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**KEY DEVELOPMENTS AND ACTIVITIES AT THE REGIONAL LEVEL:  
MANAGING GLOBALIZATION**

(Item 4 (b) of the provisional agenda)

**THE TRADE AND DEVELOPMENT CHALLENGE: REGIONAL PERSPECTIVES  
ON KEY DEVELOPMENTS**

*Note by the secretariat*

**SUMMARY**

The present document reviews key trade and development challenges as they have evolved since the sixty-first session of the Commission and their implications for enhancing a more equitable integration of developing countries into the multilateral and regional trading systems.

First, the document assesses the outcome of the Sixth World Trade Organization (WTO) Ministerial Conference, held in Hong Kong, China, and its implications for the region's efforts at harnessing international trade as an engine of economic growth and development. Second, it considers the rapidly changing regional trading panorama in Asia and the Pacific and, in this regard, reports on the inaugural meeting of the Ministerial Council of the Asia-Pacific Trade Agreement (APTA). In assessing the Ministerial Declaration on APTA, the document considers the future direction of the Agreement and its potential to evolve into a region-wide mechanism of economic cooperation in trade and investments. The Commission is invited to consider these issues and provide further guidance to the secretariat on its future work.

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## Introduction

1. Since the 1970s, the integration of the region into global markets and its reliance on export-led growth have proceeded unabated and have even accelerated. The multilateral trading system and the rules and principles it embodies are thus of primary importance to ESCAP members and associate members. At the World Summit held at United Nations Headquarters in September 2005,<sup>1</sup> Heads of State and Government reaffirmed their commitment to implementing the development dimensions of the Doha work programme,<sup>2</sup> and the fundamental role the United Nations, in collaboration with the Bretton Woods institutions, had to play in promoting an enhanced global partnership for trade and development. The Heads of State and Government also committed themselves to a strengthening of regional cooperation mechanisms to enhance the participation of developing countries and countries with economies in transition in international finance, trade, technology and investment flows.

2. Efforts to forge regional economic cooperation in the Asian and Pacific region have a long history. In 1963, under the auspices of the Economic Commission for Asia and the Far East (ECAFE) of the United Nations, the first meeting of the Council of Ministers on Asian Economic Cooperation was convened. In 1970, the Council of Ministers adopted the Kabul Declaration on Asian Economic Cooperation and Development in which, in consideration of the fact that “subregional arrangements within an overall regional frame constituted one of the most important and practicable instruments for realizing the aims and objectives of development”, the Executive Secretary of ECAFE was requested to evolve an integrated programme of trade expansion and trade development among developing countries that would foster “rational and outward-looking expansion of production and trade” and that would make “a significant contribution towards attaining the targets set for the Second United Nations Development Decade”. A comparison of this wording with that of the 2005 World Summit Outcome is striking in its similarity: the trade and development challenges of today are fundamentally no different from those of 35 years ago.

3. Against this background, the present document assesses an event of strategic significance to developing countries of the Asian and Pacific region in their quest to reconcile trade and development objectives: the outcome of the single most important trade event of the past year, namely, the Sixth World Trade Organization (WTO) Ministerial Conference, held in Hong Kong, China from 13 to 18 December 2005. The document also reviews the widespread and trade-focused action on regional integration that has also proceeded unabated and has proliferated into a vast configuration of trade agreements in the region. The particular focus of this document is on the first session of the Ministerial Council of the Asia-Pacific Trade Agreement (APTA). The event was an important milestone in the history of the Agreement. It was the first time in two decades that Ministers met under the aegis of ESCAP to discuss trade. It also brought about the completion of major components of the Agreement’s revitalization package that participating States had launched at the start of the new millennium.

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<sup>1</sup> See General Assembly resolution 60/1 of 24 October 2005.

<sup>2</sup> See A/AC.2/56/7.

## I. THE OUTCOME OF THE SIXTH WTO MINISTERIAL CONFERENCE

### A. Results

4. Haunted by the Doha round's past failures (numerous missed deadlines and a failed ministerial conference in Cancún, Mexico), the Declaration adopted by the Sixth WTO Ministerial Conference is the product of a fractious preparatory process, punctuated by a flurry of cross-continental mini-ministerial meetings seeking to bridge gaping divergences among WTO members. In the lead-up to the Conference, it became clear that positions were too wide apart and that its outcome would not be the pivotal force that would re-establish the primacy of the multilateral trading system. At the same time, to the sceptics expecting a failure of the Conference, and perhaps even the demise of WTO as a trade negotiating forum, it became equally clear that this would not happen. In the end, pragmatism prevailed, as all members agreed to lower their level of expectations for the Conference in favour of consensus rather than breakdown. Countries of Asia and the Pacific played an increasingly influential and constructive role in forging the compromise.

5. The result of the Hong Kong Ministerial Conference is embodied in a 44-page Ministerial Declaration. The new elements of the Declaration include the following:

(a) In the area of agriculture, some progress was made under all three pillars of market access, domestic support and market competition. In regard to market access, tariff reduction will proceed within four bands, with the highest cuts on higher tariffs, while Aggregate Measure of Support reductions will be classified in three bands. It was agreed to end "all agricultural export subsidies and disciplines on all export measures with equivalent effect" by the end of 2013, with progressive phasing out such that a substantial part would be realized by the end of the first half of the implementation period. For cotton, it was agreed that developed countries would end all export subsidies in 2006, and that faster and deeper reductions in trade-distorting domestic subsidies should be realized than those under general agriculture commitment schedules.

(b) For non-agricultural market access, it was agreed to adopt the Swiss formula which reduces higher tariffs more steeply than lower tariffs. The numerical value of the coefficients (a determinant of the extent of tariff harmonization) and differential values of the coefficient for developed and developing countries have yet to be determined.

(c) Developed and developing countries declaring themselves in a position to do so agreed to grant duty- and quota-free access "on a lasting basis" for at least 97 per cent of exports (as defined at the tariff line level) from the 32 least developed countries that are WTO members, by 2008 or no later than the start of the implementation period. While this implies that members can pick and choose products that will be excluded from duty- and quota-free access and that, in the long term, commitments might not be legally binding, it nevertheless represents a step forward on an issue that has been on the agenda for more than a decade.

(d) It was agreed to intensify negotiations on services through the request and offer modality, which remains the main method of negotiation, with a view to securing substantial commitments. A second round of revised offers is to be submitted by 31 July 2006, while a draft schedule of commitments on services is scheduled for completion by 31 October 2006.

(e) Negotiations on accession by Tonga were completed and Tonga will join WTO as its 150<sup>th</sup> member and ESCAP as its 32<sup>nd</sup> member.

