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**Economic and Social Commission for Asia and the Pacific**  
Committee on Trade and Investment**Fifth session**

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Item 5 of the provisional agenda\*

**Reviewing the role of trade and trade policy as drivers of regional integration and prosperity in an era of economic uncertainty****Reviewing the role of trade and trade policy as drivers of regional integration and prosperity in an era of economic uncertainty****Note by the secretariat***Summary*

In the present document, the growing economic policy uncertainties at the global level and their negative impact on trade are noted, further highlighting the importance of regional cooperation and integration. There follows a discussion of the link between trade and regional integration, and a review of progress in various trade policy areas, including tariff liberalization, non-tariff measures, preferential trade agreements and trade facilitation. The document also contains an overview of the current role and activities of the Economic and Social Commission for Asia and the Pacific in promoting trade and regional integration.

Several recommendations are identified to further support the development of intraregional trade, including for the secretariat to: (a) support consolidation and/or harmonization of rules of origin of overlapping preferential trade agreements; (b) assist in limiting the replacement of tariff barriers with much less transparent non-tariff measures; and (c) promote implementation of trade facilitation measures, including transit facilitation and border cooperation measures, in line with the World Trade Organization Agreement on Trade Facilitation.

The Committee on Trade and Investment is invited to review the role of the secretariat in this context.

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\* E/ESCAP/CTI(5)/L.1.

## **I. Introduction**

1. Developing Asia-Pacific economies are facing a period of heightened uncertainty about policy direction in major developed economies. The potential shift of economic policies of large developed economies towards an inward-looking strategy is adding threats to the fragile recovery of global trade. The concerns are that the elevated level of policy uncertainty may lead to mounting protectionist tendencies, larger fluctuations in exchange rates and weaker global economic growth.

2. A protracted period of uncertainty about economic policy direction by itself would be a drag on global trade, investment and development. However, if the protectionist rhetoric evolves into protectionist actions, there is no doubt that it will further limit the potential of global trade and investment growth, and put the world at risk of trade wars. Emerging regional economies would particularly suffer because most of them have a small domestic market and thus rely on exports as a source of earnings and economic growth.

3. An important implication of the mounting downside risks from outside the region is that it is more important than ever before to utilize the high potential of intraregional markets as a mitigating force. Intraregional trade has proved to be relatively resilient to external shocks and weak demand from outside the region in the aftermath of the global financial crisis of 2008-2009. Intraregional trade share, which today reaches more than half of total Asia-Pacific trade, keeps increasing continuously at the expense of trade with traditional markets including the United States of America and the European Union.

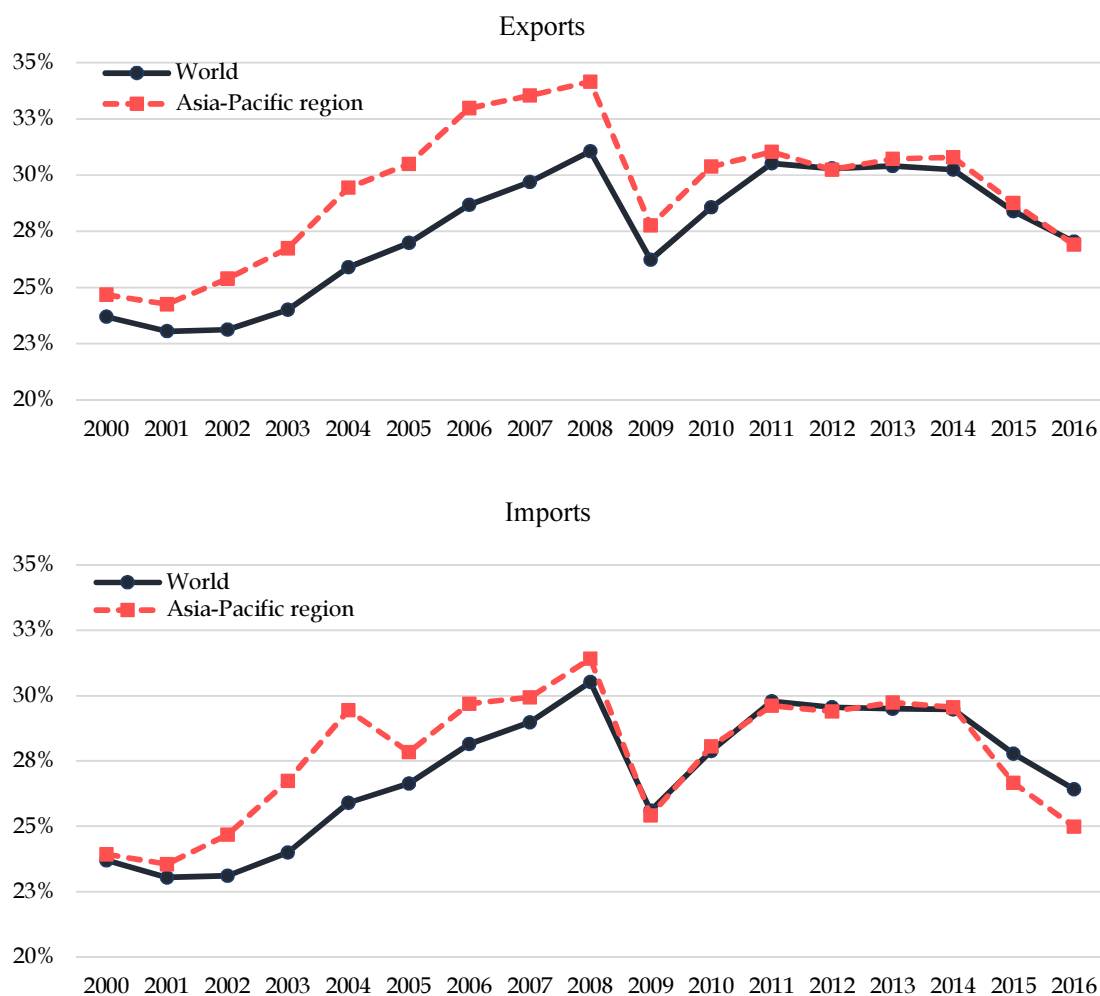
4. To strengthen regional integration, Asia-Pacific countries are recommended to implement more proactive trade policies to facilitate the flows of goods, services and investment in the region. A strong commitment towards trade liberalization by members and associate members of the Economic and Social Commission for Asia and the Pacific (ESCAP) will in itself contribute to lowering the level of global policy uncertainties. In addition, regional trade liberalization and facilitation commitments would serve to remove policy uncertainties and boost growth within the region.

