

ASIA-PACIFIC TRADE AND INVESTMENT REPORT 2009

Trade-led Recovery and Beyond



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ASIA-PACIFIC
TRADE AND INVESTMENT REPORT
2009

*Trade-led Recovery
and Beyond*



United Nations

New York, 2009

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

ASIA-PACIFIC TRADE AND INVESTMENT REPORT 2009

Trade-led Recovery and Beyond

United Nations publication
Sales No. E.09.II.F.19
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Manufactured in Thailand
ISBN: 978-92-1-120586-2
ST/ESCAP/2549

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FOREWORD

As many countries in the Asia-Pacific region struggle to recover from the current economic crisis, the sharp drop in trade and investment flows experienced over the last year have been stark reminders of the region's dependence on external economic ties. Asia and the Pacific is more economically integrated with the rest of the world than it is with itself. As countries in our region deploy fiscal stimulus packages and implement policy reforms it is timely to reflect on the need for a new approach to promote inclusive and sustainable development. It is also important to examine the measures required to promote intraregional trade as a means of diversifying our region's future engines of growth.

With a focus on the theme *“Trade-led Recovery and Beyond”*, the first issue of the Asia-Pacific Trade and Investment Report 2009 provides an in-depth analysis of recent trends and developments in trade and investment in the region just before and during the current crisis and seeks to explore issues related to the formulation of inclusive and sustainable trade. The report calls for a rebalancing of the roles of business and government in trade and trade policy formulation.

Trade policies have traditionally lacked sufficient links with poverty reduction objectives. Trade measures need to be specifically designed to target those sectors of the economy linked with small business, the poor and particularly with women. This will ensure that future trade-led economic growth is pro-poor and benefits people who need it the most. We need to improve the access to green technologies and services that help countries mitigate and adapt to the impacts of climate change and use resources in a sustainable manner. Simultaneously addressing these two challenges requires appropriate decision-making frameworks to be established with the necessary indicators to measure performance.

The report considers the roles of the multilateral trading system and the ever expanding network of regional and bilateral trade agreements in promoting trade. ESCAP supports the primacy of the multilateral trading system based upon a set of universal, non-discriminatory, transparent and predictable rules. In this context, an early conclusion of the current Doha Round of multilateral trade negotiations which fully addresses the concerns of developing countries will help stimulate global economic recovery from the current economic crisis.

Regional trade agreements can provide an important complementary track towards promotion of intraregional trade for developing countries and create opportunities for those countries to diversify their trade in terms of products and markets. As the secretariat of the Asia-Pacific Trade Agreement, ESCAP is promoting this as a building block of regional integration as well as an integral part of the multilateral trading system.

The report calls for governments to act at both national and regional levels to facilitate trade and provide a conducive environment for business, including small and medium-sized enterprises. This includes addressing behind-the-border obstacles such as restrictive investment regulations and the lack of available trade finance. The report offers suggested actions at both national and regional levels to boost trade financing for business.

Business also has a responsibility to ensure that trade and investment are inclusive and sustainable. In this context, the report elaborates on options for maintaining and enhancing the international competitiveness of businesses with a special emphasis on the role of global and regional value chains. The report particularly calls on businesses to adopt the principles of corporate social and ecological responsibility as part of their efforts to strengthen their competitiveness and that of the value chains they are part of.

A pervasive argument throughout the report is the need for regional cooperation. While trade and development are of course primarily national level concerns, the cross-border nature of trade by definition requires strong cooperation among countries and economies of the region to promote intraregional trade and make it work for development and for poverty reduction. This requires reforms which are not always popular and require bold leadership. ESCAP is aiming to contribute to the debate on the importance of trade for inclusive and sustainable development. I call upon all governments of the region to consider the recommendations and suggestions offered by the report.

A handwritten signature in black ink, appearing to read 'Noeleen Heyzer', positioned above the printed name.

Noeleen Heyzer
Under-Secretary-General of the United Nations and
Executive Secretary of ESCAP

ACKNOWLEDGEMENTS

This report was prepared under the substantive direction and guidance of Mr. Ravi Ratnayake, Director, Trade and Investment Division (TID) of the Economic and Social Commission for Asia and the Pacific. The core team of authors, led by Marc Proksch, consisted of Mia Mikic, Yann Duval, Masato Abe and Naylin Oo of TID. Shamika Sirimanne provided valuable inputs regarding structure and contents of the report, while Mia Mikic reviewed all chapters. Eric Hermouet of the Statistics Division of ESCAP provided data and assisted with the calculation of indices for the annex tables. Other TID staff who contributed to the preparation of the report include Chorthip Utoktham, Dina Badry, Marit Nilses, Marinus Sikkell, Naylin Oo, Rommanee Suriyaarunroj, Taejun Oh, Wei Liu and Zhendai Yang. Ai Yuxin, K. Ramanathan, N. Srinivasan, Krishnan Srinivasaraghavan, Peter Brimble and Suman Basnyat provided substantive inputs to chapter 5.

The report benefited from an external peer review in the form of a group of experts which met in Bangkok on 14 and 15 July 2009. The experts provided valuable comments and suggestions which were incorporated in the report. They are: Mr. Shusen Li, First Secretary, Department of International Trade and Economic Affairs, Ministry of Commerce, Government of China; Mr. Sailendra Narain, Chairman, Centre for SME Growth and Development Finance, India; Mr. Biswajit Dhar, Director-General, Research and Information System for Developing Countries, India; Ms. Amalia Adininggar Widyasanti, Deputy Director for Trade, Directorate of Trade, Investment, and International, Economic Cooperation, State Ministry of National Development Planning, Government of Indonesia; Mr. Sjamsu Rahardja, Economist, World Bank, Indonesia; Ms. Mai Fujita, Associate Senior Research Fellow, Institute of Developing Economies, Japan External Trade Organization, Japan; Mr. Angelo Salvador M. Benedictos, Assistant Director, Bureau of International Trade Relations, Government of the Philippines; Mr. Chul Chung, Head, WTO Team, Department of Trade and Investment Policy, Korea Institute for International Economic Policy (KIEP), Republic of Korea; Ms. Dushni Weerakoon, Deputy Director and Fellow, Institute of Policy Studies, Sri Lanka; Ms. Sauwanee Thairungroj, Dean, Faculty of Economics, University of Thai Chamber of Commerce, Thailand; and Mr. Tran Quoc Trung, Ministry of Planning and Investment, Government of Viet Nam. The report has also drawn on reports prepared by a consultant, Anna Strutt, entitled "Some impacts of a global slowdown: a comparative static CGE analysis" and "Trade liberalization in ESCAP member economies: a comparative static CGE analysis".

The report was externally edited. Marc Proksch and Melanie Ramjoué of TID provided editorial support. Sanoma Lee Kellogg of the ESCAP Editorial Unit did a comprehensive spot check of the whole report. The layout and printing were provided by Erawan Printing and Parottawat Frank Dechsupha provided the design of the cover page. Charuwan Chongsathien and Waree Poontavilap proofread the manuscript and undertook all administrative processing necessary for the issuance of the report.

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ABBREVIATIONS

ADB	Asian Development Bank
AfT	aid for trade
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AMS	aggregate measures of support
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
AoA	Agreement on Agriculture
APCAEM	Asian and Pacific Centre for Agricultural Engineering and Machinery
APCTT	Asian and Pacific Centre for Transfer of Technology
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Trade Agreement
APTIAD	Asia-Pacific Trade and Investment Agreements Database
ARTNeT	Asia-Pacific Research and Training Network on Trade
ASEAN	Association of Southeast Asian Nations
BAFT	Bankers Association for Finance and Trade
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BITs	bilateral investment treaties
BTAs	bilateral trade agreements
CIS	Commonwealth of Independent States
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
Comtrade	United Nations Commodity Trade Statistics Database
CSR	Corporate Social Responsibility
DDA	Doha Development Agenda
DOTS	Direction of Trade Statistics
EBA	Everything But Arms
EC	European Commission
ECE	Economic Commission for Europe
ECO	Economic Cooperation Organization
ECOTA	Economic Cooperation Organisation Trade Agreement
EIU	Economist Intelligent Unit
EPZs	export processing zones
EST	environmentally sound technology
EU	European Union
EurAsEC	Eurasian Economic Community
EXIM	export-import

ABBREVIATIONS *(continued)*

FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
FTAs	free trade agreements
G-20	The Group of Twenty Finance Ministers and Central Bank Governors
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GMOs	genetically modified organisms
GMS	Greater Mekong Subregion
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences among Developing Countries
GTAP	Global Trade Analysis Project
GVC	global value chain
ICT	information and communication technology
ICTSD	International Centre for Trade and Sustainable Development
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPAs	investment promotion agencies
IPR	intellectual property rights
ISO	International Organization for Standardization
IT	information technology
ITC	International Trade Centre UNCTAD/WTO
JETRO	Japan External Trade Organization
M&A	mergers and acquisitions
MDGs	Millennium Development Goals
MEAs	multilateral environmental agreements
MFN	most-favoured-nation
MTS	multilateral trading system
NAFTA	North American Free Trade Agreement
NAMA	non-agricultural market access
NGOs	non-governmental organizations
NTBs	non-tariff barriers
NTMs	non-tariff measures

ABBREVIATIONS *(continued)*

ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OFDI	outward foreign direct investment
PACER	Pacific Agreement on Closer Economic Relations
PICTA	Pacific Island Countries Trade Agreement
PTAs	preferential trade agreements
R&D	research and development
RoW	rest of the world
RTAs	regional trade agreements
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SDT	special and differential treatment
SME	small and medium-sized enterprise
SPECA	United Nations Special Programme for the Economies of Central Asia
SPs	special products
SPS	sanitary and phyto-sanitary standards
SSM	Special Safeguard Mechanism
TNCs	transnational corporations
TRIMs	trade-related investment measures
TRIPS	trade-related aspects of intellectual property rights
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WIPO	World Intellectual Property Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization

SUMMARY OF ACTIONS FOR TRADE-LED RECOVERY AND BEYOND

A. OVERVIEW

This is the summary of the main conclusions and recommendations of the report. It presents a general strategy for using trade and trade policy as a valuable tool to achieve inclusive and sustainable development.

Trade has served the Asia-Pacific region well. It has enabled many countries of the region to boost economic growth and lift millions out of poverty. Globalization has helped lift barriers to trade and investment and drastically increased inter-dependencies among countries. However, it has also caused risks and uncertainties. The current crisis has revealed these risks and countries' vulnerabilities to external shocks as exports, FDI inflows and remittances have plunged. At the same time, the crisis also revealed that many countries rely on too few products and markets for their exports and continue to face major challenges in improving their supply-side capacities in an increasingly competitive global market. It is important to address those challenges and to evolve trade in such a way that it benefits all

countries and groups in countries in an equitable way and helps countries diversify and upgrade their economies.

Globalization has been the main driver of trade but relied too much on markets to generate wealth. It is now clear that markets can and do fail if left unchecked. Furthermore, it has also become apparent that for trade to raise living standards for all, it needs to be inclusive and sustainable. This requires appropriate government intervention. However, the role of government and the policies it needs to implement need to be well defined and formulated.

The region is highly diversified and "one size fits all" recommendations are by definition not appropriate. Therefore, the recommendations presented in this report can be tailored to the socio-economic conditions of a particular country or economy (or particular groups of countries and economies).

Using the framework for trade policy formulation as presented in the introduction of the report, the following table highlights the main recommendations.

