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Summary of the survey of economic and social conditions in Asia and the Pacific, 1997

EXECUTIVE SUMMARY

The Economic and Social Survey of Asia and the Pacific, 1997, examines the opportunities and challenges that the ESCAP region faces as it approaches the twenty-first century in the light of the emerging globalization and regionalization processes. These are ongoing processes, driven by a host of technology- and market-related factors, national policy changes focused on greater liberalization and deregulation, and international measures aimed at increasing the transparency of international transactions.

Data on growth of trade, investment and finance attest to intensified globalization. For example, the value of trade in goods and services rose to 27 per cent of world GDP in 1993, compared with 11 per cent in 1971. Foreign direct investment (FDI) outflows as a proportion of world GDP doubled between 1980 and 1994. Developing countries in the ESCAP region have increased their share of world trade, private financial flows and foreign direct investment. At the same time, there has been an intensification of intraregional linkages, as reflected in enhanced intraregional trade and investment flows. For the developing countries in the ESCAP region, as a group, the trend towards intensified participation in globalization and regional processes is likely to continue into the twenty-first century.

The variations in the level and speed of integration are partly explained by differences in initial conditions measured by per capita income, size of

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the population, growth rate, level of savings and investment, fiscal balance, inflation, adult literacy, infant mortality, life expectancy and rank in the human development index. The least developed, the Pacific island countries and the economies in transition, are at a disadvantage because those initial conditions adversely affect their performance in trade, their capacity to attract private external finance and FDI, and the development of their transport and communications infrastructures.

The present report notes that in the light of differences in initial conditions and the consequent variations in the benefits and risks of participation in globalization and regionalization, policy responses have to be tailored to each country's unique condition. However, some generalizations can be made concerning actions required at the national, regional/subregional and international levels in order to optimize the benefits of developing countries.

At the national level, the policies have to focus, inter alia, on both internal and external macroeconomic balances, the soundness of the financial sector, a greater role for the private sector, coupled with an appropriate legal framework and enforcement mechanisms to prevent anti-competitive behaviour, extended coverage and improved quality of health and educational services, greater flexibility in labour markets, support for technological upgrading, and choice of appropriate speed and sequencing of liberalization measures along with provision for social safety nets to minimize the hardships of adjustment and restructuring.

Among the various measures that could be taken at the regional/ subregional levels are: intensification of trade liberalization; trade facilitation; policy coordination to bring about greater convergence in inflation, interest rates and tax levels; harmonization of investment incentives; exploration of the possibilities of the multi-country, commodity futures markets and multi-country bonds and stock markets; collaboration in research and development; and cooperation to add missing linkages in transport and telecommunications and to harmonize systems and procedures for cross-border movement of cargo and fleets.

At the international level, the actions suggested include accelerating official financial and technical assistance to the disadvantaged groups of countries to improve their initial conditions; full implementation of the Uruguay Round of multilateral trade agreements and market access for products of export interest to developing countries in the region - for example, textiles and clothing; ensuring that issues such as labour welfare, environment and human rights are not misused as non-tariff barriers; avoidance of the use of anti-dumping practices as a protective device; improvement in preferential market access schemes for products of particular interest to the disadvantaged groups of countries through the widening of product coverage, reduction of procedural complexity and avoidance of frequent changes; and actions by home countries to encourage their transnational corporations to undertake investment in those countries that have failed in the past to attract such investment.

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INTRODUCTION

1. The Economic and Social Survey of Asia and the Pacific, 1997 examines the opportunities and challenges that the ESCAP region faces as it approaches the twenty-first century in the light of the emerging globalization and regionalization processes. These are ongoing processes, driven by a host of technology- and market-related factors, national policy changes focused on greater liberalization and deregulation, and international measures aimed at increasing the transparency of international transactions.

2. Globalization and regionalization have intensified in recent years, and the momentum is likely to continue into the next millennium. While the more open policy stance adopted by developing countries attests to their voluntary participation, many of the factors driving these processes are beyond the control of individual developing countries. They have little choice other than to participate, since an insular approach is likely to further marginalize them. Therefore, the key policy question that developing countries in the region will have to address is how to optimize the benefits of participation in the emerging international division of labour in order to promote their national development objectives.

3. Against this backdrop, the Survey is organized as follows: chapter I briefly describes how the developing ESCAP region fares in the emerging global scene; chapter II shows the recent performance of individual countries in terms of selected macroeconomic and social development indicators which impinge on participation in the globalization and regionalization processes; chapters III and IV analyse the benefits and risks of integration into the international and regional economy focusing on foreign trade and external finance (including FDI). Chapter V deals with transport and communications, assessing achievements of economies in the region and their capacities to establish international linkage. Finally, chapter VI indicates certain policy directions for consideration at the national, regional/subregional and international levels.

I. EMERGING GLOBAL TRENDS AND THE ESCAP REGION

4. The trends associated with globalization are more easily quantifiable in terms of data on flows of trade, investment and finance. Data on these variables clearly show a tremendous growth over the past three decades and demonstrate growing economic interaction and interdependence.

A. Foreign trade flows

5. The value of trade in goods and services combined rose to 27 per cent of world GDP in 1993, compared with about 11 per cent in 1971. The underlying rates of growth in trade in goods and services have thus been faster than the rate of growth in world GDP during the period. The services trade as a proportion of world GDP more than doubled between 1971 and 1993, whereas merchandise trade increased by about 1.5 times. Growth in merchandise trade has been associated with a growing share of manufactured products in total trade.

These trends towards a rising proportion of the world output entering world trade are the clearest and most frequently quoted indicator of globalization.

6. It is noteworthy that developing countries in the ESCAP region have vigorously participated in this process, outperforming other developing countries. This is clearly brought out by the fact that developing countries' share of world trade in goods and services increased by a factor of 1.5 between 1971 and 1994, whereas the share of developing countries in the ESCAP region more than doubled. In the case of services, their performance was even better, as their share tripled over the same period. Developing countries in the ESCAP region account for most of the increase in the developing countries' share of manufactured exports.

7. There was a notable increase in intraregional trade. For example, intraregional exports of merchandise among developing countries in the region grew from about a quarter of their total merchandise exports in 1980 to nearly two fifths in 1995.