5. In this document, after the link between trade and regional integration has been established, there follows a description of how regional integration is being challenged by current trade policy uncertainties, defined in the broadest sense as the risk of trade policy reversal from trade liberalization to inward orientation. Suggestions are then made as to how trade policies may be adjusted to ensure that trade continues to drive regional integration. This is followed by a review of the work of ESCAP in support of regional integration, with a view to obtaining guidance from the Committee on Trade and Investment on how ESCAP can further improve its work in this area.

## **II. Trade as a driver of regional integration**

6. Over the past three decades, trade has been a major driver of growth in the Asia-Pacific region. The region's dependence on trade (measured as trade/gross domestic product (GDP)) grew consistently over this period, until the 2008-2009 global financial crisis. Until the crisis, trade accounted for more than 60 per cent of regional GDP (figure I). Since the crisis, however, dependence on trade has fallen to about 52 per cent of GDP as a result of the slowdown in global demand and repositioning of the growth strategy for many countries towards domestic consumption, bringing the region slightly below the global average.

Figure I  
**Trade as a driver of growth**  
 (Percentage of GDP)



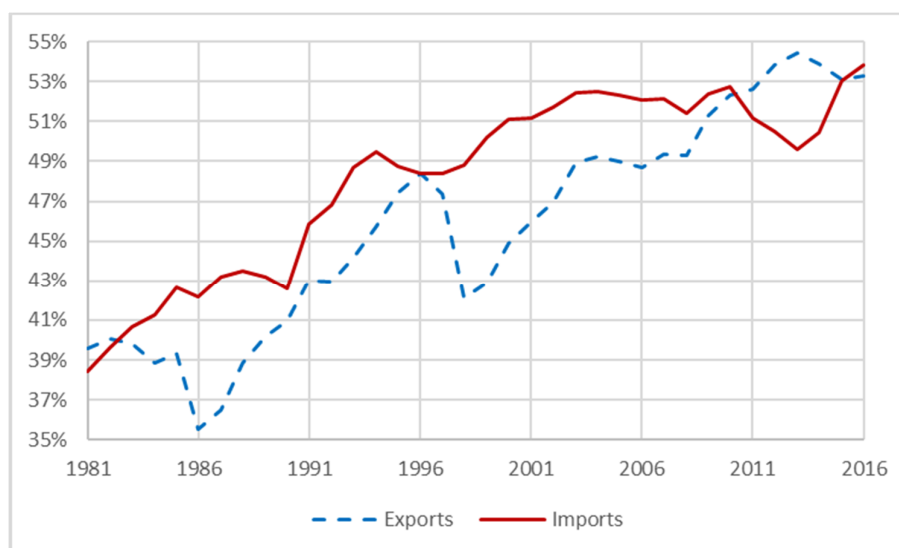
*Source:* ESCAP calculations, based on data from: United Nations Conference on Trade and Development (UNCTAD), UNCTADstat (available from <http://unctadstat.unctad.org/>; accessed 31 July 2017); and World Bank, GDP (current US\$), World Bank Open Data (available from <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>; accessed 31 July 2017).

7. In parallel with the increase in trade dependence, Asia-Pacific economies as a whole experienced both sustained fast growth in GDP per capita and a reduction in absolute poverty. Developing countries within the Asia-Pacific region have been most successful at leveraging trade into economic growth, in part owing to their early integration into global value chains and the way in which they complement those chains by developing regional production networks.

8. The expansion of trade between economies in the region acted as a natural driver of regional integration in Asia and the Pacific, which follows a different model from, for example, the economic integration of the European Union. Regional integration in Asia and the Pacific was driven by the process of participation in global and regional value chains, which were anchored by trade and production complementarities of participating countries. As a result, trade dynamics of the Asia-Pacific region is based on trade linkages and industrial production integration, rather than being driven by centralized policymaking decisions.

9. An increasing share of intraregional trade is an important indication of regional integration. Intraregional trade grew constantly from 40 per cent in 1980 to nearly 55 per cent in 2018 (figure II). In addition to the growth of trade in intermediate inputs within regional production networks, the increasing share of intraregional trade also reflects the relatively robust demand within the region compared to the rest of the world during the prolonged period of global economic slowdown.

Figure II  
**Growing importance of intraregional trade**  
(Percentage of overall trade)



Source: ESCAP calculations, based on data from the International Monetary Fund Direction of Trade Statistics. Available from <http://data.imf.org/DOT> (accessed 31 July 2017).

10. China plays a central role in the regional integration of production and trade in Asia and the Pacific. China is the world's largest exporter, while it is an important export market for producers across Asia and the Pacific. Since 2007, China has overtaken the United States as the largest individual trading partner in the region. In 2016, other Asia-Pacific countries exported more than 20 per cent of their goods to China. China absorbs raw materials, parts, components and services inputs from other economies in the region, integrates them and then exports to the world. Raw materials and intermediate inputs constitute a quarter of imports to China from other Asia-Pacific economies.<sup>1</sup>

11. As a consequence, intraregional trade indeed tends to centre around China. Exports to China represent nearly a quarter of intraregional exports. China is the largest importer of the region, accounting for approximately 29 per cent of intraregional imports. Trade with regional developed economies, mainly Japan, accounts for 13 per cent of intraregional exports and 17 per cent of intraregional imports. Trade with other developing economies in the region represents 63 per cent of intraregional exports and 54 per cent of intraregional imports. Although a large amount of intraregional trade eventually ends up as final goods exports from China to economies outside the region, the importance of intraregional markets is increasing because of relatively robust demand in this part of the world.

<sup>1</sup> *Asia-Pacific Trade and Investment Report 2015: Supporting Participation in Value Chains* (United Nations publication, Sales No. E.15.II.F.15). Available from [www.unescap.org/publications/asia-pacific-trade-and-investment-report-2015-supporting-participation-value-chains](http://www.unescap.org/publications/asia-pacific-trade-and-investment-report-2015-supporting-participation-value-chains).