Table. A strategy for trade-led recovery and beyond

The setting: general recommendations	
<ol style="list-style-type: none"> 1. <i>Get trade back on its feet and avoid protectionism</i> 2. <i>Balance exports with domestic demand</i> 3. <i>Formulate trade policies which are inclusive and sustainable</i> 4. <i>Mainstream trade in development strategies and ensure coherent and consistent trade and development policies at the national and regional levels</i> 5. <i>Assess the roles of government and business and promote public-private partnerships</i> 	<ol style="list-style-type: none"> 6. <i>Ensure a balance between stability (through regulation) and efficiency (through liberalization) of trade</i> 7. <i>Promote intraregional trade to diversify products and markets</i> 8. <i>Prepare contingency plans to address external shocks and absorb economic and social adjustment costs of restructuring processes</i>

Multilateral	
Market access	Supply-side capacity-building
<ol style="list-style-type: none"> 1. Strengthen and emphasize the primacy of the multilateral trading system (MTS) 2. Strive towards an early conclusion of a development-focused Doha Round 3. Ensure consistency of stimulus packages with WTO rules 4. Push for more active involvement in WTO decision-making to ensure an inclusive process 5. Join and utilize coalitions to advance the interests of individual countries 6. Ensure coherence and consistency in negotiation proposals, and due coordination and consultation of all stakeholders in multilateral negotiations 7. Use policy space and special and differential treatment to allow for an inclusive and sustainable reform process 8. Gradually reduce dependence on preferential schemes and strive towards long-term reciprocal trade arrangements 	<ol style="list-style-type: none"> 1. Identify focused needs for aid for trade (Aft) and build capacity for project formulation for donors in the area of trade 2. Ensure that Aft does not replace other ODA commitments and tangible market access commitments in the Doha Round. 3. Support a regional dimension of Aft
Regional	
Market access	Supply-side capacity-building
<ol style="list-style-type: none"> 1. Strengthen regional trade agreements (RTAs) in terms of coverage, depth of commitment and expand their membership to maximize trade 2. Ensure that RTAs contribute to inclusive and sustainable development 3. Consolidate the “noodle bowl” 4. Pay due attention to the Asia-Pacific Trade Agreement (APTA) 5. Evolve RTAs as building blocks of the MTS 6. Evolve RTAs as building blocks of wider economic integration frameworks 	<ol style="list-style-type: none"> 1. Support the development of regional value chains 2. Strengthen cooperation in supply-side capacity-building (possibly as part of RTAs) 3. Develop regional transit and trade facilitation mechanisms and speed up the implementation of existing ones 4. Deepen regional cooperation in trade finance and consider establishing regional mechanisms for this purpose
National	
Market access	Supply-side capacity-building
<ol style="list-style-type: none"> 1. Carefully assess unilateral trade measures on their costs and benefits for society at large 2. Undertake trade liberalization gradually and sustainably 3. Reform modalities for obtaining government revenue to offset tariff reductions 	<ol style="list-style-type: none"> 1. Boost international competitiveness <ol style="list-style-type: none"> (a) develop institutions (b) invest in R&D, technology development and develop IPR framework (c) focus on technical and vocational training (d) attract quality FDI (e) develop brand names (f) institutionalize public-private sector dialogue 2. Pay attention to behind-the-border trade facilitation and improving trade efficiency 3. Address the needs for trade finance 4. Develop a coherent national trade and investment regulatory environment 5. Encourage the greening of business and transform business as a principal building block of inclusive and sustainable development

Market access	Supply-side capacity-building
	<p>6. <i>Promote small and medium-sized enterprises as they are key to inclusive and sustainable development</i></p> <ul style="list-style-type: none"> (a) <i>pro-business regulatory reforms</i> (b) <i>supply-side capacity-building</i> (c) <i>enhanced access to finance</i> (d) <i>reform of public procurement systems</i> (e) <i>providing SME development services</i> (f) <i>entrepreneurship development for innovation</i> (g) <i>promoting good corporate governance</i>

B. THE SETTING FOR TRADE POLICY FORMULATION

The following recommendations define the general setting for trade policy formulation:

1. *Get trade back on its feet and avoid protectionism.* Trade has been the victim of the crisis, not its cause. Trade is the lifeblood of the majority of economies in the region. To get out of the crisis it is important to get trade flowing again. Trade increases interdependencies among countries. Such interdependencies may be seen as a threat to some but should rather be seen as opportunities to tackle problems common to all countries together and more effectively. However, protectionism and nationalism, while publicly disavowed, are threatening to disrupt trade and prolonging the crisis. Protectionism may offer short-term respite but is ultimately self-defeating and difficult to turn back. Other measures of a less trade-distorting nature could be considered instead to address crisis-related problems. The use of new and “murky” non-tariff measures (NTMs) in particular should be avoided.
2. *Balance exports with domestic demand.* As a result of the crisis, many governments want to reduce dependence on exports and boost domestic demand. However, while the role of domestic demand is recognized in generating economic growth, in many countries the domestic market is too small and shallow to fully replace exports. Development of domestic markets is a long-term process, not a short-term solution to the crisis. Therefore, both exports and domestic demand need to be promoted in a balanced manner and in accordance with economic realities.
3. *Formulate trade policies which are inclusive, sustainable and pro-poor.* The main role of governments is to provide public goods and services and formulate national development plans and trade policies which contribute to inclusive and sustainable development. They should be pro-poor, have equal impact on men and women and benefit society at large or at least not disproportionately affect vulnerable groups. They should also promote environmentally sound practices in trade and production and contribute to sustainable development. Particular attention should be paid to promoting trade in agricultural products (and products produced in rural areas) and in services as part of the pro-poor agenda.
4. *Mainstream trade in development strategies and ensure coherent and consistent trade and development policies at the regional and national levels.* Given the many linkages between trade and other development issues, there is a strong case for mainstreaming trade in development strategies. At the same time, development objectives need to be mainstreamed into trade policies to ensure coherence and consistency of development policies. Governments also need to improve coordination and cooperation among all concerned government ministries and agencies, both at the central and subnational levels, and consult with all stakeholders in the formulation of such policies, in particular the business sector and civil society, especially

those representing the poor. As trade is by definition an international affair, such coordination is also required at the regional level among national governments with regard to all trade and trade-related policies in particular those that promote intraregional trade.

5. *Reassess the roles of government and business and promote public-private partnerships.* The roles of government and business need to be reassessed and reviewed. Markets and business are not perfect and governments have a responsibility to take corrective measures to ensure that markets and business yield benefits for society as a whole. However, there are also limits to what governments can do. Hence, the roles of government and markets (business) need to be carefully balanced to ensure they are complementary. As trade is essentially a private sector affair, public-private partnerships for development can go a long way to promote trade for development.
6. *Ensure a balance between stability and efficiency of trade.* Governments have a responsibility to ensure stability of markets through regulation and prudential supervision and efficiency of markets through deregulation and liberalization. These two practices are not mutually exclusive but sometimes a balance needs to be found which optimizes both stability and efficiency. Too much regulation will undermine the ability of markets to generate wealth. Too much liberalization may result in market failure and may cause income inequalities and environmental harm. However, there is no golden rule for the right balance and to a large extent an acceptable balance must be found on the basis of trial and error.
7. *Promote intraregional trade to diversify products and markets.* The crisis has revealed an overdependence of developing countries on the markets of developed countries for exports. There is clearly a need for many developing countries to diversify their markets and products. Promoting intraregional trade goes

a long way to help diversification and exploit underutilized trade potential. However, intraregional trade is constrained by factors such as relatively high tariffs and NTMs, high risks in payments, relatively low regional purchasing power, limited trade and investment relations among economies of the region, insufficient trade complementarities, and lack of capacity of trade, investment and trade finance institutions in the region. Therefore, there is a need for regional cooperation to ensure increased market access and build supply-side capacities, including the development of regional value chains.

8. *Prepare contingency plans to address external shocks and absorb economic and social adjustment costs of restructuring.* The crisis has revealed the need for contingency plans to absorb adjustment costs and mitigate the adverse effects of external shocks. Such plans are also required as part of economic and industrial restructuring efforts. Economies do not stand still. As the determinants of competitiveness are in constant flux, governments need to assist vulnerable groups in society to adapt to new circumstances. For instance, safety nets and retraining programmes go a long way in smoothening transition and absorbing shocks caused by crises.

C. MARKET ACCESS

Market access policies are not only aimed at expanding access to overseas markets for a country's products and services but also at expanding or restricting access to the domestic market. Without effective market access, international trade cannot take place. Effective market access is not just about reducing tariffs. It is particularly about reducing NTMs at all levels.

1. Multilateral level

Trade governance systems at the multilateral level include the MTS and the Generalized System of Preferences (GSP). At the multilateral level, countries of the region should:

- a. *Strengthen and emphasize the primacy of the MTS.* Liberalization through the MTS assumes only a small portion of overall liberalization efforts, but the system, as overseen by WTO remains at the forefront of providing a universal system of enforceable rules that strives to achieve a balance between stability (through rules which improve transparency and predictability of trade governance) and efficiency (through liberalization) of international trade transactions. Countries should strive to strengthen the system and emphasize its primacy in governing international trade for development. They should also push for easier accession processes and ensure that WTO does not evolve from a rule-making body to a litigation body in times of crisis.
- b. *Strive towards an early conclusion of a development-focused Doha Round.* Part of strengthening the MTS would be an early adoption of a comprehensive package of agreements under the Doha Round, particularly as some issues, such as agriculture, can only be effectively addressed through multilateral negotiations. ESCAP members therefore should actively pursue consultations and cooperation with the purpose of concluding the Round with a comprehensive package which contributes to inclusive and sustainable development. However, this is a give and take process. To preserve and strengthen the credibility of the multilateral trading system and WTO, the interests of all members need to be balanced while the benefits for developing countries need to be enhanced and made more tangible. This is the responsibility of all WTO members.
- c. *Ensure consistency of stimulus packages with WTO rules.* Stimulus packages for the purpose of boosting domestic demand should not violate WTO rules, be as little trade-distortive as possible, and be geared in particular to those sectors which are most affected.
- d. *Push for more active involvement in WTO decision-making to ensure an inclusive process.* Developing countries should be more actively involved in WTO decision-making and “green” room negotiations to ensure that their interests are properly reflected in the final deal. This would enhance the credibility and legitimacy of the MTS and the overall commitment of all members to the system.
- e. *Join and utilize coalitions to advance the interests of individual countries.* Developing countries, and in particular less and least developed countries which have limited means to engage in all negotiation processes and areas, should actively make use of coalitions to further their trade interests and decide on a division of labour and responsibilities inside those coalitions as many do not have sufficient capacity to attend all important WTO meetings and negotiations and have no representation office in Geneva.
- f. *Ensure coherence and consistency in negotiation proposals and due coordination with all stakeholders in multilateral negotiations.* Developing countries should strive towards higher levels of policy coherence and consistency and coordination among concerned government ministries and missions in preparation for, during and after multilateral trade negotiations, including accession. Meaningful consultation with the private sector and civil society should be pursued continuously. Ensuring coherence and consistency among coalition partners is also important.
- g. *Use policy space and special and differential treatment to allow for an inclusive and sustainable reform process.* Policy space and special and differential treatment (SDT) are essential elements of the negotiations. They are essential to allow countries to implement their reforms and commitments and pursue development objectives in an inclusive and sustainable manner. However, their pursuit should be balanced with concrete reform commitments.
- h. *Gradually reduce dependence on GSP schemes and strive towards long-term reciprocal trade arrangements.* Preferences

under GSP schemes are probably not sustainable in the long run. Developing countries need to build capacity to compete in the world free from discrimination. In the medium term, Asia-Pacific developing countries could reduce dependence on GSP schemes of developed countries by considering the establishment of an interim GSP scheme among themselves as a “fast-track” modality within the framework of the wider global Global System of Trade Preferences among Developing Countries (GSTP).