B. External finance

8. In recent years, developing countries, particularly those in Asia and the Pacific, have become progressively more integrated with international financial and capital markets. Over the 10-year period from the mid 1980s to the mid 1990s, world stock market capitalization rose threefold, from US$ 4.7 trillion to $15.2 trillion. During the same period, capitalization in emerging markets, which included a number of developing Asian markets, rose from less than 4 to 13 per cent of total world capitalization. The value of shares traded on emerging markets increased from less than 3 per cent of the $1.6 trillion world total in 1985 to 17 per cent of the $9.6 trillion value of shares traded on all of the world's exchanges in 1994. International investors have increasingly participated in this rapid development of emerging stock markets. Portfolio flows of equity investment to emerging markets rose to $39 billion in 1995 from a mere $100 million in 1985.[1] The share of developing countries in international equity issues rose from 14 per cent in 1990 to 35 per cent in 1995, largely due to the increase in issues originating in South and South-East Asia.[2]

9. FDI outflows in 1995 amounted to 1.2 per cent of world GDP and 7.6 per cent of world merchandise trade. However, these flows as a proportion of world GDP and global gross fixed capital formation doubled between 1980 and 1994. Notwithstanding its small relative size, FDI has a significant impact on world production and trade. The value-added of affiliates of transnational corporations accounted for 6 per cent of world GDP in 1991, having risen from 2 per cent in 1982. The intra-trade among the companies and their affiliates accounted for 40 per cent of world trade in industrial goods.[3]

10. In the area of FDI, developing countries in the region have become active participants as well. They increased their share of world inflows from an average of under 9 per cent during the period 1984-1989 to 21 per cent in 1995, and the share of total inflow to developing countries rose from 45 to 66 per cent over the same period. Their share of outflows rose from 4 to

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13 per cent of the world total and from 68 to 88 per cent of the developing countries' total. Developing countries in the region have thus increased their importance as both recipients and sources of FDI.

11. Overall, net external resource inflows to developing countries from private sources increased from $25 billion in 1987 to $167 billion in 1995. The developing Asian countries increased their share of these flows from 19 per cent in 1987 to 62 per cent in 1995.[4]

12. The active participation of developing countries in the region in the global flows has been accompanied by substantial increases in intraregional flows. Intraregional sources from among developing economies have assumed greater importance in FDI. For example, for the economies of China, Hong Kong, Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore, Taiwan Province of China and Thailand, the share of the inward stock from among themselves increased from 25 per cent in 1980 to 37 per cent in 1993.[5]

C. Prospects

13. There are always many uncertainties about any prediction of the future. Nevertheless, there are several factors which suggest that the trend towards intensified participation by developing countries in the ESCAP region in the globalization and regionalization processes is likely to continue into the twenty-first century.

14. First, despite a notable increase in intraregional trade among developing countries in the region, the share of their merchandise exports absorbed by developed market economies remains high (53 per cent in 1994). The export potential of the region is therefore significantly dependent on the absorption capacity of developed market economies, which, in turn, is partly dependent on growth prospects. The available projections indicate that those economies will grow by over 2 per cent into the twenty-first century, well above the actual achievement of 1.5 per cent during the period 1991-1995.

15. Secondly, projections of world trade into the twenty-first century are promising. The World Bank forecasts a 6.3 per cent annual increase in the volume of world merchandise trade over the period 1996-2005.[6] The International Monetary Fund projects an annual average growth rate of 7 per cent in the volume of world trade in goods and services over the period 1998-2001.[7]

16. Given the demonstrated ability of countries in Asia and the Pacific to benefit from growing international trade, the above projections augur well. In fact, the World Bank projects that the export volume of goods and non-factor services of South Asia will increase by 7.3 per cent annually over the period 1996-2005 and that of East and South-East Asia by 10.1 per cent.

17. Thirdly, prospects for private financial flows appear favourable. Moderate international interest rates, which are likely to result from lower inflationary expectations and continued fiscal consolidation in industrial countries, would imply lower yields in those countries. The consequential pressures to diversify portfolios will favour the ESCAP region because of higher growth prospects and

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the expected continuation of liberalization and deregulation of financial sector policy regimes.

18. Fourthly, FDI inflows should continue to be promoted by the per capita incomes in developing countries of the region, which are rising at higher rates than in the rest of the developing world, and increasing competition in the industrial as well as the developing countries and the resultant pressures on their transnational firms to locate abroad in search of reduced production cost and the strong likelihood of further liberalization of trade and investment policies in developing countries of the region.

19. Similarly, the prospects for regional cooperation in trade and investment are likely to be sustained and possibly to gather stronger momentum. In part, this would be due to rising income and per capita consumption, overall export growth, moderate inflation and modest current account deficits projected for South, East and South-East Asian countries.[6] To some extent, it can be anticipated that there will be a further intensification of regional cooperation within the various institutional arrangements currently in existence. Moves in this direction are already visible, in which various subregional cooperation organizations, such as the Association of South-East Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC), the Economic Cooperation Organization (ECO) and the Asia-Pacific Economic Cooperation forum (APEC), play an important role.

20. The ESCAP region now extends to 37 per cent of the world's land area and contains 62 per cent of its population. It offers in itself a vast market. Estimates currently put more than a billion people in the region, a number that far exceeds the total population of all the developed countries of the world, with per capita incomes of more than $10,000. Such figures signify the region's market potential at present and, given the prospects of future expansion noted above, there will be immense opportunities for strengthening intraregional economic linkages.

II. SOCIO-ECONOMIC TRENDS AND PROSPECTS IN THE ESCAP REGION

21. Developing countries in the ESCAP region as a group have been able to enhance their integration with the international economy and forge closer regional linkages in terms of trade and financial flows, including FDI. However, this achievement is not equally shared by all countries. The variations in the level and speed of integration are partly influenced by several variables related to macroeconomics and social development. The recent performance of developing countries in the ESCAP region with respect to some key variables is presented in table 1. There is not necessarily a correlation between a country's achievement in terms of these indicators and the level or the speed of integration with the global or regional economy. There are a number of other policy and structural variables which determine a country's willingness and ability to achieve integration.

22. Nevertheless, it can be hypothesized that the indicators listed in table 1 would have a significant influence. For example, the level of per capita income together with population size is a major indication of a country's market size,

which, in turn, is an important determinant of a country's ability to attract FDI. A similar comment also applies to the growth rate of GDP, as foreign investors generally take into account both the size of the market and its growth potential in decisions concerning investment locations. These considerations are particularly important for domestic market-oriented FDI. The elements of macroeconomic balance and stability, such as inflation, fiscal deficits and current account deficits (which reflect the gap between domestic savings and investment) are widely acknowledged to affect foreign trade and external financial inflows through their effects on interest rates, exchange rates, rates of return on investments and credit ratings, among others.