12. However, the regional integration of trade and production networks is mainly concentrated in East and North-East Asia and South-East Asia, where regional production networks have been firmly established. In fact, 90 per cent of trade in intermediate inputs by the region is concentrated in just 10 countries: Australia, China, India, Indonesia, Japan, Malaysia, the Republic of Korea, Singapore, Thailand and Turkey.<sup>1</sup>

13. The relatively low intraregional trade outside East and North-East Asia and South-East Asia suggests that there is still ample room to improve regional integration within and across other subregions of Asia and the Pacific, including South and South-West Asia, North and Central Asia and especially the Pacific, whose trade is rather detached from the rest of Asia.

### III. Regional trade and prosperity under economic uncertainties

14. As indicated in the previous editions of the ESCAP *Asia-Pacific Trade and Investment Report*, the Asia-Pacific region has faced a series of downside risks owing to global uncertainties since the global financial crisis. Structural changes in large developed and emerging economies together with prolonged sluggish global demand has impacted the structure of global and regional trade. Decreasing trade-to-GDP elasticity globally, from 2.5 in the mid-1990s to around 1 since 2009, indicates that despite the current uptick in global trade, weak trade growth has become the new normal. Basically, this means that even if global economic growth recovered to its historical level, global trade would not pick up its pre-crisis level, because the structure of the global economic environment has changed.<sup>2</sup>

15. In recent years, heightened uncertainty around the policy direction of major global economies has cast further downside risks on the dynamics of global and regional integration in Asia and the Pacific. These policy uncertainties include the renegotiation of the relationship of the United Kingdom of Great Britain and Northern Ireland with the European Union following the country's referendum vote to leave the bloc, and the withdrawal of the United States from the Trans-Pacific Partnership and its call to renegotiate the North American Free Trade Agreement as well as some of its major bilateral trade agreements, such as the one with the Republic of Korea. The global economic policy uncertainty index provides an indication of a dramatic increase in uncertainties since 2014, and even more so after 2016.<sup>3</sup>

16. These policy shifts raise the spectre of trade wars and increased protectionism, as well as the possibility of a further weakening of the rules-based multilateral trading system and a proliferation of bilateral trade deals. It is not yet clear whether and how such inward-looking policies will be implemented, or to what extent they may affect the economies of the region.

17. However, the heightening of economic policy uncertainties is particularly discouraging for small Asia-Pacific economies. Statistical evidence

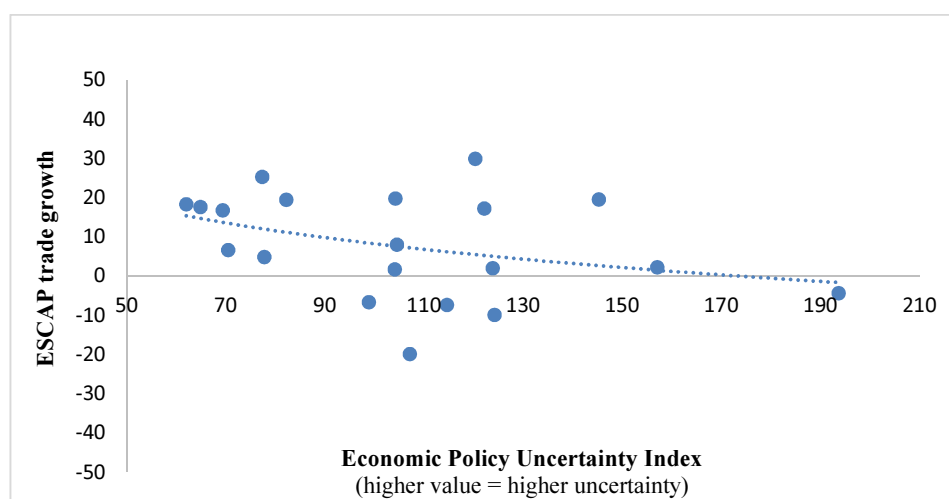
<sup>2</sup> *Asia-Pacific Trade and Investment Report 2016: Recent Trends and Developments* (United Nations publication, Sales No. E.16.II.F.23). Available from [www.unescap.org/publications/asia-pacific-trade-and-investment-report-2016-recent-trends-and-developments](http://www.unescap.org/publications/asia-pacific-trade-and-investment-report-2016-recent-trends-and-developments).

<sup>3</sup> For further details, see *Asia-Pacific Trade and Investment Report 2017: Channelling Trade and Investment into Sustainable Development* (United Nations publication, forthcoming), chapter 1.

suggests that Asia-Pacific export growth is negatively correlated with economic policy uncertainty (figure III). Small developing economies may be hardest hit by continuous uncertainties, as their limited domestic market sizes, insufficient domestic investment and lack of technology make it particularly difficult for them to sustain development without exports and foreign direct investment inflows.

18. Deepening regional integration is an important strategy to deal with rising economic policy uncertainties at the global level. Firm commitments to trade liberalization and regional integration will help reduce policy uncertainties within the region, which can even have stronger impacts than uncertainties from outside the region given that regional production has been integrated. This requires trade policies to be revisited to remove intraregional trade obstacles and facilitate intraregional trade in the most efficient manner.

Figure III  
Global economic policy uncertainty and export growth in the ESCAP region, 1997 to 2016



Source: ESCAP secretariat, based on data from: Economic Policy Uncertainty, Economic Policy Uncertainty Index (available from [www.policyuncertainty.com](http://www.policyuncertainty.com); accessed 31 July 2017); and United Nations, UN Comtrade Database (available from <https://comtrade.un.org/>, accessed 31 July 2017).

#### IV. Challenges to deepening regional integration: revisiting trade policies

19. The main obstacles to intraregional trade flows are found in high trade costs. A detailed analysis of intraregional trade costs based on the ESCAP-World Bank Trade Cost Database shows that there is wide variation in trade costs within and across subregions (see table). While trade costs among high-income East and North-East Asian and South-East Asian economies approach those prevailing among European Union members, within other subregions they remain very high. Trade costs between subregions are, unsurprisingly, even higher and more heterogeneous. For example, trade costs between, on the one hand, Indonesia, Malaysia, the Philippines and Thailand (“ASEAN-4” in the table, referring to the Association of Southeast Asian Nations (ASEAN)) and, on the other, Georgia, Kazakhstan, Kyrgyzstan and the Russian Federation (“North and Central Asia-4”) exceed 300 per cent in tariff-equivalent terms, which is more than five times the costs between ASEAN-4 and leading East and North-East Asian economies.

