policies that minimize short-term negative impacts on the domestic economy associated with globalization.

## 1-1-2 Importance of Trade- and Investment-related Cooperation in Development Assistance (Mainstreaming of Trade-related Cooperation)

### (1) Poverty Reduction and Growth-oriented Cooperation

Economic growth is a necessary condition for poverty reduction.

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 diagnostic methods 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, as observed during recent major international conferences such as the International Conference on Financing for Development (Monterrey, March 2001) and the World Summit on Sustainable Development or WSSD (Johannesburg, August 2002). **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.**

### (2) Revaluation of Investment-related Cooperation in Development

Private investment is necessary for responding to the demand for sufficient development resources

While the international community undertakes efforts to achieve the MDGs as mentioned above, 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. Foreign direct investment has been traditionally recognized as an effective means of transferring production and management skills and technologies from developed to developing countries. In addition, **direct investment and other forms of private sector cooperation are now viewed as impartial agents in meeting the demand for sufficient development resources to achieve MDGs.** ODA could be used to create an appropriate environment in channeling such private resources toward development of developing countries. From this point of view, the investment-related cooperation in ODA is now being revalued and found to be an important tool in development.

The WTO provides an essential global public good for maintaining sustainable economic growth.

### (3) Maintaining the Liberal Trade Regime for Sustainable Economic Growth

As exemplified in the cooperation in the area of environment, ODA has a crucial role to play in addressing the global issues beyond the scope of the development of individual developing countries. Although there are mixed views on the current WTO system, it is nonetheless true that **the WTO system provides an essential global public good that enables the international community to maintain its sustainable economic growth at the global level.** Developed country assistance aimed at integrating the developing countries into the WTO system is important to maintaining and improving the liberal trade regime.

## 1-2 Definition of Trade and Investment

### 1-2-1 Trade

#### (1) Trade

**A simplistic definition of trade is cross-border commercial transaction.** That used to mean mostly trade in goods, but with the growth in the service industries in recent years, trade in services, such as transportation, tourism, telecommunications, and finance, is an increasingly larger and more significant component in trade.<sup>1</sup>

#### (2) Trade Liberalization and Trade Facilitation

As the opposing concept to protectionism, *trade liberalization* has a variety of meanings. In general, it **can be defined as reduction of trade-impeding high tariff rates and elimination of non-tariff barriers purported to restrict trade, conducted for the purpose of promoting international trade.**

*Trade facilitation*, however, means **promotion of trade in the form of eliminating trade-impeding factors in measures and procedures** other than tariff and non-tariff barriers by such methods as simplifying cumbersome import and export procedures. This is expected to reduce the transaction costs related to trade and improve transparency and predictability. Unlike trade liberalization, trade facilitation does not require adjustments in domestic policies and interests. Therefore, no country objects to the direction toward trade facilitation. But many developing countries remain passive on setting rules for trade facilitation, claiming that they do not have sufficient human and financial resources or infrastructure to accomplish the task. For this reason, there is a demand for identifying the needs and priorities for trade facilitation in the developing countries and to ensure adequate technical assistance and support for capacity

<sup>1</sup> The aggregate level of trade in services in 2000 was US\$1,435 billion (measured as exported amount), which is 18.8 percent of total world trade of goods and services (WTO (2001)).

building in this area.<sup>2</sup>

## 1-2-2 Investment

**Investment (foreign investment) is defined as international movements of capital** and is usually used to refer to either foreign direct investment (FDI) or foreign portfolio investment (FPI). Conceptually, *direct investment or foreign direct investment can* be defined as long-term, cross-border movements of capital for the financial providers to conduct economic activities in recipient countries (foreign countries), or as equity holding (stock purchase) of foreign corporations, or as lending loans to them for the purpose of participating in corporate management in foreign countries. *Indirect investment* (equity investment, portfolio investment), in contrast, means purchase of debt and equity, not for the purpose of gaining corporate ownership or management control, but simply to receive dividends or benefit from capital gains.<sup>3</sup>

In addition to the transfer of financial resources, direct investment also comes with transfer of technologies and management skills and knowledge (transfer of management resources). And because of this, direct investment is considered to play an important role from the perspective of development.

In the discussion on setting international investment rules for investment liberalization (deregulation) and investment protection, it is often debated whether the rules should be limited to direct investment or should cover indirect investment as well.

In this report, investment refers to direct investment, unless otherwise noted.

## 1-3 International Trends

Individual donors have started to assist developing countries so that they can enjoy the full benefits of liberalization.

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. Consequently, **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.**

Consideration for developing countries is increasingly an important factor at the forum of multilateral trade negotiation also. 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

<sup>2</sup> Paragraph 27 of Ministerial Declaration, WTO Ministerial Meeting in Doha (November 2001).

<sup>3</sup> Despite the clarity at the conceptual level, the statistical definition is ambiguous and varies among countries and institutions. In general, 10 percent or above of share holding or original capital holding is considered direct investment, whereas less than 10 percent is considered indirect investment.

**Trends in International Forums:**

Failure to launch the new round at the WTO Ministerial Conference in Seattle  
 Emphasis on the assistance to the developing countries at the next WTO Ministerial Conference in Doha.  
 Donors pledged funding for developing country assistance through DDAGTF.

The focus of donor activities is building capacity to create an enabling environment.

and developing countries as well as insufficient consideration of civil society groups who oppose trade liberalization. **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.** The Doha Development Agenda Global Trust Fund (DDAGTF) was established after the Doha Conference for the purpose of financing technical cooperation to developing country members. Developed country members pledged CHF 30 million (CHF 1.5 million from Japan alone) to the fund at the pledging conference held in Geneva in March 2002. In this way, the need for accommodating the developing countries is now explicitly recognized at the multilateral trade negotiating table. Against such a political backdrop, donors' interest in the area of trade- and investment-related cooperation has grown considerably in recent years.

Because the private sector is the primary actor in economic activities such as trade and investment, **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.** Specific examples of such activities include human resources development within government agencies in charge of multilateral trade negotiation at the WTO and other forums, and formulation and implementation of policies and institutions friendly to the market and, at the same time, consistent with multilateral trade rules.

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,** rather than developed countries taking the lead in applying their policies and institutions to the developing countries. 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, which should also be the basis for considering the directions of Japanese bilateral cooperation in the area of trade and investment.<sup>4</sup>

### **(1) Comprehensive Approach**

Stand-alone projects that focus on “at-the-border” issues, such as development of exportable products or improvement in customs administration, once occupied the mainstream of trade- and investment-related cooperation.

<sup>4</sup> OECD (2001)

Points to be considered for effective capacity building:

- Comprehensive approach
- Ensuring ownership which enables stakeholders' involvement
- Emphasis on cooperation process
- Need-based, tailor-made cooperation
- Donor coordination and donors' own capacity building

However, **these projects are not sufficient to promote trade and investment in a true sense. It is now widely recognized that cooperation activities must be designed in a comprehensive manner, paying attention to “behind-the-border” issues as well.** Specifically, donors should be more concerned with helping developing countries build their domestic policies and institutions consistent with international rules as represented by the various agreements under the WTO. Furthermore, donors should also be concerned with the negative impacts that economic liberalization brings to the domestic economy (for example, wider income disparity, environmental problems, deteriorating labor conditions). **For ensuring such a comprehensive approach in trade-related cooperation, it is necessary to mainstream trade into the overall plans such as the national development plans or the Poverty Reduction Strategy Papers (PRSPs) of respective developing countries.** In other words, instead of holding trade and investment promotion itself as an objective, it is important to consider these economic activities as tools for development.

## **(2) Stakeholders' Participation and Ownership**

For such a comprehensive approach to function effectively, **the process must involve various stakeholders, including nongovernmental organizations (NGOs) and civil society, in addition to both the public and the private sectors, and academia.**<sup>5</sup> **And to ensure the participation of these stakeholders, the process absolutely needs be based on ownership by the developing countries themselves.** And as to the government sector, involvement of financial authorities and a wide range of line ministries is considered important in addition to trade-related ministries, which have traditionally been central to cooperation in this area.

## **(3) Cooperation Process**

**The main focus in the trade-related cooperation activities is to deepen communication among stakeholders and to formulate consensus on national policies and institutions. Therefore, the “process” of cooperation is a key.** As the donors' approach to their development assistance shifts from being input-oriented to being more output-oriented, the process that effectively delivers the outcomes has become more important than ever in recent years.

## **(4) Need-based Cooperation**

Just as the impact of globalization differs among countries, **the need for trade- and investment-related assistance varies with a country's conditions such as its stage of development and its economic structure. Therefore, it is**

<sup>5</sup> The concept of civil society here is rather vague. For example, labor unions, consumer groups, or mass media could be included as its members.

**often stressed that the cooperation needs to be tailored to each developing country's needs.** Need-based cooperation is particularly crucial for ensuring developing country ownership. It is equally critical for the purpose of maintaining political neutrality and avoiding any perception that developed countries are imposing their views through assistance activities and trying to lead the multilateral trade negotiations toward outcomes that benefit their own interests.

#### **(5) Donor Coordination and Donors' Own Capacity Building**

To effectively pursue a comprehensive approach, donors would use their limited aid resources more productively by combining them. It is also recognized as important that donors accumulate their own experiences and improve their functional capability in providing assistance in the area of trade and investment accordingly.

#### **Box 1-1 What is WTO ?**

Since the General Agreement on Tariffs and Trade (GATT) was established in 1948 as the basic international rules for international trade, the discussion on international trade rules has been conducted in the context of the GATT system. In response to the desire to strengthen the GATT system, the negotiation during the GATT's Uruguay Round brought about the formulation of new trade rules (that is, WTO agreements) that expand and develop the GATT system as well as the establishment of an international organization that manages the new rules (that is, the World Trade Organization, or WTO). The WTO was established on January 1, 1995.

The WTO agreements refer to the consolidation of the "Marrakesh Agreement Establishing the World Trade Organization (or WTO Agreement)" and the agreements contained in its annexes. Annexes 1, 2, and 3 are inseparable from the WTO establishing agreement. To become a member of the WTO, a country has to accept the establishing agreement and the first three annexes in their entirety. However, each member can choose whether or not it accepts the agreements contained in Annex 4, which are in effect only among those who have accepted them.

The following are the fundamental principles as embodied in the WTO agreements, which together form the rule-based international trade regime.

#### **1) Most Favored Nation (MFN) Treatment**

With respect to tariffs and others imposed on exports and imports, the most favored treatment granted to the product from any member country shall be accorded immediately and unconditionally to the like product from any other member countries.

#### **2) National Treatment (NT)**

Internal taxes and domestic laws and regulations shall not be applied to the imported products in excess of those applied to like domestic products.

#### **3) Transparency**

Any administrative process affecting trade activities shall be published. Members must properly institute laws and regulations and administer them.

### List of WTO Agreements (WTO Agreement and its annexes)

Agreement Establishing the World Trade Organization (WTO Agreement)

Annex 1

(1) Annex 1A: Multilateral Agreements on Trade in Goods

(A) General Agreement on Tariffs and Trade 1994 (“GATT 1994”)

(B) Agreement on Agriculture

(C) Agreement on the Application of Sanitary and Phytosanitary Measures (“SPS Agreement”)

(D) Agreement on Textiles and Clothing (“Textile Agreement”)

(E) Agreement on Technical Barriers to Trade (“TBT Agreement”)

(F) Agreement on Trade-Related Investment Measures (“TRIMs Agreement”)

(G) Agreement on Implementation of Article VI (“Antidumping (AD) Code”)

(H) Agreement on Implementation of Article VII (“Customs Valuation Code”)

(I) Agreement on Preshipment Inspection

(J) Agreement on Rules of Origin

(K) Agreement on Import Licensing Procedures

(L) Agreement on Subsidies and Countervailing Measures

(M) Agreement on Safeguards

(2) Annex 1B: General Agreement on Trade in Services and Annexes (“GATS”)

(3) Annex 1C: Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”)

Annex 2: Understanding on Rules and Procedures Governing the Settlement of Disputes (“DSU”)

Annex 3: Trade Policy Review Mechanism

Annex 4: Plurilateral Trade Agreements

(A) Agreement on Trade in Civil Aircraft

(B) Agreement on Government Procurement

(C) International Dairy Agreement (terminated at the end of 1997)

(D) International Bovine Meat Agreement (terminated at the end of 1997)

#### Trends in Japanese Assistance:

- Facilitating the creation of an environment for promoting trade and investment
- Capacity building of developing countries for their participation in the WTO system

## 1-4 Trends in Japanese Assistance

**Japanese cooperation in the area of trade and investment has been conducted in the context of facilitating the creation of an appropriate environment for promoting trade and direct investment by private businesses, the primary actors of trade and investment.** 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.<sup>6</sup> In addition

<sup>6</sup> The AID plan was introduced by then-Minister of International Trade and Industry, Mr. Tamura, when he visited Bangkok, Thailand. This package of cooperation covers the areas of aid, direct investment, and imports integrated together. On condition that there are self-help efforts on the side of recipient countries in setting their investment climate, the plan is implemented on the basis of well-arranged and holistic integration of both the private-based cooperation, in the form of direct investment by Japanese businesses in the partner countries and Japanese imports of products from the partner countries, and the government-based multi-dimensional assistance programs in hardware, software, and financial assistance to establish the foundation for such private activities.



to ODA, these documents also mention the need for strengthening coordination with Other Official Flows (OOF), as well as with the private sector activities. In the Medium-Term Policy on ODA, the following specific points are raised.

- **A comprehensive approach is needed** to enhance the development impact. Specifically, the **available resources of pertinent entities** – such as developing countries, donor countries, international organizations, the private sector, and NGOs – must be utilized appropriately.
- **In view of the growing importance of trade and investment and other private sector activities** observed in Asia, Latin America, and elsewhere, **efforts must be undertaken to improve the environment for private sector activities and to promote the inflow of private funds**. In this respect, special attention should be paid to equitable and efficient resource allocation, the amelioration of disparities, and the provision of assistance to sectors not benefiting from private flows.

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 at the Meeting of Ministers Responsible for Trade of the Asia-Pacific Economic Cooperation (APEC) in 2000 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. The proposal was subsequently adopted at the APEC summit meeting. 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.



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## Chapter 2 Effective Approaches for Trade and Investment Promotion

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### 2-1 Goals of Cooperation for Promoting Trade and Investment

The primary actor in trade and investment is the private sector. The role of the government is in creating an environment in which such private sector activities are effectively promoted.

Effective approaches:

- It is important to establish essential foundations for economic development and to address issues linked to individual areas from the perspective of 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.

Two important elements are needed in fostering private sector activities: first, establishing basic rules and legal systems to enable private businesses to engage in fair and free business activities; and second, establishing physical infrastructure such as transportation and power systems that can enable active production and trading of goods. **The most effective approach for promoting trade and investment is therefore to establish essential foundations for economic development 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.**

In addressing such approach, this report clusters the issues faced by the developing countries into two groups: (1) underdeveloped foundations for economic development; and (2) capacity shortage in the area of trade and investment. The development objectives are established accordingly.

#### **(1) Underdeveloped Foundations for Economic Development**

##### **1) Underdeveloped Economic and Industrial Foundations**

Transportation networks (railways, ports, roads, airports, and so on), communication networks, power facilities, and other physical infrastructure, as well as an established legal system, a consolidated policy system, and human resource development, are all significant elements in fostering viable private sector activities. In the developing countries, however, sustainable and efficient economic activities are constrained by insufficient and low-quality foundations for such economic activities and industry promotion.

The following issues are generally noted in this regard.

- Underdeveloped legal system and consolidated policy system
- Insufficient and under-established economic infrastructure (transportation infrastructure, energy system, financial system, standards and conformity assessment, statistics, and so on).
- Low technical level

Issues for developing countries:

- Underdeveloped foundations for economic development
- Underdeveloped economic and industrial foundation
- Delay in adjusting to international economic environment
- Capacity shortage in promoting trade and receiving investment (Issues for the government)
- Policies based on mid- to long-term perspective yet to be developed.
- Underdeveloped domestic legal system
- Complication and lack of transparency in procedures and implementation (Issues for the private sector)
- Shortage in management resources
- Shortage in market information

- Low educational level

**2) Delay in Adjusting to International Economic Environment**

It is not an overstatement to say that current international economic activities are conducted on the basis of the WTO regime. **Not just WTO member countries but countries in the process of applying for membership and even non-members need to formulate and implement economic policies, bearing in mind their consistency with the WTO agreements.** (In other words, in recent years, it has become a basic requirement that developing countries properly understand and implement existing international rules such as those of the WTO.) In particular, any change in the international rules would seriously affect these countries. For their stable growth and development, it becomes important to minimize the way they are affected as a result of the change and to translate such change into opportunities for growth. Thus, developing countries must plan their industry development based on understanding of the international framework such as WTO agreements.

Also, better understanding of international rules is important in avoiding a situation in which they unintentionally make commitments at the trade negotiating table that are not in their best interests.

**(2) Capacity Shortage in Promoting Trade and Receiving Investment**

Once developing countries have begun to address their underdeveloped economic and industrial foundations as mentioned above, they must then turn to the question of how to secure the benefits of trade and investment liberalization for their countries. **Both the government and the private sector face their own issues of how they take pro-active roles in responding to such question.** (For example, the government must address how to provide appropriate support for the private sector.)

**1) Issues for the Government to Take Primary Role**

The recent international trend in trade-related cooperation shows a **shift in focus from cooperation “at the border”** in the areas such as tariff reduction and improvement in customs administration **to cooperation “behind the border.”** It has been emphasized that developing countries need to formulate their domestic policies and institutions consistent with international rules as represented in the WTO agreements.

Based on such perspectives, this report organizes the issues for the developing countries to address as follows.

- Formulating and implementing policies based on medium – to long-term perspectives.
- Developing a domestic legal system (in consistency with international

rules).

- Simplifying procedures and implementing them appropriately (based on law).

## 2) Issues for the Private Sector to Take Primary Role

The private sector in developing countries cannot benefit from trade and investment liberalization without improving competitiveness at the level of individual firms and enterprises. The private sector in developing countries must address the following.

- Empowering individual enterprises’ management resources (human resources, management, technical know-how, financial resources, and the like).
- Obtaining sufficient market information.

In many developing countries, however, individual enterprises alone cannot properly address these issues. Therefore, the government has the task of providing support to the private sector to overcome their constraints.

### Three Development Objectives:

- “Strengthening responsive capacity for trade and investment promotion within the international framework”
- “Capacity building for trade promotion”
- “Capacity building for investment promotion”

Bearing these factors in mind, this report sets the following Development Objectives. To address the issues of the underdeveloped economic and industrial foundations and the delay in adjusting to international economic environment, we set the Objective to be **“strengthening responsive capacity for trade and investment promotion within the international framework.”** To address the issue of capacity shortage in promoting trade and attracting investment, we deal with trade and investment separately and set the Development Objectives to be **“capacity building for trade promotion”** and **“capacity building for investment promotion,”** respectively. Each of these two Objectives is structured such that we draw a distinction between the issues in which the government must take the primary role and those in which the private sector must take the primary role (while for the latter, the government takes supporting role for the private sector). In regard to trade, we further divide the role of the government into supporting the private sector to improve information provision services and to foster a viable private sector.

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

### (1) Coverage Areas

The factors that significantly influence trade and investment include issues such as political conditions, domestic security, macroeconomic conditions, and governance. These issues have significant influence over the business activities of private enterprises.

While recognizing the importance of these factors, this report nonetheless

Points for  
Consideration in  
Relation to  
Development  
Objectives Chart:

- (1) Coverage areas
  - Issues such as political conditions, domestic security, macroeconomic conditions, and governance, are assumed to be given and are not explicitly addressed.
- (2) Other Japanese agencies promoting trade and investment
  - (Technical cooperation)  
JICA, JETRO, JODC, AOTS, and others
  - (Financial cooperation)  
JBIC, NEXI, and others

will not make specific reference to them on the assumption that they are already given and for the reason this report addresses the approach to be taken for trade and investment promotion rather than others.

**(2) Other Japanese Agencies Promoting Trade and Investment**

As mentioned previously, the primary actor in the area of trade and investment is the private sector. The roles of the government and the donors should be directed toward establishing an appropriate environment in which the private sector can enhance its viable activities.

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), the Japan Overseas Development Corporation (JODC), the Association for Overseas Technical Scholarship (AOTS), and other agencies are also conducting various activities.**

The Japan Bank for International Cooperation (JBIC) has been active in the area of financial cooperation in the developing countries. JBIC and the Nippon Export and Investment Insurance (NEXI) are also active in programs that support and facilitate overseas business expansions by Japanese firms, which in turn contribute to developing countries' trade and investment promotion.