Table 1. Selected aspects of socio-economic development in the ESCAP region

Country or area[a]	Per capita GDP/GNP (US$), 1995	Population (millions), 1995	Annual average GDP growth rate, 1991-1995	Savings rate (% of GDP), 1995	Investment rate (% of GDP), 1995	Budgetary balance/ GDP (%), 1991-1995	Average annual inflation rate), 1991-1995	Adult literacy rate (%), 1995	Infant mortality rate (per 1,000), 1994	Life expectancy at birth (years), 1994	Rank in HDI value,[b] 1993
Japan	40 740	125.2	1.3	32.0[c]	30.0[c]	-0.7	1.4	95+	4	79.0	1
Singapore	29 990	3.0	8.5	52.0	33.2	4.7	2.6	91	5	75.0	6
Hong Kong	23 130	6.2	5.5	32.6	34.9	1.8	9.3	92	5	78.0	4
Australia	19 260	18.0	2.6	19.0[c]	20.0[c]	-2.8	2.5	95+	6	77.0	2
New Zealand	16 220	3.5	1.7	24.0[c]	21.0[c]	0.0	2.1	95+	7	76.0	3
Brunei Darussalam	15 950[c]	0.3	1.5	..	..	..	2.4[d]	88	8[e]	75.0	7
Republic of Korea	10 160	44.8	7.5	36.7	37.1	-0.3	6.2	95+	12	71.0	5
Malaysia	4 240	19.9	8.6	37.2	40.6	-0.3	4.1	83	12	71.0	10
Thailand	2 810	59.4	8.5	36.5	43.1	2.9	4.8	94	36	69.0	9
Turkey	2 670	61.9	3.4	23.0[c]	22.0[c]	-5.1[d]	80.4	82	62	67.0	14
Russian Federation	2 340	147.0	-10.5	29.0[c]	27.0[c]	-10.4[f]	589.9	99[e]	19	64.0	11
Fiji	2 170	0.8	2.4	18.1[c]	12.2[c]	-3.6	3.9	92	23[e]	72.0	8
Iran (Islamic Republic of)	1 720	67.3	5.8	25.1	16.5	-1.1[d]	29.0	72	47	68.0	12
Tonga	1 720	0.1	3.8	-12.8[g]	17.4[g]	..	5.0	..	19[h]	67[h]	..
Kazakstan	1 560	17.1	-14.4	20[c]	24[c]	-2.9[f]	1 068.3	98[e]	27	68.3	13
Turkmenistan	1 390[g]	4.1	-9.9	..	..	2.4[f]	1 306.8[d]	98	46	66.3	17
Tuvalu	1 330[c]	0.01	6.7	..	..	..	2.6	..	..	..	..
Papua New Guinea	1 180	4.3	7.6	23.4[g]	23.8[g]	-3.8	7.3	72	65	57	31
Vanuatu	1 150[c]	0.2	2.7	9.5[e]	34.2[e]	-6.0[i]	3.8	65[e]	47[h]	60	29
Maldives	1 070	0.2	6.5	..	..	-12.2	15.2	93	58	62	25
Philippines	1 050	67.6	2.2	14.7	22.3	0.6	10.5	95	40	65	20
Indonesia	1 010	195.8	7.8	35.8	37.8	-0.3	8.9	84	53	63	23
Uzbekistan	970	22.8	-3.7	24[c]	23[c]	-10.2[f]	722.8	97[e]	28	69.8	19
Samoa	890	0.2	0.5	23.4	..	-24.7	5.7	98[e]	64[i]	69	15
Kyrgyzstan	850	4.7	-12	14[c]	30[c]	-12.4[f]	545.1	97[e]	29	67.8	22
Solomon Islands	800[c]	0.4	5	..	..	-18.9[d]	11.4	62[e]	42[h]	62	28
Azerbaijan	730	7.6	-17.1	4[c]	23[c]	-7.1[f]	847.9	96[e]	25	69.4	21
Kiribati	730[g]	0.1	2.3	..	..	..	..	..	65[h]	61.0	..
Sri Lanka	720	18.4	5.4	15.9	25.7	-7.8	10.3	90	16	72	16
Armenia	660	3.6	-13	-19[c]	10[c]	-23.7[f]	1 579.6	99[e]	15	71.1	18

Country or area[a]	Per capita GDP/GNP (US$), 1995	Population (millions), 1995	Annual average GDP growth rate, 1991-1995	Savings rate (% of GDP), 1995	Invest-ment rate (% of GDP), 1995	Budgetary balance/ GDP (%), 1991-1995	Average annual infla-tion rate), 1991-1995	Adult literacy rate (%), 1995	Infant mortality rate (per 1,000), 1994	Life expec-tancy at birth (years), 1994	Rank in HDI value,[b] 1993
China	570	*	11.3	42.3	39.5	-0.9	11.6	81	30	69.3	26
Tajikistan	470	6.1	-16.4	..	..	-17.2[f]	789.9	97[e]	41	66.6	24
Pakistan	450	130.7	4.9	15.7	18.7	-7.2	11.3	38	92	60	33
Mongolia	380	2.4	-2.6	15.9	24.7	-6.8	127.2	82[e]	53	64.5	27
India	370	935.7	4.8	25	26.6	-6.2	10.2	52	70	62	34
Lao People's Democratic Republic	360	4.9	6.4	..	..	-4.7[j]	11.1	57	92	52	36
Cambodia	290	10.2	5.9	8.3	21.5	-5.3	65	35[e]	115	52	38
Viet Nam	260	74.5	8.2	19	27.1	-3.4	23.5	94	37	67.5	30
Bangladesh	240	120.4	4.1	7.7	16.6	-5.7	4.2	38	81	57	35
Myanmar	235[c]	46.5	5.9	12.2	13	-2.5	27.1	83	80	58	32
Nepal	210	21.9	4.7	10.3	20.2	-5.9	11.2	27	95	54	37
Bhutan	170	1.6	5.2	36	54.5	-0.5	11	42	122[e]	50.7[g]	39

Sources: ESCAP, 1995 ESCAP Population Data Sheet (Bangkok, 1995); United Nations, World Population Prospects: The 1994 Revision (United Nations publication, Sales No. E.95.XIII.16); United Nations, Monthly Bulletin of Statistics, various issues; United Nations, World Urbanization Prospects: The 1994 Revision (United Nations publication, Sales No. E.95.XIII.12); United Nations Development Programme, Human Development Report (New York, Oxford University Press), various issues; World Bank, Social Indicators of Development 1996 (Baltimore, Johns Hopkins University Press, 1996); Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 1996 (Oxford, Oxford University Press, 1996); Asian Development Bank, Asian Development Outlook (Hong Kong, Oxford University Press), various issues; Food and Agriculture Organization of the United Nations, FAO Production Yearbook 1994 (Rome, 1995); International Monetary Fund (IMF), tape No. 93023F; IMF, International Financial Statistics, vol. XLIX, No. 9 (September 1996) (Washington, D.C., 1996); World Bank, World Tables 1995 (Baltimore, Johns Hopkins University Press, 1995); and United Nations Economic Commission for Europe, Economic Survey of Europe (New York and Geneva), various issues.

[a] Listed in order of per capita income levels from the highest to the lowest.

[b] The ranks are based on descending order of Human Development Index (HDI) value, estimated in UNDP, Human Development Report, 1996.

[c] 1994.

[d] 1991-1994.

[e] 1993.

[f] 1992-1995.

[g] 1992.

[h] Most recent estimate between 1989-1994.

[i] 1991-1993.

[j] 1990-1995.

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23. Participation in globalization processes requires a healthy and educated population. For example, a country with poor health conditions cannot be expected to maintain the level of productivity required of its workforce in order to preserve and enhance its competitiveness in the global economy. The development, acquisition and diffusion of modern technology requires a critical mass of skilled workers and scientific, technical, research and management personnel. Indicators related to health and education are thus an important part of the initial conditions that are likely to impinge on a country's ability to integrate with the global and the regional economies.

24. As is evident from data in table 1, there are striking differences among countries in the region. The least developed countries, as expected, have low levels of per capita income. Most of them also have small populations. All Pacific island countries have small populations. In many of them, the observed level of per capita income may not be sustainable with declining aid flows.