(f) Technical assistance priorities of the Doha work programme were reaffirmed and an invitation extended to the Director-General of WTO to reinforce partnerships and coordination with other agencies and regional bodies in the design and implementation of technical assistance programmes.

(g) An invitation was extended to the Director-General of WTO to create a task force that will provide recommendations by July 2006 on how to operationalize Aid for Trade so that it contributes most effectively to the development dimension of the Doha work programme.

## **B. Implications for the region**

6. What are the trade and development implications for the region? A few issues which are of particular concern for development, the trade orientation of the ESCAP region and the future course of the Doha negotiations are highlighted below.

7. The Hong Kong Ministerial Declaration puts the Doha round back on track. By setting the stage for the conclusion of the Doha round by the end of 2006<sup>3</sup> it prevents the Doha round from meandering into oblivion: a process which could further erode the non-discriminatory principles of multilateralism and the rules embodied in its trading system. In fact, despite the difficulties, political commitment to the multilateral trading system remains high among both developed and developing countries. In Asia and the Pacific, however, it not only remains high, but is growing. In Hong Kong, China, ESCAP members and associate members, which were all represented at the ministerial level, made it vividly clear that any systemic departure from the primacy of the multilateral trading system would be costly and that those costs would fall disproportionately on developing countries. The smaller and poorer the country, the higher the costs would be. All other configurations of liberalization, be they bilateral, plurilateral or regional, are discriminatory and thus remain second-best policy options. Ideally, these configurations would evolve as complementary to the multilateral process, but an effective multilateral trading system is a necessary condition without which other configurations of liberalization will distort trade flows and thus detract from, rather than add to, global and regional economic prosperity.

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<sup>3</sup> On 1 July 2007, the Trade Promotion Authority, a negotiating authority given by the United States Congress to the President expires, which would add significant complexities to the whole process. The Declaration therefore underlines Ministers' resolve to complete negotiations successfully in 2006.

8. While the Declaration puts the Doha round back on track, an issue of fundamental importance is whether it holds the promise that the Doha round will correct the “development deficit” of the Uruguay round. In other words, is the development aspect of the round back on track? There is much less consensus among both ESCAP members and associate members, and other WTO members beyond the region, on this issue. While it is true that as long as the round is turning, no answer is definitive, expectations have been lowered. Pessimism permeates the negotiating environment, while warnings of a possible “minimalist” outcome ring loud.

9. A key challenge facing ESCAP members and associate members over the next year will be how to keep development expectations high. In fact, trade-dependent countries of the region can ill afford to lose yet another opportunity for turning trade into a poverty-fighting mechanism. This presents important trading developing countries of the region with a unique challenge that they could turn into an opportunity if they seize the moment to exert new leadership.

10. The development impetus for the ESCAP region will come from a substantial improvement in market access for all the products and services produced by the poor and for which this region has a comparative advantage. Providing improved access for agricultural exports from developing countries into developed as well as other developing countries is essential to alleviating poverty and raising living standards. The poor live mainly in rural areas and 2.5 billion of the world’s 2.6 billion farmers reside in developing countries. Not only do the majority of these farmers reside in the ESCAP region, they also live below the poverty line. At the same time, due recognition should be given to the principles of equity embodied in concepts such as special products and special safeguard mechanisms, since food security, livelihood security and rural development needs are poverty-reducing objectives. In agriculture, neither the pursuit of trade liberalization per se, nor the single-minded pursuit of commercial interests should undermine these development objectives.

11. This region also has a considerable interest in the export market for services. The temporary migration of skilled and unskilled workers features as a prominent interest. For example, it has been estimated that a worker inflow from developing countries amounting to 3 per cent of the total workforce in developed countries would generate an additional US\$ 156 billion per annum in world welfare (about 0.6 per cent of world GNP). Most of the gains are attributable to the liberalization of restrictions on unskilled rather than skilled labour. As pointed out repeatedly, if more capital flows to developing countries were matched by more labour flows from them, developing countries would be major beneficiaries.<sup>4</sup> Developed countries would gain as well, given the ageing of populations and the long-term impact of such demographic shifts on labour market shortages, sustainability of pension schemes, etc.

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<sup>4</sup> ESCAP Studies in Trade and Investment No. 56, *Delivering on the WTO Round: A High-level Government-Business Dialogue* (ST/ESCAP/2393), 2005.

12. Developing countries of this region are being challenged to come up with improved market access offers in all sectors under negotiation. While such offers are viewed as concessions, or “price to pay”, in a multilateral trading system based on reciprocity, or quid pro quo bargaining, it is the commercial value of such concessions that will ensure that developed countries find it attractive enough to remain committed to the process. Compared to previous rounds, developed country business interest in this round has been less prominent. The challenge facing trade dependent countries of the region is thus how they might harness the traditional reciprocity dynamics of WTO to move forward on their market access expectations.

13. Efforts to lock Organization for Economic Cooperation and Development (OECD) countries into the negotiations are inextricably linked to re-engaging commercial interests in the negotiations. In the ESCAP region, bold liberalization offers in the services sector could pave the way forward. From a development perspective, gains from more open services trade could be substantially greater than those from liberalizing trade in goods alone. Liberalization in the service sector, combined with appropriate regulatory regimes, could open up innovative avenues that stimulate economic growth and transformation into modernism, allowing developing countries to leapfrog some of the traditional stages of development. No economy can modernize under the yoke of an inefficient and overregulated service sector. At the same time, service industries in developed countries are seeking access to new markets. Yet services trade liberalization continues to be the Cinderella in trade negotiations, be they at the multilateral or regional levels, with most countries maintaining defensive positions. A jump-start from Asia and the Pacific is needed. Efforts made in the current round of Doha negotiations by one or two increasingly dynamic service exporters from this region are worthy of further support by other developing countries of this region. The ESCAP secretariat could provide assistance in undertaking further analytical work on the subject, as indicated in the last section of this document.

### **C. Going beyond market access: trade policy and development in its wider context**

14. As has been argued above, developing countries need market access first and foremost to grow their way out of poverty. The rationale for freer trade under multilateral rules having been set out, it is equally true that no matter how large or small the new openings will be, the gains to be harvested from future new market opportunities will depend heavily on the ability of developing countries to take advantage of them. Developing countries of this region vary widely in terms of their ability to trigger supply-side responses. Consequently, a global consensus has evolved that additional Aid for Trade is an essential complement to an ambitious Doha outcome. A generous and dedicated Aid for Trade fund should finally start doing what neither the “Aid not Trade” nor “Trade not Aid” approaches could do in the past: tackle head-on national competitiveness constraints which have so far prevented the eradication of poverty at its sources. At the same time, the Hong Kong Ministerial Declaration is emphatic that Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda, particularly on market access. However, it can

be a valuable complement to the Agenda, particularly for least developed countries and other developing countries with supply-side constraints.