The activities of these Japanese governmental agencies in the area of trade and investment promotion in the developing countries are summarized in Table 2-1.<sup>7</sup> The individual Development Objective Charts discussed later in this chapter list examples of project activities in achieving individual Sub-Targets. For the activity examples in these charts marked with an "X," JICA has no actual project activities, but other agencies may have conducted actual projects for them. (The financial cooperation is not included in the chart for Development Objective 1. In this area, **JBIC and NEXI extend export credits and investment-related financing to support private sector activities in developing countries.**)

<sup>7</sup> These organizations have web sites that contain more detailed information regarding their activities and how their activities differ from those of JICA. (see p.93)

**Table 2-1 Japanese Governmental Agencies Relevant to Trade and Investment Promotion**

Modality	Agency	Major Relevant Activities
Technical Cooperation	JETRO	<ul style="list-style-type: none"> <li>Assisting overseas business expansions of Japanese firms</li> <li>Assisting local support industry development</li> </ul>
	JODC	<ul style="list-style-type: none"> <li>Dispatching experts to local firms and Japanese firms operating in developing countries</li> </ul>
	AOTS	<ul style="list-style-type: none"> <li>Hosting industrial technical trainees from overseas and organizing training activities</li> </ul>
Financial Cooperation	JBIC	<ul style="list-style-type: none"> <li>Yen loans (providing long-term development loans to developing countries, governments, and others at a low rate with soft conditions)</li> <li>Export loans (providing loans for the plant exports and technical transfer to developing countries by Japanese firms)</li> <li>Overseas investment finance (providing loans to the Japanese firms investing in developing countries)</li> </ul>
	NEXI	<ul style="list-style-type: none"> <li>Providing insurance programs to the firms overseas projects and their exports</li> </ul>

**Table 2-2 Development Objectives and Mid-term Objectives for Trade and Investment Promotion**

Development Objectives	Mid-term Objectives
<b>1. Strengthening Responsive Capacity for Promoting Trade and Investment within the International Framework</b>	<b>1-1 Establishing Basic Conditions for Promoting Trade and Investment</b>
	<p>Existence of description on economic activities in the civil law and availability and contents of commercial law</p> <p>Availability and contents of laws related to real estate registration and corporate registration</p> <p>Availability and contents of laws related to bankruptcy procedure</p> <p>Availability and contents of laws related to ensuring competition in economic activities</p> <p>Availability and contents of laws related to entry and exit of foreign nationals and their residence registration</p> <p>State of development of airports and ports and their road connectivity</p> <p>Electricity supply condition and existence of scheduled and accidental power outages</p> <p>State of development in communication circuits</p> <p>State of development in direct financial market and indirect financial market</p> <p>Banking operation conditions and efficiency in relation to foreign exchange</p> <p>Availability of system related to standards certification, harmonization with international standardization system</p> <p>Availability of basic statistics (system of national accounts, industrial census, movement statistics, etc.)</p> <p>Availability of intellectual property rights protection system and the state of implementation</p> <p>Existence of national and regional industry promotion policies and their contents</p> <p>Level of basic production technology</p> <p>Existence of industrial skills education system and its contents</p> <p>Availability of employee training services by private corporations, their contents, and availability of government support.</p> <p>Contents of higher education</p>
	<b>1-2 Strengthening Capacity to Respond to International Trade and Investment Rules of the WTO and Others</b>
	<p>Status of WTO accession (Acceded / Negotiation-in-process / Non-member)</p> <p>Level of understanding of officers in charge, problems in implementing the WTO agreements</p>

Development Objectives	Mid-term Objectives
<p><b>2. Capacity Building for Trade Promotion</b></p>	<p><b>2-1 Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation</b></p> <p>Existence of industrial and trade policies based on mid to long-term perspective            Consistency with international rules such as the WTO agreements            Number of cases where the trade-related problems are pointed out by other countries            Af governments and industries            Survey research of private firms regarding governmental services related to trade and investment            Questionnaire for private firms using export processing zones            Survey research of private firms on trade and investment climate            Research on time requirement for trade procedures            State of development in domestic standards            Existence of metrological and standards testing and inspecting institutions and performance study            Number of seizure cases of imitated articles at the border            * , , , , could also be indicators under 3-1.</p> <p><b>2-2 Strengthening Information Services to the Private Sector</b></p> <p>Number of inquiries and accesses from private firms            Survey research among private firms about services            Numbers of courses and participants of the courses provided by trade promotion agencies            Number of contracts with overseas firms</p> <p><b>2-3 Fostering Viable Private Sector</b></p> <p>Studies on the level of satisfaction and utilization among private firms regarding various support systems            Number of courses provided by governmental support agencies and number of course participants            Firm diagnostic studies for private firms            Trends in value-added and gross production of specific products            Trends in sales, export values, and export destinations</p>
<p><b>3. Capacity Building for Foreign Direct Investment Promotion</b></p>	<p><b>3-1 Developing System for Formulating Investment-related Policies and Institutions and their Appropriate Implementation</b></p> <p>State of development in investment-related legal system, frequency in changes in the system            Number of deregulation cases            State of application of preferential measures and systems for investment            Trends in number of joint ventures between investing and local firms and number of subcontracts with local firms            Trends in number and ratio of locally recruited executives and management staff in investing firms            Trends in number of in-house training opportunities given by investing firms            Trends in local sourcing ratio of parts by investing firms            Trends in number of cases where the R&amp;D departments of investing firms relocate to the country            Number of investment cases and amount of investment in export processing zones            Trends in unemployment rate, income growth rate, and number of firm establishment in the surrounding areas of export processing zones</p> <p><b>3-2 Strengthening Information Services to the Private Sector</b></p> <p>Number of inquiries and accesses from private firms            Trends in number of investment cases and amount of investment by firms using the services            Number of investment seminars, number of firms attended            Trends in number of registered firm data</p>



## 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**

Development of basic legal systems for company incorporation, contracts, immigration of foreign nationals, and other aspects related to economic activities.

Provision of infrastructure in terms of physical infrastructure (e.g., transportation, electricity, and telecommunication) and institutional infrastructure (e.g., financial and intellectual property rights)

**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**

### (1) Legal System Development for Commercial Transactions

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 addition to the established legal system for domestic commercial transactions, business decisions in foreign business transactions (that is, international trade) and foreign direct investment are significantly influenced by **factors such as whether there is a proper legal system in place for business activities by foreign nationals and whether a domestic legal system is harmonized internationally with other countries.**

Thus, in promoting economic development and trade and investment in developing countries, the basic legal system needs to be established in the following areas and consistency needs to be ensured among individual laws:

- Civil law (basic law in governing economic activities)
- Commercial law (law governing commercial transactions in general, corporate accounting, and others)
- Registration law (law related to company incorporation and real estate registration)
- Rehabilitation, reorganization, and bankruptcy law (law related to corporate rehabilitation, reorganization, and bankruptcy)
- Antitrust law
- Immigration law and alien registration law

### (2) Provision of Economic Infrastructure

In promoting trade and investment, physical infrastructure and related institutional improvement are critically important factors for improving aggregate efficiency in the process of trading activities and creating a sound investment climate. The following are the types of hard and soft infrastructure that need to be established in this context.

### 1) Transportation Infrastructure

Transportation infrastructure here refers to **the port and airport infrastructure**, which is necessary for the trade activities, and **the land road infrastructure**, which connects ports and airports with commercial and industrial districts where actual economic activities are taking place. Improvement in the transportation infrastructure is one of the most important policy measures in increasing efficiency in the distribution system. Although large-scale investment is required for such infrastructure, it is essential for trade and investment promotion in specific and for the country's economic development in general.

### 2) Electricity generation, Transmission and Distribution Infrastructure

In some developing countries, there are frequent scheduled or accidental power outages, which can negatively affect economic activities. The **availability of a stable and high-quality electricity supply** is an important point on which foreign businesses in particular base their decisions regarding foreign investment operations.

### 3) Telecommunication Infrastructure

The telecommunication infrastructure provides necessary services not only for trade and investment but also for the social livelihood of the general public. The telecommunication infrastructure usually starts with the government establishing state-run telecommunication corporations, followed by privatization of the state-run corporations, and then deregulation of the market by allowing private corporations to operate in the sector. Depending on a country's level of development in telecommunication, policy measures may include **empowerment of management of state-run corporations as a part of establishing a telecommunication base in the country**, followed by **privatization of state-run corporations** and **deregulation of the telecommunication industry**.

### 4) Financial System

**Establishment of a basic legal system in the area of finance** is crucial as the globalization of economy progresses. **The legal system covers banking law, stock exchange law, foreign exchange law, and other basic financial laws, all of which need to be harmonized with the international standards.** Financial institutions, which provide financial services, have critical roles as intermediaries for trade and investment activities. Because these institutions are required to maintain a high level of transparency in their services, **the issue of corporate governance is a high priority when they are engaged in**

**international financial operations.<sup>8</sup> For this reason, human resources development in administrating financial supervision** in the developing countries is much needed, as is human resources development in the financial institutions themselves.

### **5) Standards and Conformity Assessment System**

For a country's domestically manufactured products to gain certain recognition in the international market, the country **needs to have a proper institutional arrangement and technical improvement in the area of standards and conformity assessment (for example, standards and metrology)**. It is also true that investment priority goes to the countries with established institutions and basic skills. The problem is that there are many countries where the government has only poor recognition of the significance of this issue. Such countries put themselves at a disadvantage because they may import low-quality products from abroad that do not meet the international standards and they cannot improve their attractiveness to foreign investors.

### **6) Intellectual Property Rights**

An overflow of imitated products in a country must be recognized as one of the main factors in weakening international competitiveness of the country. **The protection of international property rights will be increasingly recognized as an important issue within the WTO system.** (Compared with the previous issue of standards and conformity assessment, governments are generally more concerned on this issue.)

### **7) Statistics**

Statistics is one of the most important indicators of the current condition of domestic industries and their inter-industry input-output relations. It provides important reference materials when the foreign investors decide on investment or when the government considers domestic industrial policy. Thus, statistics is also a useful informational resource for domestic industries when trying to attract foreign investment or planning and implementing industrial promotion programs. Under public and private partnership, **a database for industrial statistics needs to be established for specific regions, industries, products, plant sizes, and some other categories.**

Development of policies and institutions which support activities of domestic industries, which are the primary actors in trade and receiving investment

### **(3) Creation of Sound Business Environment for Domestic Industries**

**Domestic industries are the primary actors in both promoting trade and receiving foreign direct investment.** Their competitive product development, production, and sales are essential for growth in exports and

<sup>8</sup> The concept of corporate governance refers to the relationship among stakeholders of a corporation, that is, share holders, management, oversight institutions, employees, and creditors of the corporation.

foreign exchange earnings. Also, for foreign investors, the presence of supporting industries that have the capacity to supply credible parts and raw materials is one of the most significant factors in assessing the attractiveness of a country.

There are several key policies for promoting export businesses and supporting industries. **Industries can be strengthened through various forms of deregulation that would promote new entries into the market. Institutional building in support of business activities — for example, industrial promotion through establishing suitable financial institutions — would also be an effective policy.** Other policies include **promoting research and development activities at universities and elsewhere, as well as supporting business services for small and medium enterprises.**

Development of basic industrial human resources which support trade and investment

#### **(4) Human Resources Development**

Human resources 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. In today's business environment, it is not only technical ability that is demanded but also transparency in corporate activities and related administration. **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.**

From such a perspective, the following are considered especially necessary in developing human resources to support trade and investment.

Training technical experts through strengthening high school education.

Training capable future technicians by strengthening science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling.

Fostering internationally compatible human resources by strengthening English education.

Seeking development of legal judgment ability in the educational process, with a view to improving transparency in corporate activities and government administration.

Institutionalizing licensing and certification systems, such as certified engineers systems, which are designed to provide incentive for the occupation of technical experts.

Facilitating labor market functions through such tools as vocational training and job matching.

Working toward balanced labor relations.

## **JICA's Activities**

### **(1) Legal System Development for Commercial Transactions**

Although JICA has so far conducted only a handful of activities directly targeted at the legal system, there are some cases in three Indochinese countries (Viet Nam, Cambodia, and Laos) in which JICA extends assistance to the development of legal institutions related to economic activities.

#### **1) Viet Nam**

JICA has implemented projects that include establishing a policy dialogue with the minister of justice, in the areas such as civil and commercial laws, corporate law, ASEAN investment law, civil procedure (civil arbitration and civil enforcement), maritime law, antitrust law, stock exchange law, and intellectual property rights; holding workshops and seminars; and hosting technical training programs.

#### **2) Cambodia**

JICA has implemented projects that include preparing draft codes for civil law and civil procedure, establishing a policy dialogue with the minister of justice, holding seminars and workshops, and hosting technical training programs in legal administration, prosecution-related work, the court system, bar associations, and other legal areas.

#### **3) Laos**

JICA has implemented projects that include holding seminars and workshops on civil law and commercial law, and hosting technical training programs.

### **(2) Provision of Economic Infrastructure**

#### **1) Provision of Physical Infrastructure**

In many countries, JICA has implemented projects that include policy advising, Development Studies (formulation of master plans, feasibility studies), Technical Cooperation Projects to enhance maintenance management skills, and technical training in such areas as building transportation, power, and telecommunication infrastructure.

#### **2) Financial System**

JICA has extended assistance in this area mainly through dispatching experts, advising on policy, and providing technical training programs on foreign exchange and capital market development.

### **3) Standards and Conformity Assessment, Intellectual Property Rights, and Industrial Statistics**

JICA has provided assistance in the area of Technical Barriers to Trade (TBT) and Trade-related Aspects of Intellectual Property Rights (TRIPs) under the WTO capacity-building framework and technical cooperation (in the forms of Technical Cooperation Project, Development Studies, and training programs) for enhancing administrative capacity in intellectual property rights, metrological standards, industrial statistics, and others.

### **(3) Creation of Sound Business Environment for Domestic Industries**

JICA's activities for creating a sound business environment for domestic industries have been conducted mainly in the form of **assisting countries to promote their small and medium enterprises**. The actual activities **include policy advising for recipient countries' cabinet members in economic areas** (in the forms of dispatching experts, providing recommendations for Thailand and Indonesia), Technical Cooperation Projects, Development Studies, and training programs, among others

### **(4) Human Resources Development**

As a basic scheme of assistance to support institutional building and increasing production technologies and skills, human resources empowerment is the most important type of assistance. JICA has been implementing various combinations of activities, such as dispatching experts; providing project-type technical assistance, development studies, grants, and training programs; providing assistance for **trade training centers and administrative capacity enhancement for customs administration; strengthening high school education, science and mathematics education at the elementary and secondary level, and vocational training; and enhancing administrative capacity in labor-related administration.**

**Mid-term  
Objective 1-2  
Strengthening  
capacity to  
respond to  
international trade  
and investment  
rules of the WTO  
and others**

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

#### **(1) Enhancing Understanding on the Significance of Trade and Investment Liberalization**

As the world economy becomes more and more globalized, goods and services are traded more actively than ever before across the borders. Although the positive effects of trade and investment promotion on job creation, private sector development, inflows of new technologies and others are acknowledged, a number of countries still hesitate in liberalizing their trade and investment

Assistance needs to enable developing countries to enhance their understanding of the impacts of trade and investment to their economies as economic globalization progresses.

regimes, primarily for the following reasons:

- They have concerns about a possible sacrifice required of a vulnerable group in their society.
- The benefits of trade and investment liberalization are not visible.
- They lack understanding of the content of trade and investment liberalization agreements, such as various WTO agreements, which have economic implications. They may also distrust the WTO system (complicated agreements, many obligations, etc.).
- They lack negotiation capability in formulating rules.
- They lack capacity in formulating policies in the context of properly accommodating trade and investment liberalization agreements and other rules into their domestic industrial policy framework.
- There are conflicts with domestic industrial policies (particularly protection of domestic industries) or objections from domestic industries.
- There are objections about developed countries' standards being automatically imposed on them (in such areas as trade and investment rules, and accompanying agreements on environmental and labor standards).

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**.

Assistance for accession to the WTO and others should be extended using different approaches depending on the stage of accession preparation of a recipient country.

## **(2) Assistance for Accession to WTO and Other International Regimes**

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.**

When a developing country considers gaining membership in the WTO, its policymakers face challenges in understanding the possible costs and benefits of WTO accession to their domestic economy and industries and in incorporating WTO accession into the context of their policies.

During the preparation period in acceding to the WTO, officials in relevant governmental agencies must first have a sufficient understanding of the major articles of WTO agreements, the privileges and the obligations of

**Table 2-3 WTO Members in Geographical Region**

As of January 2003

	Asia	Europe	America	Africa	Oceania	
WTO Members	<ul style="list-style-type: none"> <li>• Bahrain</li> <li>• Bangladesh</li> <li>• Brunei</li> <li>• Hong Kong</li> <li>• India</li> <li>• Indonesia</li> <li>• Japan</li> <li>• Republic of Korea</li> <li>• Kuwait</li> <li>• Macao</li> <li>• Malaysia</li> <li>• Myanmar</li> <li>• Pakistan</li> <li>• Philippines</li> <li>• Singapore</li> <li>• Sri Lanka</li> <li>• Thailand</li> <li>• Turkey</li> <li>• Israel</li> <li>• Maldives</li> <li>• Cyprus</li> <li>• Qatar</li> <li>• United Arab Emirates</li> <li>• Mongolia</li> <li>• Jordan</li> <li>• Oman</li> <li>• China</li> <li>• Taiwan</li> </ul>	<ul style="list-style-type: none"> <li>• Austria</li> <li>• Belgium</li> <li>• Czech Republic</li> <li>• Denmark</li> <li>• European Community</li> <li>• Finland</li> <li>• France</li> <li>• Germany</li> <li>• Greece</li> <li>• Hungary</li> <li>• Iceland</li> <li>• Ireland</li> <li>• Italy</li> <li>• Luxembourg</li> <li>• Malta</li> <li>• Netherlands</li> <li>• Norway</li> <li>• Portugal</li> <li>• Romania</li> <li>• Slovak Republic</li> <li>• Spain</li> <li>• Sweden</li> <li>• United Kingdom</li> <li>• Poland</li> <li>• Switzerland</li> <li>• Slovenia</li> <li>• Liechtenstein</li> <li>• Bulgaria</li> <li>• Kyrgyz Republic</li> <li>• Latvia</li> <li>• Estonia</li> <li>• Georgia</li> <li>• Albania</li> <li>• Croatia</li> <li>• Lithuania</li> <li>• Moldova</li> <li>• Armenia</li> </ul>	<ul style="list-style-type: none"> <li>• Antigua and Barbuda</li> <li>• Barbados</li> <li>• Belize</li> <li>• Canada</li> <li>• Costa Rica</li> <li>• Dominica</li> <li>• Honduras</li> <li>• Mexico</li> <li>• St. Lucia</li> <li>• St. Vincent and the Grenadines</li> <li>• Suriname</li> <li>• United States</li> <li>• Argentina</li> <li>• Brazil</li> <li>• Chile</li> <li>• Guyana</li> <li>• Paraguay</li> <li>• Peru</li> <li>• Uruguay</li> <li>• Venezuela</li> <li>• Trinidad and Tobago</li> <li>• Dominican Republic</li> <li>• Jamaica</li> <li>• Cuba</li> <li>• Colombia</li> <li>• El Salvador</li> <li>• Guatemala</li> <li>• Nicaragua</li> <li>• Bolivia</li> <li>• Ecuador</li> <li>• Haiti</li> <li>• St. Kitts and Nevis</li> <li>• Grenada</li> <li>• Panama</li> </ul>	<ul style="list-style-type: none"> <li>• Cote d'Ivoire</li> <li>• Gabon</li> <li>• Ghana</li> <li>• Kenya</li> <li>• Mauritius</li> <li>• Morocco</li> <li>• Namibia</li> <li>• Nigeria</li> <li>• Senegal</li> <li>• South Africa</li> <li>• Swaziland</li> <li>• Tanzania</li> <li>• Uganda</li> <li>• Zambia</li> <li>• Zimbabwe</li> <li>• Tunisia</li> <li>• Botswana</li> <li>• Central African Republic</li> <li>• Djibouti</li> <li>• Lesotho</li> <li>• Malawi</li> <li>• Mali</li> <li>• Togo</li> <li>• Guinea Bissau</li> <li>• Mauritania</li> <li>• Burkina Faso</li> <li>• Egypt</li> <li>• Burundi</li> <li>• Sierra Leone</li> <li>• Mozambique</li> <li>• Guinea</li> <li>• Madagascar</li> <li>• Cameroon</li> <li>• Benin</li> <li>• Rwanda</li> <li>• Chad</li> <li>• Gambia</li> <li>• Angola</li> <li>• Niger</li> <li>• Democratic Republic of Congo</li> <li>• Republic of Congo</li> </ul>	<ul style="list-style-type: none"> <li>• Australia</li> <li>• New Zealand</li> <li>• Fiji</li> <li>• Papua New Guinea</li> <li>• Solomon Islands</li> </ul>	
	(145)	(28)	(37)	(34)	(41)	(5)
Countries Applied for the WTO membership	<ul style="list-style-type: none"> <li>• Bhutan</li> <li>• Cambodia</li> <li>• Laos</li> <li>• Lebanon</li> <li>• Nepal</li> <li>• Saudi Arabia</li> <li>• Viet Nam</li> <li>• Yemen</li> </ul>	<ul style="list-style-type: none"> <li>• Andorra</li> <li>• Azerbaijan</li> <li>• Belarus</li> <li>• Bosnia and Herzegovina</li> <li>• Kazakhstan</li> <li>• Former Yugoslav Republic of Macedonia</li> <li>• Russia</li> <li>• Ukraine</li> <li>• Uzbekistan</li> <li>• Yugoslavia</li> <li>• Tajikistan</li> </ul>	<ul style="list-style-type: none"> <li>• Bahamas</li> </ul>	<ul style="list-style-type: none"> <li>• Algeria</li> <li>• Seychelles</li> <li>• Sudan</li> <li>• Cape Verde</li> </ul>	<ul style="list-style-type: none"> <li>• Tonga</li> <li>• Vanuatu</li> <li>• Samoa</li> </ul>	
	(27)	(8)	(11)	(1)	(4)	(3)



members, and the accession procedure. They must then analyze possible impacts on the domestic economy and its industries and formulate a strategy to capture the benefits of the WTO accession in their economy. To do this, negotiation officers and administrative officers must be trained in a short run. As the accession negotiation progresses, the country would need to prepare a domestic legal and institutional system consistent with the WTO agreements, in particular ensuring transparency in the legal institutions. Moreover, the general public needs to be well informed of domestic laws that have been newly established or revised as the country accedes to the WTO.

Assistance needs to be considered for developing countries which are already WTO members, which encourages appropriate use and observation of individual rules.

### **(3) Improving Capacity to Implement the WTO and Other International Rules**

The WTO provides the basic framework for the global trade regime. 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.**

More specifically, developing countries must:

- Properly reflect the WTO agreements and the principles under the WTO in their domestic economic and industrial policies.
- Conduct negotiations on pending issues with a view to achieving outcomes in line with existing domestic policies.
- Fulfill the current WTO obligations through the domestic laws.
- Ensure appropriate implementation of these domestic laws.

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.
- Improve negotiating capability at the WTO and other negotiating tables.
- Develop institutions and human resources in the area of trade and investment promotion, in response to the progress at the WTO (that is, training of administrative officers and negotiators).

#### **JICA's Activities**

### **(1) Enhancing Understanding on the Significance of Trade and Investment Liberalization**

Through kick-off seminars for the **“WTO Capacity Building Program for Implementing WTO Agreements,”** JICA has conducted awareness-building programs to promote understanding among various groups in the

society (academia, NGOs, national parliamentarians, and others) regarding the significance of trade and investment liberalization. These activities include providing the basic information on the meaning of trade and investment liberalization, WTO Agreement and the related agreements. By gaining support and understanding from a wide range of groups in the society, the program aims to establish a foundation for formulating and implementing appropriate trade and investment policies.

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Ensuring neutrality
- Providing empirical data

**• Ensuring Neutrality**

A new round of negotiations is currently taking place under the WTO. Depending on the content of the seminars and lectures, these activities might give an impression to the recipient countries that these activities present Japanese positions on the issues being negotiated. Particularly with regard to the sensitive topics such as investment on which there are still significant differences between the Japanese position and those of developing countries, **the program needs to have careful consideration of its content, in awareness of the current status of negotiations on the relevant topics as well as the recipient countries' positions on these topics, and to take appropriate measures such as selecting lecturers who can speak from a neutral position.**

**• Providing Empirical Data**

These projects **explain to the recipient countries the effect of trade and investment liberalization by providing empirical data.** Specifically, the projects introduce cases from other developing countries success in achieving economic growth through trade and investment liberalization, analyze linkage between economic growth and specific policies taken by developing countries, compare policies of different developing countries, and provide other empirical data. Such methods help make the content of the projects more convincing and effective.

**(2) Assistance for Accession to WTO and Other International Regimes**

JICA has **been holding a series of seminars to facilitate transfer of basic knowledge on the WTO agreements to administrative officials** of non-member countries. Such seminars could be formed under country-focused training programs (as in Kazakhstan and Viet Nam) or through dispatch of individual experts (as in Cambodia, Kazakhstan, and Viet Nam). Also as a reference to their policy formulation in pre- and post-accession periods, JICA conducted training courses for China that aimed to introduce **Japanese domestic systems in agriculture and individual service sectors (freelance**

**services, shipping and transportation, for example**), through such activities as **organizing tours to Japan to observe the current conditions in these areas**. Because gaining access to the international regime is often an immediate issue for individual developing countries, JICA has been providing assistance in response to requests from individual countries.