25. Rates of economic growth have been rapid in most economies of East and South-East Asia. Their performance has earned the region the reputation of being the most dynamic in the world. Their rapid growth has been associated with high rates of domestic savings and investment, better fiscal balance, and generally well-managed monetary and exchange rate regimes to ensure domestic and external stability, reflected in generally low rates of domestic inflation and smaller savings/investment gaps. These economies are also characterized by high rates of participation in international trade, as expressed by the ratio of imports and exports to GDP. Their economic and social achievements have raised their international credit standing to such a degree that it induces very substantial private investment and financial flows. The countries within this group which were lagging behind, such as the Philippines, and even the least developed among them, such as Cambodia and the Lao People's Democratic Republic, have lately improved their performance.

26. In South and South-West Asia, rates of economic growth have tended to accelerate with the recent implementation of macroeconomic and structural reforms, though no firm trend has yet been established. Further reform and liberalization of policies in various areas are on the agenda of most Governments, with the objectives of, inter alia, promoting domestic savings, investment and exports, ensuring better budgetary balance, and containing inflation. High rates of inflation have been a major concern, especially in the Islamic Republic of Iran and Turkey. In India, Pakistan and Sri Lanka, inflation rates remain relatively high, despite considerable moderation in recent years.

27. Rates of growth, with a few exceptions, have remained low in the region's least developed economies and the small island economies of the Pacific. The overall progress in effecting structural change and strengthening the infrastructural and institutional base has remained inadequate.

28. The problems faced by the economies in transition in their move from central planning to market orientation are still daunting, despite some recent success in containing inflation and arresting negative growth. These countries have yet to develop effective institutional structures to suit the needs of a well-functioning market economy. During the whole period 1991-1995, all these

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countries experienced severe contraction of total and per capita incomes amid hyper-inflationary situations. Only during the past couple of years have some of the economies shown signs of positive growth and moderating inflation.

29. Data in table 1 suggest that social development indicators, such as adult literacy, infant mortality and life expectancy, closely correspond to per capita income. This correspondence is also visible if the countries' ranks in terms of per capita income levels are compared with the ranks in terms of the Human Development Index (HDI), a composite index that the United Nations Development Programme has been calculating over the past several years. The exceptions are the former socialist countries, where relatively higher levels of health and educational standards were achieved in the past. These, however, have become difficult to sustain, owing to faltering growth.

30. The challenges facing the different groups of countries in the region are thus of very different orders of magnitude and, in some cases, of a somewhat different nature. The countries lagging behind, especially the least developed, the Pacific islands and the transition economies, have considerable headway to make in order to join the regional mainstream and the global economy. That would require tremendous national efforts from these countries, but their success would also depend greatly on special support from the international community.

III. TRADE AS A VEHICLE FOR INTEGRATION AND GROWTH

31. The integration of individual countries within the international and regional economies widens opportunities for their national development but also poses some risks. Those benefits and costs are not uniform for all countries in the region, especially because of wide variations in initial conditions briefly reviewed in the chapter above. Nevertheless, certain generalizations can be made.

32. In the context of the benefits, development literature until recently focused largely on international trade. The static gains of trade stem mainly from greater specialization, higher allocative efficiency, wider access to production factors (such as capital equipment) and intermediate and consumer goods at lower prices, and greater opportunities to exploit the economies of scale. It is being increasingly recognized that no less significant are the dynamic gains. These arise, inter alia, from increased competition, stepped-up technological upgrading, enhanced acquisition of knowledge, either through imports or learning on the job, and reduced incidence of rent-seeking activities. These gains contribute to accelerated growth.

33. Trade stimulates economic growth through several other channels. There is often a positive relationship between a country's trade intensity and its attractiveness for inflow of FDI. Trade necessitates the development of transport and communications networks which accelerate the growth of non-traded output. Furthermore, a greater involvement in trade induces a pursuit of macroeconomic stability and improved economic governance, which are increasingly acknowledged as basic prerequisites of growth.

34. Similar comments also apply to intraregional trade, which has the additional advantage that the "psychic distance" between countries located within a region may be shorter because of similarities in, inter alia, culture, legal codes, ethnic ties and distribution systems. Thus, new trading opportunities can be created. In addition, regional cooperation may induce faster liberalization of trade policies.

35. That participation in international trade has been an important contributory factor to the accelerated growth of several economies in the Asian and Pacific region, especially those in East and South-East Asia, is beyond question. It is pertinent to note that China, Hong Kong, Malaysia, Singapore, Thailand and Viet Nam consistently achieved export growth rates well over the world average during the 1980-1995 period (see table 2). From the perspective of the trade-growth nexus, a particular concern relates to the performance of the least developed countries and the Pacific island economies, many of which exhibit low or negative growth rates in exports. In some of these cases, the apparently high growth rates are due to a low base.

Table 2. Rate of change of values of exports and imports of goods, ranked on a 1990-1995 average

	Exports, fob				Imports, cif		
	1980-1984	1985-1989	1990-1995		1980-1984	1985-1989	1990-1995
World	-0.9	9.3	6.8[a]	World	-0.7	9.4	6.4[a]
ESCAP developing economies	5.9	13.7	14.6	ESCAP developing economies	5.2	13.4	15.0
Marshall Islands	29.2	-3.3	69.7	Myanmar	-7.495	-3.33	43.2
Cambodia	6.9	37.9	60.4	Cambodia	17.86	1.446	41.08
Lao People's Democratic Republic	14.48	7.784	34.5	Malaysia	6.785	11.79	23.25
Myanmar	-10.24	-5.184	27	Lao People's Democratic Republic	15.3	3.369	23.11
Malaysia	7	9.78	19.77	Viet Nam	7.8	8.4	20.9
Viet Nam	3.484	31.25	19.21	Thailand	3.835	22.6	18.59
China	8.597	16.31	19.2	Hong Kong	8.627	20.54	17.86
Thailand	3.741	22.96	18.88	Philippines	-5.79	13.27	17.15
Singapore	5.658	14.23	17.85	Indonesia	7.854	4.982	17.01
French Polynesia	2.412	27.79	16.86	Singapore	5.205	12.86	16.69
Bangladesh	6.773	7.648	16.33	Cook Islands	-1.25	16.42	16.03
Sri Lanka	9.513	1.992	16.08	Nepal	5.516	7.857	15.8
Solomon Islands	8.797	-3.111	16.02	Maldives	17.79	20.31	15.77
Hong Kong	9.9	21.3	15.6	Brunei Darussalam	3.1	6.8	15.6[a]
Nepal	20.21	6.011	15.49	Sri Lanka	-2.033	3.835	15.11
Philippines	-2.041	8.801	14.86	China	7.841	19.5	15
Cook Islands	2.083	2.762	14.17	Republic of Korea	8.745	15.58	14.6
Papua New Guinea	-2.9	8.4	13.9	Tuvalu	2.1	4.3	13.[a]
Republic of Korea	13.94	17.11	12.7	Taiwan Province of China	3.06	20.43	12.15
Indonesia	-2.12	0.899	12.75	Kiribati	2.731	6.43	11.14