15. A second aspect of Aid for Trade in the context of the Doha round is the important effect it can have as a redistributive mechanism. Losses and distributional impacts accompanying a change in trade policy can be large and they can give rise to thorny political sensitivities. Both across nations and between different groups of people, gains and costs will not be shared equally. This has considerably slowed the willingness of countries to embark on liberalization.

16. Furthermore, poorer countries, notably least developed countries, fear additional losses from the erosion of preferential access into developed countries; the deeper the Doha most-favoured-nation tariff cuts, the more the existing preferential margins will be eroded. They are also concerned about the balance-of-payment effects and other negative impacts of rising food prices following the reform of agricultural subsidies. Seen from a global perspective, while it is true that preference erosion will be concentrated in relatively few countries and products, and that preferences are also most valuable on products - such as sugar and bananas - for which access is restricted by quotas, the losses could be huge and devastating for vulnerable countries. Expanded and predictable aid action to offset these effects thus assumes urgency and importance.

## **II. THE REGIONAL TRADING AND INVESTMENT PANORAMA**

17. As developed and developing countries seek to manage more effectively their increasingly interdependent economic relationships, no country in the Asian and Pacific region is underestimating the difficulty of turning high political commitment to multilateralism into a policy of first choice that will deliver concrete development benefits. The journey ahead is long and a minimalist outcome looms as a distinct possibility. Against this complex multilateral background, regionalism is a key component of the new international trade order. It offers Governments of developed and developing countries alike an attractive and complementary strategy. The ESCAP region, although a relatively late starter, has experienced very rapid changes in the configuration of regionalism. Geopolitical objectives, security issues, historical relationships, cultural and religious affinities, none of which act in isolation, have all influenced regionalism. This document, however, in accordance with the ESCAP mandate and its terms of reference, does not delve into these subjects, notwithstanding their importance, whether as motivators or as consequences of enhanced trade relations. The focus is on trade, investment and development.

18. In line with the growing importance of intraregional trade, the region has become the most prolific in generating new regional agreements, the majority of which are bilateral. Cross-continental arrangements with the United States of America also feature prominently. These agreements have their particular merits and ability to address targeted policy objectives. If they are well designed around low tariffs and non-restrictive, simple and transparent rules of origin, and are accompanied by appropriate



regulations, in short, if they are consistent with WTO rules and principles, they can play a constructive role in reconciling trade and development objectives. However, their sheer number has caused great concern. There are currently 86 regional and bilateral trade agreements involving ESCAP members and associate members, either under negotiation or in operation. Even more bilateral investment agreements are in existence. Their widely differing provisions, rules and procedures have greatly increased the opacity of the trading environment, with the conduct of trade and investment decision-making becoming much more unpredictable and costly, especially for small traders. They have also made it difficult for countries individually to monitor these developments and analyse their impact. Already there is evidence, albeit anecdotal, that some bilateral agreements have led to both trade and investment diversion.

19. Similar patterns have emerged in international investments. Negligible until the 1990s, developing countries' outward foreign direct investment (FDI) has emerged as a significant source of FDI in other developing countries in the region. China and India have joined Malaysia, the Republic of Korea and Singapore, among others, in making intraregional investments. As a result, the rate of intraregional investment in some years has grown faster than that between developed and developing countries, with trade in services accounting for a growing share of international investments (about two thirds). More than 2,000 bilateral investment treaties are in existence, the vast majority of them concluded between developing countries in the last few years. Each treaty contains significant differences in the strength of provisions, so as to accommodate specific development concerns of each country. At the same time, wide differences bring disadvantages linked to policy opacity and investment diversion.

20. Bilateral investment treaties generally do not address investment-trade interrelations. Recently, however, investment provisions have begun to feature more prominently in the bilateral trade agreements, a reflection of the growing interlinkages between trade liberalization and investment flows. Bilateral agreements are thus evolving into multi-policy economic partnership agreements that seek to forge economic cooperation over a much wider scope of policymaking than ever before.

21. Decision makers are confronted with an ever more complex trade and investment environment, and the need for further research and analysis based on a more rigorous study of the implications of these agreements has become acute. It would be useful for additional analytical tools to be designed to assess the development contribution of such arrangements; a streamlining of the provisions of such agreements through the development of a model or framework agreement would also be useful. Future work that the secretariat could undertake is elaborated on in the last section of this document. The next section assesses recent developments concerning the Asia-Pacific Trade Agreement (APTA).

### III. THE FIRST SESSION OF THE MINISTERIAL COUNCIL OF APTA

#### A. From the Bangkok Agreement to APTA

##### 1. A brief review

22. The First Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific, which became known as the Bangkok Agreement, was signed in July 1975. ESCAP was designated as the secretariat of the Agreement.

23. The Bangkok Agreement was essentially a preferential trading arrangement designed to liberalize and expand trade progressively in the ESCAP region through such measures as the relaxation of tariff and non-tariff barriers, and trade-related economic cooperation. The Agreement was not designed to divert or restrict trade from countries but to expand mutual trade through fuller exploitation of their trade potential, expansion of productive capacities and higher economic growth. The General Agreement on Tariffs and Trade (GATT) Council, through a working party, reviewed the Bangkok Agreement and adopted its report<sup>5</sup> on 14 March 1978.

24. The second round of negotiations was completed in 1990 and resulted in tariff concessions being exchanged on 438 items, in addition to 63 items for which special concessions were extended to Bangladesh. The extent of tariff concessions varied among the participating States, ranging from 13 to 30 per cent. The accession of China to the Bangkok Agreement in 2001 had major implications for the Bangkok Agreement specifically and for trade in the Asian and Pacific region more generally. Its accession also triggered measures to revitalize the Agreement, which until then had completed two rounds of tariff negotiations with rather limited results.

25. The offer list of China upon accession substantially increased the number of items being given preferential treatment to 739, in addition to 18 items for which special concessions were offered to least developed member countries. Following the accession of China, participating States were of the view that the Agreement had great potential to trigger trade and, in a wider sense, economic cooperation among its members, but that it required strengthening in order to fulfil its potential. They agreed on a series of revitalization measures. The status of implementation of these measures is briefly outlined below:

(a) *Amended text of the Agreement.* The text of the Bangkok Agreement has been amended to reflect changes that have taken place in the international trading system since the original text of the Agreement entered into force. The amended text contains for the first time a set of common preferential rules of origin.