Points to be considered in formulating projects:  
 • Timely assistance

The following point must be considered in formulating projects on this issue.

• **Timely Assistance**

Countries in the process of applying for WTO accession often have ongoing bilateral negotiations, facing numerous questions from current WTO members to which they need to respond in a limited time. Therefore, **timely assistance in response to continuously evolving negotiation processes** is highly appreciated.

**(3) Improving Capacity to Implement the WTO and Other International Rules**

WTO-related assistance is a new area of cooperation for JICA. In the past, only a few notable projects have been implemented such as the **WTO Capacity-Building Program for Implementing WTO Agreements** described earlier, and some **country- and region-focused training programs on several individual WTO agreements (for example, agriculture, sanitary and phytosanitary measures, antidumping, technical barriers to trade, and dispute settlement)**, which were all held during the FY2000.

The WTO Capacity-Building Program for Implementing WTO Agreements was started in FY2000 in Thailand, Indonesia, Malaysia, and the Philippines. This first comprehensive WTO-related cooperation program for JICA includes the following specific activities.<sup>9</sup>

- Organizing seminars and workshops for the purpose of enhancing knowledge on each of the major WTO agreements.
- Building information-sharing systems within the agencies in charge of WTO agreements for the purpose of strengthening the institutional system.
- Producing learning materials for strengthening the system for implementing individual agreements (TRIPS).
- Organizing training of trainers to secure sustainability of the program (TRIPS).
- Conducting studies on the consistency between the WTO agreements and domestic institutions (TBT).
- Conducting comparative analysis of Schedules and related domestic legal codes among major countries (GATS).

<sup>9</sup> Japan International Cooperation Agency (2002a)

- Conducting a “mock court” or a simulation exercise of a dispute settlement panel (DS).
- Providing recommendations with regard to a country’s future capacity-building strategies.

Furthermore, **the Committee on Cooperation for WTO Capacity Building**, established during the FY2000–2001, has considered effective measures and cooperation activities for strengthening capacity in implementing WTO agreements, primarily targeted at developing countries in the APEC region. The outcome of this work was published in a form of a report.

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Targeting specific beneficiaries in providing assistance on individual agreements
- Ensuring ownership
- Consideration for continuity and sustainability
- Obtaining appropriate resources

**• Identifying and Targeting Specific Beneficiaries in Providing Assistance on Individual Agreements**

The targeted beneficiaries will vary according to the characteristics of individual WTO agreements as well as the characteristics of individual countries. Characteristics of individual countries include the counterpart agencies in charge of individual WTO agreements, the capacity to implement these agreements, and the current conditions of relevant domestic agencies. Therefore, **the content of cooperation must be optimally prescribed based on the present condition of each country and on a thorough understanding and analysis of the current condition prior to the actual cooperation.**

**• Ensuring Ownership of the Beneficiary Countries and Building Partnerships with Counterpart Agencies**<sup>10</sup>

This point is not only relevant to the area of trade and investment, but to any area of development assistance. For example, when holding seminars or workshops, the speakers could be chosen from the developing countries or steering committees could be organized by the developing countries. Through such devices, **developing countries would be expected to receive donor assistance not in a passive manner but with a sense of ownership.**

**• Planning Activities that Ensure Continuity and Sustainability of the Program**

Working jointly with counterpart agencies in developing countries to develop training materials, organize training programs for trainers, or forest up steering committees on specific issues is not only effective in avoiding “single-shot” programs but also in enabling the continuous commitment of developing countries. In deciding the content of cooperation, it is beneficial to **incorporate into JICA’s activities some components that would facilitate continuous**

<sup>10</sup> Ownership is defined as the self-help efforts of developing countries.

engagement by the recipient countries.

**• Securing Human Resources for Assistance Corresponding to the Areas and the Types of Assistance**

Particularly in the areas where the WTO and other multilateral negotiations are in progress, it is useful to **search for collaboration with the experts who belong to neutral organizations such as international organizations**. For example, Japan has rich experience in being subject to anti-dumping duties imposed by other countries but has little experience in imposing them.<sup>11</sup> Therefore, it would be useful to utilize the knowledge and experience of lawyers in the third countries in the area of anti-dumping.

In any event, Japan has only limited domestic resources in providing assistance in this area. It is therefore necessary to be innovative in securing appropriate resources for assistance as well as in designing methods of assistance.

**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			
Sub-targets of Mid-term Objectives	Examples of Activities	Case No.	JICA's Main Activities
Legal System Development for Commercial Transactions	Development of commercial laws and others (advising on codification of individual laws, creating an overview map of existing laws, training and education for the Bar)	10,12,41, 42	• Assistance toward legal development in relation to transition to the market economy
Provision of Economic Infrastructure	Assistance toward development plans of distribution infrastructure such as airports, ports, and roads Policy formulation for electricity sector, assistance toward formulating power sources development plans Policy and institutional development in relation to information technology (IT) Banking sector, capital market development Human resources development in financial sector Capacity and skills improvement for standardization Capacity and skills improvement for metrology and testing Assistance toward development of statistics Assistance toward establishing and developing intellectual property rights	46  44   25,45  45  43 11	• Infrastructure development (Grant Aid, Development Studies) • WTO capacity building (Development Studies)
Creation of Sound Business Environment for Domestic Industries	Formulation of master plans for industry development Formulation of small and medium enterprise and supporting industry development policies Training of the fundamental skills (metallurgical skills, casting skills), basic research, R&D	2, 4, 5,7, 47,48,49	
Human Resources Development	Human resources development in public sector (program to enhance understanding of significance of trade and investment liberalization, improving quality of education on international economy and trade, etc.) Business human resources development in private sector (Japan center, trade training center, etc.) Improvement of labor force quality (strengthening science and mathematics education, occupational training, and industry technology training, etc.)	22,23,34	• WTO capacity building (Development Studies) • Japan center, trade training center (Grant Aid, Technical Cooperation Projects)

<sup>11</sup> Anti-dumping duties (AD duties) are imposed against the dumped imports for the rate with the ceiling set at the margin of sales price of imports over their domestic sales price.

<b>Mid-term Objective 1-2 Strengthening Capacity to Respond to International Trade and Investment Rules of the WTO and Others</b>			
<b>Sub-targets of Mid-term Objectives</b>	<b>Examples of Activities</b>	<b>Case No.</b>	<b>JICA's Main Activities</b>
<b>Enhancing Understanding on the Significance of Trade and Investment Liberalization</b>	Enhancement of understanding on the WTO agreements in general, and on the significance of trade and investment liberalization Promotion of public-private dialogue	4,5, 34-36, 39,40	<ul style="list-style-type: none"> <li>• WTO capacity-building program (Development Studies)</li> <li>• WTO accession assistance (Dispatch of Experts, Technical Training)</li> </ul>
<b>Assistance for Accession to the WTO and Other International Regimes</b>	Development of trade policies and domestic legal system consistent with the WTO, enhancement of understanding on new privileges and obligations (WTO accession assistance program) Enhancement of understanding on impacts to the domestic economy and industries by joining the WTO Enhancement of understanding on the accession procedure Institutional building and human resources development in relation to trade and investment promotion, responding to the developments at the WTO and others (training of negotiators and administrative officials) × Specific and concrete advising on accession negotiations	4,5,9,13, 34-36  4,5  35,36  34	<ul style="list-style-type: none"> <li>• Legal system development assistance (Development Studies)</li> <li>• Introduction of Japanese systems (Technical Training)</li> <li>• Economic policy assistance (Dispatch of Experts)</li> <li>• WTO accession assistance (Dispatch of Experts)</li> <li>• WTO capacity-building program (Development Studies)</li> </ul>
<b>Improving Capacity to Implement the WTO and Other International Rules</b>	Development of trade policies and domestic legal system consistent with international rules such as the WTO Assistance toward enforcement and implementation of consistent policies and institutions Enhancement of understanding on individual agreements × Strengthening of negotiation capacity for negotiations at the WTO and others × Specific and concrete advising on negotiations at WTO and others Studies on the state of implementation of the WTO agreements by individual countries Institutional building and human resources development in relation to trade and investment promotion, responding to the developments at the WTO and others (training of negotiators and administrative officials)	4,5,9,13, 37-40  34,37,38  34,37,38  34  34	<ul style="list-style-type: none"> <li>• Legal system development assistance (Development Studies)</li> <li>• Introduction of Japanese systems (Technical Training)</li> <li>• WTO capacity-building program (Development Studies)</li> <li>• Seminars and technical training on individual agreements (Dispatch of Experts, Technical Training)</li> </ul>

\* Case numbers correspond to the numbers in Project List in Appendix 1.

Examples of Activities: = JICA has considerable experience = JICA has certain experience = JICA has experience as a component of projects × = JICA has little experience
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**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

Issues to be addressed:

- Trade policies based on medium- to long-term perspectives
- Establishing trade-related laws, regulations, and institutions
- Simplification of trade-related procedures

**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**

The primary actor in trade is the private sector. **The government's role is therefore to promote trade activities through establishing domestic policies and institutions that facilitate efficient business activities by the private sector.** However, many developing countries are in the situation where the rules are underdeveloped and the presence of excessive regulation and inefficient implementation impede the trade activities of private businesses.

**(1) Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long-term Perspectives**

For the 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.** In formulating medium- to long-term policies, **developing countries must have a solid understanding of the current conditions and the future prospects of their industries' international competitiveness and trade.** Based on such understandings, **they can then formulate and implement their industrial and trade policies and implement WTO agreements with a realistic scope and at a reasonable pace.**

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.

**(2) Establishment of Trade-related Laws, Regulations, and Institutions**

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. **Delay in establishing domestic laws and regulations consistent with the liberal trade regime as represented by the WTO** is the major problem as far as tariff barriers are concerned. Although it is not the case for non-tariff barriers, for which countries do see progress in establishing WTO-consistent laws and

regulations, they still face **a problem in enforcing and implementing laws and regulations.**

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 (DS) filed by other countries if their domestic laws and regulations are not consistent – or are perceived as 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, developing countries that are looking for export promotion opportunities have **strong needs for designing laws, regulations, and institutions in relation to setting their export promotion policies.**

### **(3) Simplification and Appropriate Enforcement of Trade-related Procedures**

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.**

More specific problems include improper lines of communication regarding information inside and outside of relevant governmental agencies; lack of capability of officials in properly enforcing laws, regulations, and institutions onsite (although these formally exist); arbitrariness of officials in charge and lack of transparency in the handling procedure; and insufficient provision of analytical equipment necessary for the trade-related procedures.

These issues of trade facilitation differ from trade liberalization issues in the sense that international rules do not exist in the area of trade facilitation.<sup>12</sup> Also, 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.

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<sup>12</sup> Readers are advised to refer to p.3 for the definitions of “trade liberalization” and “trade facilitation.”



**JICA's activities:**

- Recommendations on trade and export promotion policies
- Optimizing and simplifying procedures in the areas related to trade and human resources development

**JICA's Activities**

In relation to trade promotion, JICA has implemented the following projects with respect to formulation and implementation of industrial and trade policies based on medium- to long-term perspectives and simplification and appropriate enforcement of trade-related procedures, which have been largely conducted in ASEAN countries. These activities are basically categorized as: **recommendations on trade and export promotion policies; and assistance for the capacity building of trade-related agencies, including optimizing and simplifying procedures in the areas related to trade (for example, intellectual property rights, standards and conformity assessment, tests and examinations, customs, quarantines, trade financing, and so on), as well as human resources development in such areas.**

With regard to formulating and implementing industrial and trade policies, the majority of the activities have traditionally been in a form of policy recommendations made by the Japanese consultants. However, in recent years, there are examples of **joint research assistance projects** that bring together Japanese scholars and researchers to provide comprehensive diagnostic analysis for the development strategies of specific countries and to assist them to formulate comprehensive and concrete long-term development strategies based on policy dialogues with the beneficiary countries. Under such a framework, recommendations and advice are provided in relation to trade liberalization and export promotion policies. (Examples include the Study on the Economic Development Policy in Terms of Transition toward Market-Oriented Economy in Viet Nam and the Cooperation for Economic Structural Adjustment in Myanmar.)

As can be judged from Development Objective Chart 2, JICA has relatively rich record of implementation with regard to assistance for trade-related activities, with projects to **build capacity in governmental agencies.**

But JICA has only a limited record of implementation in the area of establishing trade-related laws, regulations, and institutions. **Although it has experience in the projects that promote exports, it has little experience in projects directly dealing with making laws and regulations in relation to trade.** The reason for the limited record in this area may stem from the facts that

the issues on laws and regulations are often sensitive and not likely to lead to technical cooperation projects, which are formulated on basis of the requests from beneficiaries, and the resources for assistance are also limited in Japan. There have, however, been relatively numerous technical training programs that aim to present Japanese experiences to the developing countries. Also, although the number is still small, **there are some cases in recent years in which JICA advised beneficiary countries on their efforts to establish laws, regulations, and institutions in the areas of customs and competition policies.**

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Considering developments in the international economic environment and the relationship with assistance programs by the World Bank and others
- Perspectives of developing countries' medium- to long-term development

**• Considering Developments in the International Economic Environment and the Relationship with Assistance Programs by the World Bank and Others**

Starting with the recommendations on ASEAN countries' export promotion policies under the New AID Plan in the late 1980s, JICA has been providing policy recommendations as a part of its activities for formulating industry development and export promotion policies, primarily in the ASEAN countries. At the same time, recent discussion at the WTO has shown new developments in the sense that there has been progress in rule-making by incorporating issues largely considered domestic policies in the past (for example, intellectual property rights, subsidies, countervailing duties, rules and regulations related to trade-related investment). A dispute settlement procedure has also been established. With such developments at the WTO, **the formulation of industry development and export promotion policies must take into consideration their consistency with the WTO agreements. More specifically, promotion policies need to be consistent with the WTO agreements in the context of their special and differential treatment clauses (S&D clauses).**<sup>13,14</sup>

In addition to consistency with WTO agreements, **equal consideration must be given to the relevance of the ongoing discussion on the methodology of assistance programs** around the world. In the area of trade and investment, JICA has mainly provided assistance in the form of providing policy recommendations to develop specific industries or to promote exports by specific industries. The World Bank and some other institutions, however, have some doubts on the effectiveness of such policy financing and the government's direct interventions to promote specific industries. Different arguments as such must be considered when JICA provides assistance for policy formulation in the developing countries.<sup>15</sup> And, at the same time, it is important that JICA clearly presents its own view regarding industry development and export promotion at the early stage of cooperation.

Given these points for consideration, it is nonetheless true that the experiences of Japan, Korea, and ASEAN countries in economic growth, through active penetration to the world market and the policies their governments took in this regard, would become important references for the

<sup>13</sup> Special and differential treatment clauses allow special and differentiated (different from developed countries) application of WTO agreements to the developing country members with some obligations being exempted or modified and with technical assistance being provided to them.

<sup>14</sup> Kimura (2001) makes such consideration in the case of Viet Nam.

<sup>15</sup> The World Bank (1993) presents its doubt on the effectiveness of policy measures such as government interventions (other than interventions to promote exports) and industrial policies toward specific sectors (mainly in the forms of import protection and low-rate lending) as adopted by many East Asian countries. With the exception of Japan, no clear evidence has been found that these policy measures have generated structural changes in industries or growth in productivity.

developing countries trying to promote their trade and for other donors as well.<sup>16</sup>

**• Perspectives of Developing Countries' Medium- to Long-term Development**

Trade-related capacity building in the developing countries aims to promote building a sound environment for trade and investment activities, to stimulate economic activities of domestic and foreign businesses, and to enhance various types of capacity necessary to achieve development through trade and investment promotion. In particular, **assistance in areas such as institutional capacity building and human resources development would not generate immediate outcomes from the inputs. It is therefore necessary to provide assistance in a medium- to long-term framework.** (Also, it is necessary to conduct dialogue with beneficiary countries on such a basis.)

**Mid-term Objective 2-2  
Strengthening information services to the private sector**

**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 policy measures provided by the government to promote trade often have not been fully utilized by the private sector. Thus, it is also necessary for the government to **provide information regarding its trade policies in general and information regarding the export promotion policies and financial services it extends to the private sector.**

In addition, **organizing trade shows and exhibitions of products** is also considered a useful type of cooperation to promote trade in developing countries.

**JICA's activities:**  
• Strengthening the functions of the governmental trade agencies

**JICA's Activities**

JICA has been actively extending cooperation in this area. The actual cooperation has primarily taken the form of assistance toward governmental agencies for trade promotion. Through **strengthening the functions of the governmental trade promotion agencies,** JICA has been making efforts to strengthen the provision of trade-related information to the private sector. The

<sup>16</sup> Appendix 3 summarizes the history of Japanese trade policies since the end of World War II until today.

trade promotion agencies primarily provide information on foreign markets (above ). However, in conducting activities in this area, it has to be noted that yet another problem exists in the sense that the information regarding trade policies in general and the government services extended to the private sector is not sufficiently disseminated among private firms and private firms are not taking advantage of the policy measures offered by the government (above ). In addition to these types of information provision, JICA also supports trade promotion agencies in their services such as exhibitions of the countries' local products. This is where JICA's activities differ from those of JETRO, which directly organizes exhibitions of developing countries' products.

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Responding to the developing countries' conditions and needs
- Project formulation based on the review of similar activities

#### **• Responding to the Developing Countries' Conditions and Needs**

The cooperation in this area has a catalytic role for governments to promote private sector activities that are already active. Thus, the cooperation would be primarily targeted to middle-income countries.

The activities in this area have the potential of overlapping with the commercial activities by the private businesses. In a country where the market for such commercial activities already exists, governmental services providing information might trigger a competition between the government and the private sector. Therefore, **when projects are being formulated, careful consideration must be made of the role of the governmental agencies, the scope of coverage, and the most effective ways of utilizing the private sector in this regard.**

In Japan, there are many support measures related to information provision services toward the private sector. The direct application of such measures in developing countries must be based on its effectiveness and has to be checked against the availability of any complementary measure. Specifically, the measure must be selectively chosen based on a thorough examination and analysis with respect to how these policies are actually used, how the actual users evaluate them and which policies are the most effective. However, **consistency with the WTO agreements will never be questioned for this type of cooperation, which is targeted toward strengthening information services for promoting trade. Such cooperation also contributes to an effective mechanism for trade promotion.**

#### **• Project Formulation Based on the Review of Similar Activities**

JICA has conducted a set of technical cooperation projects in four countries including Indonesia and the Philippines focused on their governmental trade promotion agencies, for the purpose of supporting trade activities by private businesses in these countries. Therefore, in addition to various business

support measures taken within Japan, **the results from these similar activities conducted in the past need to be evaluated in an objective manner in considering the necessary substance of and approach for cooperation.**<sup>17</sup>

Other bilateral donors and international organizations are also actively providing assistance for improving accessibility to market information. In providing assistance to agencies or organizations (for example, trade promotion centers), they, however, put more emphasis on supporting mechanisms organized under the private sector's initiative and participation than under direct government control. Also, in supporting the agencies and organizations, the core support is provided for realizing their financial independence through fee-based services that the agencies and organizations would provide, as well as for institutional empowerment through the transfer of technologies.

**Mid-term  
Objective 2-3  
Fostering viable  
private sector**

JICA's activities:

- Mainly conducting in the framework of its assistance toward small- and medium-enterprise development and supporting industry development
- Capacity building of governmental agencies
- Clustering approach
- Strengthening countries' competitiveness in primary commodities and conducting technical training on agro-processing techniques from the perspective of export competitiveness under the framework of agricultural development

**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.** The majority of JICA projects in this area have been also conducted in such context.

**JICA's Activities**

Among projects implemented by JICA in this area, **there are many cases of assistance projects that seek to strengthen the export competitiveness of the developing countries as a part of cooperation for the development of small- and medium-enterprise and supporting industry in these countries.**

Rather than directly assisting private firms, JICA's projects for supporting

<sup>17</sup> Box A1-2 in p.79 presents the overview of trade training centers in these four countries.

small- and medium-enterprise development and supporting industry development are usually implemented in the form of capacity building of the governmental agencies that provide guidance services to the private firms (for example, vocational training schools and management skills support agencies), from which the firms' competitiveness could be strengthened.

In recent years, there have been some projects implemented to train Small and Medium Enterprise Management Consultants and build institutions related to the training, for the purpose of better responding to the needs of small and medium enterprises. To improve the quality of consulting services toward the enterprises (including private consulting services), JICA is also involved in building a system of certification for consultants providing services for these enterprises.

In addition to strengthening the management resources of individual firms, there are also approaches for organizing associations among firms of same or different sectors or stimulating industry agglomeration. These approaches would generate a positive external effect that can be used to improve individual firms' management efficiency. JICA has implemented this type of cluster approach in conducting studies for improving management resources of private firms.<sup>18</sup>

In the context of agricultural development, JICA provides its assistance from the point of view of strengthening the countries' export competitiveness in primary commodities. For example, it provides training programs for acquiring skills in processing agriculture products with a view to strengthening export capacity of agricultural products.<sup>19</sup>

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Project formulation based on the review of similar activities
- Consideration of the developments of the market-access issues at the WTO

• **Project Formulation Based on the Review of Similar Activities**

The primary target of assistance in the developing countries is small and medium enterprises. Many donors, including JICA, have been providing assistance that targets these enterprises. **It is necessary, therefore, that the new assistance is based on the review of similar activities in the past.**

JICA rarely provides assistance directly to private firms. The assistance is mainly given in the form of capacity building of governmental agencies that provide guidance services to the private firms, with which the firms' competitiveness could be strengthened. The World Bank and some other bilateral donor countries recently point out the problem of sustainability when

<sup>18</sup> A cluster is a situation where peripheral supporting industries are "clustered" around a competitive industry in the region. A specific industry agglomerates in a specific region and stimulates industries in the region as a whole.

<sup>19</sup> Prices of primary commodities such as agricultural commodities which are the main exportations for developing countries generally tend to decline and vary widely. With a view to dealing with such risks it is essential to cooperate for strengthening competitiveness of primary commodities and their exports promotion.

the governmental agencies provide services to the private firms, stressing that such services should be provided within the framework of the market economy. There are also approaches such as organizing associations among firms of same or different sectors or stimulating industry agglomeration to generate a positive external effect to improve individual firms' management resources (in addition to strengthening management resources of individual firms).

**• Consideration of the Developments of the Market-access Issue at the WTO**

One of the issues of greatest concern to the developing countries is the issue of access to developed country markets. However, there is a conflict of interest between the developing countries, which are generally the exporters of agricultural products, and the developed countries, which try to protect their domestic agricultural industry. Particular attention should be drawn to the developments in this issue when JICA formulates projects that enhance agricultural exports.