**Intra- and extraregional comprehensive trade costs in the Asia-Pacific region**  
(Percentage)

	<i>ASEAN-4</i>	<i>East and North-East Asia-3</i>	<i>North and Central Asia-4</i>	<i>Pacific island developing economies</i>	<i>SAARC-4</i>	<i>Australia and New Zealand</i>	<i>European Union-3</i>
<b>ASEAN-4</b>	81 (2.6)						
<b>East and North-East Asia-3</b>	82 (-2.0)	62 (-3.4)					
<b>North and Central Asia-4</b>	369 (2.1)	182 (-9.1)	116 (-5.6)				
<b>Pacific islands developing economies</b>	198 (-8.7)	193 (-3.9)	448 (35.1)	158 (-5.7)			
<b>SAARC-4</b>	155 (0.2)	143 (-5.1)	336 (7.5)	357 (-4.7)	141 (5.2)		
<b>Australia and New Zealand</b>	108 (-1.3)	97 (-6.7)	361 (-4.9)	92 (-7.7)	155 (-8.5)	53 (-2.3)	
<b>European Union-3</b>	116 (-3.0)	93 (-5.1)	159 (-6.4)	215 (-7.2)	128 (-1.8)	116 (-3.3)	42 (-8.1)
<b>United States of America</b>	96 (7.5)	72 (-0.8)	185 (-3.4)	176 (-5.2)	130 (4.1)	104 (0.8)	74 (0.2)

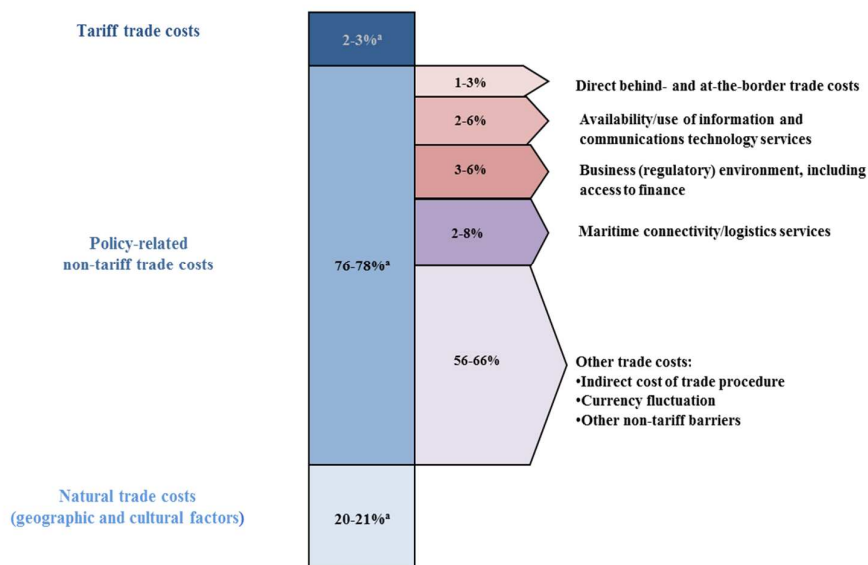
*Source:* ESCAP calculations, based on ESCAP-World Bank Trade Cost Database. Available from <http://artnet.unescap.org/databases.html#first> (accessed 30 June 2016).

*Notes:* Trade costs shown are average trade costs during the period 2009-2014 and may be interpreted as tariff equivalents. Changes in average trade costs between 2004-2009 and 2010-2015 are in parentheses.

*Abbreviations:* ASEAN-4: Indonesia, Malaysia, the Philippines and Thailand; East and North-East Asia-3: China, Japan and the Republic of Korea; European Union-3: Germany, France and the United Kingdom; North and Central Asia: Georgia, Kazakhstan, Kyrgyzstan and the Russian Federation; Pacific island developing economies: Fiji and Papua New Guinea; SAARC-4: Bangladesh, India, Pakistan and Sri Lanka (referring to the South Asian Association for Regional Cooperation).

20. About 80 per cent of overall trade costs are policy-related (figure IV). However, tariffs now represent an almost marginal share of such costs. Other policy-related trade costs account for 76 to 78 per cent for most countries, although these can be much lower for landlocked and small island countries that face large trade costs related to their geographic situation away from international transport hubs and markets. In that context, this analysis of the obstacles to deepening regional integration focuses on developments in the use of trade policy instruments by the economies in the region and globally, taking into account possible impacts of increased policy uncertainty.

Figure IV  
**Contribution of various policy-related factors to changes in trade costs in Asia and the Pacific**



Source: ESCAP calculations, based on analysis of ESCAP-World Bank Trade Cost Database. Available from <http://artnet.unescap.org/databases.html#first> (accessed 31 July 2017).

<sup>a</sup> Illustrative only, based on casual observation of the data. Natural trade costs for landlocked countries may be outside the range shown.

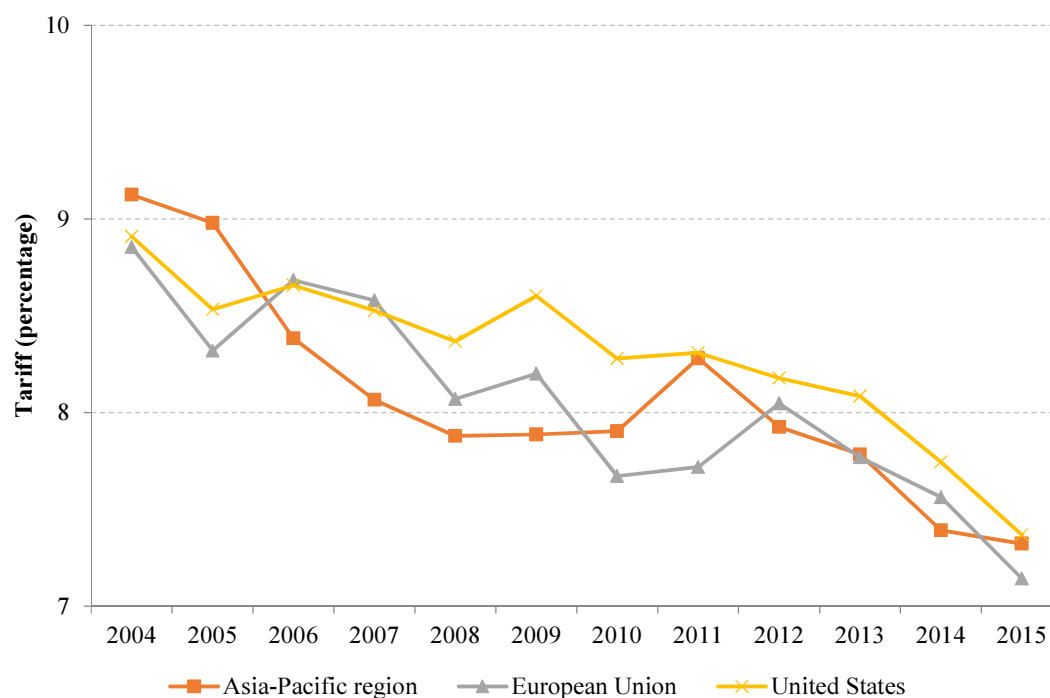
## A. Trade policy measures: state of play