(b) *Ministerial Council.* Participating States established the Ministerial Council under the Bangkok Agreement to provide overall policy direction for the future negotiating agenda of the Agreement. The first session of the Ministerial Council was held in Beijing on 2 November 2005.

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<sup>5</sup> 25S/109.

(c) *Third round of negotiations.* Participating States agreed that, in order to allow the Bangkok Agreement to realize its full potential, trade among themselves would need to be further liberalized. It was in this spirit that the third round of negotiations was launched in October 2001, with the goal of deepening and widening concessions so as to increase intra-member trade flows to significantly higher levels than was the case up to then. Participating States completed the third round of negotiations and consolidated the results of the third round with those of the second round in 2005; implementation will come into effect by 1 July 2006.

(d) *Expansion of membership.* Participating States agreed that in order for APTA to fulfil its potential as a region-wide preferential trade agreement, expansion of membership was an important cornerstone of the revitalization efforts.

(e) *Engagement of the business sector.* Participating States agreed to continue to enhance government-private sector dialogue and raise awareness of the Bangkok Agreement preferences available to the private sector.

## **2. Results of the third round**

26. The third round of tariff concessions was completed in 2004 and resulted in preferential treatment on a vastly expanded number of products. As the preferences offered during the second round were expressed in absolute numbers, while those of the third round were expressed as margins in percentage terms over the most-favoured-nation rates, a consolidation exercise was necessary to reconcile the two rounds. This exercise has now been completed. Each participating State's concession list is contained in annex I to the Amendment to the First Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific, which is available at <http://www.unescap.org/tid/apta.asp>. Tables 1 and 2 below summarize the results. Special concessions for the least developed country members (i.e., Bangladesh and the Lao People's Democratic Republic) are in brackets.

27. Table 1 shows that the total number of products on which concessions were made increased from 1,721 before the third round to 4,270 after that round, with China and the Republic of Korea offering the highest number of products. The number of products on which special concessions have been made in favour of Bangladesh and the Lao People's Democratic Republic increased more than fivefold from 112 before the third round to 587 after the round. Equally important is how deep the concessions are compared with most-favoured-nation rates. Analysis shows that on the basis of simple averages for the margin of preference, the Republic of Korea currently offers the highest margin of preference, as shown in table 2.

**Table 1. Results of the third round: widening of the concessions  
(number of products)**

| Country                          | Before the third round | After the third round |
|----------------------------------|------------------------|-----------------------|
| Bangladesh                       | 129                    | 209                   |
| China                            | 902 (18)               | 1 697 (161)           |
| India                            | 188 (33)               | 570 (48)              |
| Lao People's Democratic Republic | -                      | -                     |
| Republic of Korea                | 214 (29)               | 1 367 (306)           |
| Sri Lanka                        | 288 (32)               | 427 (72)              |
| <b>Total</b>                     | <b>1 721 (112)</b>     | <b>4 270 (587)</b>    |

Source: ESCAP secretariat.

**Table 2. Results of the third round: deepening the concessions  
(simple averages of margin of preference in percentages)**

| Country                          | Before the third round | After the third round |
|----------------------------------|------------------------|-----------------------|
| Bangladesh                       | 14.0                   | 14.1                  |
| China                            | 15.4 (55.1)            | 26.7 (77.1)           |
| India                            | 52.6 (32.2)            | 32.5 (48.5)           |
| Lao People's Democratic Republic | -                      | -                     |
| Republic of Korea                | 30.3 (38.2)            | 35.7 (66.1)           |
| Sri Lanka                        | 17.8 (14.0)            | 20.2 (16.9)           |
| Total                            | 21.6 (32.2)            | 29.0 (61.7)           |

Source: ESCAP secretariat.

28. The importance of the third round is further demonstrated in table 3, which shows the extended coverage of concessions in terms of 2003 total imports. The figures show a significant increase in coverage in all member States. The case of China is of particular interest: imports of items on which China granted concessions make up almost 63 per cent of the country's total imports. This high percentage of imports covered under the Agreement demonstrates the potential for other participating States to increase their exports to China.

**Table 3. Extended coverage of concessions under the third round  
(percentage of 2003 total imports)**

| Country                          | Before the third round | After the third round |
|----------------------------------|------------------------|-----------------------|
| Bangladesh                       | 0.9                    | 4.4                   |
| China                            | 12.0                   | 62.6                  |
| India                            | 1.2                    | 15.9                  |
| Lao People's Democratic Republic | -                      | -                     |
| Republic of Korea                | 2.5                    | 33.6                  |
| Sri Lanka                        | 3.2                    | 10.8                  |

*Source:* ESCAP secretariat.

## **B. A vision for the future**

### **1. APTA and the consolidation of regional trade agreements in the Asian and Pacific region**

29. As argued above in section II, the proliferation of regional trade agreements, including bilateral trade agreements, and multi-agreement membership raises concerns linked to inefficiency, duplication, trade and investment diversion, etc. Bangladesh, for instance, is a member of the South Asia Free Trade Area (SAFTA), the Bay of Bengal Multisectoral Technical and Economic Cooperation Initiative (BIMSTEC) Free Trade Area and APTA, inter alia. India, Sri Lanka and Thailand are among other countries in a similar position. In addition, all trading nations of the region, albeit to varying degrees, are involved in a large number of bilateral trade agreements with various countries and groupings outside the region. China has emerged as a major player linked to the rest of the region through various regional and bilateral trade agreements. The Association of Southeast Asian Nations

(ASEAN)-China Free Trade Agreement will encompass a large percentage of intraregional trade by 2010, according to current expectations. The picture in Central Asia is equally varied. Countries are members of various overlapping regional cooperation mechanisms, which often include free trade agreements.