**Development Objective 2 Capacity Building for Trade Promotion**

<b>Mid-term Objective 2-1 Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation</b>			
<b>Sub-targets of Mid-term Objectives</b>	<b>Examples of Activities</b>	<b>Case No.</b>	<b>JICA's Main Activities</b>
<b>Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long-term Perspectives</b>	Formulation of future visions of industry and trade structure (recommendations on industry and trade promotion policies) Advising on trade policy formulation	1,2,4,7,8 1,4,7,34	<ul style="list-style-type: none"> <li>• Economic policy assistance, assistance for transition to market economy (Development Studies)</li> <li>• Manufacturing and industrial sector development promotion plans (Development Studies)</li> <li>• WTO capacity-building program (Development Studies, Technical Training, Dispatch of Experts)</li> <li>• Capacity building of officials in charge of trade policies (Technical Training)</li> </ul>
	<ul style="list-style-type: none"> <li>× Strengthening capacity to formulate and implement trade policies</li> </ul> Assistance toward implementation of the WTO agreements (improving necessary knowledge for legal development, institutional building for law-making)	13,34,37,38	
<b>Establishment of Trade-related Laws, Regulations, and Institutions</b>	<ul style="list-style-type: none"> <li>× Formulation and development of trade-related laws and regulations (basic law on imports and exports, basic laws on customs, and other import-related laws such as laws on quarantines, plant disease prevention, and medicines)</li> <li>Advising and capacity building for developing trade-related laws and regulations</li> <li>Capacity building for enforcing and implementing trade-related laws and regulations</li> <li>Trade-related institutional building</li> </ul>	9-13 9,11,13-19,21 2,8	<ul style="list-style-type: none"> <li>• Advising on existing legal system and its improvement (Technical Training, Dispatch of Experts)</li> <li>• WTO capacity (Eevelopment Studies, Technical training, Dispatch of Experts)</li> <li>• Advising on tariff policies and customs administration, capacity building of officials in charge (Dispatch of Experts, Technical Training)</li> <li>• Advising on intellecutal property policies and administration, capacity building of officials in charge (Dispatch of Experts, Technical Training)</li> <li>• Advising on quarantines policies and administration, capacity building of officials in charge (Dispatch of Experts, Technical Training)</li> <li>• Manufacturing and industrial sector development promotion plans (Development Studies)</li> <li>• Assistance toward formulating export promotion strategies (Development Studies)</li> </ul>

Approaches for Systematic Planning of Development Projects / Trade and Investment Promotion

Sub-targets of Mid-term Objectives	Examples of Activities	Case No.	JICA's Main Activities
	Assistance toward formulating export promotion plans (selecting strategic export industries and products, setting targets for exports and selection of strategic export markets, formulation of specific support measures) Assistance toward formulating plans on export processing zones Establishment and development of trade-related financial system (trade insurance, export credits, etc.) Establishment of export (trade) promotion agencies	2,8  24  2,8  2,8	<ul style="list-style-type: none"> <li>• Assistance toward formulating export promotion strategies (Development Studies, Dispatch of Experts)</li> <li>• Studies and advising on establishing export processing zones (Development Studies, Dispatch of Experts)</li> </ul>
<b>Simplification and Appropriate Enforcement of Trade-related Procedures</b>	<ul style="list-style-type: none"> <li>× Information technology improvement in official procedures and operations related to trade (permissions and authorizations, customs clearance, ports, quarantines, port entry, and exit procedures, etc.)</li> <li>× Information technology improvement in private procedures and operations (procedures for transferring legal claims among shippers, carriers, banks, and others, shipping contracts, insurance contracts, etc.)</li> </ul>		<ul style="list-style-type: none"> <li>• Assistance toward computerization (Development Studies)</li> </ul>
	Optimization of customs operation Establishment and strengthening of public technical support organizations (quality improvement) Capacity building in examinations and tests Capacity building in metrology and standards Capacity building in quarantines Capacity building in enforcing and implementing intellectual property right system Capacity building in implementing trade-related financial system (trade insurance, export credits, etc.)	9,13 29,31 26 25 17 16 18,19,21	<ul style="list-style-type: none"> <li>• Capacity building of customs officials (Dispatch of Experts, Technical Training)</li> <li>• Analytical capacity building at customs (Dispatch of Experts)</li> <li>• Strengthening of public technical support organizations (Technical Cooperation Projects)</li> <li>• Capacity building of testing and examination agencies (Technical Cooperation projects)</li> <li>• Capacity building of metrological and standardizing agencies (Technical Cooperation projects)</li> <li>• Capacity building of quarantines officials (Dispatch of Experts)</li> <li>• Assistance toward information disclosure for administration on intellectual property rights (Development Studies, Technical Cooperation Projects)</li> <li>• Capacity building of officials in charge of trade-related financial institutions (Technical Training)</li> </ul>

<b>Mid-term Objective 2-2 Strengthening Information Services to the Private Sector</b>			
Sub-targets of Mid-term Objectives	Examples of Activities	Case No.	JICA's Main Activities
<b>Information Provision on Overseas Trade-related Procedures and Domestic Procedures and Preferential Measures</b>	Studies on and introduction to trade regimes, procedures, business practices of other countries Information provision on individual preferential policies and institutions Functional empowerment of trade promotion agencies	20,22,23, 17  22,23  22,23	<ul style="list-style-type: none"> <li>• Functional empowerment of trade promotion agencies (Technical Cooperation Projects, Dispatch of Senior Volunteers)</li> </ul>
<b>Overseas Market Development</b>	Overseas market information gathering and provision Organizing market seminars Organizing product exhibitions, conventions × Organizing trade fairs × Developing IT infrastructure	20,22,23, 27 27 22,23	<ul style="list-style-type: none"> <li>• Functional empowerment of trade promotion agencies (Technical Cooperation Projects, Dispatch of Senior Volunteers)</li> <li>• Advising on overseas market development (Dispatch of Experts and Senior Volunteers)</li> <li>• Knowledge enhancement on marketing (Technical Training, Dispatch of Senior Volunteers)</li> <li>• Functional empowerment of trade promotion agencies (Technical Cooperation Projects, Dispatch of Experts and Senior Volunteers)</li> </ul>



Mid-term Objective 2-3 Fostering Viable Private Sector			
Sub-targets of Mid-term Objectives	Examples of Activities	Case No.	JICA's Main Activities
Fostering Viable Private Sector	Management and technical guidance toward public support agencies Management capacity building Product development and agro-processing technical training	29,31,32 28 30,33	<ul style="list-style-type: none"> <li>• Establishment and empowerment of management and technical support agencies (Technical Cooperation Projects, Dispatch of Experts)</li> <li>• Knowledge enhancement on management strategies, marketing, etc. (Technical Training)</li> <li>• Establishment and empowerment of management and technical support agencies (Technical Cooperation Projects, Dispatch of Experts)</li> <li>• Agro-processing technical enhancement (Dispatch of Experts and Senior Volunteers)</li> <li>• Development and quality improvement of export products (Technical Training, Dispatch of Experts and Senior Volunteers)</li> </ul>
	Strengthening of cluster functions Promotion of enterprise diagnostic services × Promotion of management skills services for small and medium enterprises on the private basis (business development services, BDS)		<ul style="list-style-type: none"> <li>• Promotion of clustering, functional empowerment of clusters (Technical Training, Development Studies)</li> <li>• Building small and medium enterprise diagnosis institutions (Development Studies, Dispatch of Experts)</li> <li>• One-village one-product initiative (Technical Training)</li> <li>• Designing capacity building (Development Studies, Dispatch of Experts)</li> <li>• Export product development (Dispatch of Experts and Senior Volunteers, Technical Training)</li> </ul>

\* Case numbers correspond to the numbers in Project List in Appendix 1.

Examples of Activities:  
 = JICA has considerable experience  
 = JICA has certain experience  
 = JICA has experience as a component of projects  
 × = JICA has little experience  
 JICA's Activities:  
 = Few examples of implementation, but projects could be used as models for the future activities

**Development Objective 3**  
 Capacity building for foreign direct investment promotion

**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**

**Mid-term Objective 3-1**  
 Developing system for formulating investment-related policies and institutions and their appropriate implementation

Just as the case of trade, investment is also an area where the private sector is the primary actor. However, a developing country government has a significant role to play in promoting investment activities because it can provide an appropriate environment in which firms investing in the country can operate freely and smoothly.

Although many developing countries have policies to attract foreign direct investment, they often lack sufficient administrative knowledge and human

Necessary to establish an environment in which investing firms conduct their activities freely and smoothly

resources to formulate policies that are appropriate. There are also many cases where the countries cannot attract investment on a continuous basis because of frequent changes in tax and other policies. Stable and consistent policies are required to achieve sustainable investment promotion, including promoting movement of long-term capital. To promote investment and link it to the development process of a country, **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 promoting investment liberalization needs to be established.** In the current international trend of investment liberalization, it is particularly important to pay attention to the issue of market access, while ensuring national treatments and MFN status. 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. In addition to investment liberalization, it is also necessary to formulate policies and institutions that encourage local business activities and market competition. 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.

#### **JICA's Activities**

JICA has mainly conducted projects in the area of investment promotion in ASEAN countries in conjunction with cooperation for trade promotion, in forms such as **recommendations on establishing investment promotion policies and institutions, assistance for establishing investment-related legal institutions, and facilitating sourcing of raw and intermediate materials for investing firms in their support (trading procedures, standards and conformity assessment, and so on).**

With regard to developing policies and institutions for investment promotion, JICA has conducted activities such as organizing **group technical**

In this area, JICA has conducted activities including group technical training programs for knowledge transfer, Development Studies for assisting in the formulation of investment promotion policies, and formulation of master plans and feasibility studies for establishing export processing zones. It has also conducted a few projects related to standards and conformity assessment.

**training programs for knowledge transfer, assisting in the formulation of investment promotion policies** appropriate for individual countries' conditions (mainly Asian and East European countries) by using the Development Study programs, and dispatching advisors on investment promotion. **In establishing export processing zones, JICA has also implemented Development Studies for formulating master plans and conducting feasibility studies and has dispatched experts for policy support.**

Cooperation related to developing investment-related laws, rules, and regulations has been conducted through group technical training programs for general knowledge transfer as well as expert advising. For example, JICA has organized a group training program, Training Course for Establishing Legal Institutions for Investment Climate.

Cooperation related to facilitating sourcing raw and intermediate materials has been conducted specifically in such forms as providing support for establishing a necessary export and import system that facilitates the purchase of raw materials and exporting products or for policies to simplify related work and procedures and make them more efficient. (See Mid-term Objective 2-1 in p.31). Lastly, JICA has dispatched experts to assist in the establishment of an industrial products certification system as a part of assistance to establish industrial standards and examination system.

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Paying attention to the various issues
- Policy formulation based on individual country's condition
- Consistency with industrial and fiscal policies
- Establishment of export processing zones based on needs

**• Paying Attention to the Various Issues Related to Investment Promotion**

Investment requires continuous transactions by the investing firms for certain duration of time. In this sense, investment differs from trade activities, which are short-term transactions of product distribution, and has different implications in terms of duration of commitment as well as the size of the risk the firms have to cover. Therefore, in addition to the issues directly related to investment, the issues raised in Mid-term Objective 1-1 – such as economic infrastructure provision (for facilitating business activities), human resources development (for supplying quality labor force), and smooth labor relations – are particularly significant factors in promoting investment. Although not particularly focused on in this report, various types of country risk, such as political conditions, domestic security, macroeconomic conditions, and governance, are critically important for the firms making investment decisions. Thus, **the cooperation in relation to the investment promotion in developing countries should be provided on the basis of consideration**, not only in the areas directly linked to attracting investment in manufacturing and mining sectors but also **in areas such as governance, educational standards, and infrastructure provision**. For this reason, cooperation needs to be extended

with proper consideration of the points of view of individual firms.

- **Formulating Individualized Policies for Each Country Based on its Strength and Weakness**

When a country tries to attract foreign investment, it is important to differentiate its approach from other countries because investment promotion is essentially an effort to draw foreign businesses' management resources to the country out of many others. So **the policies should be formulated on the basis of the country's strengths and weaknesses (for example, availability of natural resources, geographical condition, languages, relative position in the economic areas in the world, among others).**

- **Consistency with Industrial Policies and Fiscal Policies**

To make sure that investment promotion benefits development of a country, it is important to **strengthen the linkage between investment promotion and domestic industrial development policies**, such as a policy to support the technical improvement of local small and medium enterprises up to a standard capable of providing parts and raw materials to investing foreign firms. In particular, strengthening the international competitiveness of domestic industries on aspects such as diversification, technological upgrading, value-added, and productivity growth has to be made through transferring technical and management skills out of foreign investment. And although some Asian countries have undertaken policies to protect and promote certain specific industries or to impose some performance requirements such as domestic production on investors, these **interventionist policies need to be approached cautiously in the current international trend of investment liberalization**. Rather, assistance should be directed to policies that make use of the benefits of liberalization.

Also, in the formulation and implementation of preferential fiscal policies toward investors, **the government's fiscal authority, such as the treasury department, must be on board together with trade- and investment-related agencies** because such policies may have fiscal implications at the national level.

- **Cautious Consideration is Essential for Establishing Export Processing Zones**

It should be noted that unless they sufficiently meet with conditions based on global market needs, export processing zones (EPZs), which are often considered as effective measures to promote investment, would not attract businesses in their location decisions and may result in simply building physical structure without effective use. Also, as pointed out in Southeast Asian countries, EPZs may lead to the creation of an "enclave economy" unless there

are economic linkages with local businesses. Thus, the planning of EPZs has to be based on the overall national development plan.

**Mid-term Objective 3-2**  
**Strengthening information services to the private sector**

Important to develop information responding to the market needs and disseminate it appropriately and in an attractive manner

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

Because direct investment is associated with the transfer of management resources and long-term business development, investing firms are required to be careful in making management decisions, more so than in the case of trade. Therefore, it is important for developing country governments not to stop at the level of simply establishing policies and institutions and building human resources, but to go beyond to incorporate activities 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. Moreover, these countries often do not possess sufficient information on the market trends and situations of other countries. Such a lack of information hinders countries from approaching potential investors abroad. The domestic information, even if it exists, has not been organized in a way friendly to the users (that is, potential investors) and has not been made easily accessible to them.

The above aspect signifies the effectiveness of providing investment-related information and other services to the potential investors. Here the quality of information provides also matters. So, **credible statistical databases and a system for their maintenance need to be in place**. Actual tools for providing information include setting up investment focal points, creating brochures, and using information technologies such as the Internet. Related to these tools, effective supports could also be found in transferring skills and knowledge on how to make content attractive to users, sending in investment missions for the purpose of exploring potential investors and conducting business negotiations with them, planning and organizing investment seminars, and other supports both within and outside of the country.

In this area, JICA has dispatched experts as advisors in many projects.

**JICA's Activities**

JICA has been **dispatching experts who are working as advisors on investment promotion** to countries in Asia as well as Poland, Egypt, and many others. As a part of their work, the experts provide advice with regard to

organizing investment seminars and planning and managing investment missions. Also, in terms of **setting up industrial statistics**, JICA has provided assistance to Thailand, Philippines, and other countries through conducting Development Studies and dispatching experts to help develop production statistics. As a part of their tasks, the investment advisors provide their **advices on planning and management in relation to organizing investment seminars and to dispatching investment missions.**

The following points must be considered in formulating projects on this issue.

Points to be considered in formulating projects:

- Investment advisors should put emphasis on capacity-building.
- Emphasis on promoting investment by small and medium enterprises
- Promoting investment from various countries
- Creating attractive contents

**• Investment Advisors Should put Emphasis on Capacity Building of Developing Countries.**

To date, experts working as investment advisors in many cases have supported the focal points in investment promotion in the developing countries, primarily on the basis of promoting investment of Japanese firms in the countries. Such activities by Japanese experts are what have been expected by the developing countries as well. This leads to a concern that the scope of cooperation through the experts would be limited to the mere provision of operational services such as the experts directly serving as the focal points for investment promotion. For ensuring sustainable investment promotion, it is important to transfer know-how and focus on capacity building in the work of investment advisors.

**• Putting Emphasis on Attracting Investment from Small- and Medium-scale Enterprises**

To ensure that investment promotion benefits a country's development, it is necessary to concentrate on attracting not only large-scale multilateral enterprises but also **small and medium enterprises that have useful skills** that can be transferred to the developing countries. For example, together with promoting investment from large-scale enterprises, **investment from related subcontracting firms serving under large-scale enterprises in their home countries could also be promoted** in such a context. In addition, **investment seminars for small and medium enterprises could be organized.** Small and medium enterprises face difficulty in investing in developing countries on their own because of higher risks expected with the investment or the less-than-sufficient information with regard to such risks. Thus, countries with a certain number of multinational corporations and more predictable risks (for example, ASEAN countries and China) could take more effective measures in attracting investment from small and medium enterprises. Through organizing seminars or other formats, the risk-related information in respective countries needs to be disclosed.

• **Attracting Investment from a Variety of Countries**

As mentioned above, many of JICA's assistance projects have been conducted on the basis of attracting investment from Japanese firms, which has also been what the developing countries have requested. However, it is expected that cooperation is to be extended to **promoting investment** not only from Japanese firms but also **from a variety of countries** to help develop these countries — which is the ultimate goal — and to build globally integrated economic relations and stable economies that would not be affected by the economic fluctuations of a single country. JICA needs to provide **advice that appropriately responds to the changing external environment surrounding the developing countries, such as the frameworks of regional economic trade areas.**

• **In Providing Information, Consideration has to be Made to Design the Contents and the Methods of Dissemination to be Attractive to the Eyes of Users.**

If we compare the investment-related information in the brochures and the Internet web sites published by trade and investment promotion agencies of different countries, materials from least developed countries (LDCs) are particularly poor in terms of the amount of information, the quality of the content, and the dissemination methods — all of which makes it difficult for firms to access to the posted information. There is strong need for cooperation in the area of building an information system, which will take sizable amount of time and money. However, a large improvement can be expected simply by creating more innovative content and by reorganizing the existing information into more user-friendly formats. Moreover, essential information could be identified in the process of considering the content. **It is also important to start from comparing cases of various countries and note effective content and dissemination methods.**

### 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			
Sub-targets of Mid-term Objectives	Examples of Activities	Case No.	JICA's Main Activities
<b>Investment Promotion Policy Development</b>	Assistance toward investment policy formulation Policy advising on attracting foreign direct investment	4,5,7 1-3,7	<ul style="list-style-type: none"> <li>• Economic policy assistance, assistance for transition to market economy (Development Studies)</li> <li>• Manufacturing and industrial sector development promotion plans (Development Studies)</li> <li>• Assistance toward investment promotion policies (Dispatch of Experts)</li> <li>• Investment promotion seminars (Technical Training)</li> <li>• Capacity building for trade and investment promotion operations (Technical Training)</li> </ul>
<b>Establishment of Investment-related Laws and Institutions</b>	Development of laws, agreements, rules, etc. (investment law, competition law, investment protection agreement, foreign national employment rules, local employment rules Development and establishment of intellectual property rights Institutional and legal system development on export processing zones	10,12  11 8,24	<ul style="list-style-type: none"> <li>• Assistance toward developing and formulating laws related to investment climate and competition (Technical Cooperation and Dispatch of Experts)</li> <li>• Advising on intellectual property policies and administration and capacity building of officials in charge (Dispatch of Experts, Technical Training, Technical Cooperation Project)</li> <li>• Feasibility studies for industrial parks (Development Studies)</li> <li>• Assistance toward attracting businesses (Dispatch of Experts)</li> </ul>
<b>Facilitation for Sourcing Production Materials</b>	<ul style="list-style-type: none"> <li>× Institutional development for exports and imports, simplification and efficiency improvement in procedures and operations such as permissions and authorization, customs clearance, ports, quarantines, port entry and exit procedures, etc. (one-stop service and use of IT)</li> <li>× Simplification and efficiency improvement in private procedures and operations (procedures for transferring legal claims among shippers, carriers, banks, and others, shipping contracts, insurance contracts, etc.)</li> </ul> Technical enhancement for international standards (standards, conformity assessment) Policy advising toward tariff reduction (customs administration and policies)	25,26  9,16	<ul style="list-style-type: none"> <li>• Capacity building of testing and examination agencies (Technical Cooperation Projects)</li> <li>• Capacity building of metrological and standardizing agencies (Technical Cooperation Projects)</li> <li>• Assistance toward tariff policy formulation (Dispatch of Experts)</li> <li>• Capacity building of customs officials (Dispatch of Experts, Technical Training)</li> <li>• Analytical capacity building at customs (Dispatch of Experts)</li> </ul>



<b>Mid-term Objective 3-2 Strengthening Information Services to the Private Sector</b>			
<b>Sub-targets of Mid-term Objectives</b>	<b>Examples of Activities</b>	<b>Case No.</b>	<b>JICA's Main Activities</b>
<b>Development of Information and Services on Investment Climate</b>	Functional empowerment of investment focal-points	3	<ul style="list-style-type: none"> <li>· Dispatch of investment advisors (Dispatch of Experts)</li> <li>· Assistance toward manufacturing and industry statistics development (Development Studies, Dispatch of Experts, Technical Training)</li> </ul>
	Establishment and management of Japan desk	3	
	introduction of foreign enterprise attraction policies	3	
	Creating company database × Enterprise consulting services Manufacturing and industry statistics development × Feasibility studies for potential investment projects	43	
<b>Promotion of Mutual Exchanges of Investment</b>	× Assistance toward regional economic zone policies (policy advising on implementation of agreed items)	3	<ul style="list-style-type: none"> <li>· Functional empowerment of trade promotion agencies (Technical Cooperation Projects)</li> <li>· Dispatch of investment advisors (Dispatch of Experts)</li> <li>· Assistance toward manufacturing and industry statistics development (Development Studies, Dispatch of Experts, Technical Training)</li> </ul>
	Organizing investment seminars, dispatching investment missions Creating company database	3,22,23	

\* Case numbers correspond to the numbers in Project List in Appendix 1.

Examples of Activities:

- = JICA has considerable experience
- = JICA has certain experience
- = JICA has experience as a component of projects
- × = JICA has little experience



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## Chapter 3 Points of Concern and Directions for the Future Cooperation

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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.<sup>20</sup>**

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

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<sup>20</sup> 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.