21. Trade policy measures affect imports and exports of goods, and come in the form of changed tariff rates or other duties, quantitative restrictions including bans, customs procedures, taxes and a whole array of other, non-tariff measures. Their significant feature is the ability to discriminate among markets, products and services. Two dominant trends of long-term trade policy trends in the Asia-Pacific region historically include: (a) the lowering of average applied tariffs over the past few decades; and (b) the growing importance of non-tariff measures as barriers to trade during the same period.

22. In keeping with the global trend, average applied tariff rates in the majority of Asia-Pacific countries have decreased substantially over the past few decades. Tariff reductions have been achieved through a combination of: (a) unilateral liberalization, with countries adopting more open trade-oriented development strategies; (b) preferential trade agreements, allowing greater market access to partners; and (c) multilateral measures, through liberalization within the World Trade Organization (WTO) framework. In general, tariff levels in the Asia-Pacific region are on par with those of major developed economies (figure V).



Figure V  
Effectively applied tariffs of Asia and the Pacific and selected major economies, simple average



Source: ESCAP calculations, based on data from World Bank, World Integrated Trade Solution database. Available from <http://wits.worldbank.org/> (accessed 31 July 2017).

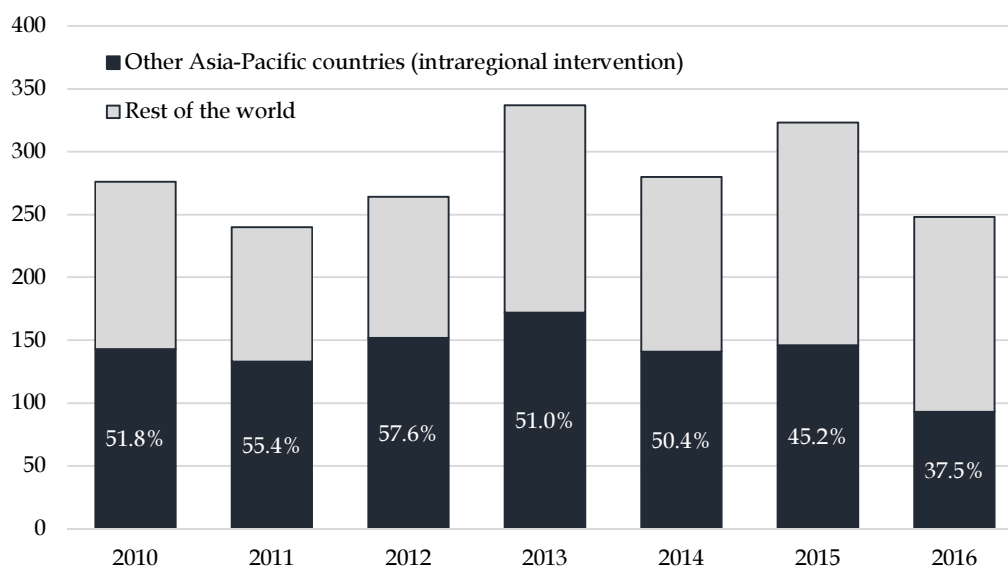
23. As tariff rates are decreasing worldwide, non-tariff measures are becoming relatively more important. Non-tariff measures cover a wide variety of regulations that may affect trade, intentionally or unintentionally. They are necessary, as they aim to protect human, animal or plant life or the environment, and most often they are identified as standards or technical non-tariff measures. Some specific examples include restrictions of imports of foods from regions affected by epidemics, such as avian influenza (sanitary and phytosanitary measures) or requirements to ensure that all foodstuffs include nutrition labels (technical barriers to trade). Indeed, measures such as product-labelling standards or sanitary and phytosanitary measures have become the most common form of non-tariff measures, and are estimated to be three times more restrictive of trade than tariffs. Rising non-tariff measures in place of tariffs may partly explain why, despite the decline in tariffs and decrease in shipping and transportation costs over time, estimated trade costs incurred by Asia-Pacific economies remain persistently high, as noted earlier.

24. Although they often serve legitimate and important public policy objectives, technical non-tariff measures are more complex, less transparent and harder to monitor than tariffs. They may harm trade significantly, especially in developing and least developed countries, where testing or certification facilities to ensure compliance are often lacking. Developing countries consequently have to resort to outsourcing services such as laboratory testing or certification in order to meet standards, which can erode any advantages that they have (for example, those resulting from lower labour costs). The agricultural and food sectors are most notably affected by such measures, meaning that non-tariff measures are particularly disadvantageous to developing countries, which typically have a comparative advantage in these sectors.

25. The number of new trade policy measures reflects the heightened economic uncertainty (risk) after the global financial crisis. Globally, WTO was notified of 2,978 trade-restrictive measures in the 2016 reporting period. The largest surge in trade-restrictive measures occurred in 2014-2015. Although around 25 per cent of such measures may have been removed since,<sup>4</sup> the large number remaining indicates that Governments around the world have become much more likely to reach for new measures to affect cross-border flows of goods services, capital and labour since the global economic crisis.

