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**EMERGING ISSUES AND DEVELOPMENTS AT THE REGIONAL LEVEL:
REGIONAL ECONOMIC COOPERATION**

(Item 7 (a) of the provisional agenda)

**REPORT OF THE STEERING GROUP OF THE COMMITTEE ON REGIONAL
ECONOMIC COOPERATION ON ITS ELEVENTH MEETING**

SUMMARY

The eleventh meeting of the Steering Group of the Committee on Regional Economic Cooperation was held at Bangkok from 27 to 29 September 1999.

The Steering Group considered the economic recovery in the region and noted that while the countries affected by the crisis were all on the road to recovery, concerns remained about non-performing loans, corporate debt and the increased government deficit. A supportive external environment was needed to increase exports, restore investor confidence and bring about the return of long-term capital flows for sustainable growth. The affected countries needed to carry out institutional reforms appropriate to their individual situations in order to prevent a recurrence of the crisis in the future. There was also a need for international and regional efforts to formulate rules that would reduce volatility of short-term capital flows.

The Steering Group considered a secretariat note and a panel discussion on regional trading arrangements and the integration of developing countries into the international trading system. It was felt that since such arrangements were a stepping stone to global integration and had also been instrumental in promoting trade facilitation and foreign direct investment (FDI), ESCAP should continue to provide technical assistance for their promotion. In order to support the individual and collective efforts made by developing countries to integrate their economies into the international trading system, ESCAP should continue to provide technical assistance on policy matters relating to regional and multilateral trade liberalization, taking fully into account the special needs of least developed countries.

The Steering Group reiterated the importance of small and medium-sized enterprises (SMEs) in the economic development of the region and stressed that governments needed to facilitate their growth through skills development, technology transfer, availability of credit and market development. Developed countries and the more successful developing countries could share their experiences in promoting SMEs with other countries in the region. The Steering Group felt that ESCAP should increase assistance to SMEs especially in the use of information technology, promote SME linkages with large enterprises and also promote FDI in areas beneficial to SMEs.

The Steering Group considered and recommended for adoption by the Commission the draft medium-term plan for the period 2002-2005 suitably amended to reflect the importance of assisting subregional organizations in their efforts to expand opportunities for regional market access.

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List of Abbreviations

ACP	-	African, Caribbean and Pacific
AFTA	-	ASEAN Free Trade Area
APEC	-	Asia-Pacific Economic Cooperation
ASEAN	-	Association of Southeast Asian Nations
BIMST-EC	-	Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation
CER	-	Closer Economic Relationship Agreement between Australia and New Zealand (also known as ANZCERTA - Australia - New Zealand Closer Economic Relationship Agreement)
ECO	-	Economic Cooperation Organization
ECO/PPT	-	Economic Cooperation Organization/Protocol for Preferential Trade
FDI	-	foreign direct investment
GATT	-	General Agreement on Tariffs and Trade
RTAs	-	regional trading arrangements
SAARC	-	South Asian Association for Regional Cooperation
SAFTA	-	South Asian Free Trade Area
SMEs	-	small and medium-sized enterprises
WTO	-	World Trade Organization

I. MAJOR RECOMMENDATIONS, CONCLUSIONS AND DECISIONS

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1. The Steering Group concluded that although the issue of economic recovery must be addressed by the countries involved, national initiatives could not succeed without a congenial external environment. A supportive external environment was needed to increase exports, restore investor confidence, and bring about the return of long-term capital flows for sustainable growth. The need to reform the international financial architecture with a view to reducing the volatility associated with the present system was also highlighted.
2. The regional commissions, including ESCAP, in close collaboration with the Bretton Woods institutions, could make a valuable contribution to the dialogue on international finance. The globalization process had posed new challenges to the developing countries, particularly due to the lack of surveillance and regulation of short-term capital flows. This lacuna needed to be addressed through rules and regulations on short-term capital flows and innovative measures at the national, regional and international levels. A system involving intraregional currency support for building currency stability should be given consideration.
3. The Steering Group agreed that there was no single prescription applicable to all countries to aid their recovery after the crisis. All the affected countries would therefore need to pursue financial and corporate sector reforms and to develop their policy responses according to their own individual circumstances, taking into account their socio-economic and political realities.