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	Exports, fob				Imports, cif		
	1980-1984	1985-1989	1990-1995		1980-1984	1985-1989	1990-1995
India	4.494	10.57	11.76	Bangladesh	11.65	5.838	10.9
Pakistan	1.192	13.29	9.602	India	0.925	6.207	9.899
Tonga	17.32	4.278	9.5	Marshall Islands	9.573	14.41	9.712
Taiwan Province of China	11.69	19.49	9.294	Pakistan	2.412	4.358	8.768
Kiribati	74.22	7.636	8.552	Fiji	-4.748	6.198	7.8
Iran (Islamic Republic of)	9.4	0.6	7.8[a]	Solomon Islands	1.191	9.745	6.404[a]
Fiji	-7.7	8.7	5.9	Tonga	2.2	6.0	6.4
Vanuatu	10.1	-9.543	5.16	Vanuatu	-0.4	1.3	6.0
Brunei Darussalam	-8.191	-8.177	4.857[a]	Bhutan	10.82	9.341	5.342[a]
Samoa	8.115	-6.098	4.594	Samoa	-5.415	9.467	5.159
Maldives	23.02	20.4	3.517	French Polynesia	-0.534	8.979	4.669
Bhutan	2.316	41.65	0.367[a]	Papua New Guinea	-1.289	7.466	0.9
Mongolia	8.068	5.897	-0.502	New Caledonia	-8.875	20.7	0.868
New Caledonia	-12.02	34.18	-4.967	Iran (Islamic Republic of)	9.6	-1.7	0.7[a]
Tuvalu	38.3	1.0	-8.3[a]	Mongolia	9.729	4.938	-4.424
Afghanistan	-1.2	-16.7	..	Niue	-8.3	10.0	..
American Samoa	16.27	9.177	..	Nauru	-3.2	9.7	..
Nauru	-8.8	4.7	..	Micronesia (Federated States of)	0.4	16	..
Guam	17.29	0.795	..	Guam	16.88	-1	..
				American Samoa	42.67	5.999	..
				Afghanistan	13.79	-8.776	..
Other members of ESCAP in Asia and the Pacific	6.711	10.17	10.79	Other members of ESCAP in Asia and the Pacific	0.51	9.778	10.19
Russian Federation	..	..	11.9	Turkey	8.21	8.451	17.51
Turkey	27.01	11.21	11.03	New Zealand	3.539	7.825	8.602

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	Exports, fob				Imports, cif		
	1980-1984	1985-1989	1990-1995		1980-1984	1985-1989	1990-1995
Japan	7.289	10.21	8.371	Japan	-0.748	9.598	8.483
New Zealand	0.476	10.55	7.683	Australia	5.004	12.13	5.6
Australia	1.599	10.44	6.228	Russian Federation	..	..	6.1

Sources: ESCAP secretariat calculations, based on United Nations, Monthly Bulletin of Statistics, vol. L, No. 9 (September 1996); International Monetary Fund International Financial Statistics Yearbook 1995 and International Financial Statistics, vol. XLIX, No. 11 (November 1996) (Washington, D.C.); Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 1996.

[a] 1990-1994.

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36. Although the positive impact of trade on growth is widely accepted, there is a divergence of views regarding its impact on equity. However, there is a certain degree of consensus that trade is likely to alleviate absolute poverty through rapid expansion in output and employment in labour-intensive export industries and related activities and through an increase in real wages for labour, which is the primary asset that poor households possess. The success of several East and South-East Asian economies in greatly reducing absolute poverty is, to a significant extent, attributable to their trade performance.

37. In the light of the above, it appears that trade can contribute to faster growth and greater alleviation of poverty. The development experience of several economies in the region also bears this out. However, due cognizance should be taken of some of the risks associated with international trade. There is the risk that the economy may become subject to greater instability, particularly in situations where exports are concentrated in a few products or countries. Greater participation in trade also inevitably entails greater liberalization of the trade policy regime, with implications for the transitional costs of adjustment and restructuring. Another problem is that participation in international trade would require adherence to international policy norms, especially those envisaged under the Uruguay Round. That imposes a measure of constraint on national policy choices. In a world of shifting comparative advantage, a country may run the risk of becoming locked into areas of trade with slow growth potential in the long run. In the case of trade promoted under regional cooperation initiatives, there is an additional risk of loss due to trade diversion.

IV. EXTERNAL FINANCIAL AND INVESTMENT INFLOWS

38. A major pillar of globalization and regionalization is international financial and capital flows. It is obvious that access to these flows relieves a country's foreign exchange constraint and thereby expands its capacity to import. In most developing countries, the ability to produce intermediate and capital goods is relatively weak. Domestic investment and production levels are therefore substantially dependent on import capacity. A major problem that is associated with such flows is their volatility, which, in turn, may cause instability in macroeconomic parameters such as the exchange rate, the price level and the interest rate. The benefits of access to international financial flows are therefore largely conditioned by a country's ability to deal with such negative impacts.

39. Most developing countries, including those in the ESCAP region, are clearly demonstrating a much more positive attitude towards FDI. Data on FDI inflows to individual economies are presented in table 3. The data clearly show that the least developed, the Pacific island and the Central Asian countries have not generally been able to attract much FDI.

Table 3. Developing economies in the ESCAP region, FDI inflows, 1984-1995

(Millions of United States dollars)

	Annual average							
	1984-1989	1990-1994	1990	1991	1992	1993	1994	1995 (estimate)
Asian least developed countries								
Bangladesh	1	7	3	1	4	14	11	125
Cambodia	..	31	..	..	33	54	69	80
Lao People's Democratic Republic	1	29	6	8	9	60	60	75
Maldives	3	7	6	7	7	7	8	9
Myanmar	1	3.2	5	..	3	4	4	10
Nepal	1	5	6	2	4	6	7	8
East Asia								
China	2 282	16 062.2	3 487	4 366	11 156	27 515	33 787	37 500
Hong Kong	1 422	1 596.8	1 728	538	2 051	1 667	2 000	2 100
Republic of Korea	592	818.4	788	1 180	727	588	809	1 500
South-East Asia								
Brunei Darussalam	..	5.6	3	1	4	14	6	7
Indonesia	406	1 693	1 093	1 482	1 777	2 004	2 109	4 500
Malaysia	798	4 173.6	2 333	3 998	5 183	5 006	4 348	5 800
Philippines	326	756.8	530	544	228	1 025	1 457	1 500
Singapore	2 239	4 681.8	5 575	4 879	2 351	5 016	5 588	5 302
Thailand	676	1 788	2 444	2 014	2 116	1 726	640	2 300
Viet Nam	2	39.4	16	32	24	25	100	150
South and South-West Asia								
India	133	269.4	162	141	151	273	620	1 750
Iran (Islamic Republic of)	-62	-113.8	-362	23	-170	-50	-10	-30
Pakistan	136	322.4	244	257	335	354	422	639
Sri Lanka	36	115	43	48	123	195	166	195

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	Annual average 1984-1989	Annual average 1990-1994	1990	1991	1992	1993	1994	1995 (estimate)
Turkey	245	716.4	684	810	844	636	608	1 037
North and Central Asia								
Armenia	..	1.6	..	..	..	..	8	10
Azerbaijan	..	0	..	..	..	..	..	110
Kazakstan	..	87	..	..	100	150	185	284
Kyrgyzstan	..	2	..	..	..	..	10	15
Mongolia	..	5.6	..	2	8	8	10	10
Tajikistan	..	2	..	..	..	..	10	15
Uzbekistan	..	27	..	..	40	45	50	115
Pacific Islands								
Fiji	17	45.8	80	15	50	49	35	35
New Caledonia	2	16.2	31	3	17	20	10	10
Papua New Guinea	123	130.8	155	203	291	1	4	15
Samoa	..	4.6	7	3	5	5	3	3
Solomon Islands	5	14.2	10	15	14	15	17	17
Tonga	..	1	..	..	1	2	2	2
Vanuatu	8	24.2	13	25	26	27	30	25

Sources: United Nations Conference on Trade and Development, World Investment Report 1996: Investment, Trade and International Policy Arrangements (United Nations publication, Sales No. E.96.II.A.14).