26. The Asia-Pacific region itself has contributed towards a significant part of the global stockpile of trade-restrictive measures. It accounted for 27 per cent introduced globally in 2016, outpacing its contribution to trade-liberalizing measures, which accounted for 24.3 per cent globally. Similarly, according to comprehensive data from the Global Trade Alert database, the Asia-Pacific region contributed to 27 per cent of the worldwide total of 1,618 “red” measures – defined as measures that almost certainly discriminate against a foreign commercial interest – over the past two years (mid-October 2015 to mid-May 2017).<sup>5</sup> Asia-Pacific economies impose trade-restrictive measures against imports from other countries, especially outside the region. The Global Trade Alert data reveal that ESCAP economies have targeted their trade-restrictive measures more at economies outside the region than at those inside the region. A positive development is that the number of new measures targeted at the ESCAP region decreased from 51 per cent in 2013 to less than 38 per cent in 2017 (figure VI).

Figure VI  
**Number of trade-restrictive interventions implemented by Asia-Pacific economies (2010-2016), by geographic area**



Source: ESCAP calculations, based on data from Global Trade Alert database. Available from [www.globaltradealert.org](http://www.globaltradealert.org) (accessed 31 July 2017).

<sup>4</sup> See WTO, document WT/TPR/OV/W/10. Available from <https://docs.wto.org>.

<sup>5</sup> Global Trade Alert codes a measure as “red” if it almost certainly discriminates against a foreign commercial interest; “amber” if its implementation is likely to discriminate against foreign commercial interests or if the measure has not been implemented yet but, should that happen, it would almost certainly be discriminatory; and “green” if the measure either improves the transparency of the national trade policy regime or improves or has no effect on the relative treatment of foreign versus domestic commercial interests. See [www.globaltradealert.org](http://www.globaltradealert.org) for further details.

27. Although it is not easy to estimate exactly how restrictive these trade policy measures are, new trade measures can increase the complexity and costs of trade activities. While commitments under multilateral trading systems may limit the scope for using higher tariff protection, raising tariffs is still possible if the WTO member has kept sufficient policy space (that is, a gap between their WTO applied and bound rates). According to WTO tariff databases, there is a large share of tariff lines that remain unbound in many developing and least developed economies, in particular for those sensitive products that are designated by the countries themselves. Additionally, more risks of increased protectionism may come in the form of using non-tariff measures to shield from what is often seen as unfair import competition (for example, by trade remedy measures). The complexity and lower transparency of non-tariff measures compared to tariffs could provide a convenient means for Governments to disguise their protectionist actions.

## **B. Making preferential trade agreements an effective mechanism for regional integration**

28. Comprehensive regional trade agreements that go beyond the liberalization of trade in goods to services and investment, along with the harmonization of rules and regulations, can be a good basis for regional integration. In contrast, a large number of shallow and overlapping preferential trade agreements add complexity and can be a stumbling block for regional integration.

29. Governments in the Asia-Pacific region have tended to proactively use preferential trade agreements. While these agreements differ in terms of depth of liberalization and integration as well as sectoral coverage, the region is a major contributor to the worldwide build-up of agreements. Globally, of the 274 physical preferential trade agreements in force, 170 (66 per cent) involve Asia-Pacific economies. On average, an Asia-Pacific economy is party to 7.6 trade agreements.

30. It is to be welcomed that Asia-Pacific economies seem to aim to use preferential trade agreements to facilitate their trade with intraregional trade partners. Half of trade deals involving Asia-Pacific economies are with trading partners from the region. The share of intraregional trade covered by those agreements is much higher, at more than 72 per cent in 2016, and has grown from 20 per cent in 1995, when the region had only 28 trade agreements.

31. However, many Asia-Pacific economies signed multiple trade agreements that overlap each other. There is a requirement on rules of origin in all agreements. Thus, having several trade agreements with the same partner implies there are multiple rules that possibly apply on their trade. Different rules of origin between trade agreements increase the complexity of the trade and investment environment. The high costs of complying with rules of origin may exceed the savings associated with the tariff preference provided under an agreement. Early estimates (in the mid-1980s for European trade agreements) of compliance with rules of origin were at the level of 1.4 to 5.7 per cent of the value of export transactions. The increase in density of the noodle bowl phenomenon indicates that the cost burden of compliance with rules of origin might have increased, in particular because of reduced tariff preference margins. This is mirrored in the finding that exporters, especially small and medium-sized enterprises, have no incentive to export under many preferential trade agreements, resulting in low rates of their utilization.

32. Furthermore, the rules of origin of different trade agreements have significant implications on how producers choose the locations in which they set up certain productive activities. Empirical literature shows that strict rules of origin can result in economically suboptimal functioning of value chains as they may discourage firms from using cheaper parts and materials from third countries in favour of sourcing the inputs from trading partners. Strict and diverse rules of origin also affect the ability of developing countries – especially least developed countries – to fully benefit from the enhanced market access granted through preferential trade agreements.<sup>6</sup> The issues with rules of origin, of course, raise the question of the role of trade agreements in deepening regional integration.

33. To maximize the benefits of preferential trade agreements in support of regional integration, consolidation of the complex web of agreements would be needed, or at least harmonization of approaches to rules of origin. A possible solution could be in the form of a simple, single set of rules that are transparent and easy to comply with. This would involve harmonizing multiple rules. For example, even among the ASEAN+1 agreements, there are 22 different types of rules of origin, and only 30 per cent of the tariff lines share a common set of rules. Harmonizing these will ease the terms of international trade. However, building a consensus for a single approach is a challenge for the negotiators.

34. One example in Asia of user-friendly rules of origin is contained in the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area, in which they are based (for 83 per cent of all tariff subheadings) on a coequal approach to proving originating goods status, where exporters are given a choice of meeting either a rule based on “regional value content” or one based on “change in tariff classification”. More flexibility in rules of origin would enhance producers’ ability to take advantage of the opportunities that are expected to come with trade preferences. Additional flexibility can be granted by using *de minimis* provisions.

35. There are some examples from other regions showing how different rules of origin could be consolidated by either extending cumulation or by modernizing or reforming administrative procedures, such as the Pan-European Cumulation System, the North American Free Trade Agreement and the Canada-Colombia Free Trade Agreement. Such initiatives – still very challenging – would result in lower costs of compliance with rules of origin and thus greater use of trade preferences by developing countries, boosting their capacity to participate in value chains.