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4. In order to support the individual and collective efforts made by developing countries to integrate their economies into the international trading system, the secretariat should continue to provide technical assistance on policy matters relating to regional and multilateral trade liberalization, taking fully into account the special needs of least developed countries.
5. Concerning the prospects for, and potential problems with, establishing special trading arrangements between the subsets of economies that are parties to existing regional groupings, the secretariat should assist in examining the implications of such arrangements. More specifically, the secretariat should carry out a study on the feasibility of a BIMST-EC free trade area, taking into account the obligations of the BIMST-EC members under AFTA, the Bangkok Agreement, SAFTA and separate agreements between SAARC members.
6. As there is huge potential for developing non-institutional linkages between existing RTAs, the secretariat should examine the understandings reached in the RTAs on matters such as rules of origin,

product standards and dispute settlement, with a view to possibly extending those understandings to the wider Asian and Pacific region, based on the WTO principles of non-discrimination, transparency and national treatment.

7. Since trade facilitation measures are an essential complement to trade liberalization and offer the most promising avenue for cooperation within and between RTAs, the secretariat should continue to provide technical assistance along the lines of its projects in ASEAN and SAARC, which were implemented with the financial assistance of the Government of Japan. Similarly, cooperation with ECO in the areas of trade information and facilitation should be continued in order to strengthen technical assistance to member countries of ESCAP.

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8. The governments of member countries of ESCAP should allocate increased resources and create institutional facilities for the development of skills useful for SMEs. Such skills should be in the areas of management, entrepreneurship development and other technical skills. Governments should also promote the development of SMEs in rural areas and encourage women entrepreneurs.

9. SME promotional policies should be formulated within the broad framework of economic policies, taking into account the ongoing process of globalization and liberalization, and should focus, in particular, on skills development, technology transfer, credit accessibility and marketing mechanisms.

10. The secretariat should increase its assistance to SMEs in technology upgrading, with emphasis on information technology.

11. The secretariat should also increase its efforts in the following areas: (a) to promote flows of FDI that are beneficial to SMEs to developing countries and economies in transition; (b) to promote rural SMEs; (c) to promote SME linkages with large enterprises; and (d) to promote information-sharing on SME financing and clustering, and on the provision of other common services between countries.

12. The developed countries, and those developing countries which are in a position to do so, should share their experience in promoting SMEs and should give assistance in SME development to other developing countries of the region.

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13. The draft medium-term plan for the period 2002-2005 on Subprogramme 1: Regional economic cooperation, as amended, was endorsed and recommended for adoption by the Commission.

II. PROCEEDINGS OF THE STEERING GROUP MEETING

A. Economic recovery in the region: policy issues

14. The Steering Group had before it a note by the secretariat, entitled "Economic recovery in the region: policy issues (E/ESCAP/SREC(11)/1). More up-to-date information pertaining to economic recovery in the region was provided in a verbal presentation by the secretariat. The Steering Group expressed its appreciation of the quality of both the document and the verbal presentation. Those had succeeded in highlighting the main issues and constraints relating to the recovery process and in identifying critical areas for future policies.

15. There was a consensus that, while there were several signs in both the financial and the real sectors indicating that recovery of the economies most affected by the crisis was on the way, concerns remained about the pace and sustainability of that recovery. Given the magnitude of the problems still persisting, such as non-performing loans, corporate debt and access to international capital markets, it was felt that those countries were only at the beginning of a slow and painful process of recovery. There was concern, too, regarding the potentially adverse impact of the increased government deficit which had been caused in part by the injection of public funds to help the ailing banking industry.

16. A number of representatives described the range of stimulus policies and reforms aimed at dealing with the crisis which had already been adopted by, or which were in the process of implementation by their countries. It was noted that the crisis had, inter alia, produced severe social consequences. Those stimulus policies and reforms included macroeconomic measures to tackle fiscal, monetary and external imbalances, poverty alleviation measures to address the social impact of the crisis, and a number of structural reforms at the sectoral level to enhance efficiency and competitiveness. There had also been a particular focus on strengthening the financial sector regulatory environment, improving transparency and disclosure standards, and strengthening corporate governance, including human resources development. The objective of the measures was to reduce the vulnerability of economies in the region to any future financial crisis.