2. Regional level

Barriers to South-South trade, in particular NTMs, remain relatively high, and the Asia-Pacific region is no exception. Market access at the regional level can be enhanced through the conclusion of regional trade agreements (RTAs), including bilateral (free) trade agreements (BTAs, FTAs). RTAs are a second-best system of trade governance, next to the MTS. While some are promising and have yielded welfare benefits, many RTAs in the region have failed to create trade due to their relatively limited coverage, shallow commitments, limited membership, lack of trade capacity and complementarities, restrictive rules of origin, lack of effective implementation and (therefore) private sector indifference. In order to use RTAs for more effective market access and creating trade, countries of the region should:

- a. *Strengthen RTAs in terms of coverage, depth of commitment, and expand their membership to maximize trade.* Developing countries can benefit from RTAs only if such agreements cover trade in products and services of importance to them with meaningful reductions in trade barriers. Apart from tariff reductions based on meaningful margins of preferences, special attention should be paid to the reduction of NTMs. The coverage of RTAs should involve substantially all the trade between the parties, including trade in services and trade facilitation. RTAs should adopt the principle of open membership to minimize the
- b. *Ensure that RTAs contribute to inclusive and sustainable development.* RTAs are a modality to expand trade but such trade should be inclusive and sustainable and be negotiated and implemented with full engagement of stakeholders. Trade-related areas such as investment, competition and IPR need to be carefully evaluated on their contribution to development. And WTO-plus provisions should be avoided if countries do not have the capacity to implement such provisions. Labour and environmental provisions in RTAs do have the potential to enhance the RTA’s contribution to inclusive and sustainable development but should not lead to new and hidden (“murky”) protectionism. SDT for less developed members in an RTA, including possible temporary compensation for revenue foregone could also be considered.
- c. *Consolidate the “noodle bowl”.* Currently, the proliferation of RTAs in the region with overlapping memberships and potentially conflicting or confusing provisions does not lead to effective and efficient trade. Countries should strive to consolidate them under a single system of rules and, preferably, to integrate them into coherent and consistent regional frameworks. Geographical consolidation should go along with the development of common standards and principles for the formation of RTAs, such as for rules of origin.
- d. *Pay due attention to the Asia-Pacific Trade Agreement (APTA).* Alongside ASEAN-“plus”, APTA has emerged as a promising force for regional integration as a result of its open membership, deepening commitments and widening scope. APTA has members in all major subregions, including the economic giants China, India and the Republic of Korea. Unlike the ASEAN-plus mechanism where the

ASEAN partners do not have an FTA with each other, the APTA members are strongly connected in one integrated agreement as full members. In the long run, APTA is expected to evolve into a truly pan-Asia-Pacific RTA. Asia-Pacific developing countries should therefore pay due attention to APTA and consider joining it.

- e. *Evolve RTAs as building blocks of the MTS.* By widening the scope and deepening the commitments under RTAs, they will evolve as building blocks of the MTS. It is not efficient to have two international trade governance systems which lack clear complementarity. Ultimately, these two systems need to converge into a single system at the multilateral level.
- f. *Evolve RTAs as building blocks of wider regional economic integration frameworks.* Regional economic integration routinely starts with trade cooperation as formalized in RTAs. Hence, RTAs are a useful building block for wider regional integration frameworks. Such frameworks have high potential to lead to more effective and efficient regional trade as the experiences of the European Union have demonstrated. Wider regional integration frameworks cover areas beyond trade. For example, regional investment areas could be established (the ASEAN Investment Area or AIA could be used as a hub). Regional cooperation in technology development and transfer, IPR and research and development is also needed to pool the required resources for such efforts and to develop a truly Asian product base and regional and global brand name recognition. Financial cooperation through strengthening mechanisms such as the Chiang Mai initiative for regional currency swaps and developing the Asian Bond Market is also needed. Ultimately, the adoption of a common currency and free movement of labour across the region could be pursued. Economically, this may be the only guarantee to ensure a living standard for a growing population which is both adequate and

sustainable. However, for deeper and wider integration to succeed, political will, leadership, commitment and a long-term vision are absolutely essential.

3. National level

National level policies and measures affect access to the domestic market of foreign products and services. “National” in this context is understood to include unilateral or autonomous actions which are not a result of commitments under reciprocal arrangements. With regard to market access in particular, unilateral trade measures refer to measures to open up or protect the domestic market non-reciprocally. Unilateral liberalization measures used to be important but these measures have been reduced in recent years in favour of reciprocal liberalization under the MTS and RTAs. Unilateral measures to restrict access to the domestic market, especially in times of crisis, remain important policy tools.

- a. *Carefully assess unilateral trade measures on their costs and benefits for society at large.* Too often, unilateral trade liberalization has been imposed rather than voluntarily implemented. While in some cases such liberalization has led to economic growth, in other instances inequality and poverty have worsened. Similarly, unilateral market access restrictions may provide relief for some sectors in the short run but constitute trade distortions which may undermine efficiencies in trade and are difficult to rescind. They may also violate commitments under reciprocal arrangements. Therefore, any unilateral trade measure should be properly assessed on its costs and net development benefits. It should also be accompanied by adjustment schemes for potential losers and supply-side capacity-building initiatives to build competitiveness of exposed sectors and industries.
- b. *Undertake trade liberalization gradually and sustainably.* Trade liberalization (both reciprocal and non-reciprocal) should be implemented gradually and sustainably and

accompanied by proper rules and regulations to ensure stability of trade and investment and a strong contribution of trade to inclusive and sustainable development. To a large extent, national level measures take place within the framework of commitments under (reciprocal) multilateral and regional/bilateral trade agreements. Such commitments should therefore be carefully negotiated.

- c. *Reform modalities for obtaining government revenue to offset tariff reductions.* Trade liberalization is expected to result in net revenue loss (though the increase in imports at reduced tariff rates may compensate to some extent). A proper assessment is required to estimate the size of the loss. Alternative ways of maintaining an appropriate level of government revenue should be explored including the introduction or strengthening of indirect taxation systems.

D. SUPPLY-SIDE CAPACITY-BUILDING

Countries cannot exploit market access if they do not have competitive products and services. Supply-side capacity-building is therefore essential. This requires particularly national level action as multilateral and regional governance systems are mostly concerned with market access issues.

1. Multilateral level (aid for trade)

The MTS is all about market access. However, since the Sixth Ministerial Conference of WTO in 2005, the concept of aid for trade has been introduced. While AfT relates to all trade aspects, it was particularly launched to help countries build capacity to benefit from market access gains. AfT is therefore the most tangible contribution to supply-side capacity-building at the multilateral level. In order to access and benefit from AfT, countries of the region should:

- a. *Identify focused needs for AfT and build capacity for project formulation for donors in the area of trade.* AfT commitments have risen sharply in recent years. But as is the case for

all forms of aid, countries often are not fully aware of their needs. Therefore they need to formulate clear needs for AfT in the form of comprehensive development-oriented projects to be submitted to international donors. They should use AfT prudently and effectively to build pro-poor and sustainable export competitiveness and supply-side capacities, with a focus on infrastructure development, innovation and technology development, human and institutional capacity-building, and brand name development. SMEs should be the focus of all AfT.

- b. *Ensure that AfT does not replace other ODA commitments and tangible market access commitments in the Doha Round.* AfT is not part of the negotiations. It should never replace commitments on SDT and effective market access to products and services in which developing countries have a competitive advantage.
- c. *Support a regional dimension of AfT.* The recent second review of global AfT has confirmed that a regional dimension would complement global mechanisms and help in promoting regional cooperation and integration, essential ingredients for promoting intraregional inclusive and sustainable trade. A regional level coordination mechanism for AfT would report on needs, responses and impacts, and oversee monitoring and evaluation. The establishment of a Joint Integrated Technical Assistance Programme for Asia and the Pacific, coordinated by ADB and ESCAP, could be considered in this regard.

2. Regional level

Regional level actions to promote trade normally target market access through RTAs. However, as trade is a cross-border activity, there is vast scope for governments to cooperate in supply-side capacity-building as well, not only for the purpose of promoting trade in general, but specifically for the purpose of promoting intraregional trade. In this regard, governments should:

- a. *Support the development of regional value chains.* There is scope to develop regional value chains to boost intraregional trade and reduce dependency on markets of developed countries, in particular agri-business value chains. Governments should cooperate in enabling emerging Asian TNCs to take the lead in establishing subregional and regional supply chains for the production of final products for sale in Asia on the basis of supply networks across the region involving horizontally and vertically linked SMEs and development of regional brand names. Product cooperation schemes such as those employed by ASEAN can also be considered but it is important that the business sector takes a lead in such initiatives.
- b. *Strengthen cooperation in supply-side capacity-building,* in particular in the areas of infrastructure and energy development (e.g. the Asian Highway and Trans-Asian Railway), research and development, training and product development and testing. Countries should also strive to harmonize their technical standards, cooperate in building capacity to meet global standards, and conclude mutual recognition agreements. Provisions for these purposes could be included in RTAs.
- c. *Develop regional transit and trade facilitation mechanisms and speed up the implementation of existing ones.* Cross-border trade faces numerous obstacles due to cumbersome customs formalities. Establishing subregional or regional mechanisms to facilitate trade would promote trade probably to a much larger extent than the mere reduction of tariffs. Existing mechanisms such as the ASEAN Framework Agreement on the Facilitation of Goods in Transit and the ASEAN Single Window initiative should be effectively implemented and could be replicated in other subregions. Ultimately, mechanisms need to be designed which facilitate trade across subregions.
- d. *Deepen regional cooperation in trade finance and consider establishing regional mechanisms*

for this purpose. Deepening cross-border cooperation by pooling resources and expertise may also be an effective way to tackle current bottlenecks in trade financing. Options in this area include (i) strengthening the regional network of export-import banks and development finance institutions; (ii) expanding multilateral clearing arrangements and related international payment services – possibly based on those offered by the Asian Clearing Union;¹ (iii) strengthening the ADB trade finance facilitation programme; and (iv) establishing a multilateral export credit insurance company and/or a new regional capital market fund for South-South trade and investment finance.

3. National level

Most measures to boost supply-side capacities take place at the national level. Two areas need special emphasis: trade facilitation and business development, particularly SME development. For this purpose, countries of the region should:

- a. *Boost international competitiveness.* Countries should use the current crisis as an opportunity to invest heavily in boosting their companies' competitiveness and supply-side capacities in line with future demand scenarios and supply constraints so that the companies in the region, including SMEs, could play a bigger role in regional and global value chains. Governments can help through aggressive investment in infrastructure, skills (in particular technical and vocational training) and technology development, research and development and intellectual property right (IPR) protection. They should attract quality FDI on the basis of sound governance,

¹ The Asian Clearing Union (ACU) is the simplest form of payment arrangements whereby the members settle payments for intraregional transactions among the participating central banks on a multilateral basis. The main objectives of a clearing union are to facilitate payments among member countries for eligible transactions, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries. See <http://www.asianclearingunion.org/>.

providing a conducive business environment including political and macroeconomic stability and prudential regulation, and access to strong local institutions and markets. Governments can help companies develop national, regional, and ultimately global brand name recognition, increase their market research on consumer behaviour in Asian economies and identify specific market segments as targets for specific products through specific marketing and branding. To ensure the success and legitimacy of all activities and initiatives, meaningful mechanisms for public-private sector dialogue should be established or strengthened and institutionalized.

- b. *Pay attention to behind-the-border trade facilitation and improving trade efficiency.* Trade facilitation has emerged as an important area to promote trade and regional cooperation. There is a need to reduce and streamline customs procedures and documentation. Adopting global trade facilitation standards (e.g. CEFACT), including electronic single window systems and paperless trade starting at the national level goes a long way to facilitate trade. There is also a need to improve the efficiency of multi-modal transport linkages, containerization, load and warehousing centres, hub and feeder networks, e-communications and e-commerce, and the linking of logistics services to improvements in trade facilitation procedures.
- c. *Address the needs for trade finance.* The crisis has revealed shortages in trade finance as banks are reluctant to lend. Establishing or strengthening government-backed export credit insurance and guarantee institutions and/or export-import (EXIM) banks is essential, as they are often inefficient or missing in many developing countries of the region. These institutions should, however, be managed as self-sustaining organizations, with no interest rate subsidies, but with a modern and creative risk assessment and management programme to support and build the capacity of SMEs with export potential. In addition, governments may
- d. *Develop a coherent national trade and investment regulatory environment.* Business competitiveness requires a conducive regulatory environment. Governments should always strive to provide a stable system of prudential regulation but they need to facilitate business by cutting red tape and curbing corruption to reduce the costs of doing business. Contract enforcement processes in particular need to be strengthened and applied.
- e. *Encourage the greening of business and transform business as a principal building block of inclusive and sustainable development.* Business development should ensure that business is not conducted for its own sake but as a principal building block of inclusive and sustainable development. In this regard, governments and business together need to adopt and practice principles of Corporate Social Responsibility (CSR). Governments can promote the transfer and development of environmentally sound technologies and production of environmentally sound goods and services, including low carbon products and use of renewable energy.
- f. *Promote small and medium-sized enterprises as they are key to inclusive and sustainable development.* The crisis has particularly affected SMEs. They already face many obstacles related to lack of access to finance and technologies and an inability for many to effectively participate in regional and global supply chains. However, they account for most employment and their development therefore helps the poor, especially in rural areas. Many are managed by women. They have also emerged as major contributors to exports. Governments need to develop comprehensive strategies to develop SMEs, particularly rural SMEs, and help them adjust to changing determinants of competitiveness. Strategies should include (i) pro-business regulatory reforms; (ii) supply-side capacity-building;

(iii) enhanced access to finance; (iv) reform of public procurement systems; (v) providing SME development services; (vi) entrepreneurship development for innovation; and (vii) promoting good corporate governance. For instance, governments can help SMEs access environmentally sound technologies and adopt other “green” practices, facilitate their access to finance, provide market information and

information on WTO and available preferential market access schemes. They can also assist in improving product quality by standard setting, encouraging the establishment of SME clusters, and linking them up with global and regional TNCs. Finally, rural poverty can be addressed by developing off-farm small-scale industrial enterprises which can contribute to exports.