### **C. Trade facilitation measures to reduce the cost of trade and improve regional connectivity**

36. Trade facilitation, or the simplification and harmonization of trade procedures, is now a well-established component of trade policy, backed by the entry into force of the WTO Agreement on Trade Facilitation in February 2017. Importantly in the context of growing global uncertainty at the macro level, trade facilitation helps make trade more predictable at the micro level, by, for example, making it possible for an importer to ask for binding rulings from customs on a product that it wants to import before deciding whether to import it.

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<sup>6</sup> Jeremy Harris, “Building inclusive rules of origin in the 21st century”, Policy Brief (Geneva, International Centre for Trade and Sustainable Development; Washington, D.C., Inter-American Development Bank, 2017). Available from <http://e15initiative.org/wp-content/uploads/2015/09/RTA-Exchange-Rules-of-Origin-Jeremy-Harris-Final.pdf>. For further details on the role of preferential trade agreements and rules of origin, see also *Asia-Pacific Trade and Investment Report 2015*.

37. As discussed in more detail in a separate document (E/ESCAP/CTI(5)/3), the region has already made good progress in implementing many of the measures of the WTO Agreement on Trade Facilitation. However, implementation is very heterogeneous across countries, with the results of the second Global Survey on Trade Facilitation and Paperless Trade Implementation showing much lower rates of implementation in least developed countries than in other economies of the region.

38. In the context of regional integration, measures related to transit facilitation and border cooperation may be given particular consideration. Such measures include: (a) transit facilitation agreements with neighbouring countries; (b) inter-agency collaboration between all agencies involved in transit; (c) limitation of physical inspections of transit goods and use of risk management by customs authorities; and (d) support for pre-arrival processing for transit facilitation. While nearly all concerned countries have entered into transit facilitation agreements, implementation of facilitation provisions in these agreements often remains partial in Asia and the Pacific, according to the results of the 2017 Global Survey. Similarly, the survey results suggest that inter-agency collaboration on transit and support for pre-arrival processing are fully implemented in no more than 20 per cent of transit economies. Beyond transit facilitation, border agency cooperation is fully supported by a national legislative framework and institutional arrangement in less than 25 per cent of countries, although more than 95 per cent of countries have such a framework partially in place.

39. Other measures included in the WTO Agreement on Trade Facilitation that are least implemented in the region include (a) trade facilitation programmes for authorized operators (art. 7.7), (b) the establishment and publication of average release times (art. 7.6), and (c) the development of single window systems (art. 10.4), which have been at least partially implemented by less than half of ESCAP member States so far.

40. Beyond basic compliance with the WTO Agreement on Trade Facilitation, enabling the seamless movement of electronic data and documents between relevant and authorized public and private stakeholders located in different countries along the regional value chains would go a long way towards deepening regional integration. In that regard, rapid entry into force of the new Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific would be important.<sup>7</sup>

## **V. The role of ESCAP in enabling trade and regional integration for shared prosperity**

41. The 2030 Agenda for Sustainable Development has identified trade as a means of implementation under Goal 17. Trade has been an engine of growth for many of ESCAP member States and has thus fulfilled the developmental objectives of many Governments. Promoting regional cooperation for development is a key mandate of ESCAP. ESCAP has focused on a number of areas that support trade as a means of attaining the Sustainable Development

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<sup>7</sup> The first of its kind, this new regional United Nations agreement is complementary to the WTO Agreement on Trade Facilitation and builds on the growing number of bilateral and subregional initiatives in this area. It has been open to all ESCAP member States since the end of 2016 and will enter into force after five member States have ratified it. Implementation of this Agreement has the potential to cut intraregional trade costs and enable countries to reap the benefits associated with cross-border paperless trade, estimated to be as high as \$257 billion in increased exports opportunities. See E/ESCAP/CTI(5)/3 for further details.

Goals. To achieve these aims, the secretariat has adopted a three-pronged approach, combining (a) research and analytical work for evidence-based policymaking, (b) capacity-building and policy advice, and (c) dialogues, regional cooperation and networking.

**A. Research and analytical work for evidence-based policymaking**

42. Evidence-based policymaking means using high-quality quantitative and qualitative research when making policy decisions. The secretariat has produced a number of analytical studies on the critical policy issues facing the region, especially focusing on the countries with special needs to assist them in evidence-based policymaking in the area of trade. While it is difficult to summarize work across a diverse range of issues, three broad themes motivated much of the research agenda:

- (a) Understanding the impact of barriers to trade and investment;
- (b) Considering the evolution of preferential trade liberalization and regional integration;
- (c) Supporting sustainable trade.

43. As is also evident from this document, navigating the policy spectrum is not easy and the secretariat has engaged in regular analysis of trade policy trends and impacts on the region's trade performance, through the annual *Asia-Pacific Trade and Investment Report* as well other studies and commentaries.

44. Another area of research focuses on measuring and monitoring trade costs, which significantly impair the expansion of trade by developing countries and their integration into global and regional supply chains. The secretariat has developed a tool to monitor aggregate trade costs for most member States and other countries – the ESCAP-World Bank Trade Cost Database – and is currently undertaking research to improve assessment and monitoring of the extent and impacts of non-tariff measures and regulatory burdens, including through the Global Survey on Trade Facilitation and Paperless Trade Implementation.

45. Two projects specifically focus on the impact of non-tariff measures. One project, in collaboration with institutional members of the Asia-Pacific Research and Training Network on Trade, explored the extent to which non-tariff measures act as barriers to increased intra-ASEAN trade, especially in agricultural and fisheries products. The project identified alternative ways of managing those measures, including through mutual recognition agreements. Another project, under the umbrella of the tenth tranche project of the Development Account and in partnership with UNCTAD, aims to develop an impact index of non-tariff measures to support countries in monitoring the Sustainable Development Goals. Furthermore, the secretariat also developed a web-based open database on Asia-Pacific Trade Agreement tariff concessions, rules of origin and non-tariff measures. These projects and data sets will contribute to a better understanding among policymakers of the best policy options open to least developed countries and other developing countries, to minimize any harmful effect of non-tariff measures.