17. The Steering Group noted with appreciation the strong financial support given by the Government of Japan, bilaterally and through multilateral organizations, to aid the countries most affected by the crisis in the recovery process. The Steering Group also noted with appreciation the efforts of the Government of China to stabilize the regional economy by means of its financial assistance given through bilateral and multilateral channels.

**B. Regional trading arrangements and the integration of developing countries
into the international trading system: panel discussion**

18. The Steering Group had before it a note by the secretariat, entitled "Regional trading arrangements and the integration of developing countries into the international trading system (panel discussion)" (E/ESCAP/SREC(11)/2) and an information paper, entitled "Regional economic cooperation: initiatives within the SAARC region" (SREC(11)/INF.1).

19. In introducing the agenda item, the secretariat informed the Steering Group that the note and panel discussion would also serve as an input into the theme study for the fifty-sixth session of the Commission.

20. Presentations were made by the five panellists, who provided a review of AFTA, SAFTA, ECO/PPT and other RTAs and economic cooperation initiatives in the ESCAP region, the scope for linkages between RTAs involving Asian and Pacific economies, as well as the WTO perspective on the problems of and prospects for RTAs.

21. The Steering Group tended to view RTAs as stepping stones in a broader trade liberalization strategy, leading ultimately to the removal of all trade barriers on a non-discriminatory basis. It acknowledged the opportunities offered by RTAs to developing countries seeking reciprocal liberalization and expressed interest in maintaining the dynamic interaction between regional and global initiatives to reduce trade barriers.

22. The Steering Group was informed of some individual and collective measures by ESCAP members to secure accession to, and effective integration in, the international trading system. In this regard, the meeting took note of the decisions articulated in the Joint Statement issued by the Meeting of SAARC Commerce Ministers, held in Maldives in August 1999, on their common stand on the matters that could be raised at the forthcoming WTO ministerial meeting conference in Seattle. The meeting also noted the statements of the delegations of China and the Islamic Republic of Iran.

23. The Steering Group observed that, given the configuration of existing RTAs involving ESCAP members, there was little evidence of problems with overlapping membership and multiple obligations. However, the proliferation of RTAs might trigger conflicts of interest and lead to excessive costs in administering those agreements. In order to avoid that, there was a need to promote a common approach to RTAs, taking the WTO disciplines as guidance.

24. A view was expressed that article XXIV of GATT governing RTAs was not precise enough, which had resulted in differing and sometimes conflicting interpretations of the rules. In that context, the Steering Group noted that out of 72 RTAs under the purview of the WTO Committee on Regional Trade Agreements, only one had been approved, although none had yet been formally rejected. The Steering Group was informed that the almost 50 years of ambiguous treatment of RTAs in the

GATT/WTO context, when combined with the proliferation of RTAs, could give rise to problems. In that regard, the Steering Group recognized the need to promote a better understanding of the systemic effects of RTAs, and opportunity costs of non-participation in RTAs, with a view to finding ways to balance the legal obligations of the WTO members in the region against the economic benefits that could be derived from membership in RTAs.

25. It was felt that institutional links between preferential trading arrangements would require complex negotiations and might create new sources of discrimination and friction among participants. The Steering Group took note of some other options available to members of RTAs in linking their arrangements, such as "inter-RTA" protocols and a series of bilateral agreements between members of different RTAs. It was considered feasible to promote non-institutional links between existing groups. Such links could extend the understandings reached in each RTA on issues such as rules of origin, international investment, dispute settlement, and some product standards to the wider Asian and Pacific region, adapting them as necessary to conform to the WTO principles of transparency, non-discrimination and national treatment.

26. The Steering Group acknowledged the importance of having relatively flexible rules of origin, which would allow RTAs to balance the elements of preferential treatment against the need to raise the efficiency of production on the basis of a least-cost combination of inputs.