INTRODUCTION

1. Background

When the economic crisis hit Asia and the Pacific in the course of 2008, exports and economic growth rates tumbled while unemployment rose sharply and results for 2009 look set to be even worse. The World Trade Organization (WTO) expects world trade to drop by 10% in 2009. The severity and speed of the crisis were largely unpredicted and triggered widespread populist pressure on governments to protect national markets and jobs.

As international trade and investment has been the engine of growth of many Asian countries and the most important contributor to the “Asian miracle” that lifted millions of people in the region out of poverty, it is imperative that trade is restored as soon as possible. To do so, it needs to be supported by financial and regulatory reforms which will address market failure and ensure that trade is not only efficient but also stable.

At the same time, the crisis offers an opportunity for the Asia-Pacific region to take a long-term approach and reposition itself for the future by boosting its competitiveness. If the Asia-Pacific region is to live up to expectations of the twenty-first century as the “Asian Century,” the region will have to invest in innovation, in new environmentally sustainable products and processes, and in improved business models. Furthermore, countries have to review and reformulate trade to serve the poor and ensure that trade benefits society as a whole. Also modalities have to be explored to prevent or reduce the likelihood of such crises from reoccurring. This will require both regional and international cooperation.

For this reason, the theme of the 2009 edition of the report is “Trade-led recovery and beyond”. The central message of this report is that trade is not an end in itself but an important, and even necessary, means towards achieving inclusive and sustainable development. In order for trade to achieve inclusive and sustainable development, trade itself should be inclusive (i.e. serve the poor and other marginalized groups and regions and be gender neutral) and sustainable (i.e. trade and production of goods and services take place on the basis of sustainable practices and contribute to sustainable development).

The objective of this report is to sensitize policymakers to various trade policy tools which could be used to counter the economic and social impact of the crisis and achieve long-term inclusive and sustainable development. It analyses the role of trade in development, looks at the role of government and business in trade for development, and explores the various modalities of trade policy. In this regard, the report reviews the role of the multilateral trading system and regional trade agreements in enhancing both global and intraregional trade. It discusses the importance of trade facilitation and availability of trade finance in times of crisis and beyond. It also reviews the changing determinants of competitiveness and the role of business in promoting trade for inclusive and sustainable development. The report makes a case for promoting intraregional trade and explores various modalities to promote regional cooperation and integration for this purpose, including the development of regional supply chains.

The report serves as the main background document to the First Session of the Committee on Trade and Investment, which is held from 4 to 6 November 2009 in Bangkok.

2. Conceptual framework

Given the importance of trade for development, the challenge is how to formulate trade policy which promotes inclusive and sustainable trade and thus contributes directly to inclusive and sustainable development. The crisis has demonstrated that there is a need for a strengthened role for governments to address market failure and ensure that trade is indeed inclusive and sustainable. Three types of trade policies can be distinguished: (a) policies affecting market access; (b) policies directly promoting exports; and (c) policies strengthening national supply-side capacities. As successful export promotion basically depends on the extent of market access and level of supply-side capacities, these two policy dimensions take centre stage in a trade strategy for development. However, trade policy has a social and environmental dimension as well. Therefore, there is a need to strengthen coherence and consistency of trade policy with other development policies. For this purpose, trade must be mainstreamed in development policies while development objectives must be mainstreamed in trade policy.

As trade is by definition international, trade policy is influenced by, and in turn influences, trade governance systems at the global level (i.e. the multilateral trading system (MTS) and generalized systems of preferences) and the regional/bilateral level (i.e. the large number of regional and bilateral trade agreements).

In this context, the primacy of the MTS as the only universal system of enforceable rules for global trade needs to be emphasized. Within the context of the MTS, aid for trade (AFT) has emerged as a powerful tool to strengthen national supply-side capacities of countries. It is therefore important that Asia-Pacific economies remain actively engaged in the MTS and contribute to strengthening the system. They should also prioritize the current Doha

Round of multilateral trade negotiations and strive towards concluding the Round soon with clear development benefits.

While the MTS helps promote global trade, the crisis has revealed the need to reduce dependence of Asian trade on the markets of developed countries and to diversify both export products and markets. Given the diversity of the Asia-Pacific region in terms of economic development and comparative advantages, it is both desirable and feasible to boost intraregional trade. The best way is to strengthen regional integration and to develop regional value chains. In this context, the report reviews various mechanisms for regional cooperation and integration in trade and investment with a focus on the phenomenon of the “noodle bowl” of overlapping and often conflicting commitments of countries under the many bilateral and regional trade agreements (RTAs) and international investment treaties they are members of. Hence, there is a need to consolidate these agreements. Various means exist for this purpose with the Asia-Pacific Trade Agreement (APTA) emerging as a potentially promising modality for enhanced regional integration. At the same time, RTAs can be used to enhance regional cooperation and coordination beyond market access across a wider spectrum of activities, including those related to supply-side capacities, which would strengthen the regional integration process and promote intraregional trade.

It needs to be emphasized that the MTS and RTAs do not exist for their own sake. They exist because national governments entered commitments under these systems for the purpose of boosting national economic development. A large part of trade policy, therefore, is aimed at influencing developments in both the MTS and RTAs to the benefit of national development. At the same time, commitments assumed under these systems will influence national trade policymaking.

But trade policy has national aspects outside the realm of these trade governance systems. Governments can take unilateral measures to expand or restrict access to the domestic market

and strengthen national supply-side capacities. The strengthening of supply-side capacities in particular is a national level affair. Governments need to provide an enabling environment for business and promote the new determinants that drive business and investment to ensure that business ultimately also contributes to inclusive and sustainable development. Particular attention needs to be paid to facilitating trade and improving trade efficiency. The role of small and medium-sized enterprises (SMEs) takes centre stage in all policies aimed at strengthening business as they make up the bulk of all enterprises and provide for most of all employment in any given economy.

The resulting framework for trade policy-formulation, which guides the structure of this report, is presented in the figure below.

3. Structure of the report

The report is structured as follows (see the figure below). Part I, “Trends and developments in trade and investment in Asia and the Pacific”, describes and analyses recent trends in trade and investment in the Asia-Pacific region both in qualitative and quantitative terms and with some attention to trends at the sectoral level. It analyses the impact of the current economic crisis on trade and investment and provides a brief overview of measures various governments have put in place to respond to the crisis.

Part II analyses the issues and explores the theme topic of “Trade-led recovery and beyond”. Chapter 1, “Developing coherent and consistent trade policies for inclusive and sustainable development”, explores how trade policy can address the impact of the crisis and contribute to achieving inclusive and sustainable development.

Issues related to the MTS are further analysed in chapter 2, “The role of the multilateral trading system in governing international trade”. It explains the primacy of the MTS in managing international trade for development and the future of the MTS

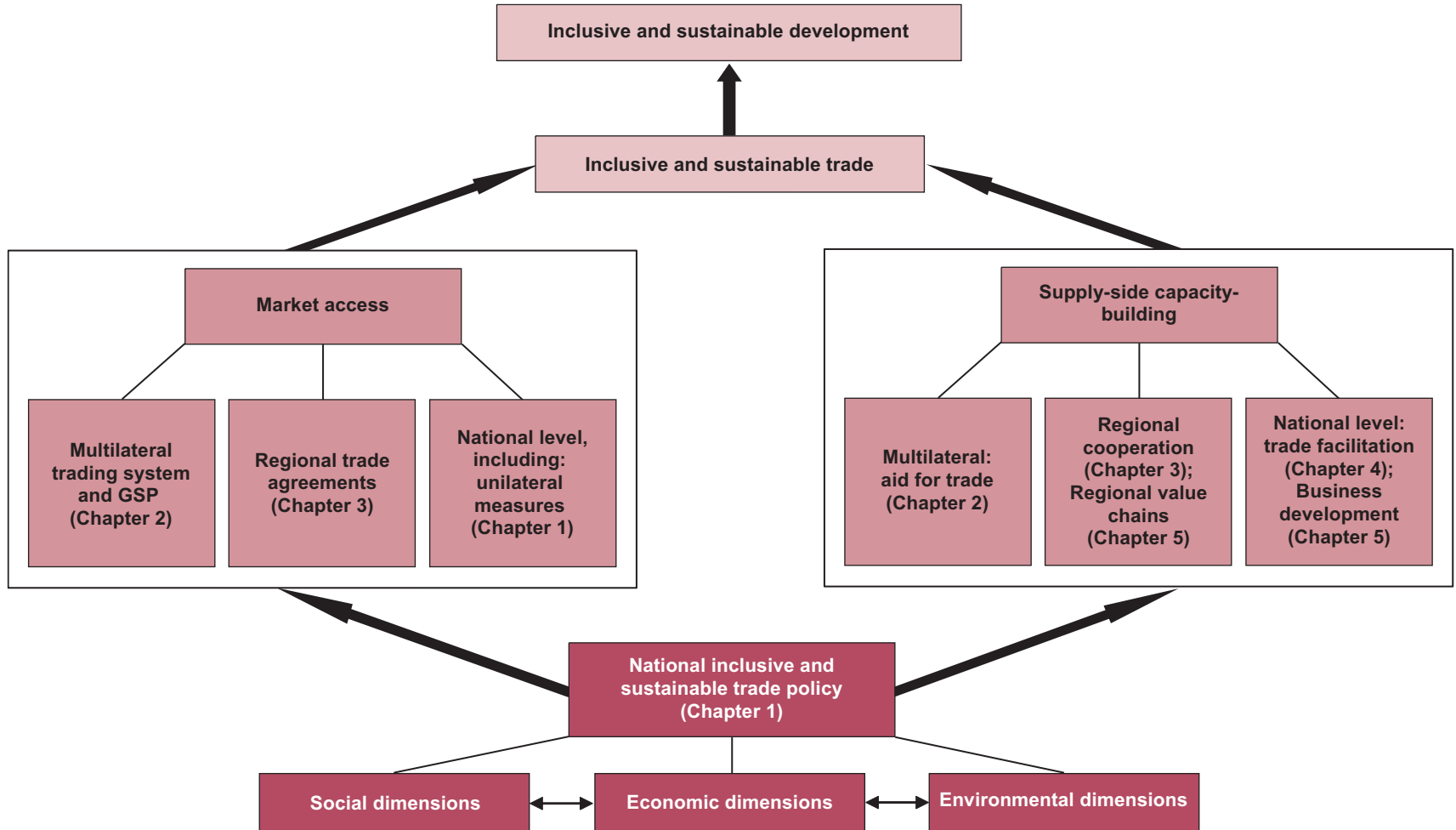
and WTO in light of the global financial and economic crisis. It discusses the role of stimulus packages and the need for their conformity with the rules and principles of the MTS. It also reviews the main issues and development dimensions of the current Doha Round of multilateral trade negotiations and discusses the concept and relevance of AfT for the region.

The regional dimensions of trade governance are discussed in chapter 3, “Managing regional integration”. In this chapter, the case to promote intraregional South-South trade is made and the role that RTAs can play in this process is discussed.