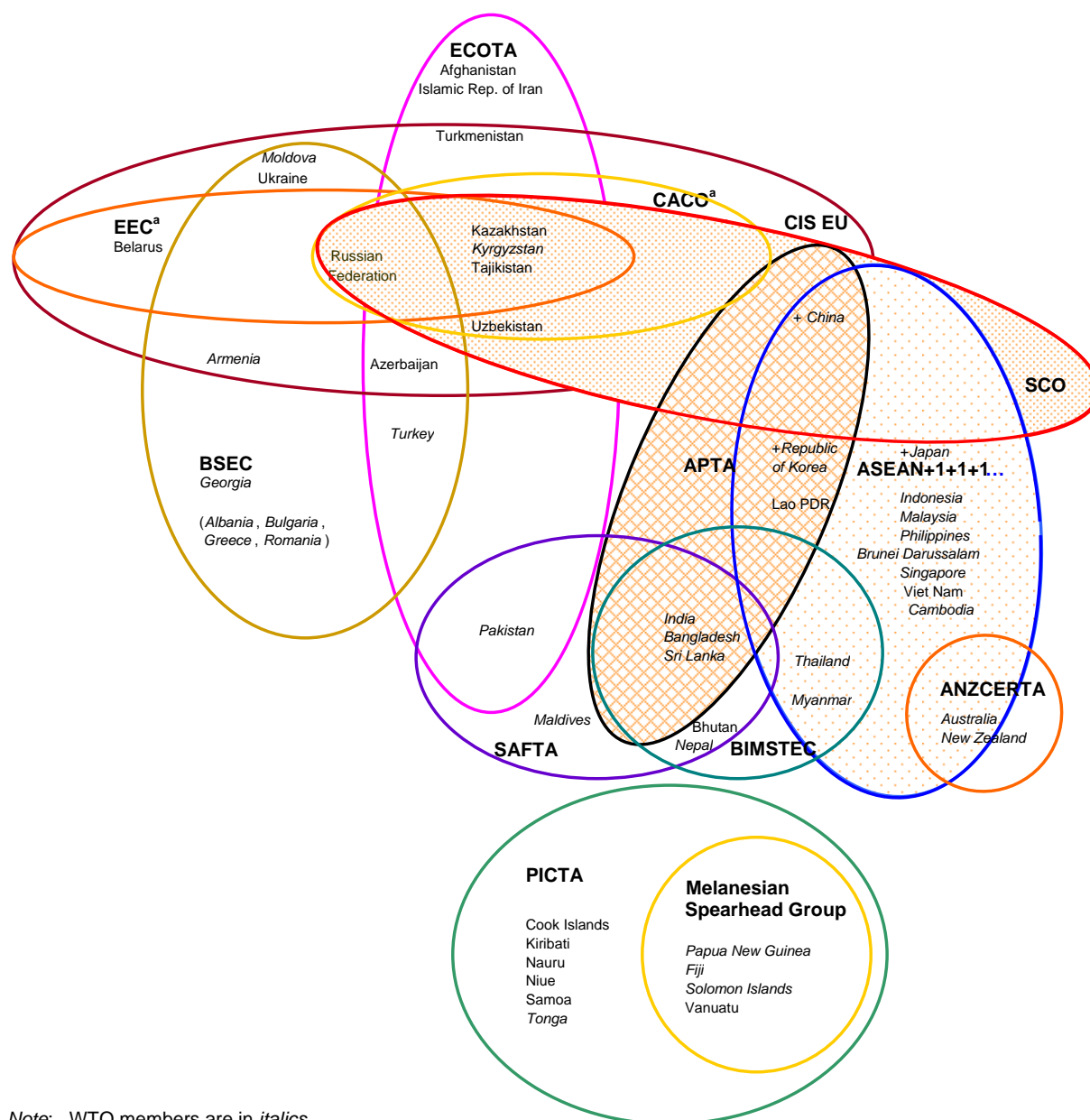
30. There are concerns that the management of all these agreements is a burden to both the public sector and business alike. Many businesses, especially small and medium-sized enterprises often forego the relatively minor gains to be had from preferential access because of the high administrative costs involved. In fact, the track record of regional trade agreements in the region is mixed, with utilization rates of preferential tariffs estimated at between 5 and 20 per cent.

31. A consensus seems to be growing that there is scope for consolidation of at least some of the regional trade agreements in the ESCAP region in order to improve transparency and to streamline and reduce the many overlapping and sometimes conflicting rules.

32. An important question is whether APTA can fulfil the role of integrating, or at least harmonizing and consolidating, the many regional trade agreements in the region. APTA has certain characteristics which could make it one of the building blocks of a more integrated region. First, it has region-wide membership potential as the Agreement is open to all ESCAP developing members. As such, it embraces the concept of "open regionalism". Second, it is the only regional trade agreement in which the two most populous and fastest growing countries of the region, China and India, are members, and these two countries, together with the Republic of Korea, offer enormous market opportunities, actual and potential. Third, owing in large part to the fact that the APTA membership consists of countries at vastly different levels of development, APTA offers opportunities to exploit trade complementarities and therefore has the potential to act as a bridge between South and South-East/East Asia. Fourth, APTA is the product of a long negotiating history and thus has an evolved text with common rules of origin already agreed to.

33. Figures I and II show the potential of APTA in this regard. While figure II clearly shows the important potential of APTA for consolidating South and South-East Asia, figure I shows APTA as one of three major axes of integration in the region.

Figure I. Axes of integration in Asia and the Pacific



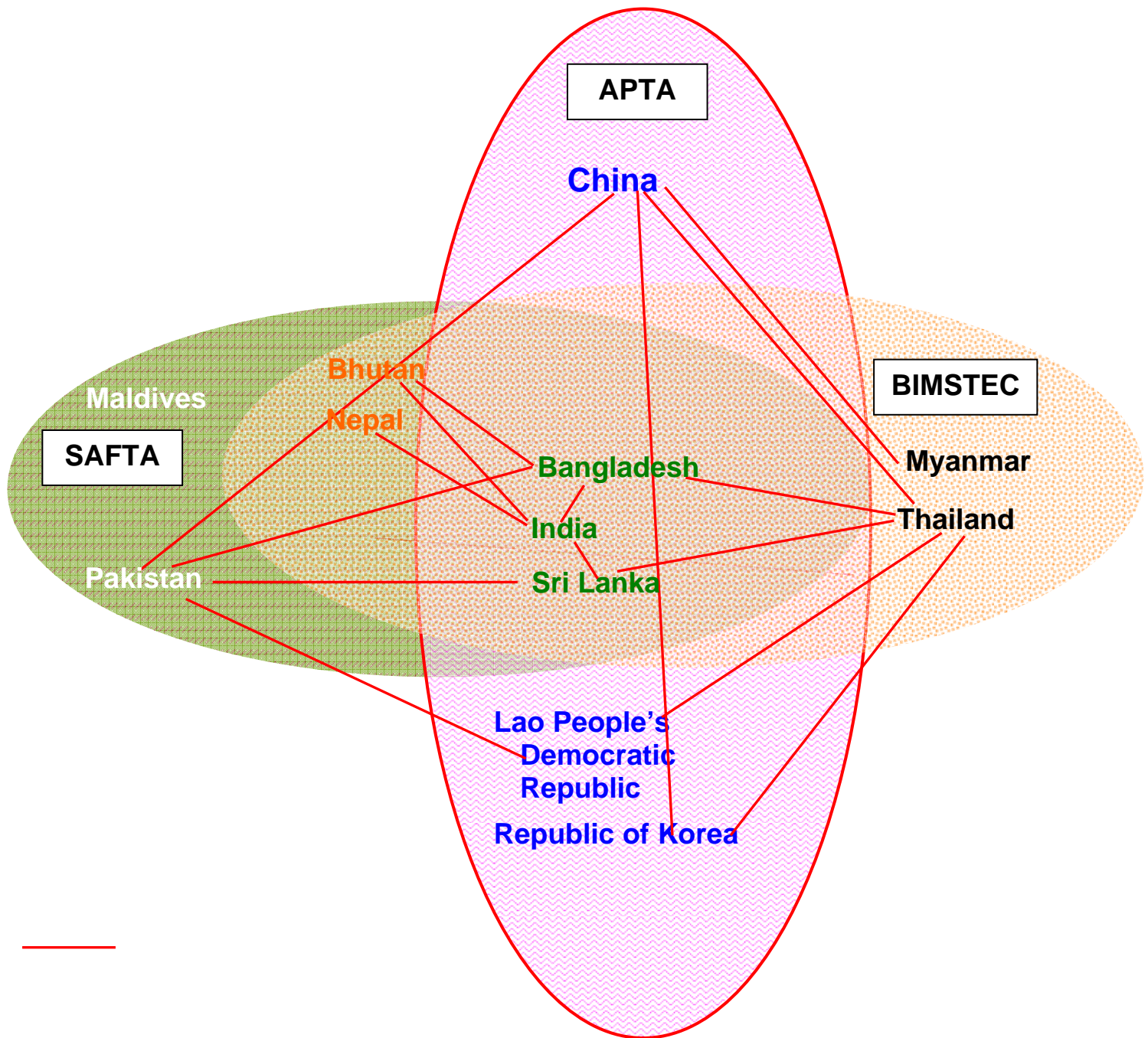
Note: WTO members are in *italics*.