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40. FDI adds to a country's capital stock and production capacity, and there is a growing appreciation that the more important benefits of FDI lie in its potential to contribute to faster growth through spill-over effects. Foreign investors typically use improved production technology. Faced with tougher competition, domestic producers may be encouraged to adopt similar technological standards. Better management practices usually employed by foreign investors may be emulated by domestic producers. Furthermore, foreign investors often have better market connections, either through intra-firm channels or arms-length contacts. They can thus improve a country's export performance by developing and marketing new export products as well as by increasing the exports of traditional products.

41. In several East Asian and South-east Asian countries, FDI has been an important factor in promoting exports and accelerating growth. In countries such as Malaysia, Singapore and Thailand, foreign investors have played a large, if not dominant, role in exports of manufactured products, either through wholly-owned investments or joint ventures. China, which has emerged as the largest recipient of FDI among developing countries, has also benefited substantially from it.

42. Depending on the size of a given economy, FDI may make a significant contribution to employment. An increasingly important feature of FDI is the relocation of production of the labour-intensive components of the value-added chain to developing countries. Insofar as FDI causes a net increase in the employment of unskilled and semi-skilled labour, it makes a positive contribution to poverty alleviation.

43. As with the case of trade, there are some risks associated with FDI. It generates a stream of outflows of profits and other payments and may thus exacerbate foreign exchange constraints, especially when foreign investments are not in export-oriented sectors. In some situations foreign investments may be of an enclave nature, with few forward or backward linkages and, hence, few spill-over benefits. In addition, unrestricted access to FDI may subject domestic producers to premature competition. In addition, they may evade payment of taxes to the host country through transfer-pricing mechanisms.

V. TRANSPORT AND COMMUNICATIONS

44. There is increasing recognition of the importance of an infrastructure, particularly for transport and communications, for sustained economic growth. The mounting concerns that growth rates in some of the fast-growing economies of the region may slow down owing to infrastructural bottlenecks have added weight to this perception. There are considerable variations among countries in the region with respect to the state of development of various modes of transport and of communications. The least developed and Pacific island countries and the economies in transition are again at a disadvantage. There are also significant gaps in transport linkages (particularly in roads and railways) which need to be filled up urgently in order to promote regional integration.

45. Transport and communications contribute to growth as facilitators of trade and investment, both domestic and foreign. Transport cost has long been

acknowledged as a natural barrier to trade. Improved access to transport facilities and reduced transport costs would relax this barrier and have a positive impact on trade. Foreign investors take the development of transport facilities into account as a major element in their decisions regarding investment location. This factor is becoming more important with the increasing trade orientation of transnational corporations. Similarly, the availability of dependable communications facilities at reasonable prices is assuming greater importance as a determinant of a country's competitiveness. The rapidity with which information on production capacity, product quality and suppliers' capability can be transmitted to prospective buyers abroad is a crucial element in striking trade deals. Foreign investors need communications facilities in order to be able to maintain close contacts with their affiliates elsewhere or with their parent offices. Investment in transport and communications spurs the growth of non-traded sectors by increasing the flexibility in the pattern of production, distribution and consumption of goods and services within the domestic economy and by developing forward and backward linkages among various sectors.

46. It is evident that investment in transport and communications directly creates new employment opportunities during the process of construction as well as during maintenance. A great deal of such employment involves unskilled and semi-skilled labour. Additional employment opportunities are created through the growth-propelling impact of transport and communications. Absolute poverty may thus be alleviated.

VI. CONCLUSIONS AND POLICY IMPLICATIONS

47. As noted above, the benefits and risks of globalization and regionalization are not uniform for all countries, especially because of differences in initial conditions. At the same time, any attempt at insulation is likely to be fraught with the risk of greater marginalization. Therefore, specific policy responses have to be suited to each country's unique condition. With this in mind, the present section makes some generalizations concerning possible action for consideration at the national, regional/subregional and international levels in order to optimize developing countries' benefits.

A. National level

48. Effective participation in the globalization process requires stability in the basic macroeconomic parameters of price level, exchange rate and interest rate. It is well known that high and variable inflation rates deter economic growth and accentuate distributional inequities. These also affect a country's ability to participate in international trade or to attract FDI. For example, high inflation rates would cause an increase in production costs. That would erode a country's competitive advantage and undermine incentives to export. Similarly, wide fluctuations in exchange rates adversely affect export performance. The volatility of financial flows is often aggravated by variations in the domestic interest rate. Macroeconomic instability generates uncertainties with respect to returns on investment and thus adversely affects both domestic and foreign investment.

49. At the same time, the task of macroeconomic management is rendered more complicated by exposure to the global economy. For example, an increase in the interest rate to contain inflation may induce large inflows of short-term funds, causing an appreciation in the exchange rate, with adverse effects on exports. Furthermore, these inflows can aggravate inflationary pressure the containment of which provided the initial justification to increase the interest rate. Thus, it would be increasingly important to monitor the behaviour of macroeconomic parameters and fine-tune the combination of monetary, fiscal and exchange-rate policy instruments to achieve the desired stability. At times, it is even necessary to adopt administrative measures, at least temporarily, without eroding confidence in fundamental orientation to openness.

50. Fiscal deficits are often a major source of macroeconomic instability. Developing countries in the region face a dilemma in respect of fiscal balance. On the one hand, they have to reduce the rates of taxes, particularly those on business income and imports, in order to improve their competitiveness. On the other hand, large public investments are required for the provision of goods and services which are characterized by externalities or other market failures. Among these are health, educational and infrastructural services. In order to address this dilemma, these countries will have to pay greater attention to better tax collection and improved tax administration. It will be necessary to widen the tax base, particularly by focusing on consumption taxes. Many countries in the region have taken measures along these lines by introducing reforms in tax administration and adopting value-added taxes.[8] In this context, the need for reform of public enterprises, which in many countries are a major source of fiscal drain, deserves emphasis. In some cases, privatization of such enterprises may have to be accelerated. A stricter application of the criterion of social rate of return will have to be applied to governmental expenditure, including expenditure on defence, which has risen significantly in several countries.