Chapters 4 and 5 discuss the supply-side aspects of trade policy in more detail. Chapter 4, “Facilitating trade and investment”, looks at how the countries in the region could adapt to the challenges of the crisis and beyond by strengthening national and regional trade through trade and investment facilitation and by promoting trade efficiency. The chapter focuses on key short- and long-term policies and measures countries must have in place to enhance the facilitation and efficiency of trade and investment, including the need for uninterrupted trade finance.

In recognition of the fact that it is ultimately the business sector which undertakes trade and investment, chapter 5, “Business survival and development”, considers other issues related to maintaining and developing the competitiveness of export-oriented business, particularly in response to the global crisis. It analyses issues related to: (a) emerging challenges for the business sector and the new determinants of competitiveness, including the need to conform to principles of Corporate Social Responsibility; (b) providing an enabling environment for domestic and foreign investment which has a stronger development linkage; and (c) linking the business sector to regional and global value chains by developing their capacities, with a special emphasis on promoting the competitiveness of SMEs.

Figure. A framework for trade policy formulation and overview of the report



PART I

TRENDS AND DEVELOPMENTS IN TRADE AND INVESTMENT IN ASIA AND THE PACIFIC

TRENDS AND DEVELOPMENTS IN TRADE AND INVESTMENT IN ASIA AND THE PACIFIC

INTRODUCTION

As the financial crisis hit the real economies of the Asia-Pacific region in late 2008, trade and investment flows in the region fell sharply, prompting many countries of the region to implement stimulus packages and other measures to revive their economies. Part I of this report reviews and analyses the main trends and developments in trade and investment in the region just before and during the crisis, provides projections for 2010 and outlines the implications for inclusive and sustainable development. Section A reviews trends and developments in merchandise trade, including intraregional trade, while section B does a similar review for trade in services. Section C tracks developments in foreign direct investment (FDI) flows, including intraregional FDI. Section D presents a quantitative impact analysis of the crisis on exports and imports and on employment and poverty in the region. Section E provides an overview of the measures and policies various countries have implemented in response to the crisis. Section F looks ahead, noting that though there are signs of recovery in the region, the crisis is far from over.

A. TRENDS AND DEVELOPMENTS IN MERCHANDISE TRADE

1. Trade contracts across the region

Exports and imports dwindled as the recession took hold in the major importing developed markets in late 2008 and early 2009. Figures 1 and 2, presenting year-on-year changes in monthly values

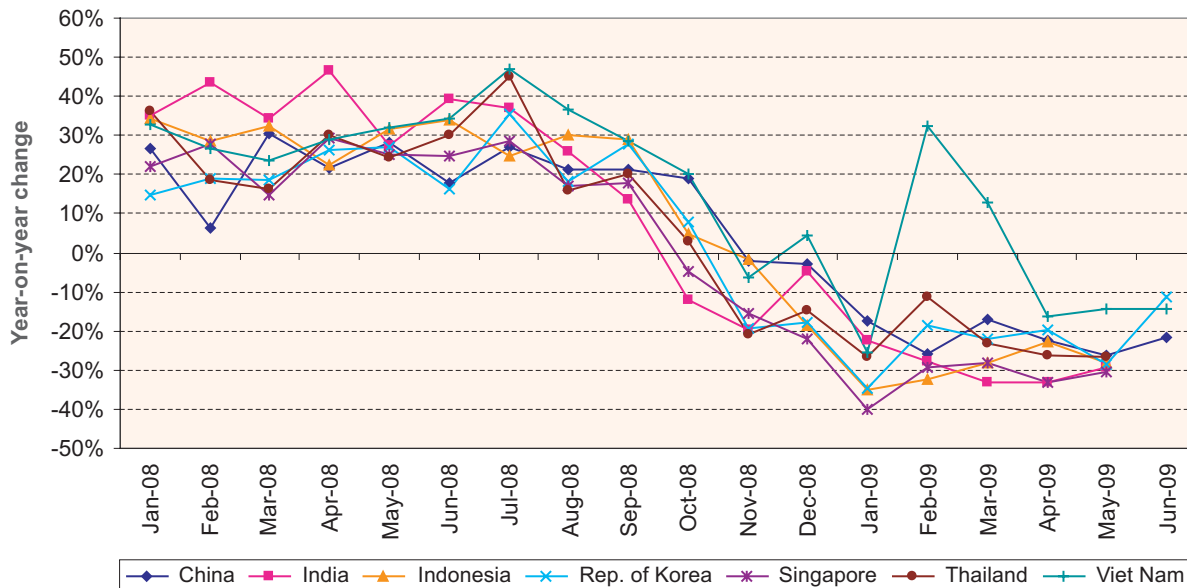
of total exports and imports of selected Asian economies¹ show that exports started to fall in August 2008 and continued to decline through early 2009. For most of the economies presented in the figures, exports plunged in two stages, first in October and November 2008, when they fell by around 20%, and then in January 2009, when the rates of decline reached 40%. These contractions in exports were almost twice as sharp as those experienced in the aftermath of the Asian financial crisis in 1997-1998 and the dot.com recession in 2001.² Nominal monthly exports in United States dollars (see figure A2 in the annex) in the early months of 2009 fell to the values of 2005 and 2006. These values are significantly lower than the nominal export values of 2007 and early 2008 which saw the most dynamic growth of exports from this region.

Figure 2 shows that imports of these economies slowed in the second half of 2008, and from October 2008 until end-June 2009 remained at a significantly lower level than the previous year. The rates of import contraction year-on-year are also in double digits and closely shadow the rates of export contraction. The magnitude of imports contraction in the current crisis of between 20% and 40% is also larger than the contraction recorded in the Asian

¹ Figures A1-A4 in the annex at the end of part I show monthly trade data since January 1996 and therefore allow for comparisons of three crises relevant for the trade adjustments of the region (Asian financial crisis of 1997, dot.com crisis of 2001 and the current one).

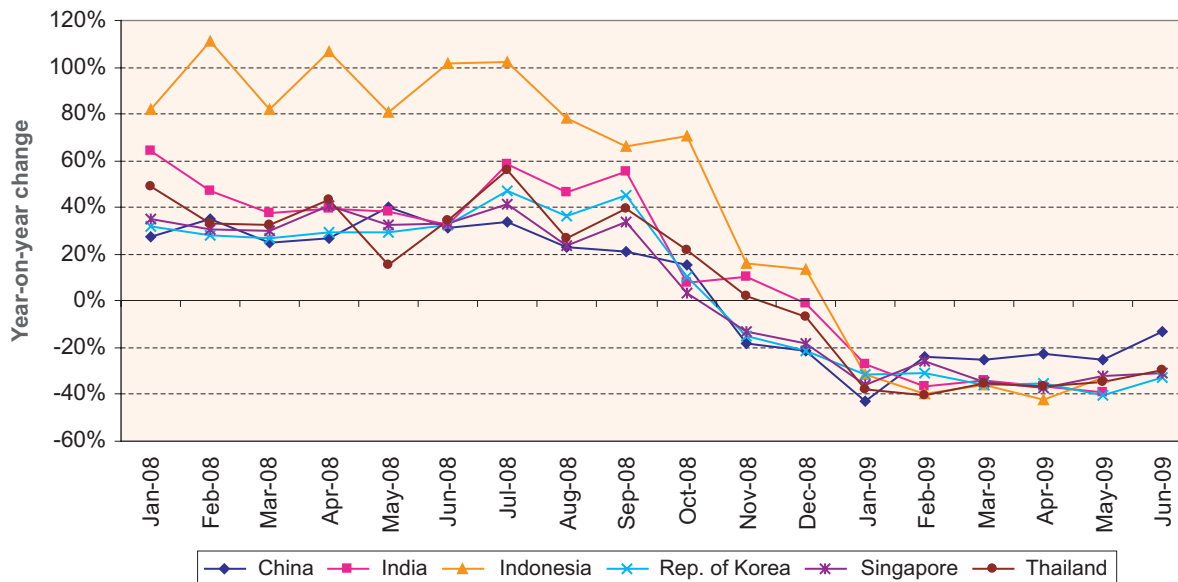
² This also applies to a contraction of trade at the global level. Furthermore, global nominal trade fell more sharply in 2008 than during the Great Depression of the 1930s (see Eichengreen and O'Rourke, 2009).

Figure 1. Trends in exports of selected Asian economies, January 2008-June 2009



Source: ESCAP calculation based on CEIC data.

Figure 2. Trends in imports of selected Asian economies, January 2008-June 2009



Source: ESCAP calculation based on CEIC data.

Note: Data for Viet Nam were not available at the date of writing.

crisis and deeper than in the dot.com crisis (see figure A3 in the annex).

Since June 2009, there are signs of a rebound in exports and imports, as well as a return to positive changes in real GDP and industrial production in a number of countries in the region, including China and India. This, however, should not be taken as an indication of a return to the dynamic economic and trade growth experienced in the period 2006-2008.³ The changes in real economies, as deep as they have been in the current crisis, cannot be simply and quickly, if ever, inverted.

At the global level, it has been established that the elasticity of real trade to real GDP has increased to 3.5 (Freund, 2009). This implies that when real GDP drops, trade falls three and a half times as much. The good news is that in times of economic boom, real trade also expands much more than the increase in real GDP. The difficulty therefore is how to restart real growth.

While it appears that the Asia-Pacific region may already be on the recovery path, as reported by a number of national and international commentators in August 2009,⁴ it is important to understand what caused the collapse of trade in the Asia-Pacific region in the last 12-month period. While there are multiple reasons, this report will focus on those which are considered most influential in Asia-Pacific trade: (a) Asian economies have rapidly increased export dependence; (b) Asian economies have remained highly reliant on exporting out of the region using global production networks; and (c) Asian economies did not develop effective financial institutions to deal with the credit crunch and increasing trade finance costs. The analysis in the sections below provides some evidence to support the first two points, while the discussion of issues related to trade finance will be taken up in chapter 4 of part II.

³ WTO, 2009a; see also ADB, 2009a.

⁴ For example, *The Economist* (15-21 August 2009); *The Wall Street Journal* (18 August 2009).

2. Asia and the Pacific is highly export-dependent

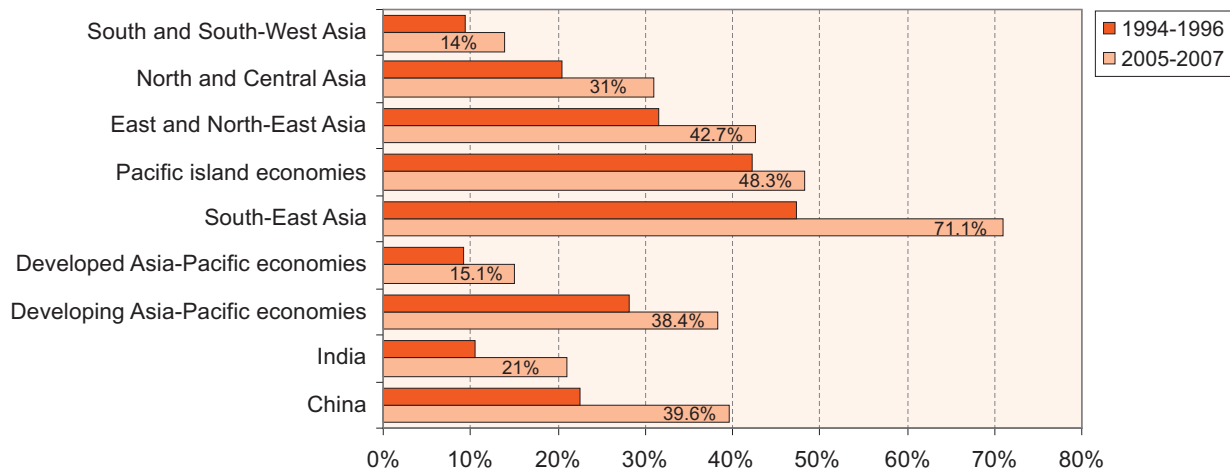
The prosperity of Asia-Pacific developing countries has been associated with their deeper integration in the global economy, most frequently measured by the share of trade or exports in a country's GDP (also known as trade dependence or trade openness⁵) and by a country's share in world exports and/or imports.