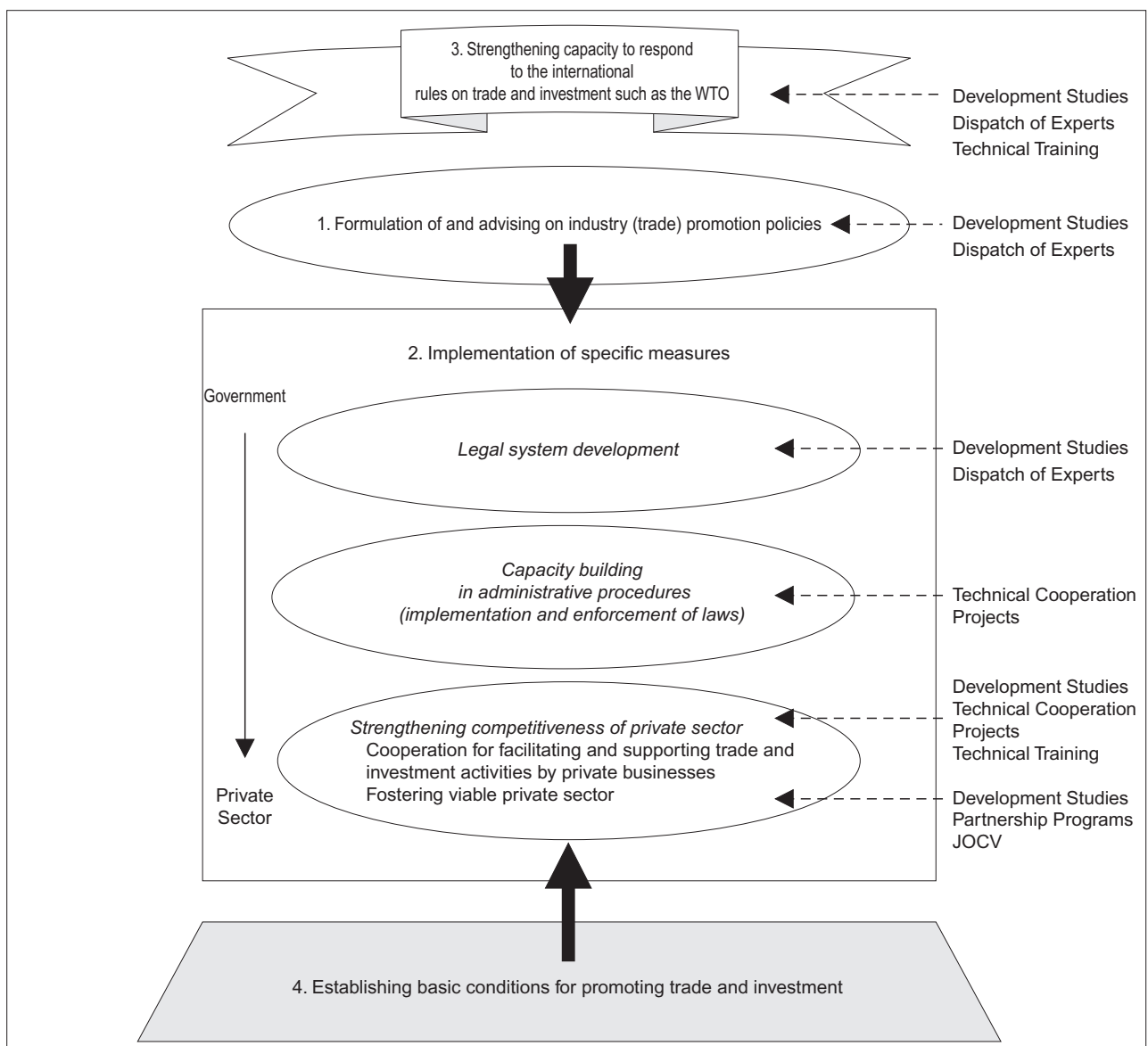
Cooperation to social safety nets and education are not generally seen as trade- and investment-related. However, rather than being specific to individual issue areas (for example, trade- and investment-related assistance, poverty reduction-related assistance, or education-related assistance), **the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



## Appendix 1 Major Activity Cases

The individual Development Objective Charts in Chapter 2 organize JICA's projects and major activities along with different cooperation schemes. In this appendix, we advance the analysis further by categorizing JICA's activities within the framework shown in Figure A1-1. For each category of activities, we present the characteristics and the state of projects in individual cooperation schemes. The Annex Table summarizes the major cases through listing the projects conducted under each category.

**Figure A1-1 Schematic of Cooperation Activities**



The figure systematically presents the major activities of JICA based on the same conceptual framework used for Development Objective Charts. The numbers for items in the figure correspond to the category numbers of project cases in the Annex Table at the end of this appendix.

## 1-1 Formulation of and Advising on Industry and Trade Promotion Policies (Development Studies, Dispatch of Groups of Experts, Technical Training, Dispatch of Individual Experts) — Cases 1-8

Formulation of and advising on industry and trade promotion policies:

- Cooperation in the form of policy recommendations
- Cooperation in the form of providing support and advice for policy formulation

Concerning the formulation of comprehensive policies on industry (trade) promotion and export promotion, there are two patterns of cooperation: **(1) cooperation in the form of policy recommendations; and (2) cooperation in the form of providing support and advice for policy formulation.**

**The first pattern of cooperation basically provides recommendations** on the direction of industry promotion the developing country should be taking, based on an understanding and analysis of the country’s international economic environment and its industrial competitiveness. JICA has been making policy recommendations in relation to trade and investment as a part of this scheme. Specific assistance projects under this form of cooperation can be categorized into the following two types: policy dialogue and recommendations from Japan.

### **Policy dialogue (Cases 4, 5)**

In this type of cooperation, policy recommendations are provided jointly through policy dialogues held between Japanese scholars and experts and high-ranking officials and scholars in the recipient country. So far, this type of assistance has been implemented in Vietnam, Laos, and Myanmar under the theme of “assistance for the transition to the market economy” or “assistance for the economic structural adjustment policy.” Based on the notion of neoclassical economics, the World Bank and others have been subscribing to the idea that the industrial development of developing countries is to be achieved through efficient distribution of resources through the market mechanism and that the role of the government must be found in establishing conditions to optimize the functions of such a market mechanism. In contrast to such ideas, JICA first studies the current development stage of the recipient country and then tries to assist the government in selecting and promoting specific industries so that the country can move to the next stage of development.

### **Recommendations from Japan (Cases 2, 7, 8)**

This type of cooperation is provided to countries that already have some understanding of how to promote their domestic industries. In such countries, JICA provides recommendations on specific industry promotion and export promotion policies on the basis of the prevailing international economic environment. There are numerous cases of this type of cooperation because many projects were implemented in ASEAN countries under the New AID Plan.

Promotion of specific industries and exports through active interventions by the government has been questioned by the World Bank and the International Monetary Fund (IMF) on efficiency grounds, and there is a strong tendency within those institutions against active government intervention. Close dialogues with these institutions must be established as early as project formulation. And because the approach taken by the World Bank, IMF, and other major donors has become the standard in international development assistance, it must be noted that any approach that deviates from this standard may not gain acceptance from the recipient countries and relevant agencies.

As the first step of assistance, this form of cooperation is very effective in countries – especially those with economies in transition or those in the Association of Southeast Asian Nations (ASEAN) in the aftermath of the currency crisis – that face the task of changing fundamental parts of their economies and societies, as well as in countries that have not been able to construct visions for statehood. However, this form of assistance requires a high level of expertise on the side of Japan, as it covers high level of difficulty and a wide range of issues. Obtaining resources for such activities is now an issue both in Japan and in the recipient countries that must obtain sufficient resources to build the domestic system necessary for implementing JICA's recommendations. In implementing projects, it must be noted that assistance, particularly policy dialogue assistance, would require staff with appropriate skills to be able to coordinate the various persons involved in the projects, such as scholars and consultants from Japan and scholars and government officials from the developing country. Moreover, one of the crucial factors in linking recommendations with concrete results is how to incorporate the measures that come out of the dialogue into concrete cooperation activities for trade and investment promotion (that is, specific projects) at an early stage.

**The second pattern of cooperation – in the form of providing support and advice for policy formulation** – improves recipient country capacity to formulate policy. In this kind of assistance, JICA dispatches a small number of experts to developing countries and countries with transitional economies and invites their administrative officers involved in policy formulation to training seminars in Japan, giving them an opportunity to learn about Japan's experiences in trade and investment promotion.

## 1-2 Implementation of Specific Measures

Legal system development
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### 1-2-1 Legal System Development (Development Studies, Technical Cooperation Projects) — Cases 9-13

Developing the legal system takes the form of assistance for developing domestic laws in a way that is consistent with WTO agreements established in 1995. Many developing countries have difficulty in developing domestic legal

systems consistent with such agreements or even in conducting a thorough examination of the consistency between their existing domestic laws and regulations and the WTO agreements.

As the WTO agreements have entered into force and the dispute settlement mechanism under the WTO has been strengthened, the developing countries now face the possibility that other countries may file cases against them within the dispute-settlement mechanism when their domestic laws and regulations are not consistent with the WTO agreements (or are suspected to be so) or when measures are not taken to “ensure the implementation of domestic laws.” Thus, there is an increasing need among developing countries for assistance in the area of developing their legal systems.

Formulation of a legal system is a highly sensitive topic. Therefore, with regard to the legal institutions in the area of trade and investment, there are only few cases of assistance targeted at their formulation.<sup>1</sup> However, JICA provides support for capacity building of administrative officers in the area of legal system development by dispatching experts and conducting development studies, through which suggestions and training opportunities are extended to local officers.

Capacity building for implementation and enforcement of laws in administrative procedures

### **1-2-2 Capacity Building for Implementation and Enforcement of Laws in Administrative Procedures (Customs, Quarantines, Patent) (Technical Cooperation Projects) — Cases 14-16**

Among countries in the process of establishing their legal systems, many now face the additional difficulty of implementing and enforcing the system. Factors that cause problems in this regard include a weak understanding on domestic laws and regulations, staff shortage and their lack of professional integrity, insufficient equipment for enforcing laws, and weak training and educational functions. The following areas seem to be the most problematic:

- Customs and customs valuation. Statutory tariff rates are not properly enforced, and transparency remains lacking in their enforcement.
- Quarantines of animals and plants. The shortage of examination staff and their lack of capacity delay examinations, and the lack of transparency in enforcing related regulations remains a problem as well.

<sup>1</sup> Beginning with its assistance to Viet Nam in 1996, JICA has been increasingly involved with assistance in the area of legal system development. Specifically, it provides assistance in three areas: (i) establishing legislative and judicial institutions (improvement of legislative and judicial procedures in terms of clarity and transparency, strengthening law enforcement capacity, etc.); (ii) participating in the legislature (support for drafting bills, suggestions to proposed laws, ensuring consistency among existing laws, etc.); and (iii) building law-related human resources (training for judges, prosecutors, attorneys, etc.). Currently, JICA is conducting assistance projects for legal system development in Cambodia and other countries. Also, concerning economic law, JICA has dispatched experts in the areas of customs and competition law who provide suggestions to law formulation in the recipient countries.



- Intellectual property rights. The shortage of examination staff and their lack of capacity delay examinations. Production and trafficking of pirated goods, imitated articles, and other illicit products continue. There is also a lack of effectiveness in exercising rights against breaches of intellectual property rights.

To address these issues, JICA has been conducting cooperation projects in the form of project-type technical cooperation that dispatch experts and provide technical training and equipment, mainly in ASEAN countries. As can be seen in Development Objective 2 in the Development Objectives Chart (pp. 40–42), there are many projects that have been implemented so far. The reason for such a large number of projects in this area is perhaps that this type of technical cooperation has fewer sensitive elements in terms of policies, compared to cooperation in the form of providing recommendations on a country's future direction or targeting its legal system. In addition, **this may be an area in which the experiences of the Japanese administrative system can be easily applied.**

**In recent years, use of information technology (IT) for improving the quality and efficiency of administrative procedures has emerged as a new approach of cooperation in this area.** Specific examples of this type of cooperation include the “Study of Improvement of the Customs System” in Indonesia (1997–1999), the “Study on enhancement of Intellectual Property Rights administration capacity through utilization of information technology” in Malaysia (2002–present), and the “Modernization of Industrial Property Administration” project in the Philippines (1999–2000).

**Administrative efficiency is now addressed not only within individual agencies but also on an inter-agency basis in terms of improving efficiency in inter-agency procedures.** This new development is worth paying attention to from the point of view of facilitating overall trade-related procedures. A concrete example of such an activity is the “Study on Measurement of the Time Required for the Release of Goods” delivered through a local consultant in the Philippines, which identified problems in trade-related procedures by measuring the time required throughout the process from port entry of a vessel, to customs, to finally unloading the freight.

Strengthening  
competitiveness of the  
private sector

### 1-2-3 Strengthening Competitiveness of the Private Sector

The cooperation in the area of strengthening private sector competitiveness aims at increasing export competitiveness and attracting foreign direct investment. There are two categories of cooperation by JICA in this respect:

Cooperation for facilitating and supporting trade and investment activities by the private sector

**(1) Cooperation for Facilitating and Supporting Trade and Investment Activities by the Private Businesses (Development Studies, Technical Cooperation Projects, Technical Training) — Cases 17-27**

This cooperation establishes an environment for facilitating and supporting trade and investment activities by private businesses. It is intended to deliver services efficiently and effectively and does not include comprehensive cooperation for the purpose of establishing institutions. This kind of cooperation can be divided into the following types.

- Trade-related financial institutions (trade finance, trade insurance, etc.) (Cases 18, 19, and 21)
- Establishing export processing zones (Cases 18 and 24)
- Services for collecting and providing information on overseas markets (Cases 20, 22, 23, and 27).
- Human resources development for trade-related practitioners (Cases 20, 22, 23, 27, and Box A 1-2)
- Measurement and standards, and tests and examinations (Cases 17, 25, and 26)

Cooperation with regard to trade-related financial institutions is mainly conducted in the form of technical training held in Japan. Staff members and managers of government and other related agencies in charge of trade insurance in individual countries are invited to receive technical training on the institutions and their implementation. To improve the investment climate and business environment, master plan formulation and feasibility studies are conducted with regard to establishing export processing zones under the scheme of development studies. For other areas, there are various examples of cooperation in a form of project-type technical cooperation, primarily in ASEAN countries. **Similar to capacity building in administrative procedures (customs, quarantines, patents) (in 1-2-2), this cooperation also aims at strengthening the system of implementation of existing legal institutions, which makes it less vulnerable to the sensitivity issue in terms of policies and therefore easier to conduct. Moreover, this is the area in which Japan could utilize its experience with export promotion policies. It is also very effective in the sense that it fosters and supports private businesses in the countries where there are growing private businesses.**

In addition to the large-scale projects in the form of project-type technical cooperation mentioned above, **there are some cases where advisory experts and senior overseas volunteers have been dispatched (Cases 20 and 27) in support of export promotion activities in developing countries.**

JICA has conducted the “Master Plan Study on Promotion of Mining

Industry” in Georgia (2000–2002) and the “Study on the Institutional Capacity Building for the Department of Energy under a restructured Philippine electric power industry” in the Philippines (2002–present). These projects have been implemented from a little different perspective than those mentioned previously, in the sense that these projects incorporate the preparation of information provided for investors as a tool to attract investment domestically and internationally. In terms of providing information on the trade and investment climate in developing countries, JETRO (Japan External Trade Organization) has been engaged in activities to promote and stimulate overseas development of Japanese corporations. As there may be overlaps between the two agencies at the level of actual activities under the goal of promoting trade and investment, both close partnership and coordination between these agencies are important.

Cooperation for fostering a viable private sector:

- Assisting public agencies that provide services to the private sector
- Directly supporting the private sector

**(2) Cooperation for Fostering a Viable Private Sector (Development Studies, Partnership Programs, Senior Overseas Volunteers) — Cases 28-33**

**This cooperation has the goal of fostering a viable private sector. There are two patterns for this cooperation: indirectly strengthening management resources of small and medium enterprises through assisting public agencies that provide services to the private sector (the primary beneficiaries are small and medium enterprises) (Cases 29, 31, and 32); and directly supporting the private sector (Cases 28, 30, and 33).**

JICA has so far conducted mainly the first type of cooperation in the form of project-type technical cooperation. Specifically, JICA implemented the “Project on Supporting Industries Development for Casting Technology” in Indonesia (1999–present) and the “SIC –Tool and Mold Technology Development Project” in the Kingdom of Thailand (1999–present). Recently, however, the World Bank and others have argued that the services provided by public agencies that receive donor assistance have problems in terms of sustainability as well as scope of service provision and that such services must be provided within the framework of a market economy. Although this differs from the traditional approach taken by JICA, it is still necessary to be engaged in cooperation with consideration of a discussion on approaches.

The second kind of cooperation in this area is providing direct assistance for development and production of products that are competitive. Although JICA does not directly assist specific firms like others agencies such as the Association for Overseas Technical Scholarship (AOTS) and the Japan Overseas Development Corporation (JODC) do, it dispatches experts and senior overseas volunteers and organizes technical training. Through such schemes, it provides instruction on management skills, product development, production and manufacturing directly to firm managers, technicians, sector workers (for example, farmers). However, because JICA could only have limited effect in

terms of enhancing export competitiveness of the private sector in the recipient countries, it must collaborate with other agencies as mentioned previously and consider ways of extending cooperation through maximizing the impact of cooperation from Japan in a consolidated manner. In addition to the micro-level cooperation as such, **it is also important to consider a appropriate and balanced approach, paying attention to macro-level issues such as structural problems and business environment faced by the private sector in recipient countries.**

Recent cases include pilot projects such as the “Study on Promotion Small and Medium Enterprise Clusters” in Indonesia or the “Artisan craft Development Plan for Rural Industrialization” project in Viet Nam that are conducted in model areas under the framework of development studies to examine the validity of master plans in those areas. In this way, private sector support is provided on a trial basis.

Building capacity to respond to the international rules of trade and investment such as those of the WTO

Enhancing understanding on the significance of trade and investment promotion:  
Effective if implemented at the beginning of cooperation projects. Targeting a wide range of groups including the private sector and the academia

Assistance for accession to the WTO and others:  
Necessary to consider the substance of cooperation based on the stage of accession preparation

### **1-3 Building Capacity to Respond to the International Rules of Trade and Investment, such as those of the WTO — Cases 34-40**

#### **(1) Enhancing Understanding on the Significance of Trade and Investment Liberalization (Development Studies, Dispatches of Experts, Technical Training)**

Enhancement in the significance of trade and investment liberalization is often addressed at the time of starting individual cooperation projects on trade and investment in the context of awareness-building among stakeholders and publicizing the projects. Also when enhancement is accomplished is done through long-term projects such as development studies, project kick-off seminars could be used as an opportunity for economists and other experts to offer convincing presentations based on empirical data of successful cases in which economic growth was achieved through trade and investment liberalization and other factors. Because trade and investment is the area where there is strong engagement of the private sector, it is beneficial to target not only the direct counterparts such as the government officials, but also a wider range of people in the private sector, academia, and other sectors. As long as time permits, training and seminars could desirably take up these types of topics at the outset, before starting the core materials.

#### **(2) Assistance for Accession to the WTO and Other International Regime (Dispatches of Experts, Technical Training)**

To countries in the process of applying for accession to the WTO or countries that are not yet members of the WTO, JICA provides advice and consultation on WTO accession by dispatching experts. It also presents the

Japanese systems and organizes field tours in Japan as a part of technical training. When conducting such assistance, it is important to provide timely cooperation based on a country's stage of accession negotiation and its level of understanding of the accession process.

First of all, the relevant government officials need to have an accurate understanding of the WTO system, the basic principles in the agreements overall, as well as the accession process. It is important for them to analyze the economic effects and impacts of trade liberalization along with the process of accession negotiation. Assistance on the analytical methodology could be effective. Corresponding to the progress made in the accession negotiation of the countries, knowledge transfer and advising through workshops and consultation sessions could be also effective assistance, if provided on the agreements of particular importance for the countries. If a certain level of consolidated aid resources is available, assistance could be effectively provided in the area of the domestic legal system and institutional reform needed at the time of WTO accession.

Strengthening the capacity to implement WTO and other international rules:  
Important to select project types which are the most appropriate for individual themes

### **(3) Strengthening the Capacity to Implement WTO and Other International Rules (Development Studies, Dispatches of Experts, Technical Training)**

JICA addresses the capacity building of the countries through its technical training that includes lectures on the main points in individual WTO agreements and related operations as well as discussion of actual dispute cases.

Because the WTO agreements cover a wide range of issues, a significant amount of knowledge and institutional development is required to completely understand and implement each individual agreement. Although it would limit the number of target beneficiaries, agreement-specific assistance that is based on the recipient country's needs and the level of development would have immediate effects. Also, depending on the agreement and the nature of targeted organizations for assistance, various forms of activities could be considered, including seminars and workshops, consultations with manager-level government officials, training using simulations, development of learning materials, and comparative studies with other countries' systems, such as legal systems. Therefore, when formulating projects, the most appropriate project type should be selected based on an examination of the past cooperation curriculum. It should be noted, however, that in some areas Japan lacks sufficient experience, in which case it is difficult to obtain enough aid resources. (Specifically, such areas include application of anti-dumping and safeguard measures and Agriculture Agreement-related issues.<sup>2</sup>)

<sup>2</sup> The safeguard measure is an emergency measure to protect domestic industries while temporarily suspending the obligations under WTO to avoid serious shocks to domestic industries that produce the same or directly competing products as growing imports.

Furthermore, responses to new areas such as investment and competition are expected in addition to the responses to the existing WTO agreements. It would be meaningful to introduce issues in these new areas and provide forums for exchanging views among several countries.

Establishing basic conditions for promoting trade and investment:

- Legal system development
- Provision of Economic Infrastructure
- Establishing business environment
- Human resources development

## **1-4 Establishing Basic Conditions for Promoting Trade and Investment — Cases 41-52**

JICA has rich project experience in formulating master plans and conducting feasibility studies in physical infrastructure, such as transportation networks (railways, ports, roads, and airports), telecommunication networks, and power systems. In addition to these projects for physical infrastructure, there are cooperation projects in developing metrological and standardization systems and an intellectual property rights system. In recent years, assistance has also been given to countries such as Viet Nam and Cambodia to develop legal systems (that is, establishing legislative and judicial institutions, legislative participation, and training for legal human resources).

**Annex Table: List of Relevant Projects in Trade and Investment Promotion (Representative Cases)**

No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
<b>1-1 Formulation of and Advising on Industry and Trade Promotion Policies</b>						
1	Latin American countries, Asian countries, African and Middle Eastern countries	Trade and Investment Promotion Seminar	FY 2002	Group Training	2-1 3-1	Primarily targeted at middle management in charge of investment promotion in the government and para-state organizations, the project aimed to contribute to economic development and industry promotion in the participating countries through export promotion and investment inflows. The training provided opportunities to enhance the participants' comprehensive knowledge and information attainment on trade and investment issues and discussed and analyzed individual countries' investment promotion policies.
2	Indonesia	The Second Phase of the Follow-up Study on the Development of Supporting Industries in Indonesian Export Promotion	1999.7-2002.2	Development Study	1-1 2-1	Targeted at six industries (textile and textile products, food and beverage, wood products, electric and electronic parts, automobile parts, machine parts), the project studied the environment surrounding exporting firms and the conditions of the firms and presented recommendations on reconstructing export industry policies, export competitiveness enhancement, and action program.
3	Indonesia	Investment Promotion Policy	2001.4-2004.4 (planned)	Long-term Dispatch of Experts	3-1 3-2	To help promote investment, the project provided appropriate counseling services for potential investors in Japan and conducted policy advising toward the investment coordination agency in Indonesia based on requests and issues raised by the Japanese investors.
4	Myanmar	Japan-Myanmar Cooperation for Economic Structural Adjustment in Myanmar	2000.12-2003.3	Development Study	1-1 1-2 2-1 3-1	This project seeks to foster the environment for political reform toward democratization of the government by assisting the economic reform under the current administration of Myanmar through intellectual exchanges and human resources development. With a Japanese team led by Prof. Konosuke Odaka, Professor Emeritus of Hitotsubashi University, the project analyzes the areas of fiscal and monetary, trade and industry, information technology, and agriculture and rural development and provides policy recommendations in respective areas. For trade and industry, the team has worked along the four pillars (i.e., industry vision making, fostering private enterprises, export promotion, and attracting foreign capital).
5	Viet Nam	Study on the Economic Development Policy in terms of Transition toward Market Oriented Economy in the Viet Nam	(Phase 1) 1995.8-1996.6 (Phase 2) 1996.7-1998.3 (Phase 3) 1999.9-2001.3	Development Study	1-1 1-2 2-1 3-1	In Viet Nam, which is making its economic transition from a socialist system to a market economy, the project provided concrete and strategic recommendations on how to respond to various issues associated with economic transition and the economic development planning following the transition. Taking the form of joint research between Japan and Viet Nam and led by Prof. Shigeru Ishikawa, Professor Emeritus of Hitotsubashi University, the project analyzes agriculture and rural development, trade and industry policies, fiscal and monetary issues, small and medium enterprise development, macroeconomic management, response to Asian economic crisis, and then presents recommendations on respective areas. As for trade and industry policies, studies have been conducted for providing recommendations on industry promotion policies and the impact analysis of trade liberalization in light of formulating long-term development strategies.
6	Bolivia	Promocion de Comercializacion y Exportacion para productos artesanales (Commercialization and export promotion of artisanal products)	2003.3-2003.7	Short-term Dispatch of Experts	2-1 2-3	This project conducted studies on market demand and standards of imports for hand and manufactured crafts in Asia, Europe, and the United States and on the production of artisanal products in Bolivia. It has been formulating strategies for promoting Bolivian artisanal products in the international market.