51. Reforms and liberalization associated with globalization and regionalization may worsen the current account deficit. Liberalization of import policies eases the accessibility of imported consumer goods and reduces their relative prices. Import bills may thus rise. Such liberalization can increase the overall propensity to consume and slow down the accumulation of domestic savings. Easier access to foreign savings may temporarily finance the resultant savings/investment gap, which has a mirror image in the current account deficit, but the rising current account deficit may not be sustainable in the long run. It is therefore important to adopt countervailing measures to ensure that domestic savings are not adversely affected. This possibility appears to be a matter of concern for some countries in the region. In Thailand, for example, the Government recently announced the introduction of a civil service pension fund and state enterprise provident funds to increase domestic savings.

52. In a globalized economy, the viability and stability of the financial sector are crucial for effective intermediation of international finance. Therefore, it becomes increasingly important to ensure a healthy financial system. In particular, the banking system has to be strengthened through appropriate capital adequacy requirements, loan-loss provisions and improved prudential supervision. This assumes greater urgency because, under liberalized

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financial-sector policy regimes, commercial banks may become more vulnerable, for several reasons - inter alia, the increasing importance of market-based securities in their portfolios, easier entry of new banks and greater freedom for banks to determine interest rates and choose customers.

53. The relationship between the private and the public sectors needs to be fundamentally redefined. In an open and liberal environment, the Government's role becomes primarily one of creating an enabling environment for the private sector to play the leading role in production and marketing. In some instances, Governments may have to take proactive measures for the development of the private sector. Thus, new institutional relationships between the private and the public sectors have to be developed. The private sector has to be given a greater role in policy design, but at the same time it must not be allowed to capture the regulatory authority of the Government to the detriment of public interest.

54. Governments will have to pay greater attention to a more efficient and transparent administrative and institutional set-up for effective economic governance. It is necessary to establish the appropriate legal framework and enforcement mechanisms to prevent predatory practices and anti-competitive behaviour by both domestic and foreign producers. At the same time, it has to be ensured that a maze of red tape and stifling regulations does not hamper private sector initiatives.

55. Effective participation in the integration process requires a healthy and educated workforce. The need to staff new institutions of various sorts arises. A greater priority will therefore have to be given to human resources development. Improvement in the quality of health and educational services and an extension of their coverage will assume greater importance. In countries with low primary school enrolment ratios and large masses of illiterate adult populations, such as in South Asia, the extension of quality basic education has to receive higher priority. In other cases, where basic education has been available universally for some time, greater attention has to be paid to secondary, tertiary, vocational and technical education. In view of the budgetary implications of expanded public expenditure on human resources development, the scope for recovery of costs, wherever possible, should be explored.

56. Greater flexibility in labour markets is required in order for entrepreneurs to respond to emerging changes in the trading and investment environment. However, there exists a dilemma in ensuring flexibility in labour markets. The wider access to information strengthens the demand for security of employment, higher wages and other standards of labour welfare applied in developed countries. Thus, countries will have to find ways to strike a balance between the need for flexibility and the avoidance of industrial disputes which policies to introduce flexibility might induce. One measure which could possibly moderate potential disputes is the provision of adequate safety nets.

57. The maintenance of competitiveness in trade necessitates continuous monitoring of international trading conditions and finding niches for the development of new products. It also requires application of improved technologies to reduce production costs and improve the quality of existing

export products. Hence, there is a need for training and retraining of labour, research and development, and enhancement of institutional capacity within the governmental machinery to design and implement a system of incentives to encourage the private sector to respond to emerging changes.

58. As noted above, participation in the globalization process necessarily implies greater liberalization of trade regimes, with the potential threat of disrupting domestic industries. The speed and sequencing of liberalization measures, encompassing both tariff and non-tariff instruments, has to be carefully chosen in light of the unique conditions obtaining in individual countries without compromising compliance with international obligations.

59. The choice of appropriate speed and sequencing can smooth the transition. Nevertheless, reforms and liberalization associated with globalization and regionalization are likely to create some unemployment and labour displacement, at least in the short term. Moreover changes in relative prices may severely affect some groups. For example, withdrawal of input subsidies and removal of controls on output prices in the agricultural sector may raise food prices and aggravate absolute poverty. Thus, targeted safety-net measures need to be put in place.

60. Many developing countries in the region have traditionally used measures such as subsidies, tax breaks, support for research and development, directed credit and tariff and non-tariff protection to diversify export baskets. The obligations under the Uruguay Round impose a degree of constraint on the application of some of these measures. It will therefore be important to understand fully the implications of the Uruguay Round of Agreements with a view to determining the extent and nature of the flexibility available to national Governments and design policy regimes accordingly.

61. The widening and deepening of financial and capital markets is also an important requirement. In this context, it is worth noting that bond markets in the region remain extremely underdeveloped. Although some countries have experienced rapid growth in stock markets, many of those markets do not have adequate depth or breadth. The thinness of those markets, coupled with substantial foreign participation, makes them more vulnerable to fluctuations in international financial flows. Therefore, attention has to be paid to increasing the depth and breadth of those markets while ensuring that confidence in them is retained through appropriate regulatory frameworks and enforcement mechanisms.

62. One of the risks associated with FDI is that it involves future payment obligations to outside entities, thus exerting pressure on the balance of payments. It is therefore necessary to adopt policies that encourage reinvestment of profits and investment in export-oriented sectors. The maintenance of macroeconomic stability and the design of an incentive structure consistent with international obligations may help in these respects to some extent. Additionally, these considerations could be built into agreements with transnational corporations, especially in the case of large projects. The implementation of such projects is usually contingent on substantial negotiations between host countries and transnational corporations.

63. Host countries have to adopt policies that encourage forward and backward linkages between FDI and the rest of the economy in order to maximize the spillover benefits, including technology transfer. The whole range of incentive and performance requirements traditionally employed by many developing countries to achieve this has to be carefully reviewed in light of developments in the international arena, particularly with respect to trade-related aspects of intellectual property rights (TRIPs) and trade-related investment measures (TRIMs). The necessary adjustments have to be made in such a way as to allow spillover benefits to be maximized without violating obligations to the World Trade Organization (WTO) or creating impediments to the inflow of FDI. To deal with some of the other negative consequences of FDI mentioned above, an appropriate legal and regulatory framework has to be established or strengthened with respect to such matters as competition, safety in workplaces, environmental standards and transfer pricing. In cases of investment in sectors with tendencies to give rise to natural monopolies, some regulatory authority may have to be maintained over output volume, quality and pricing decisions. In parallel, enforcement mechanisms have to be strengthened.

64. The extension, maintenance and technological upgrading of the transport and communications infrastructure, so vital to integration with the international and regional economies, will require substantial resources. The countries in the region will therefore have to adopt alternative financing strategies since the traditional reliance on public sector funding will no longer be adequate. Those strategies should include private-sector provision of these facilities through such mechanisms as build/operate/transfer (BOT) and build/own/operate (BOO). Some countries in the region have already achieved substantial success in this respect.