<sup>a</sup> It was decided at the CACO Summit held in St. Petersburg in October 2005 that CACO would merge with EEC.

### Abbreviations

|          |   |
|----------|---|
| ANZCERTA | Australia and New Zealand Closer Economic Relations Agreement             |
| APTA     | Asia-Pacific Trade Agreement  |
| ASEAN    | Association of Southeast Asian Nations                                    |
| BIMSTEC  | Bay of Bengal Multisectoral Technical and Economic Cooperation Initiative |
| BSEC     | Black Sea Economic Cooperation  |
| CACO     | Central Asia Cooperation Organization                                     |
| CIS EU   | Commonwealth of Independent States Economic Union                         |
| ECOTA    | Economic Cooperation Organization Trade Agreement                         |
| EEC      | Eurasian Economic Community   |
| PICTA    | Pacific Island Countries Trade Agreement                                  |
| SAFTA    | South Asia Free Trade Area  |
| SCO      | Shanghai Cooperation Organization   |

Figure II. Geographical consolidation through APTA



Note: The connecting lines denote major bilateral agreements under study, under negotiation or recently concluded.

34. Figure I also shows that through China's membership in APTA, the integration of Central Asia could be facilitated. The Shanghai Cooperation Organization could play an important role in this regard. Furthermore, the prospective membership of Pakistan in APTA could see the emergence of yet another axis for integrating Central Asia through linkages with the Economic Cooperation Organization Trade Agreement (ECOTA).



35. ASEAN, as a whole and through its individual member States' linkages, in various regional and bilateral trade agreement configurations with, inter alia, Australia, China, India, Japan, New Zealand and the Republic of Korea, represents an axis of integration of crucial importance. As APTA and ASEAN expand the scope of their commitments, there will be many possibilities to forge and strengthen ties between them.

36. The analysis above is based on the premise that regional trade agreements and the economic integration among developing countries it forges have a strong development component. Consolidation generates economies of scale and boosts the development of isolated and least developed countries, while better enabling individual countries to manage the globalization process. Politically, however, support for regional integration is not universal. Opponents have pointed out that the lingering historical conflicts may hamper deeper and wider regional integration. The heterogeneity of the region in terms of language, culture, traditions and political systems may be an additional hindrance to further integration. At the same time, the European experience, and that of other regional groupings, demonstrates that while the road towards effective regional integration is long, difficult and resource-intensive, the economic benefits of integration could in the long run surmount the obstacles.

## 2. Strengthening APTA

37. Even upon the full implementation of the third round, APTA brings limited results, although the benefits are increasing. Table 4 shows the current trade between APTA members.

**Table 4. Current trade between APTA members (percentage)**

| Country                          | Share of total export | Share of total import |
|----------------------------------|-----------------------|-----------------------|
| Bangladesh                       | 1.7                   | 31.2                  |
| China                            | 6.1                   | 12.5                  |
| India                            | 10.7                  | 9.6                   |
| Republic of Korea                | 21.4                  | 14.0                  |
| Lao People's Democratic Republic | 2.3                   | 11.1                  |
| Sri Lanka                        | 7.7                   | 26.8                  |
| All APTA countries               | 10.6                  | 12.1                  |

Source: Secretariat calculations based on International Monetary Fund, *Direction of Trade Statistics*, 2005.

38. APTA is the result of many years of negotiations among key Asian economies, gained momentum with the accession of China to the Agreement. If APTA is to play a pivotal role in forging regional cooperation, much will depend on the vision and leadership its current members will show. At times, pioneering political decisions will be required if the Agreement is to be a mechanism for exploiting regional trade and investment complementarities and reconciling the trade and development challenges. APTA could eventually evolve into a regional forum on trade where participating States could forge greater regional solidarity, for example by ironing out differences and coordinating their

WTO positions, while also supporting and providing direct assistance to those participating States which are not yet members of WTO in their accession process. Participating States will need to keep the big picture in mind and work in a spirit of cooperation, compromise and flexibility, especially with regard to technical and procedural issues. The secretariat remains committed to supporting APTA participating States in achieving these objectives and is, as always, led by the vision and directives of its membership. Ministers at the first session of the Ministerial Council of APTA adopted a ministerial declaration which affirms the commitment of APTA participating States to strengthening the Agreement in terms of its scope, coverage, depth of concessions and membership. The Declaration is annexed to the present document.