## Approaches for Systematic Planning of Development Projects / Trade and Investment Promotion

No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
7	Paraguay	The Study on Economic Development of the Republic of Paraguay	1998.10-2000.7	Development Study	1-1 2-1 3-1	Because Paraguay faces a changing economic environment associated with regional market liberalization through Mercosur, this project was conducted to ensure Paraguay's economic independence and development. It analyzed individual industries' actual and potential competitiveness and presented measures to promote diversification of agriculture, industrialization, and economic development through export promotion.
8	Kenya	The Study of the Master Plan for Trade Promotion in the Republic of Kenya	1990.9-1991.9	Development Study	2-1	This project studied and analyzed the system, institutions, and industries related to trade promotion in Kenya, drafted a master plan for trade promotion based on the studies, and formulated various action plans.
<b>1-2 Implementation of Specific Measures</b>						
<b>1-2-1 Legal System Development</b>						
9	Multiple countries	Customs Administration	2002.8-2002.10	Group Training	1-2 2-1 3-1	By introducing Japan's customs system and technologies to the participants and by contrasting them with those in the participants' countries, this project aimed to contribute to the development of customs administration skills and simultaneously enhance mutual understanding and partnership among customs officials from different countries.
10	Malaysia	Competition (fair trade) Policy and Laws	2000.11-2000.12	Short-term Dispatch of Experts	1-1 2-1 3-1	This project formulated competition policy that responds to liberalization and deregulation in the Malaysian economy and drafted the competition law.
11	Indonesia	Industrial Property Rights Administration	2001.2 - 2003.2	Long-term Dispatch of Experts	1-1 2-1 3-1	The project provided instructions and advice on industrial property rights administration, including: (i) industrial property rights in general; (ii) private human resources development projects; (iii) systematic clerical work projects and patent information; and (iv) projects funded by the Japan Trust Fund under WIPO (World Intellectual Property Organization).
12	Indonesia	Deregulation and Competition Policy	2001.4-2003.3	Long-term Dispatch of Experts	1-1 2-1 3-1	Because competition policy is new policy undertaking for Indonesia, the project aimed to raise awareness in the government on the significance of business competition law in the context of economic reconstruction and advised on institutional development of the government to undertake rule making to enforce competition law.
13	Viet Nam	Customs Policy and Customs Administration	2001.7 - 2003.7	Long-term Dispatch of Experts	1-2 2-1 3-1	Assisted early introduction and smooth implementation of international standards on customs procedures (e.g., computerization assistance, technical cooperation in introducing international standards on customs procedures, advising on developing government ordinance and notification on customs law enforcement, etc.)
<b>1-2-2 Capacity Building for Administrative Procedures (= Capacity Building for Implementing and Enforcing Laws)</b>						
14	Indonesia	Improvement of Customs System in Indonesia	1997-1999	Development Study	2-1 3-1	For the purpose of improving speed and accuracy of customs operations and promoting trade, the project formulated guidelines on system design for establishing a Customs Intelligent Database System and on improvement of a customs clearance system. It also conducted necessary technical transfers for improving operations in this area.
15	Indonesia	Improvement of Customs Procedures on Special Fields (Intellectual Property Rights)	FY 2002	Short-term Dispatch of Experts	2-1 3-1	This project conducted necessary technology transfers for improving operations in the area of intellectual property rights, because Indonesia lacks sufficient tools and techniques for law enforcement of products violating intellectual property rights, a task that requires complicated legal measures.
16	Thailand	The Industrial Property Information Center	1995.7 - 2000.6	Technical Cooperation Project	2-1 3-1	To build recipient country capacity for utilizing an industrial property rights system, this project helps the recipient to build, manage, and maintain an industrial property rights system and conducts advanced technology research and information dissemination using such a system.



No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
<b>1-2-3 Strengthening Competitiveness of the Private Sector</b>						
<b>(1) Cooperation to Facilitate and Support Trade and Investment Activities by Private Businesses</b>						
17	Multiple countries	Plant Quarantine (Thermal Treatment for the Disinfestation of Fruit Flies)	2002.5 - 2002.9	Group Training	2-1	To promote recipient countries' fresh fruit exports, this project provides the latest Japanese thermal treatment technology for disinfesting fruit flies and helping establish complete disinfestation data for parasitic fruit flies on fresh fruits.
18	Multiple countries	Training Program of Management of Trade and Investment Insurance	2002.5 - 2002.9	Group Training	2-1	Aimed at developing recipient country trade insurance systems, this project provides technical training on the trade insurance system and its implementation for officials of governmental offices and related agencies.
19	Asian countries	Administration of Security Export Controls	2002.11- 2002.12	Group Training	2-1	Implemented under the objective of contributing to the early introduction of export control systems in Asia. Presented to administrative officers in charge of screening operations for security export controls, relevant cases of legal system and procedures necessary for screening of exports, as well as the product items to be controlled, and promoting their understanding on the necessity of developing export control systems.
20	Indonesia	Export Promotion (Market Analysis & Development)	2001.8 - 2003.8	Senior Volunteer	2-2	While transferring skills and knowledge necessary for overseas market development to the relevant staff and exporters, the project provided instructions and conducted overseas market research, analysis, and development for the purpose of increasing competitiveness of Indonesian products in overseas market (particularly in Asia).
21	Indonesia	Management of Export Credit Agency	2002.3 - 2004.8 (planned)	Long-term Dispatch of Experts	2-1	Under the project, expert(s) were dispatched to advise on short-term trade financing as an emergency response to the situation in which financial intermediary mechanisms in Indonesia ceased to function after the Asian currency crisis (basically an area for private commercial banks). The functions of expert(s) include advising and support on mid- to long-term credits and guarantees (basically the operations of export banks).
22	Indonesia	Establishment and Capacity Building of Regional Export Training and Promotion Centers	2002.7 - 2006.6 (planned)	Technical Cooperation Project	1-1 2-2	The Regional Export Training and Promotion Centers in Indonesia were established in 1989 by Japanese grant aid. From 1989 to 1993, the cooperation project for Export Training Centers was implemented. Between 1997 and 2001, the Human Resources Development in Trade Sectors project was implemented for the centers under which training programs were organized for mid-sized Indonesian firms to gain necessary knowledge, experience, and know-how for trade activities. To enhance the ability to operate the centers, the current project conducted (i) training of course planners, (ii) information provision to instructors, and (iii) disseminating trade-related information to the outside of the centers. Since 2002, an activity has been under progress to expand the center program in five regional locations.
23	Malaysia	The Malaysia External Trade Development Corporation	1997.7- 1999.6	Technical Cooperation Project	1-1 2-2	This project was conducted for the objective of contributing to strengthening Malaysian export competitiveness by restructuring the Malaysian Export Trade Center, strengthening its functions and staff resources, and establishing a new organization with the following four departments: research and information services; exhibitions and business negotiations; publication and public relations; and export promotion.
24	Thailand	Development Project of Leamchabang Coastal Area	1984.1 - 1985.3	Development Study	2-1 3-1	This project conducted long-term master-plan formulation and a feasibility study as a short-term plan with regards to ports, industrial parks, residential buildings, service water systems, and other relevant facilities planned in the Leamchabang coastal area. Construction work began 1988 based on the master plan and the feasibility study was completed in 1991.

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No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
25	Thailand	Project for Technical Strengthening of National Institute of Metrology (Thailand) Phase I	2002.10 - 2004.10 (planned)	Technical Cooperation Project	1-1 2-1 3-1	For strengthening export competitiveness of Thai industries, the project seeks to develop national standardization in Thailand and build technical capacity of technicians at National Institute of Metrology, with a view toward developing an internationally harmonized metrological system.
26	Sri Lanka	Quality Improvement of Textile and Clothing Products	1996.4 - 2001.3	Technical Cooperation Project	2-1 3-1	This project sought to promote the technical capacity of textile training and service centers and training centers to strengthen competitiveness of textile products, which are the largest Sri Lankan exports in terms of both price and quality.
27	Paraguay	Trade Business/Marketing	2002.4 - 2003.4	Dispatch of Senior Volunteer Group	2-2	The senior volunteer in charge of trade practices instructed and conducted management, theory, and research related to inventory, delivery, shipment, and insurance and conducted activities facilitating partnership between private firms and Pro Paraguay (host institution) for the purpose of promoting exports. The Senior Volunteer in charge of marketing provided instruction on information gathering necessary for export, market analysis, and customer development.
<b>(2) Fostering Viable Private Sector</b>						
28	Asian countries	Corporate Management for Asian Region	2001.6 - 2001.7	Group Training	2-3	This project aimed at contributing to the recipient countries' industry growth and economic development through introducing development factors behind the Japanese economy and Japanese corporate management to the corporate managers in these countries.
29	Indonesia	Project on Supporting Industries Development for Casting Technology in Indonesia	1999.4 - 2003.4	Technical Cooperation Project	2-3	With the objectives of strengthening the function of the Institute for Research and Development of Metal and Machinery Industries and promoting development of support industries in the area of casting technologies and others, the project seeks transfer of technology through on-the-job-training in the forms of making testers, providing instructions on circuits, and holding seminars. It also provides direct instruction to local small- and medium-scale casting firms.
30	Indonesia	Development of the Manufactured Foods	2001.10 - 2002.10	Dispatch of Senior Volunteer	2-3	Providing advising service on food safety system and food standards to Institute for R&D of AGRO-Based industry as a part of assistance to the institute in instructing local small- and medium-scale food industries to improve product quality to meet with export standards on such aspects as food safety standards and packaging standards.
31	Philippines	Upgrading Project for Plastic Molding Tool Technology	1997.9 - 2002.8	Technical Cooperation Project	2-3	Conducted a project to support the Metals Industry Research and Development Center from 1980 to 1986 ("Metal Casting Technology Center Project in the Republic of the Philippines"). A follow-up project was conducted from 1988 to 1989. The current project has been implemented for the purpose of facilitating the Center in providing training and technical assistance opportunities to the local plastic molding workers.
32	Thailand	The Productivity Development Project	1994.2 - 1999.2 (Follow-up) 1999.2 - 2001.2	Technical Cooperation Project	2-3	To train the instructors who promote the national productivity improvement initiative across the country, this project facilitated technological transfer to the Foundation of Thailand Productivity Institute (counterpart) in the three areas of (i) productivity consulting skills, (ii) human resources development and labor relations, and (iii) promotion and dissemination. Since 1999, a follow-up project has been implemented in the areas of productivity consulting skills and human resources development and labor relations.
33	Kenya	Development of Export Products	2000.11 - 2002.11	Long-term Dispatch of Experts	2-3	This project provided instructions and advise on development and improving the quality of export products, including highly value-added hand and manufactured crafts in addition to traditional agricultural products and light manufactured products.

No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
<b>1-3 Building Capacity to Respond to the International Rules on Trade and Investment such as the WTO</b>						
<b>(1) Enhancing Understanding on the Significance of Trade and Investment Liberalization</b>						
<b>(2) Assistance for Accession to the WTO and Other International Regimes</b>						
34	Thailand, Indonesia, Malaysia, Philippines	The Capacity Building Program on the Implementation of the WTO Agreements	2001.7 - 2004.3	Development Study	1-1 1-2 2-1	The project seeks to improve implementing capacity of the WTO agreements among both the government and the private sector in these countries so that they can receive the full benefit of multilateral trade system. Specific areas include enhancement of understandings on individual agreements, developing national laws, developing information systems, and dispute settlement capability.
35	China	WTO Accession Support	FY 2001 - 2003	Country-focused Training	1-2	This project introduces the Japanese systems in the areas of agriculture, services (freelance, distribution, transportation, financial, etc.), and standards for the reference in formulating policies in China prior to the accession to the WTO. Tour(s) have been organized to bring participants to Japan for such purposes.
36	Kazakhstan	Accession of the Republic of Kazakhstan to the WTO	1999.8 - 1999.9	Short-term Dispatch of Experts	1-2	This project organized seminars on the basic principles of the WTO as well as on the service trade for Kazakhstan, which was in the process of accession negotiation. On several occasions, it organized discussions with and consultations for individual agencies separately on important areas such as financial and monetary area, telecommunication, and agriculture, based on the progress in the accession negotiation.
<b>(3) Strengthening Capacity to Implement the WTO and Other International Rules</b>						
37	Multiple countries	Operation of Understanding on Rules and Procedures Governing the DSU, WTO Agreement	FY 2001	Group Training	1-2 2-1	After providing the overview of obligations under the WTO agreements and of future negotiations, the training sought to enhance the capacity to utilize the dispute settlement procedure by reviewing the procedure, case analysis, and drafting the submissions on these cases.
38	APEC region	Administration of Trade Remedy Laws under WTO Agreement (Antidumping/Safeguard/Subsidies&Countervailing Measures); The Implementation of WTO Agreement on Technical Barrier to Trade(TBT)	FY 2002	Region-focused Training	1-2 2-1	The training conducted lectures on the main points and actual operations of WTO agreements (AD,SG,SCM) and facilitated discussion among the participants on the dispute settlement cases under the WTO. With regard to safeguard measures, the participants studied the relevant cases from their own countries and presented country reports summarizing their studies.
39	Anglophone African countries	Workshop on the Relationship between Trade and Investment, organized by the WTO, in cooperation with UNCTAD and with the support of JICA	2002.11 - 2002.11	Third Country Training	1-2	As preparation for the working group on investment at the WTO, the workshop introduced the main points of discuss at the WTO to the negotiators from these countries and provided opportunities to discuss on the positions of various countries.
40	African countries	WTO Capacity-Building Seminar for African Countries - Investment and Competition-	2003.02	Third Country Training	1-2	Covering areas of investment and competition and targeting those directly advising ministers in charge of WTO negotiation, the seminar reviewed the main points of discussion at the WTO and facilitated discussion on the issues that African countries are facing.
<b>1-4 Establishing Basic Conditions for Promoting Trade and Investment</b>						
<b>(1) Developing Legal System for Commercial Transactions</b>						
41	Viet Nam	The Japanese Cooperation to Support the Formulation of Key Government Policies on Legal System	1996 -2003	Long-term Dispatch of Experts, Technical Training (Technical Cooperation Project)	1-1	The activities under this project include establishing a policy dialogue with the minister of justice, in the areas such as civil and commercial laws, corporate law, ASEAN investment law, civil procedure (civil arbitration and civil enforcement), maritime law, antitrust law, stock exchange law, and intellectual property rights; holding workshops and seminars; and hosting technical training programs.

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No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
42	Cambodia	The Japanese Cooperation to Support the Formulation of Key Government Policies on the Judicial System in the Republic of Cambodia	1999-2003	Long-term Dispatch of Experts, Technical Training (Technical Cooperation Project)	1-1	The activities under this project include preparing draft codes for civil law and civil procedure, establishing a policy dialogue with the minister of justice, holding seminars and workshops, and hosting technical training programs in legal administration, prosecution-related work, the court system, bar associations, and other legal areas.
<b>(2) Provision of Economic Infrastructure</b>						
43	Philippines	Study on Development of Industrial Statistics in the Republic of the Philippines	2000.8 - 2002.3	Development Study	1-1 3-2	This project conducted a statistical study on industrial activities that contribute to economic and industrial policy planning and corporate management in the Philippines and developed indices based on the study.
44	Thailand	Feasibility Study on Power Distribution System Improvement and Expansion Plan in the Metropolitan Area in the Kingdom of Thailand	1994 - 1995	Development Study	1-1	Formulated power distribution system improvement and expansion plan in the Bangkok metropolitan area. Based on the feasibility study, a yen loan project has been started.
45	Viet Nam	Study on the Development of Industrial Standardization, Metrology, Testing and Quality Management in Viet Nam	1997.2 - 1998.2	Development Study	1-1	Formulated a master plan with the purpose of developing the overall system of industrial standardization, promoting standardization and quality management widely among Vietnamese industries, thereby establishing an internationally credible system in Viet Nam. The master plan included institutional reform of implementing agencies, recommendations on technological infrastructure development for metrology and testing, and others.
46	El Salvador	The Study for Port Reactivation in the Union Province of the Republic of El Salvador	1997-1998	Development Study	1-1	Conducted feasibility study for port reactivation in the Union Province, which has relatively deep water with stable tidal conditions. A Yen loan has been extended to build the first large container port in El Salvador.
<b>(3) Creation of Sound Business Environment for Domestic Industries</b>						
47	Indonesia	Promotion of SMEs	1999.12 - 2000.7	Short-term Dispatch of Experts	1-1	To contribute to Indonesia's economic recovery from the 1997 Asian currency crisis, the project dispatched Prof. Shujiro Urata of Waseda University, Faculty of Social Sciences, as a senior-level advisor to the minister for economic adjustment to provide policy recommendations on the issues of small and medium industry financing, human resources development, and support industry and export promotion.
48	Thailand	Promotion of SMEs	1999.1 - 1999.6	Short-term Dispatch of Experts	1-1	To help the Thai economy recover from the currency crisis, the project dispatched a former director-general of MITI as a policy advisor to the minister of finance and minister of industry. He provided recommendations on the master plan for promoting small- and medium-scale enterprises and their financing, as well as other issues.
49	Viet Nam	Study on the Promotion of the Small- and Medium-Scale Industrial Enterprises in the Socialist Republic of Viet Nam	1999.3 - 1999.12	Development Study	1-1	This project formulated a comprehensive master plan that targeted small- and medium-scale manufacturers in Viet Nam, which had no basic policy or institution to address small and medium enterprise development.

No	Country	Project Name	Period	Type of Schemes	Mid-term Objective	Characteristics
<b>(4) Human Resources Development</b>						
50	Indonesia	Higher Education Administration	2002.10 - 2004.10	Technical Cooperation Project	1-1	Under the objectives of improving management of higher education institutions in Indonesia, stimulating educational research, and achieving effective implementation of assistance projects and appropriate policy making, the project conducted such activities as studying on management improvement in higher education institutions and information and coordination with the related organizations in Japan.
51	Uzbekistan	Uzbekistan-Japan Center for Human Development	2001.8 -	Dispatch of Experts	1-1	For stimulating private business activities, this project provided educational opportunities on management practices and organized courses targeted at corporate managers and high-ranking government officials in charge of policy planning. It also conducted Japanese-language education.
52	Jordan	The Project for the Specialized Training Institute in Hashemite Kingdom of Jordan	1997.10 - 2002.9	Technical Cooperation Project	1-1 2-1	The project seeks to train high-quality skilled workers by improving the capacity of training instructors at the Specialized Training Institute. Specifically, the project assisted the institute to establish management system (operation system and training courses) and arrange for necessary facilities and equipments for the training, and conduct training course in a desirable manner.

**Box A 1-1 WTO Capacity Building Program for Implementing WTO Agreements**

This program was based on the APEC Strategic Plan, which was proposed under the initiative of the Government of Japan and approved at the APEC Ministerial Meeting held in November 2000. This is the first large-scale project JICA has conducted with respect to the WTO. Targeting four countries in the APEC region (Thailand, Indonesia, Malaysia, and the Philippines), the program has been conducted under the objective of building capacity of these countries in implementing the WTO agreements in terms of obligations and benefits. Specific activities include development of institutional systems through establishing a WTO-related information-sharing system at the agencies in charge of the WTO, knowledge transfer on major agreements through organizing seminars and workshops, and formulating recommendations with regard to the future capacity building.

**The Overview of WTO Capacity Building Cooperation Program**

Objective: To strengthen capacity to implement the WTO agreements and to participate in the multilateral trade liberalization, the following activities will be conducted: (1) Recommendations and skills transfer activities for policymakers and policy practitioners of the WTO agreements in deepening their knowledge necessary in implementing agreements; (2) Policy recommendations for agencies in the government regarding building capacity to implement the WTO agreements.

Target Agreement and Area	Thailand August 2001 – December 2002	Indonesia January 2002 – October 2003	Malaysia March 2002 – May 2003	Philippines November 2002 – March 2004
Strengthening Institutional Arrangement to Implementing WTO Agreements	Strengthening functions of the WTO focal-point agency and preliminary development of information-sharing system	Strengthening functions of the WTO focal-point agency and preliminary development of information-sharing system	-	Strengthening functions of the WTO focal-point agency and preliminary development of information-sharing system
Enhancement of Overall Knowledge of the WTO Agreements	- (partly addressed at the seminar on the project outcomes)	- (partly addressed at the kick-off seminar)	-	- (planned to be addressed partly at the kick-off seminar)
Agreement on Agriculture, Agreement on the Application of Sanitary and Phytosanitary Measures (SPS)	-	-	Analysis of the current state of implementation of Agriculture Agreement and SPS Agreement. Skill transfer and recommendations to promote understandings on these two agreements.	Analysis of the current state of implementation of Agriculture Agreement and SPS Agreement. Skill transfer and recommendations to promote understandings on these two agreements.
Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) Antidumping Code (AD) Agreement on Subsidies and Countervailing Measures (SCM) Agreement on Safeguards (SG)	Analysis of the current state of implementation of AD and SCM Agreements. Workshops and recommendations on AD and SCM Agreements for the government officials and the private sector.	Analysis of the current state of implementation of AD and SCM Agreements and DSU. Workshops and recommendations on AD and SCM Agreement for the government officials and the private sector for reviewing domestic laws and regulations in relation to the agreements and to enhance general understanding on the agreements.	Analysis of the current state of dispute settlement. Skill transfer (through workshops, mock court, and others) and recommendations to enhance understanding on DSU, and DSU learning and capacity building for negotiations.	Analysis of the current state of implementation of AD and SCM Agreements. Advising, instruction, and recommendations on implementation of AD and SCM Agreements.
General Agreement on Trade in Services (GATS)	Analysis of the current state of implementation of GATS. Study of the relevant domestic laws. Workshops and recommendations on enhancement of general knowledge on GATS as well as on individual issues and sector-specific issues in relation to GATS.	Analysis of the current state of implementation of GATS. Workshops and recommendations on enhancement of general knowledge on GATS as well as on individual issues and sector-specific issues.	-	Analysis of the current state of implementation of GATS. Workshops and recommendations on enhancement of general knowledge on GATS as well as on individual issues and sector-specific issues.
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)	Studies on the state of implementation of TRIPS Agreement and on the relevant issues (e.g., domestic legal development). Formulation of training curriculum and development of training materials. Trainers' training. Recommendations.	Analysis of public awareness and on the implementation capacity. Development of training materials. Trainers' training. Recommendations.	Analysis of the current state of implementation of TRIPS Agreement. Skill transfer (e.g., seminars) and recommendations for enhancing understanding on the agreement and implementation capacity.	-
Agreement on Technical Barriers to Trade (TBT)	Analysis of the current state of implementation of TBT Agreement. Workshops and recommendations on enhancement of general knowledge on GATS as well as on individual issues in relation to TBT Agreement.	Analysis of the current state of implementation of TBT Agreement and study on the consistency of domestic laws and regulations with the agreement. Seminars, workshops, and recommendations on enhancement of general knowledge and understanding on the agreement (e.g., TBT notification, Good Regulatory Practice, etc.)	Analysis of the current state of implementation of TBT Agreement. Skill transfer (e.g., seminars) and recommendations for capacity building to implement the agreement and for participating in international standardization activities	Analysis of the current state of implementation of TBT Agreement. Advising, instruction, and recommendations on understanding obligations under the agreement and the appropriate organizational and institutional system for implementing notification obligations.