The share of exports in GDP, and thus reliance on exports, of Asian developing countries has increased rapidly since 1995 (see figure 3). For developing Asia-Pacific economies, the share of exports in GDP averages 38% in the period 2005-2007, making them two and a half times as export dependent as the developed economies in the region. These averages, of course, hide large variations across subregions. South and South-West Asia's export dependence, for example, was just 14%. This was the lowest level of export dependence of all subregions in the period 2005-2007, and had not increased much since the mid-1990s despite the fact that India, the largest economy in that subregion, almost doubled its export dependence in that period. In East and North-East Asia, China's export dependence almost doubled and it now comes close to that of the second largest developing economy in that subregion, which is the Republic of Korea. Compared with other subregions, South-East Asia shows the highest level and fastest-growing share of exports to GDP.

Asia-Pacific developing economies have also steadily increased their share in the world market (figure 4). The region's developing countries increased their share in world exports in the decade from 1994-1996 to 2005-2007 by almost 7 percentage

⁵ It can be argued that exports (or trade) as a percentage of GDP is a very weak measure of openness as it does not account directly for trade barriers. It also suffers from an upward size bias as countries with small GDP tend to have a higher indicator than the larger economies with the same export volume. Economies with large re-exports, such as Hong Kong, China or Singapore will have exports to GDP indicators which are regularly larger than 100%.

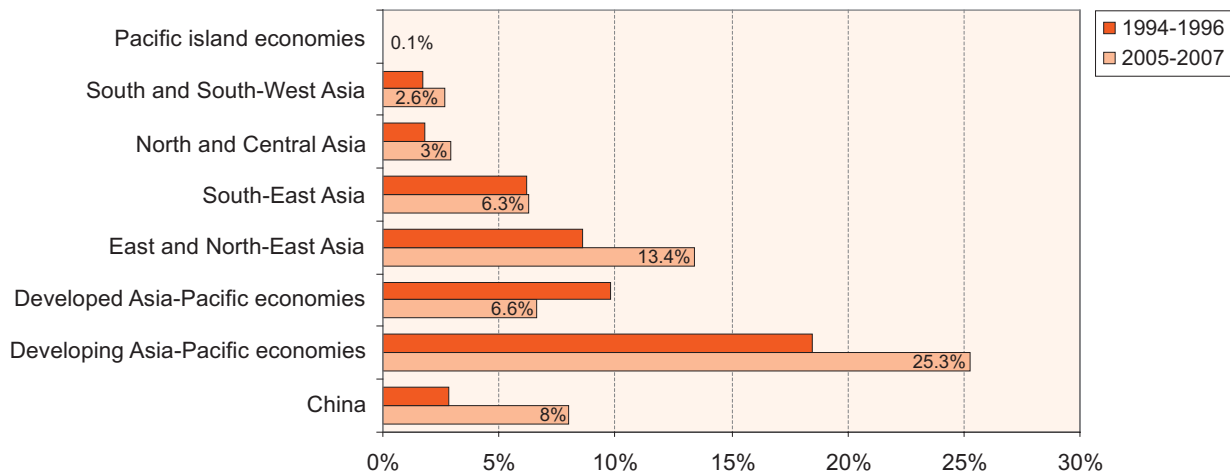
Figure 3. Export dependence in the Asia-Pacific subregions (three-year average)



Source: Calculated from data downloaded from World Development Indicators online database, World Bank, 2009.

Note: Asia-Pacific here is defined as comprising the ESCAP membership which includes 58 regional members and associate members, 3 of which are classified as developed (Australia, Japan and New Zealand). In this figure, data are available for 28 developing members and associate members.

Figure 4. Export market shares of the Asia-Pacific subregions (three-year average)



Source: Calculated from data downloaded from World Development Indicators online database, World Bank, 2009.

points, to reach 25% of world exports, while the share of the region’s developed economies dropped three percentage points over the same period. Performance of different developing subregions varies highly. East and North-East Asia increased their share in world exports by almost five percentage points, helped by the success of China, which raised the share of its exports in world exports from less than 3% to 8%. India almost doubled its share but at just over 1% of world

exports it still cannot significantly boost South Asia’s share.

A comparison of data in figures 3 and 4 suggests that there is no direct link between increases in export dependence on the one hand, and increases in the share of world exports on the other: South-East Asia, for instance, increased export dependence more than any other subregion but did not capture a larger share of world exports.

Still, the increased share of exports in GDP and the Asia-Pacific region's rising share in world exports indicate that all subregions as well as most of the individual developing economies have become more integrated into the global economy since the mid-1990s.

3. Intra-regional exports still lag behind total export growth

With the rapid increase in total exports and imports of developing economies in Asia and the Pacific, the dollar value of their intra-regional trade has also grown rapidly. Since the Asian financial crisis, the total trade of Asian developing countries tripled, while their intra-regional trade rose 3.2 times. That produced a small increase in the share of intra-regional trade in their total trade, from 48.2% in 1998 to 49.2% in 2008.

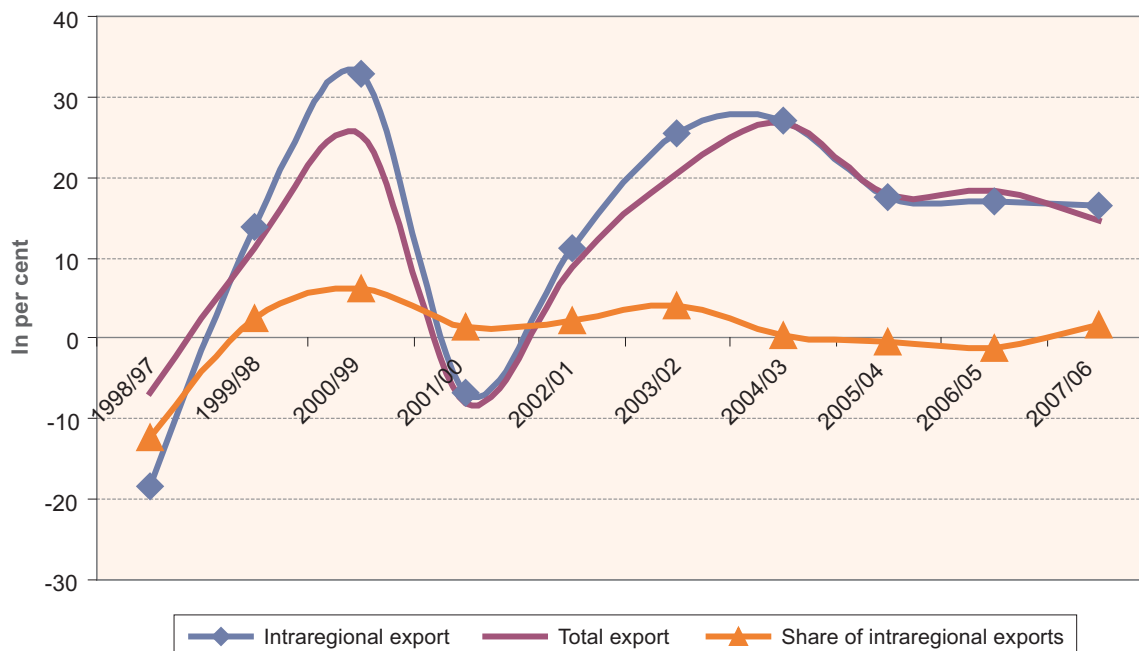
Similarly, figure 5 shows how the annual growth rates of the region's total exports and intra-regional exports shadow each other closely, and that the

share of intra-regional exports in total exports increased only marginally, remaining around 47%. The region's limited reliance on regional exports explains at least partially why Asia-Pacific economies suffered such a sharp reduction of exports when demand for imports in the developed market economies collapsed with the financial crisis.

The question then arises why intra-regional trade did not become more prominent among Asia-Pacific economies, particularly in view of the number of bilateral and multilateral agreements they concluded. Part of the answer is provided below, based on an analysis of trade statistics, while chapter 3 discusses issues related to regional trade agreements (RTAs) and development.

Two features of the region's trade are of particular significance. First, it emerges that only two subregions, East Asia (China, Japan and the Republic of Korea) and South-East Asia (the ten members of ASEAN) are the most important drivers

Figure 5. Growth of total and intra-regional exports of developing Asia-Pacific economies



Source: Calculated based on Comtrade data downloaded from WITS.

Table 1. Who are the major players in Asia-Pacific intraregional trade?

(Per cent)

	1997			2007		
	Export	Import	Trade	Export	Import	Trade
Intraregional^{a/} from region^a to Asia-Pacific	71.0	81.8	76.1	65.8	82.5	73.5
<i>of which:</i>						
ASEAN	41.2	44.7	43.0	38.5	35.1	36.7
China	14.3	14.6	14.5	23.9	30.3	27.2
Japan	31.4	27.6	29.5	23.7	21.2	22.4
Republic of Korea	13.0	13.1	13.0	13.9	13.3	13.6

Source: Calculated from Comtrade data downloaded by WITS.

^a Region means East and South-East Asia.

of intraregional trade, while within these subregions China's role has been decisive.⁶ China's trade with East and South-East Asia contributed most to the rise in the value of intraregional trade. Moreover, as table 1 shows, China's contribution to intraregional trade almost doubled from 1997 to 2007, while the shares of ASEAN, Japan and the Republic of Korea either dropped or did not change during that decade.

China's role in leading the growth of intraregional trade prior to the crisis has led to suggestions that it might play a role in recovery by "decoupling" the region from the major economies in the rest of the world. The idea of complete "decoupling" as a solution to external shocks has been abandoned as being neither feasible nor desirable. Still, recent statistics suggest that China's role in the region's recovery might, after all, be substantial.

Figure 6 shows how the share of intra-East Asian and South-East Asian imports from the region has shot up since the onset of the crisis to account for almost 50% of intraregional imports, while the two subregions' exports have moved in the opposite direction.⁷ It also shows that China has increased

its share of intra-East and South-East Asian imports over the past decade and that since the onset of the crisis this share reached over one third of intraregional imports. Further analysis shows that, while China's imports of raw material have increased in terms of volume, falling raw material prices have prevented their increase in value terms. China's import of manufacturing goods also seems to have rebounded. According to the World Bank estimates (World Bank, 2009c), the import of goods that are destined for final demand in China (as opposed to goods for processing in China) are also growing strongly.

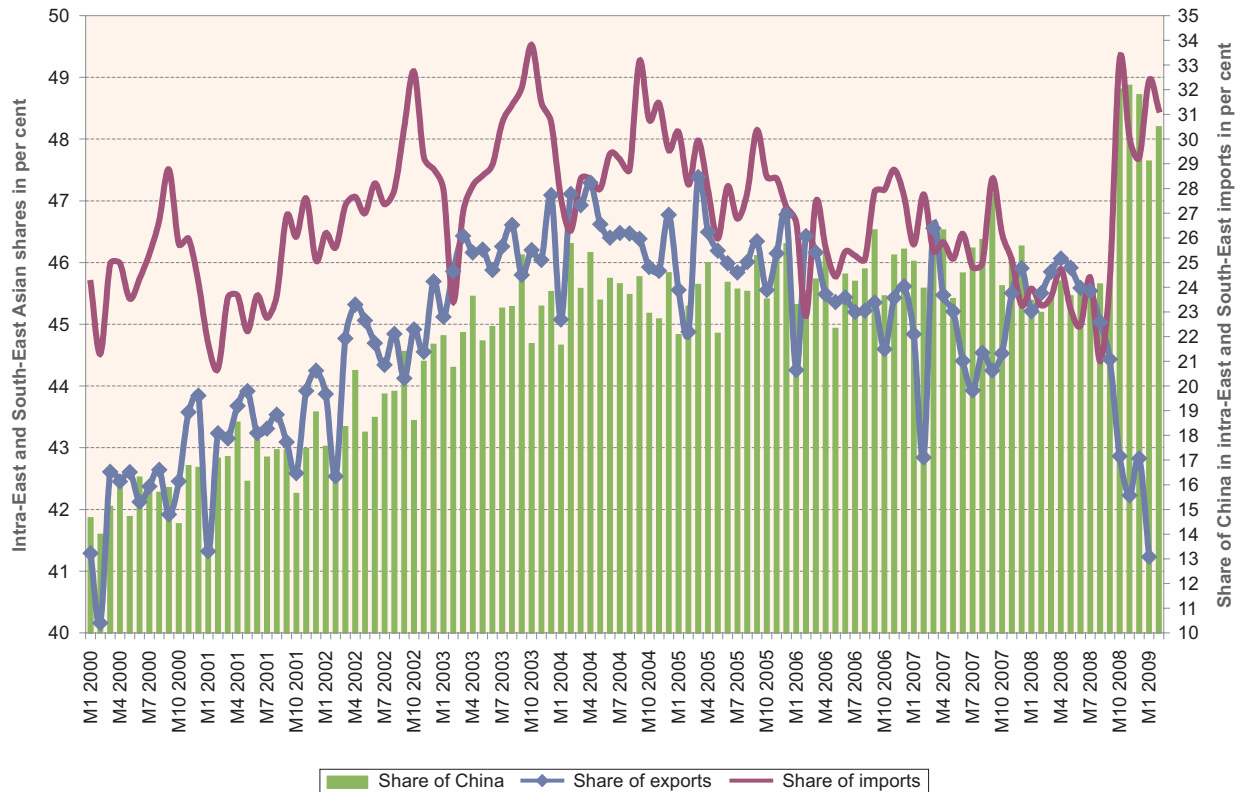
This leads to a second distinguishing feature of Asia-Pacific intraregional trade, which is the existence of international production networks in the region. Evidence suggests that intraregional trade has been driven by the need to obtain intermediates, parts and components from the region for further processing into products destined for export to the markets of the United States and the European Union. This point is discussed further in subsection 4 below. Looking at the trends, and corroborated by an ADB report (2009a), it appears that more than half of total intraregional trade in