39. What scenarios might emerge over the long term?

(a) *Deepening and expanding the concessions.* Concessions are of a preferential nature, i.e. they offer a margin of preference over WTO most-favoured-nation rates. They are also product-specific, that is, negotiated on a product-by-product basis. For some products, the margins of preference are quite high, in the case of others they are rather low. The possibility of adopting a truly free trade agreement with zero tariffs on trade among APTA members (with the exclusion of a sensitive list) could be considered. Tariff liberalization would proceed on the basis of a negative list approach and would thus cover substantially all trade in the spirit of article XXIV of the GATT. While APTA is an “enabling clause” agreement, and therefore more concerned with trade and development objectives, than with the coverage of substantially all trade per se, under such a scenario its credibility would be significantly enhanced. The package of benefits for its current and prospective members would increase, while it would also emerge as a solid building block of the multilateral trading system. Rules of origin could also be relaxed over time, allowing for more extensive cumulation with non-APTA members in some cases.

(b) *Expanding the scope of the Agreement.* Coverage could be expanded beyond trade in goods and incorporate trade facilitation measures, trade in services and possibly even intellectual property rights and investment. While investment has proved a sensitive subject in the multilateral trade negotiations, as was argued above, intraregional FDI is increasing rapidly, with developing countries playing an increasingly important role as sources of FDI. Trade liberalization further boosts FDI, thus bringing about mutually reinforcing linkages. The creation of an APTA investment area could be limited to investment provisions that seek to liberalize FDI from participating States in other participating States while forging cooperation to attract FDI from non-APTA countries. At the same time, collaboration in intellectual property rights would help attract FDI and boost both intra-APTA trade and trade with non-APTA members. Trade facilitation measures would also significantly boost trade across the board, possibly even more than tariff reductions.

(c) *Expanding the membership.* The current membership of APTA cuts across Asia but is at present limited to only six countries. Expansion of the membership would significantly boost the

credibility of APTA as a pan-Asian regional trade agreement. Countries that are actively considering membership include Cambodia, Kazakhstan, Kyrgyzstan, Mongolia, Myanmar, Nepal and Pakistan. The secretariat, with funding assistance provided by the Republic of Korea, is currently organizing seminars for prospective members while undertaking analytical work on the potential benefits to those countries.

(d) *Engagement of the private sector.* It is essential that the private sector be apprised of APTA and its potential benefits. After all, while Governments negotiate, it is business which conducts trade. As APTA expands, an APTA business forum could be established. In the meantime, the Asia Pacific Business Forum (APBF) could act as an important forum through which APTA, its recent development and future direction could be discussed between Governments and business.

#### **IV. IMPLICATIONS FOR REGIONAL TECHNICAL COOPERATION AND THE SECRETARIAT'S PROGRAMME OF TECHNICAL ASSISTANCE**

40. According to the joint OECD/WTO trade capacity-building database, to which the secretariat reports, since the launch of the Doha Development Agenda, the volume of trade-related technical assistance increased steadily to reach US\$ 3 billion in 2004, making up about 4.4 per cent of total aid commitments. The ESCAP region accounted for only 9 per cent of ODA directed towards trade.<sup>6</sup> One reason may be that, with its rapid growth and outward orientation, this region is perceived as needing less trade assistance than other regions. On the other hand, it is home to two thirds of the world's absolute poor. Furthermore, developed countries have an important trading stake in this region. At the same time, global trade frictions increasingly involve dynamic developing countries of this region, while a number of vulnerable countries in this region face increased marginalization from trade and investment flows. Trade and investment relations thus present a complex picture in this varied region.

41. At the Sixth WTO Ministerial Conference, Japan, the European Communities and the United States were among those that made generous pledges of trade assistance, amounting to about US\$ 15 billion in total. The modalities of how additional funding should be administered, allocated and monitored have yet to be worked out. For example, will resources be provided in grant or loan form, will additional resources be provided or will there be a reallocation of existing resources to trade, and how will funds be distributed among global, regional and country programmes? Notwithstanding these issues, a few basic principles hold. Generally, support should take the form of grants, it should be credible and predictable and cover more countries than just least developed countries. Support should also be based on a process of identification of trade capacity requirements that is truly country driven and owned, and which has its processes and outcomes independently monitored.<sup>7</sup>

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<sup>6</sup> Economic infrastructure development (transport, energy and telecommunications) accounted for a higher share, at 40 per cent.

<sup>7</sup> See ESCAP Studies in Trade and Investment No. 56, *Delivering on the WTO Round: A High-level Government-Business Dialogue* (ST/ESCAP/2393), 2005.

42. The United Nations system, in general, and a regional body such as ESCAP can expect to see an increase in demand for their trade capacity-building work in line with the global mandates, the Commission's specific mandates and the WTO Ministerial Declaration in which the WTO Director-General was invited to strengthen WTO programmes with regional bodies. The secretariat's future trade capacity-building work will be in line with these mandates. In this context, the secretariat's work will focus on assisting policymakers through monitoring, analysis and research of trade policy issues and approaches. The secretariat will provide a forum for interaction among policymakers, awareness raising, advocacy and training in support of policy environments that promote linkages between trade policy reforms, economic growth, poverty reduction and other development objectives. Well-established research and technical cooperation programmes and networks, including the WTO/ESCAP technical assistance programme, the Asia-Pacific Research and Training Network on Trade (ARTNeT), and the ESCAP/WTO/United Nations Conference on Trade and Development (UNCTAD) network of WTO acceding countries will continue to be expanded, subject to the availability of funding. For example, the secretariat has initiated preparations, in partnership with the WTO secretariat for the convening in Shenzhen, China from 15 to 19 May 2006 of a policy dialogue for senior trade officials on the regional implications arising from the Hong Kong Ministerial Conference.

43. A key component of the secretariat's work will be the continuation of its partnership with WTO in implementing the well-established WTO/ESCAP technical assistance programme. Technical assistance will also be provided in cooperation with other global trade and development institutions of the United Nations, notably the International Trade Centre UNCTAD/WTO (ITC), UNCTAD and the United Nations Development Programme (UNDP) and the donor community, notably the Governments of China, Japan and the Republic of Korea, the European Commission and the International Development Research Council (Canada) and Macao, China for the purpose of strengthening developing countries' capacity to formulate trade policy and regulatory reforms.

44. The benefits emanating from liberalization in the service sector will feature prominently in economic analysis and research over the next year. A novel display of developing countries' leading and maintaining a negotiating coalition in this sector, even though specific national interests may differ, could inject dynamism and renewed confidence into the Doha negotiations, as was argued above. Careful preparation and coordination among different ministries and with a range of private-sector interests are needed. Private-sector interests involve not just competing import firms, but more importantly those with export interests and those that are significant consumers of services. The future potential of such like-minded private-sector government coalitions came through vividly in the ESCAP/ITC high-level Government-Business Dialogue for Development, held in Macao, China from 4 to 6 October 2005.<sup>8</sup> ESCAP members and associate members would need to embark on follow-up

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<sup>8</sup> Ibid.

action towards achieving the potential benefits of such coalitions. The secretariat stands ready to assist its members and associate members through analytical and research support.