27. The Steering Group held the view that trade liberalization and trade facilitation worked best in tandem. RTAs had been instrumental in introducing trade facilitation measures, an area that was likely to offer the best immediate prospects of cooperation between RTAs. In that context, the meeting expressed appreciation of the technical assistance provided by the secretariat, with the financial assistance of the Government of Japan.

28. The Steering Group recognized that RTAs were instrumental in promoting FDI, they provided opportunities for closer communication and consultations among governments, and they could potentially facilitate the expansion and coalescing of "growth triangles". Those developments called for greater involvement by civil society, with a view to promoting partnerships between the public and private sectors in the context of RTAs.

29. The Steering Group took note of some new and potential configurations of free trade arrangements involving Asian countries, such as the free trade area envisaged by the BIMST-EC Economic Ministers; the expected accession of China to the Bangkok Agreement; the Pacific regional trade agreement, with the possibility of a "protocol" type of linkage with CER; the regional economic partnership agreements between European Union and ACP states, which were to replace the Lomé Convention which would expire in the year 2000; and the proposal for the establishment of an Islamic common market.

30. It was also noted that under the APEC umbrella, a "P-5" arrangement would link Australia, Chile, New Zealand, Singapore and the United States of America, and that a free trade zone was proposed between Malaysia and Singapore, which would be based geographically on the concept of the East Asia Economic Caucus.

C. Implications of the economic crisis for the development of small and medium-sized enterprises

31. The Steering Group restated the important role played by SMEs in the overall process of industrial and economic development. It was observed that SMEs were absorbing a large number of displaced workers in the crisis-affected countries, thereby demonstrating that SMEs provided a form of social safety net for the people affected by the economic crisis.

32. While acknowledging the important role of SMEs, the Steering Group emphasized that that sector still suffered from various difficulties such as insufficient skills, low levels of technology, a lack of linkages with larger enterprises, and inadequate facilities and mechanisms for accessing market information.

33. The Steering Group emphasized that governments needed to play a more effective role in providing various support services for the development of SMEs, especially in the rural areas. In that context, it was pointed out that the role of governments should be strengthened in the following areas: the provision of research and development activities, the promotion of linkages between academic and training institutions and SMEs in the productive sectors, and in the overall technological upgrading of the SME sector. It was also emphasized that governments should allocate increased resources and create institutional facilities for the development of skills useful to SMEs, such as management, technical, and entrepreneurship development skills, and for the promotion of SMEs in the rural areas and the promotion of women entrepreneurs.

34. The Steering Group held the view that SME promotional policies should be formulated within the broad framework of economic policies, taking into account the ongoing process of globalization and liberalization. It was emphasized that countries needed to pursue a package of policies encompassing measures for skills development, technology transfer, credit accessibility, and marketing mechanisms to promote SMEs. It was also emphasized that the cluster approach should be pursued in order to deliver the package of services in an effective manner.

35. The Steering Group endorsed the views and recommendations contained in the note by the secretariat entitled "Implications of the economic crisis for the development of small and medium-sized enterprises" (E/ESCAP/SREC(11)/3), and agreed that the specific recommendations contained in paragraph 36 of the document merited further consideration.

36. The Steering Group noted with interest the various policies pursued by countries in the region, especially the new measures enacted to alleviate the adverse effects of the economic crisis on the development of SMEs.

37. The Steering Group urged the developed countries, and those developing countries which were in a position to do so, to share their experience in promoting SMEs and to provide assistance to other developing countries of the region in SME development. In that context, the meeting noted with appreciation the assistance provided by the Government of Japan to Malaysia, the Philippines and Thailand in strengthening the overall industrial sectors and especially in assisting the SMEs in those countries in mitigating the effects of the economic crisis.

38. The Steering Group was informed by the representative of Pakistan of his government's plan to establish a regional centre of excellence in the area of information and communication technology.