**Box A 1-2 Trade Training Centers**

Business support services to the domestic trade professionals are essential in promoting trade. Such services include knowledge enhancement in trade practices and marketing know-how, collection and accumulation of overseas investment information, and organizing product exhibits. JICA has conducted technical cooperation toward trade training centers in four countries: Philippines, Malaysia, Indonesia, and Egypt.

	Philippines	Malaysia	Indonesia	Egypt
Project Period	1987-1992	1994-1999	(Phase 1) 1988-1993 (Follow-up) 1994-1995 (Phase 2) 1997-2001 (Follow-up) 2001-2002 (Phase3) 2002-2006 (planned)	2002-2004 (planned)
Goals	The trade training center gains the capability to plan and organize training programs through which the center provides necessary knowledge, experiences, and know-how to local firms.	Through overseas market research, provision of investment information, organizing exhibitions and business negotiations, publication and public relations, and human resources development for trade practices, the trade development authority gains capacity to conduct export promotion-related projects in a proactive fashion.	The trade training center gains the capability to plan and organize training programs through which the center provides necessary knowledge, experiences, and know-how to local firms. The project, started in 2002, aims for regional expansion of achievements made by the past projects.	Activity plans and organizational staffing plan will be formulated for the trade training center.
Activities	Trade training (exporting basics, financing, importing, contracting, cost estimation, and transportation), Japanese language for business, human resources development in inspections and exhibitions of furniture, textile, and food.	Staff training in the above areas.	<ul style="list-style-type: none"> <li>• (Phase 1) Assistance in four areas of trade training, Japanese language, export inspection, exhibition training.</li> <li>• (Phase 2) Human resources development to build the capacity to plan and organize trade training programs such as training of course planners, information provision to instructors, and trade-related information provision to the outside of the center.</li> <li>• (Phase 3) At the model Regional Export Training and Promotion Center to be established at four regional locations, organize training program on trade practices, provide information on overseas markets, provide services related to product display, and technical instruction on trade promotion, targeted at small and medium enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>• Study for estimating the need for trade training.</li> <li>• Trial seminars and training programs.</li> <li>• Analysis of the workload of the center and formulating draft plans of activities and organizational staffing based on the analysis.</li> </ul>
Inputs	Long-term dispatch of experts (leaders, project coordination, trade training, Japanese language for business, furniture inspection, apparel inspection, food inspection), acceptance of trainees, inspection equipments, computers	Long-term dispatch of experts (leaders, project coordination, study instruction, information provision instruction, library management on trade), acceptance of trainees, information system, printing equipment.	Long-term dispatch of experts (leaders, project coordination, international trade, trade promotion), acceptance of trainees, computer servers and terminals, audio-visual equipment, books, etc.	Long-term dispatch of experts (leaders, project coordination), acceptance of trainees, computers, audio-visual equipment, etc.
Related projects	Grant aid (building, major equipment for 2.4 billion yen)		Grant aid (building, major equipment for 2 billion yen)	
Others	As project outputs, 73 type of manuals have been developed			

## Appendix 2 Basic Check List

Check Item / Indicators	Note
<b>(Increased presence at the WTO negotiations)</b>	
Frequency in use of dispute settlement procedure (number of dispute settlement cases)	Cases as complainant, cases as respondent, cases as third group Source: METI, <i>Report on the WTO Consistency of Trade Policies by Major Trading Partners</i> Source: WTO web site ( <a href="http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm">http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm</a> )
<b>(Integrating liberal trade in the national policies)</b>	
Number of trade-restricting measures	Trade-related problems (e.g., domestic subsidies and export subsidies) which are raised at the Trade Policy Review of the WTO. Source: WTO, <i>Annual Report 2002</i>
Number of free trade agreements	Source :UNCTAD web site ( <a href="http://www.unctad.org/Templates/Page.asp?intlItemID=1914&amp;lang=1">http://www.unctad.org/Templates/Page.asp?intlItemID=1914&amp;lang=1</a> )
Number of AD and SG measures application cases	Source: WTO, <i>Annual Report 2002</i>
<b>(Progress in understanding the contents of the WTO agreements among the government officials and other stakeholders)</b>	
Number of TBT notification cases	Compulsory standards, etc. Source: JETRO web site ( <a href="http://www.jetro.go.jp/se/j/jousa/wto/">http://www.jetro.go.jp/se/j/jousa/wto/</a> ) Source: WTO web site ( <a href="http://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm">http://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm</a> )
Number of cases for anti-counterfeiting measures (e.g., number of damage cases filed by Japanese firms)	Source: Japan Patent Office web page ( <a href="http://www.jpo.go.jp/indexj.htm">http://www.jpo.go.jp/indexj.htm</a> ) Source: WIPO web site ( <a href="http://www.wipo.org/ipstats/en/">http://www.wipo.org/ipstats/en/</a> )
<b>(Trends in trade volumes and trade structure<sup>3</sup>)</b>	
Trade amount	Export and import amounts, trade balance, balance of payment Source: IMF, <i>International Financial Statistics Yearbook</i> Source: UNCTAD web site ( <a href="http://www.unctad.org/Templates/Page.asp?intlItemID=1914&amp;lang=1">http://www.unctad.org/Templates/Page.asp?intlItemID=1914&amp;lang=1</a> )
Trade amount (by country, by region, and by economic area)	Source: UNCTAD web site ( <a href="http://www.unctad.org/Templates/Page.asp?intlItemID=1584&amp;lang=1">http://www.unctad.org/Templates/Page.asp?intlItemID=1584&amp;lang=1</a> )
Trade structure (share of export destinations and share of import origins, by country and by product)	Source: UNCTAD web site( <a href="http://www.unctad.org/Templates/Page.asp?intlItemID=1584&amp;lang=1">http://www.unctad.org/Templates/Page.asp?intlItemID=1584&amp;lang=1</a> )
Trade-related indicators of Japan	Indicators to check the trade relations with Japan Source: Japanese Customs web site ( <a href="http://www.customs.go.jp/toukei/info/topmenu_j.htm">http://www.customs.go.jp/toukei/info/topmenu_j.htm</a> )

<sup>3</sup> In the column for notes, we have listed statistical sources to obtain detailed data on relevant issues. For the volume and the composition of trade, see Ministry of Public Management, Home Affairs, Posts and Communications, "Sekai no Tokei" (The World Statistics) <http://www.stat.go.jp/data/sekai/index.htm> and JETRO, "Kaigai Joho Fairu" (Overseas Information File, JETRO-file) <http://www.jetro.go.jp/jetro-file/>



Check Item / Indicators	Note
<b>(State of development in trade-related policies and institutions)</b>	
Membership in WTO and other agreements Trade control system <ul style="list-style-type: none"> <li>• Agencies in charge</li> <li>• Restrictions on import materials and import origins</li> <li>• Export- and import-related laws and management</li> </ul> Customs system <ul style="list-style-type: none"> <li>• Agencies in charge</li> <li>• Tariff system, product classification</li> <li>• Types of tariffs, duty standards</li> <li>• Related laws</li> </ul> Export and import procedures <ul style="list-style-type: none"> <li>• Permit application for exports and imports</li> </ul>	Data for 61 countries, including developed countries, are available from the web site of JETRO Source: JETRO web site "Overseas Information File" <sup>4</sup> ( <a href="http://www.jetro.go.jp/jetro-file/">http://www.jetro.go.jp/jetro-file/</a> )
<b>(Evaluation by Japanese firms on trade-related procedures)</b>	
Trade-related problems in each country and region	Source: Japan Machinery Center for Trade and Investment web site "Issues and Requests relating to Foreign Trade and Investment" ( <a href="http://www.jmcti.org/mondai/top.html">http://www.jmcti.org/mondai/top.html</a> ) * This report summarizes various issues related to trade and foreign direct investment that Japanese firms face in their operations overseas. Source: JETRO, <i>Ajia no Toshi Kankyo Hikaku (Investment Climate Comparison in Asian Countries)</i> * This horizontally compares the investment climates of Asian countries and regions according to the areas of investment and exchange systems and investment cost, state of development in industrial foundations, state of development in human resources and technology, state of development in information infrastructure, and state of development in distribution infrastructure.
<b>(Trends in investment amounts and cases)</b>	
Amount of direct investment inflows Trends	UNCTAD, <i>World Investment Report</i> ( <a href="http://www.unctad.org/Templates/Page.asp?intItemID=1397&amp;lang=1">http://www.unctad.org/Templates/Page.asp?intItemID=1397&amp;lang=1</a> )
Amount of direct investment inflows Direct investment inflows (by country and by industry) Direct investment outflows (by country and by industry)	Data for 61 countries, including developed countries, are available from the web site of JETRO. Source: JETRO web site "Overseas Information File" ( <a href="http://www.jetro.go.jp/jetro-file/">http://www.jetro.go.jp/jetro-file/</a> )
Number of cases of receiving foreign direct investment and its trend (including the number of withdrawal cases) Number of foreign firms operating in the country Number of foreign firms operating in the country (by home country) Number of deregulation cases Ratio of production by the foreign investors to GDP Number of employees hired by foreign investors and its growth rate	These are important items to understand the current conditions and environment. For developing countries, data are often underdeveloped and not easily available from the web sites. However, inquiries can be made to investment-related agencies and statistical offices of individual countries.

<sup>4</sup> There are items for which country data are not available. This web site contains individual countries' basic data (political system, economic condition, etc.) and statistics (GDP, inflation rate, unemployment rate, trade balance, exchange rate, and other basic economic indicators). The site also allows users to print out the information in a format such that users can compare information among several countries.

Check Item / Indicators	Note
<b>(State of development in investment-related policies and institutions)</b>	
<p>Presence of investment promotion agency</p> <p>Regulations on foreign capital</p> <ul style="list-style-type: none"> <li>• regulated industries and prohibited industries</li> <li>• capital ownership ratio</li> <li>• land property ownership allowability for foreign firms</li> <li>• restrictions related to capital stock</li> <li>• other regulations</li> </ul> <p>Regulations on foreign capital</p> <ul style="list-style-type: none"> <li>• promotion industries</li> <li>• various preferential measures</li> </ul> <p>Tax system</p> <ul style="list-style-type: none"> <li>• corporate tax</li> <li>• bilateral tax treaties</li> <li>• other tax system</li> </ul> <p>Foreign nationals employment regulations, residency permits, hiring of local residents</p> <ul style="list-style-type: none"> <li>• foreign nationals employment</li> <li>• residency permits</li> <li>• hiring requirement of local residents</li> </ul> <p>Local financing system</p> <p>Foreign exchange controls and foreign currency exchange system</p> <p>Institutions relatd to granting technical and industrial intellectual property rights</p> <p>Procedures for establishing companies by foreign businesses</p>	<p>Data for 61 countries, including developed countries, are available from the web site of JETRO.                      Source: JETRO web site "Overseas Information File"                      (<a href="http://www.jetro.go.jp/jetro-file/">http://www.jetro.go.jp/jetro-file/</a>)</p>
<b>(External evaluation on the investment climate of individual countries)</b>	
<p>Rating by international organizations and rating oraganizations</p>	<p>Evaluation and ranking results by several organizations are listed under the investment climate section in the World Bank, <i>World Development Indicators</i>.</p>

## Appendix 3 Trade and Investment Policies of Japan

### Contents and purpose of this chapter:

- Provide an overview of Japan's policies after the end of the World War II as the country sought trade and investment liberalization
- Japan's international assistance has been based on its policy experiences. These experiences would be useful references when we consider trade and investment promotion.

This appendix provides an overview of Japan's trade and investment policies after the end of World War II as the country gradually resumed its role in the international economic and social system through membership in General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD) and as the country increasingly faced trade and investment (foreign investment inflows) liberalization. Although some of the policy tools Japan used in the past are no longer permissible under current WTO rules, **its economic growth experience in which external trade played a large role would be a useful reference when we consider trade and investment promotion in the context of current developing countries. Also, Japan's international assistance has been based on its own policy experiences in this area.**<sup>5</sup>

The primary purpose of discussion here is to see how Japan, throughout its development process, has approached the same development issues considered in this issues-specific approach. Thus, we mainly look at the period when the country undertook trade and investment (foreign investment inflows) liberalization since post-war reconstruction and then introduce recent Japanese trade and investment policies at the end. We do not examine the period when the balance of payments turned positive in 1968 and the country started facing trade frictions with the United States in particular.

### 3-1 Trade and Investment Liberalization in Post-war Reconstruction Era (End of World War II –1960s)

#### 1945-1954:

- Developed and improved the environment and the system for exports toward a normal trade regime

#### (1) 1945 – 1954

**During this period when Japan transitioned from a managed trade regime under the control of the United States to a normal trade regime, Japan tried to consolidate and improve its export environment and regime, which were rapidly built after the war, for more enhanced trade-led development.**

<sup>5</sup> For example, then-Ministry of International Trade and Industry or MITI (current Ministry of Economy, Trade, and Industry or METI) initiated the establishment of Trade Training Center in 1967 for the purpose of growing international entrepreneurs in Japan. And since then, a number of activities have been undertaken. Based on this experience, JICA has implemented assistance projects in four countries, including Indonesia and Malaysia, to establish similar trade training centers that conduct training of trade professionals, provide market information, and be involved in other related activities. See Box A1-2 in p.79.

The period between 1945 and the end of 1946 was the time when Japan engaged in “trade for survival,” mainly with support of U.S. external assistance. In September 1945, the U.S. Initial Post-Surrender Policy for Japan was introduced, which stated that “control is to be maintained over all imports and exports of goods, foreign exchange and financial transactions.” In 1947, private trade resumed as the United States relaxed its control over Japanese imports and exports.

In October 1949, the General Headquarters (GHQ) made an announcement that the private businesses would resume their exporting activities in December 1949 and importing activities in January 1950. Responding to this announcement, **the Government of Japan adopted the Foreign Exchange and Foreign Trade Control Act, the Foreign Exchange Special Account Fund Law, and the Law Establishing Foreign Exchange Control Commission in December 1949.<sup>6</sup> Subsequently, the government established the Export Control Ordinance and Foreign Exchange Control and Import Control Ordinance, creating a legal system to launch private-based trade.**

In 1950, the outbreak of Korean War in June brought a special economic boom to Japan, which led to trade expansion and improvement in the trade balance. Japanese trade during this post-war reconstruction period was supported by foreign assistance and special economic booms while continuing to record trade deficits.

**1955-1967:**

- Period when Japan started undertaking trade liberalization and investment liberalization (direct investment inflows)

**(2) 1955 – 1967**

**In this period, Japan initiated the process of trade liberalization by joining GATT and then progressed with investment liberalization (direct investment inflows). During this time, Japan transitioned out of its earlier policies that severely restricted competition of foreign firms in both domestic products as well as imports.**

The Japanese trade balance with the United States was significantly in deficit at that time. This was the basic factor restricting Japanese economic growth due to lack of dollar-denominated reserve. For self-generating development to be achieved in Japan, Japan implemented a policy to intentionally promote exports, while controlling imports to the extent possible.

Japan became a member of GATT in 1955 and normalized its trade relations with Western Europe and other areas, achieving its return to the international community in the liberal world. However, countries that feared a flood of cheap products from Japan, such as the United Kingdom, France, India, and eleven other countries, refused to enter into the GATT relationship with

<sup>6</sup> Other trade-related laws established around this time include the Export and Import Transaction Law, the Export Inspection Law (1957), and the Exports Design Law (1959). The Export and Import Transaction Law was established in 1953 as complement to Foreign Exchange Law and aimed to prevent unfair export and import transactions and to establish the order in export and import transactions. It allowed agreements among associations and firms on price, quantity, quality, and others).

Japan, applying Article 35 of GATT. As a result, even though Japan was a member of GATT, the major countries providing MFN status were limited to the United States, West Germany, Italy, and the Scandinavian countries. Under GATT, Japan imposed quantity restrictions on its imports according to the Article 12 and had a low rate of liberalization at the time of accession.<sup>7</sup> However, during the GATT General Assembly in autumn 1959, other member countries strongly requested Japan to undertake further trade liberalization. Thus, in 1960, Japan announced the “Trade and Foreign Exchange Liberalization Program” that aimed at bringing the rate of liberalization to 90 percent. In 1961, it adopted the “Trade and Foreign Exchange Liberalization Promotion Program” to further liberalize.<sup>8</sup> In this way, Japan, in response to other countries’ demand for further liberalization, shifted to a GATT Article 11 country in 1963 and achieved the standard rate of liberalization of over 90 percent by August of the same year.<sup>9</sup> In 1964, the country also shifted to be an IMF Article 8 country and joined the OECD. As a part of its member obligations of OECD, Japan underwent capital liberalization (liberalization of direct investment inflows).

**The two basic directions of economic policies during this time were promoting exports and control imports to the extent possible and developing a modern manufacturing sector in Japan.**

In the following section, we present an overview of Japanese efforts in trade and investment liberalization along these two directions.

#### Trade liberalization:

- Conducted export promotion policies while protecting domestic industries through tariff measures

### 3-1-1 Trade Liberalization

We examine Japanese policies on trade liberalization from two perspectives: (1) tariff measures and (2) export promotion policies. Specifically, the characteristics of Japanese policies during this period can be found in the following points. **First, Japan undertook a policy to protect domestic industries from foreign competitions by using tariff measures (without undermining domestic competitions), and to open its market for foreign competition once the domestic industries became competitive enough. Second, Japan implemented active interventionist policies for trade promotion and committed itself to trade liberalization.**<sup>10</sup>

<sup>7</sup> GATT Article 12 countries are the countries allowed to restrict their imports under certain conditions in order to protect their external financing positions and balances of payment.

<sup>8</sup> The factors that motivated trade liberalization at this time were: (i) that the Japanese trade balance turned to surplus, which did not necessitate import controls for retaining foreign exchange; (ii) that the United States experienced outflows of dollar due to its balance of payment deterioration and started calling for trade liberalization toward other countries; and (iii) that Japan fell behind the Western European countries in abolishing their restrictions on imports from the dollar zone, which started with the resumption of dollar convertibility at the end of 1959.

<sup>9</sup> IMF Article 8 countries and GATT Article 11 countries are the members who liberalize the current account transactions including imports and do not impose import quantity restrictions and foreign exchange restrictions due to balance-of-payments reasons.

<sup>10</sup> Although the current WTO regime grants developing country members a grace period depending on their stage of development, it basically demands active market-opening measures within the limited time frame. Thus, it has become difficult to follow the Japanese example of protecting domestic industries and fostering export industries with active government intervention.

## **(1) Tariff Measures**

Prior to trade liberalization, Japan undertook a major tariff reform in 1961. However, the basic nature of this reform was rather protectionist. Those domestic industries that were on the growth path had long been under the protection of import restrictions. Specific examples of products that were liberalized in the 1960s include buses and trucks (1961), color television sets (1964), passenger automobiles (1965); products liberalized in the 1970s included electronic calculators and peripherals (1975).<sup>11</sup> Comparing the trade liberalization periods and the industry development periods for these products, we notice that trade liberalization started much later than industry development. For example, the government decision on the protection of automobile industry was specifically made in 1952, and MITI announced its “the Draft Outline for Promotion of a People’s Car.” For the machinery and electronics industry, the Machinery Industry Promotion Temporary Measures Law (1956) and the Electronic Industry Promotion Temporary Measures Law (1957) were introduced.

A publication from MITI titled “Tsusho Seisaku Gaikou-shi” (History of Japanese Trade Policy) describes the role of tariffs:

“There were three major elements in the tariff reform undertaken in 1961: (i) modification to the classification system used in the import tariff chart, (ii) overall modification to the tariff rates, and (iii) flexible application of the tariff system in response to trade liberalization. **The principal role of the tariff was given to the active fostering of growing industries in accordance with the objective of the industry structural policy. The protective tariffs were sought to be strengthened.**”<sup>12</sup>

## **(2) Export Promotion Policies**

While trying to control for the spending on the foreign currencies by restricting imports through tariff measures, the Government of Japan strengthened a wide range of policies related to export promotion, such as finance, taxation, insurance, market research, and public relations and advertisement, to solve the problem of the foreign exchange shortage.

### **1) National Movement for Export Promotion**

One of the policies in which MITI put its efforts during this period was the national movement for export promotion. In implementation of trade policies, rigorous commitment by the industries to enhance their exports was necessary as well as understanding on the significance of trade from different groups in the general public. This national movement was conducted for the

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<sup>11</sup> Komiya, Okuno, and Suzumura (1997) have detailed accounts of Japanese industrial policies during this period.

<sup>12</sup> Ministry of International Trade and Industry (1991). See especially excerpt from the section titled “The Third Hyper Growth Period (1).”

purpose of building awareness among the general public. Specifically, the Trade Promotion Headquarters was established in 1959, and the Japan Foreign Trade Charter was enacted in 1959. The Trade Promotion Headquarters produced and distributed trade promotion movies and brochures, organized trade fairs, and conducted other activities to raise public support for exporting.

## **2) Strengthening Export Enhancement Support Systems**

For the enhancement of exports, supports were provided to industries in the form of tax and financial measures. Export financing facilitation, tax preferences for exports, improvement of the export insurance system, and other measures were also sought for this purpose.<sup>13</sup>

## **3) Market Development**

With regard to market research and advertisement, the Japan External Trade Organization (JETRO) (established in 1951 as the Japan Trade Export Research Organization) systematically conducted trade promotion activities, such as overseas market research, international trade shows, overseas advertisement and public relations, trade intermediary arrangements, and industry design improvement.