65. The transport and communications sectors are often characterized by externalities and economies of scale and have a tendency to give rise to monopolies. Governments, therefore, will have to strengthen their regulatory capacity to ensure the fulfilment of such objectives as expanded coverage, improved quality and reasonable prices.

B. Regional/subregional levels

66. The measures needed at the national level have to be complemented by many actions at the regional/subregional levels, some of which are discussed below.

67. Regional cooperation arrangements, other than ASEAN, do not seem to have made much progress in trade liberalization. The efforts in this direction need to be further intensified while ensuring that the measures adopted will lead to net trade creation. Furthermore, regional cooperation initiatives should strive towards a reasonable degree of equity in the distribution of gains among participating countries so as to maintain cohesiveness among partner countries.

68. In order to complement trade liberalization efforts, greater attention has to be paid to trade facilitation through such measures as harmonization of customs classifications, documentation requirements, product standards and environmental and health regulations.

69. Regional/subregional cooperation arrangements could view respective regions/subregions as a single market space for investment. That would require, in addition to trade liberalization and facilitation measures, greater convergence among participating countries in inflation rates, interest rates and tax levels. More frequent dialogue among finance ministries and central banks could facilitate such convergence.

70. The provision of incentives to attract foreign investment is common among developing countries in the region. Sometimes, these are tantamount to "beggar-thy-neighbour" policies. Closer collaboration among countries at the regional/subregional levels could help avoid revenue losses and other types of losses through greater harmonization of incentives.

71. There could be greater collaboration in providing risk coverage for foreign exchange transactions and for mutual defence when the exchange rate of a participating country is under strain. An initiative towards these ends has been recently launched by a few central banks in East and South-East Asia, following the Mexican crisis.

72. As countries increasingly integrate with the global and the regional economies, there arises the need for frequent travel by prospective buyers, sellers, investors, joint venture partners and others in connection with trade and investment. Efforts should therefore be made to ease visa requirements for business travel.

73. There is scope for more serious consideration of the possibilities of establishing multicountry commodity futures markets as well as multicountry bond and stock markets, export credit arrangements and insurance guarantee schemes.

74. Research and development are becoming increasingly characterized by economy of scale. There is thus a need for greater regional/subregional cooperation in research and development by pooling financial, human and technical resources to promote products of interest to participating countries, either as exports or imports.

75. Regional/subregional arrangements should explore ways to fill up gaps in transport and communications. They could also produce initiatives to harmonize systems and procedures for cross-border movements of cargo and fleets.

C. International level

76. The international community will have to preserve and improve the environment for developing countries to participate in the globalization/ regionalization processes effectively. Some of the ways in which this can be done are suggested below.

77. The majority of the least developed and Pacific island countries and the economies in transition have not yet been able to participate meaningfully in the globalization/regionalization processes. This is, in part, because a minimum threshold of development is required before a country can actively partake of the opportunities in international trade or flows of capital. The

initial conditions in these countries, characterized by low levels of per capita income, domestic savings and investment, make it unlikely that these countries will be able to reach that threshold on their own and to avail themselves of the benefits of globalization/regionalization. They will continue to need strong support in terms of official development assistance (ODA) for some time to come. The declining trend in ODA should be urgently reversed.

78. The above-mentioned groups of countries as well as some of the other developing countries will require considerable technical assistance with training, the establishment of a regulatory framework and the development of institutional set-ups. There is thus a great need for stepped-up technical assistance to those countries, including assistance from developing countries in a position to provide it.

79. A major way in which the international community can assist developing countries is to ensure full implementation of the Uruguay Round and market access for the exports of those countries. In this context, particular mention should be made of textiles and clothing. The Asian and Pacific region accounts for more than 40 per cent of world exports of clothing, and for many individual countries in the region, textiles and clothing represent as much as a quarter of manufactured exports. Another matter of concern for some developing countries in the region is that agricultural trade liberalization as a result of the Uruguay Round is likely to be minimal.

80. There is a growing tendency to link issues such as labour welfare, environment and human rights to trade policies. This tendency has introduced considerable uncertainty in the trading environment. It is important to ensure that such issues are not misused as non-tariff barriers against developing countries.

81. Several Asian countries, such as China, India, Indonesia, Malaysia, the Republic of Korea and Thailand, have been targeted for anti-dumping actions by developed countries at one time or the other. Although the Uruguay Round has introduced several features to reduce the protectionist elements of anti-dumping, they have been diluted by other provisions. The use of anti-dumping measures as a protective device should be strongly discouraged, particularly because many developing countries may find it difficult to seek relief through costly dispute settlement procedures. In some instances, some developed countries use their national laws to practise, in effect, managed trade in order to secure a bilateral trade balance. Such practices should be avoided.

82. The implementation of the Uruguay Round would cause erosion in the margins of preferences under the generalized system of preferences (GSP), the Lomé Convention and other arrangements. This reinforces the need for avoidance of any non-price restrictions on market access for the exports of developing countries.

83. At the same time, consideration should be given to improvement of GSP and other preferential market access schemes for products of particular interest to the least developed countries, the Pacific island countries and the economies in

transition through the widening of product coverage, the reduction of procedural complexities and the avoidance of frequent changes in schemes.

84. Concerned by the problems faced by the least developed countries, the WTO Ministerial Conference, held in Singapore from 9 to 13 December 1996, adopted the WTO Plan of Action for the Least Developed Countries. The Plan recognizes the need for diversification of the least developed countries' exports and provides for, inter alia, duty-free access to their exports on an autonomous basis. The Plan of Action should be implemented urgently.

85. Home countries of transnational corporations could play a role in encouraging foreign investment in developing countries, particularly on behalf of those that have failed in the past to attract such investment. They could, for example, help to correct misconceptions by disseminating information on the fundamental economic conditions of the host countries, organize investment forums and trade fairs, and provide insurance cover for non-commercial risks. They could also assist by actively pursuing bilateral investment treaties and agreements to avoid double taxation.

Notes

[1] Asli Demirgüç-Kunt and Ross Levine, "Stock markets, corporate finance, and economic growth: an overview", The World Bank Economic Review, vol. 10, No. 2 (May 1996), p. 223.

[2] United Nations Conference on Trade and Development, Trade and Development Report, 1996 (United Nations publication, Sales No. E.96.II.D.6).

[3] United Nations Conference on Trade and Development, World Investment Report 1996, Investment, Trade and International Policy Arrangements: Overview (UNCTAD/DTCI/32 (Overview)) (New York and Geneva, 1996).

[4] World Bank, World Debt Tables, 1994-1995, vol. I; and World Debt Tables, 1996 (Washington, D.C., 1994 and 1996).

[5] Based on United Nations Conference on Trade and Development, World Investment Report 1995 (New York and Geneva, 1995).

[6] World Bank, Global Economic Prospects and the Developing Countries (Washington, D.C., 1996).

[7] International Monetary Fund, World Economic Outlook (Washington, D.C., October 1996).

[8] For a more detailed examination of changes in tax policies and efforts towards improved tax administration, see ESCAP, Issues and Experiences in Tax System Reforms in Selected Countries of the ESCAP Region (ST/ESCAP/1,564).