**D. Draft medium-term plan for the period 2002-2005: Subprogramme 1.
Regional economic cooperation**

39. The Steering Group had before it the draft medium-term plan for the period 2002-2005 as contained in document E/ESCAP/SREC(11)/4, setting a framework for the programmatic and organizational aspects of the activities of ESCAP with a view to enhancing accountability and promoting coherence between the work plan and the programme budget. Following the review by the Steering Group, the draft would be incorporated in the medium-term plan of ESCAP, which was to be submitted for approval to the Commission at its fifty-sixth session, to be held in April 2000.

40. The Steering Group considered and adopted the draft medium-term plan for the period 2002-2005 for subprogramme 1: Regional Economic Cooperation, with objective (e) reformulated to reflect the importance of assisting subregional organizations in their efforts to expand opportunities for regional market access. Objective (e) was approved to read as follows: "To enhance intraregional, inter-subregional, and interregional flows of trade, investment and technology through, inter alia, strengthening market access opportunities, and strengthening networks of institutional support services, including regional information services".

41. It was noted that the draft medium-term plan provided an overall strategic direction for the programme of work and was therefore formulated in broad terms. At the programmatic level, more specific objectives and performance indicators, both qualitative and quantitative, would be provided.

E. Date, venue and provisional agenda of the twelfth meeting of the Steering Group

42. The delegation of the Republic of Korea offered to host the twelfth meeting of the Steering Group of the Committee on Regional Economic Cooperation at Incheon City, Republic of Korea, from

25 to 27 October 2000, and suggested that the agenda for the meeting should include as one of the topics for discussion, a reassessment of the effectiveness of the policy prescriptions adopted to deal with the economic crisis and the implications of this for trade, investment and financial flows. It was believed that that reassessment would help identify alternative development strategies in the context of increasing globalization.

43. The agenda for the meeting would be finalized in due course in consultation with the Advisory Committee of Permanent Representatives and Other Representatives Designated by Members of the Commission.

44. The Steering Group accepted with gratitude the generous offer of the Government of the Republic of Korea to host the twelfth meeting.

F. Other matters

45. No other matters were discussed.

III. ORGANIZATION OF THE MEETING

A. Opening and duration of the meeting

46. The Steering Group of the Committee on Regional Economic Cooperation held its eleventh meeting at Bangkok from 27 to 29 September 1999.

47. The Deputy Executive Secretary and Officer-in-Charge, a.i., of ESCAP gave an opening statement.

B. Attendance

48. The meeting was attended by representatives of the following members and associate members of ESCAP: Bangladesh, Cambodia, China, Democratic People's Republic of Korea, France, India, Indonesia, Iran (Islamic Republic of), Japan, Kazakhstan, Malaysia, Myanmar, Nepal, Netherlands, Pakistan, Philippines, Republic of Korea, Russian Federation, Sri Lanka, Thailand, United Kingdom of Great Britain and Northern Ireland, United States of America, Uzbekistan and Viet Nam.

49. A representative of Argentina attended as an observer.

50. Representatives of the following organizations also attended as observers: Economic Cooperation Organization, International Labour Organization, United Nations Development Programme, and World Trade Organization.

C. Election of officers

51. The meeting unanimously elected the following officers:

Chairman:	Mr Khwajah Abdur Rahman (Bangladesh)
Vice-Chairmen:	Mr Kosit Chatpaiboon (Thailand)
	Mr Abdolreza Ghrofrani (Islamic Republic of Iran)
Rapporteur:	Mr Yang Joong-mo (Republic of Korea)

D. Agenda and organization of work

52. The meeting adopted the following agenda:

1. Opening of the meeting.
2. Election of officers.
3. Adoption of the agenda.
4. Economic recovery in the region: policy issues.
5. Regional trading arrangements and the integration of developing countries into the international trading system: panel discussion.
6. Implications of the economic crisis for the development of small and medium-sized enterprises.
7. Draft medium-term plan for the period 2002-2005: Subprogramme 1. Regional economic cooperation.
8. Date, venue and provisional agenda of the twelfth meeting of the Steering Group.
9. Other matters.
10. Adoption of the report.

E. Adoption of the report

53. The Steering Group adopted the report on its eleventh meeting on 29 September 1999.

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