46. In terms of research and analysis in the area of regional integration, the secretariat has been consistently working on the challenges associated with negotiating and successfully implementing preferential trade agreements. Analytical outputs and commentaries by ESCAP have provided insights and policy options on how to deal with possible adverse effects of the noodle bowl phenomenon, the complex web of rules associated with multiple preferential trade agreements. The Asia-Pacific Trade and Investment Agreements Database

was developed a decade ago as a tool for exploring the landscape of preferential trade agreements by both policymakers and analysts alike. Furthermore, a series of handbooks on negotiation of development-friendly provisions in the areas of services trade, intellectual property rights, safeguards and rules of origin has been developed to support a capacity-building programme on the negotiation of next-generation preferential trade agreements.

47. More recently, the secretariat has focused research on the links between trade, investment and sustainable development, part of which is featured in the *Asia-Pacific Trade and Investment Report 2017*. This new research builds on earlier efforts on trade and investment policy coherence and on trade and investment for inclusive growth.

48. Drawing on analytical work, over the period 2016-2017 the secretariat has produced several handbooks and guides for trade policymakers, including:

(a) A handbook on analytical approaches to evaluating preferential trade agreements with applications, for both analysts and policymakers;

(b) A handbook on safeguard measures, for use by government officials and negotiators;

(c) A digital handbook on indicators for trade facilitation, co-developed with the Organization for Economic Cooperation and Development, to support government officials in better monitoring trade facilitation reform, including that undertaken as part of implementation of the WTO Agreement on Trade Facilitation;

(d) A comprehensive set of training material on preferential trade agreements and inclusive trade;

(e) A report on the Asia-Pacific Trade Agreement and promoting South-South regional integration and sustainable development, to assist government officials and others to navigate the evolution of the Asia-Pacific Trade Agreement and identify the benefits of widening and deepening of this Agreement.

## **B. Capacity-building and policy advice**

49. In addition to providing analytical inputs to strengthen the effectiveness of trade policies, the secretariat is engaged in building the capacity and skills of those involved in trade policymaking, trade negotiations and implementation of trade policy changes. This work places the principles of inclusivity and sustainability of development at the centre of trade policy formulation and is intended to improve the prospects of developing countries using trade as an instrument to reduce poverty. In all cases, the focus is particularly on securing benefits for least developed countries, landlocked developing countries and other countries with special needs.

50. Trade policy advice and capacity-building cover varied topics, including liberalization at the multilateral, bilateral and plurilateral levels. The secretariat responded to government requests by delivering targeted training and/or policy advice in the following areas:

(a) Preparation and coordination of trade policy reforms, involving preparing countries for trade negotiations, assisting with policy implementation and evaluating impacts; workstreams cover all major trade policy instruments, such as tariffs, non-tariff measures, subsidies, countervailing measures, anti-dumping practices and regulatory barriers, as well as management of revenue loss;

(b) Issues relating to WTO, involving helping countries understand and benefit from the multilateral trading system as well as helping them through the process of accession; issues addressed include trade and environmental goods liberalization, services trade liberalization, mainstreaming of trade into development, government procurement and trade-related aspects of intellectual property rights;

(c) Preferential access for developing and least developed countries, involving providing information on how to make the most of the opportunities offered by reciprocal as well as nonreciprocal preferential treatment for developing and least developed countries;

(d) Building of competitiveness and diversification of exports, involving policy advice on how to tackle restrictive rules of origin or other non-tariff measures in order to create meaningful market access and enhance opportunities for intraregional trade and regional integration;

(e) Trade facilitation, involving organizing capacity-building workshops on implementation of specific trade facilitation measures, including digital customs systems and national single window facilities; support was also provided for the development of national trade and transport facilitation monitoring mechanisms.

### **C. Regional cooperation and integration mechanisms, dialogues and networking**

51. The secretariat supports the work of the Committee, the formal intergovernmental body responsible for trade and investment matters at ESCAP, which meets every two years and reports to the Commission.

52. With respect to furthering regional cooperation mechanisms, the secretariat has been successful in two key areas: the adoption of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific in May 2016, and the conclusion of the fourth round of tariff liberalization under the Asia-Pacific Trade Agreement, where members expanded a range of exchanged tariff concessions and agreed to implement frameworks on trade facilitation, investment and services liberalization.

53. Two of the most mature ESCAP knowledge networks also operate in the area of trade and investment: the Asia-Pacific Research and Training Network on Trade and the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific.<sup>8</sup> Both were established to develop and share expertise on pressing regional challenges in the areas of trade policy, regional integration and trade facilitation in the context of pursuing sustainable development. They have a particular focus on capacity development and research relevant to developing countries in the region, and have attracted many members, associates and partners. More recently, the Asia-Pacific Research and Training Network on Trade also established a platform on trade and the Sustainable Development Goals to enable collaboration among Asia-Pacific least developed countries and exchange of experiences, on which representatives of these countries can identify common issues challenging them in the area of trade and sustainable development.

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<sup>8</sup> See <http://artnet.unescap.org> and <http://unnnext.unescap.org> for further information.



## VI. Conclusions and issues for consideration

54. In the present document, the growing economic policy uncertainties at the global level and their negative impact on trade were noted, further highlighting the importance of regional cooperation and integration. There followed a discussion of the link between trade and regional integration, and a review of progress in various trade policy areas, including tariff liberalization, non-tariff measures, preferential trade agreements and trade facilitation. The document also contained an overview of the current role and activities of ESCAP in promoting trade and regional integration.

55. Several recommendations have been identified to further support the development of intraregional trade and regional integration as a means of coping with increasing policy uncertainties at the global level. In particular, the secretariat could:

(a) Support consolidation and/or harmonization of rules of origin of overlapping preferential trade agreements, including by proposing relevant models for consideration and adoption by members and associate members at the regional level;

(b) Assist in limiting the replacement of tariff barriers (negotiated away through preferential trade agreements) with much less transparent non-tariff measures, including by promoting mechanisms to lower compliance costs, such as mutual recognition agreements with respect to testing and conformity assessment procedures;

(c) Promote implementation of trade facilitation measures (including transit facilitation and border cooperation measures), in line with the WTO Agreement on Trade Facilitation, including by effectively supporting ratification and operation of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific as a tool to accelerate progress.

56. The Committee is invited to review the role of the secretariat in this context, building on the research, capacity-building and technical assistance work already delivered, including under the market integration pillar of the regional economic cooperation and integration initiative.