45. The Commission is invited to provide further guidance to the secretariat on these aspects of capacity-building work related to the Doha Development Agenda.

46. The Commission, at various sessions, has recognized that ESCAP, as a region-wide mechanism, has a unique role to play in forging cooperation on trade and investment, and has requested it to assist its members and associate members in monitoring and analysing the implications of the current proliferation of bilateral and regional trade agreements.<sup>9</sup> The secretariat has developed a database of these trade initiatives. It contains a “one-stop” web-based searchable function giving detailed, updatable information on the provisions of bilateral and regional agreements. To complement this descriptive information with analytical information, the secretariat has commenced work on:

(a) Statistical data sets on trade flows, commodity composition and services trade by individual agreements;

(b) The development of analytical measures and indicators of the development contribution of such agreements;

(c) Adding information relating to the coverage of each agreement (contingent protection, standards, services and other areas).

47. The overall objective is for the database to serve as an analytical basis for further work on building a comprehensive framework on trade and investment, as was endorsed by the Commission at its sixtieth session. Through an analysis of the data sets and in-depth study of the texts of existing agreements, a model agreement could be developed which might provide government negotiators with a practical tool, consisting of common guidelines and principles, for their negotiations of preferential trade agreements with developed and developing countries. A similar approach could be considered in developing a common framework for a model investment agreement. The secretariat could undertake exploratory analytical work on the provisions of investment agreements with the aim of devising a text that seeks to balance the rights and obligations of home country, host country and foreign investor in a pro-development manner. Such a model agreement could also be tailored to suit the particular needs of South-South investment agreements.

48. Finally, within its overall programme of monitoring, analysing and assessing the development contribution of regional and multilateral trade agreements for a more equitable globalization process, the secretariat will continue to serve as the secretariat to APTA. In this regard, the possibility of APTA emerging as a common region-wide framework will also be explored. Furthermore, as the Agreement expands over time, in terms of membership, coverage and importance, there would be a need to

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<sup>9</sup> See, for example, the report of the Commission on its sixtieth session, at which the secretariat was requested to undertake an in-depth study of regional and bilateral trade agreements under way in the region (E/2004/39-E/ESCAP/1330, para. 161).

strengthen the secretariat, through the establishment of an APTA service centre with commensurate staffing and resources.

49. The Commission is invited to consider these areas of work and provide further guidance to the secretariat on its future direction of work.

## V. CONCLUSIONS

50. There is little doubt that the region has emerged as a major global consumer, investor and trader in its own right, thus playing an important role as a building block of the multilateral trading system. Therefore, more should be done in the context of the Doha Development Agenda to help trade achieve poverty reduction. Measures taken to date to promote pro-poor trade liberalization have been of limited effectiveness, not least because the Doha Development Agenda has not moved forward sufficiently. The year 2006 will be an important year for the world's poor, as it is the year in which, through compromise and concerted action, the primacy of multilateralism as a platform for more open trade, economic development and peaceful interdependence among nations could be re-established. A parallel growth in compensatory packages and Aid for Trade will also be needed to advance the position of poorer countries.

51. At the same time, ESCAP members and associate members will be challenged by global events to pursue more rational, inclusive and bolder forms of regional cooperation in trade and investments. As new economic opportunities in the region emerge, countries' confidence in opening up to each other's economies is expected to grow and to promote regional integration across a wide spectrum of policymaking. APTA holds the potential for ESCAP developing members and associate members to break new ground in trade and investment relations and peaceful interdependence. The Asian and Pacific era is dawning. The opportunities for addressing the problem of poverty await the region's collective decision.

*Annex*

**Ministerial Declaration of the first session of the Ministerial Council  
of the Asia-Pacific Trade Agreement**

We, the Ministers of the Participating States of the Asia-Pacific Trade Agreement, hitherto called the First Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific (Bangkok Agreement), gather today in Beijing, China, for the first session of the Ministerial Council of the Asia-Pacific Trade Agreement.

We reaffirm our commitment to the objectives of this Agreement, notably to promote economic development through a continuous process of trade expansion among the developing member countries of the Economic and Social Commission for Asia and the Pacific, and to further international cooperation through the adoption of mutually beneficial trade liberalization measures consistent with their respective present and future development and trade needs.

With a population coverage of close to 2.5 billion, and with the participation of some of the fastest growing economies in the world, we wish to highlight the vast potential of the Asia-Pacific Trade Agreement as the only region-wide forum for trade expansion and economic cooperation between countries in the Asia-Pacific region.

We note that the international trading system has changed considerably since the Agreement was signed in 1975, and recognize that the establishment of a rules-based multilateral trading system embodied in the World Trade Organization will benefit all countries actively participating in the system. While fully embracing the ideals of global trade liberalization, we also have a vision of region-wide cooperation on trade, investment and related issues and, aware of the potential of the Asia-Pacific Trade Agreement in this respect, invite other countries in the region to join this unique forum, whose coverage we would like to see gradually expanding to include trade facilitation issues and trade in services.

We are pleased to announce that the text of the Agreement has been revised to take into account the global developments that have taken place in recent years. We are happy to note that the third round of negotiations under the Asia-Pacific Trade Agreement has been concluded and announce that the tariff concessions will be put in place with effect from 1 July 2006, upon completion of the internal procedures of all Participating States. We direct the Committee to make suitable recommendations, including the timing for launching of the fourth round of negotiations for tariff liberalization, and suggest measures of cooperation for further enhancing trade and investment flows, consistent with our objective of deepening and widening the scope of the Agreement. We commit ourselves to exploring all options for further trade liberalization between our countries, while accommodating the special concerns of least developed member countries through special and differential treatment.

We express our appreciation to the Standing Committee as well as the ESCAP secretariat, who have worked hard to revitalize the Agreement. We recognize the work that has been undertaken by ESCAP in its role as secretariat to the Agreement since 1975. We also recognize that the breadth and depth of the Agreement will continue to increase in the coming years, and therefore endorse a substantial strengthening of the secretariat.

We have observed that our region is seeing the establishment of several regional trade arrangements, including bilateral trade agreements. We see the spread of these agreements as a positive move towards the liberalization of trade in the region, but would emphasize the need for such agreements to ultimately contribute to promoting trade and investment flows in the region and at the global level as a whole. In order to ensure this outcome, we would like to explore possibilities that might exist for the Asia-Pacific Trade Agreement to evolve into a common framework mechanism for all regional trade arrangements in the region.

We express appreciation to the Government of India for its offer to host the second session of the Ministerial Council of the Asia-Pacific Trade Agreement before the end of 2007.

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