⁶ Incidentally, this group of countries is also in the process of formalizing their trade relations through bilateral and regional trade agreements such as ASEAN+ China, Japan and the Republic of Korea.

⁷ Obviously, mathematically this surge is due to a much sharper decline in imports from the world rather than the decline of intraregional imports. There are several possible

explanations for this, including the change in consumer demand, the impact of falling raw material prices and initiatives such as currency swaps and payments in local currency in East and South-East Asia, but it remains difficult to assess the contribution of these factors to the particular change in trends noted in figure 6.

Figure 6. Shares of intra-East and South-East Asian exports and imports and share of imports by China
(Based on monthly values in current United States dollars)



Source: Calculated from data downloaded from IMF Direction of Trade statistics database.

emerging East Asia⁸ consists of intermediate inputs, and trade in final goods accounts only for 22% of intraregional exports. This feature of intraregional trade differentiates Asia's integration from Europe's and North America's integration the most, because in those latter regions intraregional trade has been driven by a higher than proportional increase in intra-industry trade in final goods.

4. The “Factory Asia” phenomenon influenced intraregional trade growth⁹

The regional composition of East Asian merchandise exports underlines the risk of over-dependence on

⁸ Emerging East Asia comprises: ASEAN; China; Hong Kong, China; Republic of Korea; and Taiwan Province of China.

⁹ See also discussion in chapter 5 of this report on the linkages to development and survival of enterprises.

developed country markets and the range of products they require. An IMF analysis (2008) reveals that the bulk of Asia-Pacific merchandise exports are consumed outside the region. A more recent IMF report (2009b) reveals that United States imports from the region increased after the Asian financial crisis, at the same time as intraregional exports (of parts and components) were growing as well.

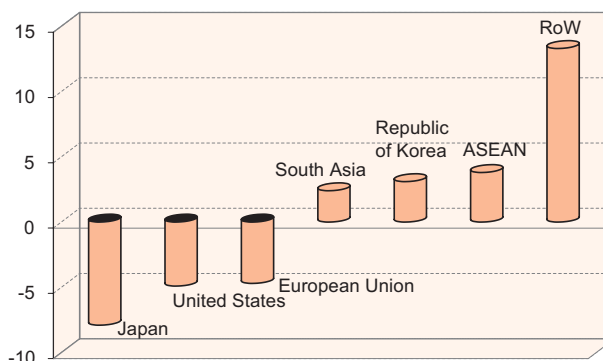
The explanation of this trend is a phenomenon that has become known as “Factory Asia.” The term describes how Asia-Pacific intraregional trade depends heavily on supply chains linking production centres in many different countries. They import parts and components from the region's low-cost regional producers for further processing into final products in the region's more advanced developing countries, which then export them out of the region,

mostly to the United States and Europe. Such networks, although spread across the entire region, are concentrated in China and South-East Asia.¹⁰ Kim, Lee and Park (2009) show that about 60% of all Asian exports are eventually consumed by the United States, European Union and Japan; compared with only 32% if one only looks at direct exports. The results suggest that developed countries still “remain the main export destination for final goods departing from Asian ports when taking into account the share of intermediate goods that are traded for assembly and production within the region before being shipped out of the region.”

The origin of imports by China, sometimes described as the main engine of “Factory Asia,” further illustrates the trend. Figure 7 shows the net changes in origin of imports as shares in total Chinese imports between 1995 and 2007. The share of imports from ASEAN, the Republic of Korea, South Asia and the rest of the world (RoW) have risen,¹¹ while the share of imports from the European Union, Japan and the United States have each declined by more than five percentage points over the period.

A closer look at exports from selected Asian economies to China and how they relate to exports from China to the United States (figure 8) underscores China’s central role in the region’s economic fortunes. It appears that as soon as orders for Chinese exports started leveling off at the end of the first quarter of 2008, the demand for imports from Asian suppliers also started to decline. Consequently, exports to China contracted sharply and earlier than China’s exports to the United States.¹² However, by the beginning of 2009, China’s

Figure 7. Change in sourcing of imports by China
(Percentage point differences between 1995 and 2007)



Source: Calculated from IMF Direction of Trade statistics database.

Note: RoW – rest of the world.

imports from the region started to recover (as also illustrated in figure 6) raising hopes that China would step in to support regional trade as an engine of growth for the rest of Asia. As argued elsewhere (World Bank, 2009a; ADB, 2009a), the recovery of imports in China is driven by increased domestic demand for imported goods financed to a large extent by the stimulus packages introduced by the Government of China in response to the crisis. Therefore, it is still not clear if this increased demand for imports of final goods from the region will be sustained and for how long. In any case, it remains difficult to see how beneficial it would be to replace one market as an engine of growth with another one.

5. Geographical and product diversification of Asia-Pacific exports

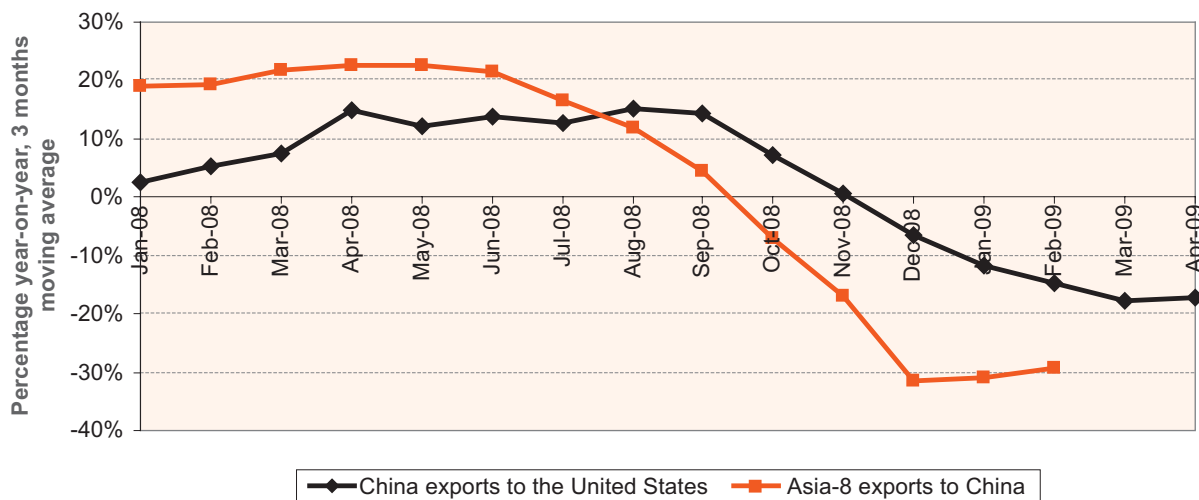
In principle, countries are better off if they disperse their exports over a larger number of destinations rather than if they depend on a relatively small number of similar export markets. It is clear that intraregional exports and trade have been highly concentrated in East and South-East Asian countries, in particular China. Are Asia-Pacific exports to the world any less concentrated?

¹⁰ Athukorala (2007), pp. 18-19.

¹¹ These networks reflect a higher dependence on energy and other primary commodities from outside the region.

¹² “This is consistent with the large role of China as an assembly hub for final products in the Asian production networks, as shown by the steady increase of parts and components in China’s imports from emerging Asia during the recent past. The collapse of exports to China helps explain why economies like Hong Kong, China and Taiwan Province of China have been severely broadsided – exports to China account for about 20% and 45% of their total exports, respectively, compared with 10% on average for the other economies in the region.” (IMF, 2009b, pp. 3-4).

Figure 8. “Factory Asia” and exports of selected Asian economies
(Export growth, as a percentage)



Source: ESCAP calculation based on data from the CEIC Database.

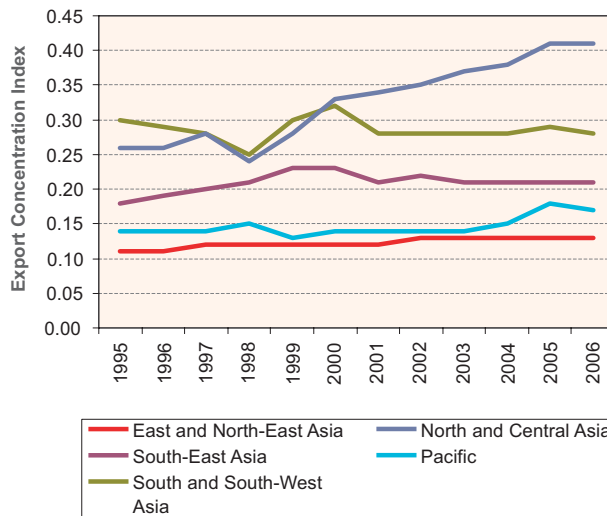
Note: Asia-8 comprises: Hong Kong, China; Indonesia; Malaysia; Philippines; Republic of Korea; Singapore; Taiwan Province of China; and Thailand. Monthly nominal export data for Hong Kong, China; Malaysia; Singapore; and Thailand are available only in their local currency. Average spot exchange rates were used to convert into United States dollars.

Figure 9 illustrates the concentration of exports from Asia-Pacific subregions over the period of 1995-2006 (see ESCAP 2008a for individual countries' indices). Only the North and Central Asian subregion recorded a noticeable increase in the index of concentration during the decade. Other subregions had relatively stable levels of concentration, with most of them facing some variation during 1997 and 2001. Exports from East and North-East Asia are the most diversified in terms of number of markets supplied. These subregional averages mask some relatively high indices, for example, in the case of Azerbaijan, Brunei Darussalam, the Islamic Republic of Iran and Mongolia, and many of the Pacific island economies.

This overall geographical diversification index does not reveal which markets countries focus on in their exports. The relative dependence indicator (see tables 6.1-6.3 in the annex to the report), however, compares dependence on exports (imports or trade) to developed markets with export (imports or trade) to emerging Asian markets (ASEAN, China and

India) for individual economies of the region. For all countries this indicator shows a growing dependence on emerging markets on average.

Figure 9. Geographical concentration of the Asia-Pacific subregions' exports



Source: ESCAP (2008a), *Statistical Yearbook for Asia and the Pacific 2008*, table 21.6.

The sectoral breakdown of exports (and imports) by main commodity category is typically used to assess the potential for external shocks to the domestic economy from events such as a collapse in demand due to the financial crisis. If exports are largely tied to one or only a few commodities (products), sudden changes in market conditions (i.e. price and demand/supply) for these products will potentially cause problems for domestic producers unless they are able to shift production and trade quickly to different product categories and/or markets. Over-diversified exports may signal that a country has no clear export strategy and basically exports whatever it can. On the other hand, reliance on only a few export commodities leaves a country's economy too vulnerable to external shocks and the lack of flexibility adversely affects development.