## **4) Various Improvements in Trade Administration**

Along with the above export promotion policies, various improvements were made to the trade administration during this period to quickly respond to the developments in the international economy. Specific examples include simplification of export procedures and establishment of the Trade Promotion Bureau. Examinations of export products were conducted to maintain and improve the quality of products exported from Japan based on the perspective of strengthening non-price competitiveness. The government also helped improve product design through its design programs. The Institute for International Studies and Training was established to develop human resources to be equipped with knowledge and international competence and skills.<sup>14</sup>

<sup>13</sup> The matter of preferential export financing emerged out of the necessity of correcting the negative effect of general tight monetary measures on financing of exports to be promoted and actively promoting exports.

The typical short-term export financing tools are Export Trade Bills and Loans against Foreign Exchange Assets of the Bank of Japan. As balance of payments became consistently in surplus in the latter half of 1960s, the need for short-term export financing was lost. As for mid- to long-term export financing, there are loans from the Export and Import Bank of Japan and Overseas Economic Cooperation Fund.

As fiscal incentive provision toward exporters, there were such tools as the Tax Credits for Export Income (abolished when Japan signed the GATT's Declaration to Abolish Export Subsidies on Products Other than Primary Commodities), the Accelerated Depreciation Allowances for Business Trading Internationally (1964–1971), and the Reserve for Opening up Overseas Markets for Small and Medium Enterprises (1962–1971).

The export insurance system played a role of protecting exporters from export-related risks that could be covered by the government and the private firms and the private insurance policies.

<sup>14</sup> See Institute for International Studies and Training, official web site (<http://www.iist.or.jp>).

Investment liberalization (direct investment inflows): Conducted sequentially with extra caution

### 3-1-2 Investment (Inward Direct Investment) Liberalization

The liberalization of inward direct investment was first conducted very carefully and sequentially in Japan. After the first wave of liberalization in July 1967, progressive capital liberalization took place. MITI conducted impact analysis studies for 104 major industries. Based on the findings of the studies, the cabinet submitted a report to the committee on foreign capital entitled “On liberalization of outward direct investment” in June 1967. With regard to the liberalization on inward direct investment, the pace was very slow. It was only in 1973 that 100 percent liberalization was achieved in principle. Due to such controls, the inflows of inward direct investment to Japan were limited to a small amount compared with other developed countries. The following describes the concern characterizing the background of such controls.

“The post-war Japanese economy fell short of the level of the United States and Europe in terms of capital stock and the technical level, and had shortage in foreign currency reserves necessary for importing raw material and capital goods from abroad. **Bringing in foreign capital is considered to be wiping out all these restrictions when the country tries to achieve faster reconstruction and development. On the other hand, however, it was considered that the growth and development of domestic industries would be impeded if foreign enterprises, especially American enterprises, which were rich in management resources, expand their operations directly to the Japanese domestic market.** There was a particular concern on capital holding cooperation as well as mergers and acquisitions by foreign capitals in industry sectors with high spillover effects to related industries and in infant industry sectors on their growth paths. For such sectors, there was even a view which questioned the total independence of domestic firms in making decisions on the issues related to their management controls such as exchange ratios of merger.”<sup>15</sup>

### 3-2 Japanese Trade and Investment Policy Undertakings in Recent Years (2000–present)

Trade policy in recent years: Pursuing FTAs while putting multilateral trade system at the center

So far, Japanese trade policy has placed an emphasis on multilateral arrangements and put its efforts to the maintenance of the multilateral trade regime. During the 1990s, countries and regions in the world started experiencing an active tendency toward regionalism, as represented by the formation of many free trade areas (FTAs). As of the end of 2001, there are approximately 150 FTAs in effect around the world.<sup>16</sup> Even in Japan, the view

<sup>15</sup> Komiya, Okuno and Suzumura (1997)

<sup>16</sup> As the reasons for this rapid expansion of FTAs in the world, the factors such as capital inflows FTAs possibly stimulate or the perspective of strengthening security ties are often pointed out. However, the strongest reason is said to be the fact that bilateral and regional FTAs are more easily agreed than multilateral trade agreements at the WTO.



that a country should form FTAs was voiced more strongly than before after the WTO ministerial meeting in Seattle failed to launch the new round of WTO trade negotiations in December 1999. **In fact, Japanese trade policy has now evolved to the point of pursuing FTAs, even while putting multilateral trade regimes such as the WTO at its center.** Japan's first FTA was agreed between Singapore in January 2001. Currently, possible agreements are being considered with other Asian countries and Mexico.

The Whitepapers on International Trade of FY2001 and of FY2002 describe the use of FTAs as follows:

“In working to boost the Japanese economy, it is becoming increasingly important that Japan not only further promote policy coordination among states, as exemplified by the traditional coordination of macroeconomic policies, but also optimize the synergy between its domestic and external policy. To these ends, **Japan is already shifting its external economic policy toward the multi-layered utilization of regional, bilateral, and other fora, while retaining its traditional focus on multilateral frameworks.**”<sup>17</sup>

“As the tightening of economic ties in East Asia accelerates, it has become increasingly important that Japan pursues an integrated domestic and external policy to incorporate East Asian growth factors as a means of stimulating the domestic economy. Japan therefore needs to advance the necessary measures in a wide range of areas to strengthen economic ties with the East Asian region. The specific framework in promoting this external economic policy is a multi-layered one, centered around multilateral efforts in the WTO but also utilizing FTAs, EPAs (economic partnership agreements) and other regional and bilateral efforts as supplements. In order for Japan to enjoy the maximum benefit from free trade and link this to stimulation of the economy, it will be vital to take a strategic and flexible approach to utilization of this multilateral framework.”<sup>18</sup>

Investment policy in recent years:  
Active use of inward direct investment to stimulate the Japanese economy

With regard to inward direct investment, the volume is still limited in Japan, compared with that in the United States and Europe, although recently an increasing number of foreign-affiliated corporations are expanding their operations in Japan. The outstanding stock of inward direct investment in Japan is as low as 1.2 percent of its GDP, while other developed countries have over 20 percent of their GDP. One of the reasons for this low level of inward foreign direct investment is that the “Japanese corporate management style” has been successful and Japan has been self-sufficient in management resources. However, as a way to overcome the economic deficit in the 1990s, a perspective

<sup>17</sup> *White Paper on International Trade: FY 2001.* (<http://www.meti.go.jp/hakusho/>)

<sup>18</sup> *White Paper on International Trade: FY 2002.* (<http://www.meti.go.jp/hakusho/>)

has emerged that Japan needs to actively use inward direct investment. **The Council on Economic and Financial Policy and the Prime Minister's General Policy Speech indicate the use of inward direct investment as a measure to stimulate the Japanese economy.**<sup>19</sup>

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<sup>19</sup> “In addition to economic stimulation through employment creation and promotion of competitions, an increase in inward direct investment brings about spillover effects in cutting-edge technologies and management know-how. Removing impeding factors in a planned manner promotes inward direct investment and expands knowledge inflows.” (The Council on Economic and Financial Policy)

In his General Policy Speech to the 156<sup>th</sup> Session of the Diet on January 31, 2003, Prime Minister Junichiro Koizumi's stated: “Foreign direct investment in Japan will bring new technology and innovative management methods, and will also lead to greater employment opportunities. Rather than seeing foreign investment as a threat, we will take measures to present Japan as an attractive destination for foreign firms in the aim of doubling the cumulative amount of investment in five years”. See, Office of Prime Minister web site: ([http://www.kantei.go.jp/foreign/koizumispeech/2003/01/31sisei\\_e.html](http://www.kantei.go.jp/foreign/koizumispeech/2003/01/31sisei_e.html))

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(Top)	<a href="http://www.mofa.go.jp/mofaj/index.html">http://www.mofa.go.jp/mofaj/index.html</a>
(FTA-related)	<a href="http://www.mofa.go.jp/mofaj/gaiko/fta/policy.html">http://www.mofa.go.jp/mofaj/gaiko/fta/policy.html</a>
(Investment)	<a href="http://www.mofa.go.jp/mofaj/gaiko/investment/index.html">http://www.mofa.go.jp/mofaj/gaiko/investment/index.html</a>
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Japan External Trade Organization	
(Top)	<a href="http://www.jetro.go.jp/top-j/">http://www.jetro.go.jp/top-j/</a>
(Economic cooperation in developing countries)	<a href="http://www.jetro.go.jp/ged/j/about/about5.html">http://www.jetro.go.jp/ged/j/about/about5.html</a>
(Investment promotion)	<a href="http://www.jetro.go.jp/ged/j/about/about3.html">http://www.jetro.go.jp/ged/j/about/about3.html</a>
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Asia Trade Promotion Forum	<a href="http://www.atpf.org/index.html">http://www.atpf.org/index.html</a>
Canada Department of Foreign Affairs and International Trade	<a href="http://www.dfait-maeci.gc.ca/trade/menu-en.asp">http://www.dfait-maeci.gc.ca/trade/menu-en.asp</a>
Development Gateway	
(Trade and Investment)	<a href="http://www.developmentgateway.org/node/137197/">http://www.developmentgateway.org/node/137197/</a>
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Development (DFID)	
(International Trade Department)	<a href="http://www.dfid.gov.uk/AboutDFID/files/itd/itd1.html">http://www.dfid.gov.uk/AboutDFID/files/itd/itd1.html</a>
European Union (EU) (Trade)	<a href="http://europa.eu.int/comm/trade/index_en.htm">http://europa.eu.int/comm/trade/index_en.htm</a>
Integrated Framework for Trade-Related Technical	
Assistance to LDCs (IF)	<a href="http://if.wto.org/">http://if.wto.org/</a>
IISD Network / Trade and Investment	<a href="http://iisd1.iisd.ca/trade/default.htm">http://iisd1.iisd.ca/trade/default.htm</a>
International Trade Centre(ITC)	<a href="http://www.intracen.org/">http://www.intracen.org/</a>
The Joint Technical Assistance Programme (JITAP)	<a href="http://www.jitap.org/">http://www.jitap.org/</a>
Multilateral Insurance Guarantee Agency (MIGA)	
(Top)	<a href="http://www.miga.org/">http://www.miga.org/</a>
(Investment promotion network: IPAnet)	<a href="http://www.ipanet.net/">http://www.ipanet.net/</a>
MIGA-IPA net (Links to investment-related agencies)	<a href="http://www.ipanet.net/ilink/drilldown.cfm?type=20&amp;family=364&amp;child=364">http://www.ipanet.net/ilink/drilldown.cfm?type=20&amp;family=364&amp;child=364</a>
Organisation for Economic Cooperation and Development (OECD)	
(Trade)	<a href="http://www.oecd.org/EN/home/0,,EN-home-24-nodirectorate-no-no--24,00.html">http://www.oecd.org/EN/home/0,,EN-home-24-nodirectorate-no-no--24,00.html</a>
(Financial/Investment)	<a href="http://www.oecd.org/EN/home/0,,EN-home-9-nodirectorate-no-no--9,00.html">http://www.oecd.org/EN/home/0,,EN-home-9-nodirectorate-no-no--9,00.html</a>
The Trade Knowledge Network	<a href="http://www.iisd.org/tkn/default.htm">http://www.iisd.org/tkn/default.htm</a>

Trade and Development Centre	<a href="http://www.itd.org/">http://www.itd.org/</a>
United Nations Commission on International Trade Law (UNCITRAL)	<a href="http://www.uncitral.org/">http://www.uncitral.org/</a>
United Nations Conference on Trade and Development(UNCTAD)	
(Top)	<a href="http://www.unctad.org/">http://www.unctad.org/</a>
(Division of Investment Technology & Enterprise Development: DITE)	<a href="http://www.unctad.org/en/subsites/dite/">http://www.unctad.org/en/subsites/dite/</a>
(Advisory Services in Investment and Training: ASIT)	<a href="http://www.unctad.org/asit/index2.html">http://www.unctad.org/asit/index2.html</a>
United Nations Industrial Development Organization(UNIDO)	
(Top)	<a href="http://www.unido.org/">http://www.unido.org/</a>
(Investment and Technology Promotion Center, Tokyo)	<a href="http://www.unido.or.jp/index.html">http://www.unido.or.jp/index.html</a>
United States Agency for International Development (USAID)	
(Top)	<a href="http://www.usaid.gov/">http://www.usaid.gov/</a>
(USAID-Trade Capacity Building Database)	<a href="http://www.usaid.gov/economic_growth/">http://www.usaid.gov/economic_growth/</a>
US Department of Commerce	<a href="http://www.commerce.gov/">http://www.commerce.gov/</a>
US Trade and Development Agency	<a href="http://www.tda.gov/">http://www.tda.gov/</a>
World Association of Investment Promotion Agencies	<a href="http://www.waipa.org/index.html">http://www.waipa.org/index.html</a>
World Customs Organization(WCO)	<a href="http://www.wcoomd.org/ie/index.html">http://www.wcoomd.org/ie/index.html</a>
World Bank	
(Trade)	<a href="http://www1.worldbank.org/wbiep/trade/">http://www1.worldbank.org/wbiep/trade/</a>
(Investment Climate)	<a href="http://www.worldbank.org/privatesector/ic/index.htm">http://www.worldbank.org/privatesector/ic/index.htm</a>
World Trade Organization (WTO)	
(Top)	<a href="http://www.wto.org/index.htm">http://www.wto.org/index.htm</a>
(Committee on Trade and Development)	<a href="http://www.wto.org/english/tratop_e/d3ctte_e.htm">http://www.wto.org/english/tratop_e/d3ctte_e.htm</a>

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UNCTAD Trade & FDI statistics (categorized by developed and developing countries)	<a href="http://www.unctad.org/Templates/Page.asp?intItemID=1584&amp;lang=1">http://www.unctad.org/Templates/Page.asp?intItemID=1584&amp;lang=1</a>
WTO Trade statistics(categorized by regions)	<a href="http://www.wto.org/english/res_e/statis_e/statis_e.htm">http://www.wto.org/english/res_e/statis_e/statis_e.htm</a>

## (3) WTO-related

Ministry of Foreign Affairs (WTO special site)	<a href="http://www.mofa.go.jp/mofaj/gaiko/wto/index.html">http://www.mofa.go.jp/mofaj/gaiko/wto/index.html</a>
Ministry of Economy, Trade and Industry (WTO special site)	<a href="http://www.meti.go.jp/policy/trade_policy/wto/index.html">http://www.meti.go.jp/policy/trade_policy/wto/index.html</a>
Ministry of Agriculture, Forestry and Fisheries (Negotiations on agriculture)	<a href="http://www.maff.go.jp/wto/index.html">http://www.maff.go.jp/wto/index.html</a>
(WTO Doha Agenda)	<a href="http://www.wto.org/english/tratop_e/dda_e/dda_e.htm">http://www.wto.org/english/tratop_e/dda_e/dda_e.htm</a>

## (4) MDGs – Trade-related

MOFA	<a href="http://www.mofa.go.jp/mofaj/gaiko/oda/seisaku/seisaku_2/mdgs_gai.html">http://www.mofa.go.jp/mofaj/gaiko/oda/seisaku/seisaku_2/mdgs_gai.html</a>
OECD	<a href="http://www.oecd.org/EN/home/0,,EN-home-66-nodirectorate-no-no-no-15,00.html">http://www.oecd.org/EN/home/0,,EN-home-66-nodirectorate-no-no-no-15,00.html</a>
UNDP	<a href="http://www.undp.org/mdg/">http://www.undp.org/mdg/</a>
World Bank (MDGs)	<a href="http://www.developmentgoals.org/Partnership.htm">http://www.developmentgoals.org/Partnership.htm</a>





## Development Objectives Chart for Trade and Investment Promotion

Development Objectives		Mid-term Objectives	Sub-targets of Mid-term Objectives	Examples of Activities
1 Strengthening Responsive Capacity for Promoting Trade and Investment within the International Framework	1-1 Establishing Basic Conditions for Promoting Trade and Investment	Legal System Development for Commercial Transactions	Development of commercial laws and others (advising on codification of individual laws, creating an overview map of existing laws, training and education for the Bar)	<ul style="list-style-type: none"> <li>Assistance toward development plans of distribution infrastructure such as airports, ports, and roads</li> <li>Policy formulation for electricity sector, assistance toward formulating power sources development plans</li> <li>Policy and institutional development in relation to information technology (IT)</li> <li>Banking sector, capital market development</li> <li>Human resources development in financial sector</li> <li>Capacity and skills improvement for standardization</li> <li>Capacity and skills improvement for metrology and testing</li> <li>Assistance toward development of statistics</li> <li>Assistance toward establishing and developing intellectual property rights</li> </ul>
		Provision of Economic Infrastructure	Assistance toward development plans of distribution infrastructure such as airports, ports, and roads	
2 Capacity Building for Trade Promotion	1-2 Strengthening Capacity to Respond to International Trade and Investment Rules of the WTO and Others	Creation of Sound Business Environment for Domestic Industries	Formulation of master plans for industry development Formulation of small and medium enterprise and supporting industry development policies Training of the fundamental skills (metallurgical skills, casting skills), basic research, R&D	<ul style="list-style-type: none"> <li>Human resources development in public sector (program to enhance understanding of significance of trade and investment liberalization, improving quality of education on international economy and trade, etc.)</li> <li>Business human resources development in private sector (Japan center, trade training center, etc.)</li> <li>Improvement of labor force quality (strengthening science and mathematics education, occupational training, and industry technology training, etc.)</li> <li>Enhancement of understanding on the WTO agreements in general, and on the significance of trade and investment liberalization</li> <li>Promotion of public-private dialogue</li> <li>Development of trade policies and domestic legal system consistent with the WTO, enhancement of understanding on new privileges and obligations (WTO accession assistance program)</li> <li>Enhancement of understanding on impacts to the domestic economy and industries by joining the WTO</li> <li>Enhancement of understanding on the accession procedure</li> <li>Institutional building and human resources development in relation to trade and investment promotion, responding to the developments at the WTO and others (training of negotiators and administrative officials)                             <ul style="list-style-type: none"> <li>x Specific and concrete advising on accession negotiations</li> </ul> </li> <li>Development of trade policies and domestic legal system consistent with international rules such as the WTO</li> <li>Assistance toward enforcement and implementation of consistent policies and institutions</li> <li>Enhancement of understanding on individual agreements                             <ul style="list-style-type: none"> <li>x Strengthening of negotiation capacity for negotiations at the WTO and others</li> <li>x Specific and concrete advising on negotiations at WTO and others</li> </ul> </li> <li>Studies on the state of implementation of the WTO agreements by individual countries</li> <li>Institutional building and human resources development in relation to trade and investment promotion, responding to the developments at the WTO and others (training of negotiators and administrative officials)</li> </ul>
		Improving Capacity to Implement the WTO and Other International Rules	Development of trade policies and domestic legal system consistent with international rules such as the WTO	
		Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long-term Perspectives	Formulation of future visions of industry and trade structure (recommendations on industry and trade promotion policies) Advising on trade policy formulation x Strengthening capacity to formulate and implement trade policies	
		Establishment of Trade-related Laws, Regulations, and Institutions	x Formulation and development of trade-related laws and regulations (basic law on imports and exports, basic laws on customs, and other import-related laws such as laws on quarantines, plant disease prevention, and medicines) Advising and capacity building for developing trade-related laws and regulations Capacity building for enforcing and implementing trade-related laws and regulations Trade-related institutional building	
3 Capacity Building for Foreign Direct Investment Promotion	2-1 Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Simplification and Appropriate Enforcement of Trade-related Procedures	Assistance toward formulating export promotion plans (selecting strategic export industries and products, setting targets for exports and selection of strategic export markets, formulation of specific support measures) Assistance toward formulating plans on export processing zones Establishment and development of trade-related financial system (trade insurance, export credits, etc.) Establishment of export (trade) promotion agencies	<ul style="list-style-type: none"> <li>x Information technology improvement in official procedures and operations related to trade (permissions and authorizations, customs clearance, ports, quarantines, port entry, and exit procedures, etc.)</li> <li>x Information technology improvement in private procedures and operations (procedures for transferring legal claims among shippers, carriers, banks, and others, shipping contracts, insurance contracts, etc.)</li> <li>Optimization of customs operation</li> <li>Establishment and strengthening of public technical support organizations (quality improvement)</li> <li>Capacity building in examinations and tests</li> <li>Capacity building in metrology and standards</li> <li>Capacity building in quarantines</li> <li>Capacity building in enforcing and implementing intellectual property right system</li> <li>Capacity building in implementing trade-related financial system (trade insurance, export credits, etc.)</li> </ul>
		Information Provision on Overseas Trade-related Procedures and Domestic Procedures and Preferential Measures	Information provision on individual preferential policies and institutions Functional empowerment of trade promotion agencies	
		Overseas Market Development	Overseas market information gathering and provision Organizing market seminars Organizing product exhibitions, conventions x Organizing trade fairs x Developing IT infrastructure	
		Fostering Viable Private Sector	Management and technical guidance toward public support agencies Management capacity building Product development and agro-processing technical training Strengthening of cluster functions Promotion of enterprise diagnostic services x Promotion of management skills services for small and medium enterprises on the private basis (business development services, BDS)	
3-1 Developing System for Formulating Investment-related Policies and Institutions and their Appropriate Implementation	2-2 Strengthening Information Services to the Private Sector	Investment Promotion Policy Development	Assistance toward investment policy formulation Policy advising on attracting foreign direct investment	<ul style="list-style-type: none"> <li>Development of laws, agreements, rules, etc. (investment law, competition law, investment protection agreement, foreign national employment rules, local employment rules)</li> <li>Development and establishment of intellectual property rights</li> <li>Institutional and legal system development on export processing zones</li> <li>x Institutional development for exports and imports, simplification and efficiency improvement in procedures and operations such as permissions and authorization, customs clearance, ports, quarantines, port entry and exit procedures, etc. (one-stop service and use of IT)</li> <li>x Simplification and efficiency improvement in private procedures and operations (procedures for transferring legal claims among shippers, carriers, banks, and others, shipping contracts, insurance contracts, etc.)</li> <li>Technical enhancement for international standards (standards, conformity assessment)</li> <li>Policy advising toward tariff reduction (customs administration and policies)</li> </ul>
		Establishing of Investment-related Laws and Institutions	Development of laws, agreements, rules, etc. (investment law, competition law, investment protection agreement, foreign national employment rules, local employment rules)	
		Facilitation for Sourcing Production Materials	Institutional and legal system development on export processing zones	
		Development of Information and Services on Investment Climate	Functional empowerment of investment focal-points Establishment and management of Japan desk Introduction of foreign enterprise attraction policies Creating company database x Enterprise consulting services x Manufacturing and industry statistics development x Feasibility studies for potential investment projects	
3-2 Strengthening Information Services to the Private Sector	2-3 Fostering Viable Private Sector	Promotion of Mutual Exchanges of Investment	x Assistance toward regional economic zone policies (policy advising on implementation of agreed items) Organizing investment seminars, dispatching investment missions Creating company database	

Examples of Activities:  
 = JICA has considerable experience  
 = JICA has certain experience  
 = JICA has experience as a component of projects  
 x = JICA has little experience