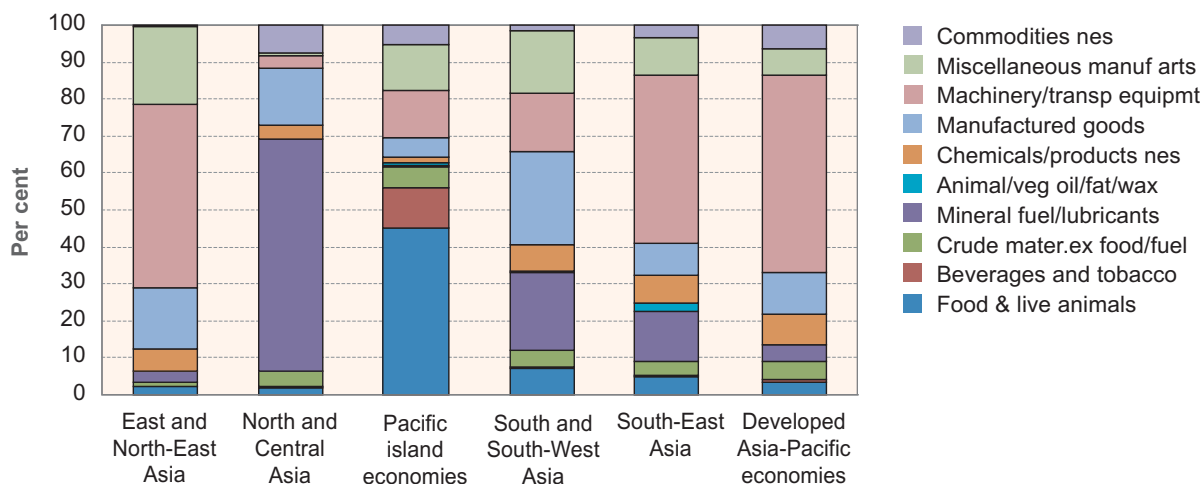
Most Asia-Pacific economies have considerably diversified their export products over the last two decades, but the least developed countries, island developing economies and landlocked economies still lag behind the more industrialized Asian economies. Figure 10 provides a snapshot of the sectoral composition of exports as an average over the period 2005-2007 for the various subregions in

Asia and the Pacific. As in the case of exports of the developed Asian economies, more than half of exports of countries in East and North-East Asia and South-East Asia consist of machinery/transport equipment and manufactured goods. In contrast, North and Central Asia depend heavily on exports of mineral fuels, while Pacific island economies' exports are dominated by food and live animals. South Asia's most important export sectors include manufactured goods, mineral fuels and machinery.

A more precise determination of the degree of export diversification can be made by counting the number of 8-digit products of each country's exports to a specific market or the world market at a given point in time. Figure 11 illustrates the state of export diversification with respect to exports of selected economies to the market of the European Union as an example of developed markets. The position of selected Asia-Pacific economies varies widely, but most island developing economies and landlocked economies depend on very few export products.

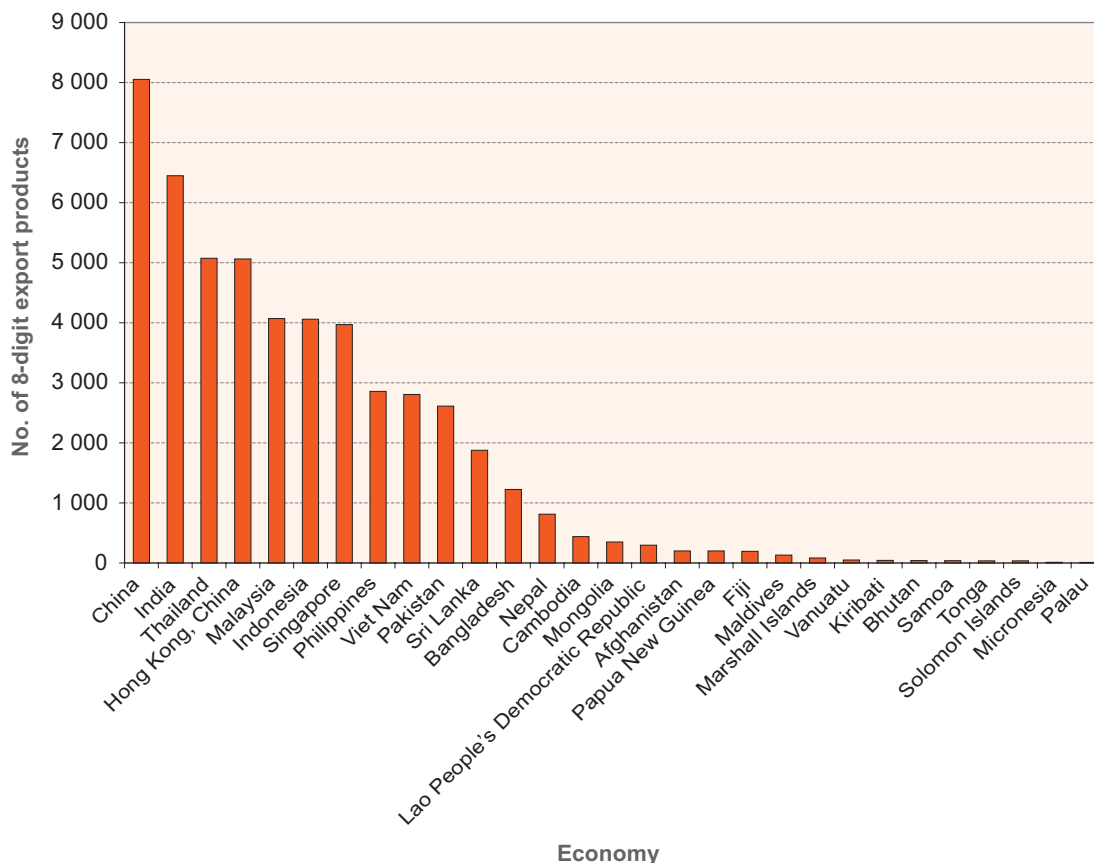
Many developing countries of the Asia-Pacific region still derive the majority of their export earnings from commodity exports. Table 2 shows that the commodity earnings of 27 selected Asia-

Figure 10. Diversification of exports across subregions (average 2005-2007)



Source: Calculated based on Comtrade data downloaded from WITS.

Note: nes – not elsewhere specified.

Figure 11. Export product diversification of selected economies in Asia and the Pacific

Source: Benjamin Shepherd, "Enhancing export diversification through trade facilitation", ARTNet Policy Brief No. 19, May 2009, available at <http://www.unescap.org/tid/artnet/pub/polbrief19.pdf>.

Pacific developing economies accounted for an average 46.4% of merchandise exports during 2005 and 2006, compared with an average 23.2% for the world in 2006. It is noteworthy that some developing countries of the region depend highly on a specific commodity group for goods export. For Azerbaijan, Brunei Darussalam, the Islamic Republic of Iran, Kazakhstan and the Russian Federation, fuel and energy commodities typically accounted for more than 60% of the export of goods, while over 66% of Mongolia's export of goods consisted of metals in 2006. Three island developing countries, i.e. Fiji, Kiribati and the Maldives, depend heavily on the export of food and beverages which accounted for more than 60% of their goods export.

More than 1 billion people in Asia and the Pacific are estimated to be employed in commodity

production in the region, half of them in agriculture.¹³ That dependence can be advantageous when prices are high, but it is a highly risky strategy in circumstances of great market uncertainty. Some developing countries in the region which adopted a natural resource-driven development strategy currently face a new challenge after first experiencing relatively favourable commodity prices.

It is difficult to forecast future demand for primary commodities and their prices given the great degree of uncertainty of the supply-demand balance of commodities in global markets. The hope is that an increasing world population and an expected future recovery from the current crisis might well lead to renewed increases in commodity prices.

¹³ Estimated by ESCAP based on data from World Development Indicators online, World Bank, 2009.

Table 2. Share of commodities in the exports of goods, selected Asian and Pacific developing economies, 2006

Economy	Agricultural raw materials	Fuel and energy	Metals	Food and beverage	Total (Percentage)
Armenia	3.0	2.1	24.7	11.7	41.5
Azerbaijan	0.7	84.6	1.3	5.0	91.6
Brunei Darussalam		96.3	0.1	0.1	96.5
China	0.5	1.8	2.2	2.9	7.4
Fiji	4.1	0.1	1.1	67.5	72.8
French Polynesia	2.7		0.1	12.4	15.2
Georgia	2.2	3.1	21.5	24.7	51.5
Hong Kong, China	0.8	1.7	3.6	2.6	8.7
India ^a	1.5	11.4	6.9	8.9	28.7
Indonesia	6.4	27.2	10.0	11.7	55.3
Islamic Republic of Iran	0.3	82.8	2.4	4.3	89.8
Kazakhstan	0.6	69.4	14.6	2.8	87.4
Kiribati ^a	1.6		1.6	82.4	85.6
Kyrgyzstan	10.4	18.3	5.5	18.7	52.9
Macao, China			2.7	1.6	4.3
Malaysia	2.7	13.8	1.3	7.0	24.8
Maldives			1.0	98.5	99.5
Mongolia	13.3	5.5	66.3	2.2	87.3
New Caledonia	0.1	0.4	35.3	2.6	38.4
Pakistan	1.2	4.9	0.6	11.9	18.6
Philippines	0.5	2.3	4.5	5.5	12.8
Republic of Korea	0.7	6.3	2.5	0.9	10.4
Russian Federation	2.6	62.9	7.6	1.6	74.7
Singapore	0.3	12.9	1.4	1.6	16.2
Thailand	5.3	4.7	1.5	11.3	22.8
Turkey	0.3	0.2	1.3	6.8	8.6
Viet Nam ^a	2.8	25.8	0.6	20.2	49.4
Regional average	2.4	19.9	8.2	15.8	46.4
World average	1.6	11.1	1.0	6.5	23.2

Source: Calculated based on data from World Development Indicators online database, World Bank, 2009.

^a 2005 data.

B. TRENDS AND DEVELOPMENTS IN TRADE IN SERVICES

1. Asia and the Pacific is becoming a major global player in services trade

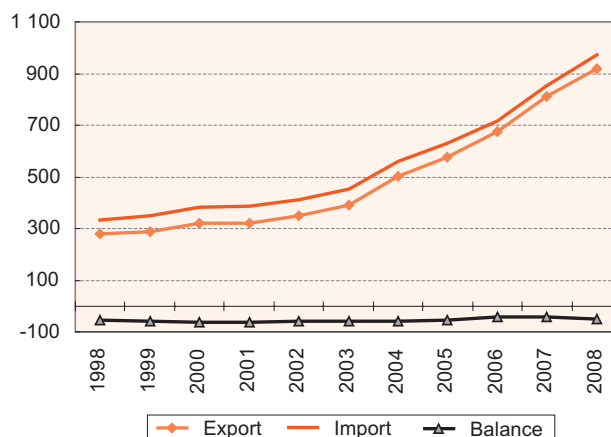
The Asia-Pacific region indisputably has become a major player in services trade and many countries in the region have complemented their merchandise export-led growth with rapidly growing exports of commercial services. The 2007 list of top world services exporters include a number of Asia-Pacific economies, and the share of the top five of them (Japan; China; India; Hong Kong, China; and Singapore in descending order) increased their share in world services exports from 9% in 1996 to 14.8% in 2007, while their share in the region's exports of services rose to 40% in 2007. Asia-Pacific developing economies made up about 70% of the region's total commercial services exports in 2007 and 17% of the world's commercial services exports (up from 15% in 1996). On the other hand, the share of the region's least developed countries in world services exports continued to decline from 0.17% to 0.05% over the same period. The group of landlocked countries (which in ESCAP include four least developed countries), maintained a stable share of 0.2% in world services exports.

Since statistics on trade in services¹⁴ are much less developed than merchandise trade statistics and are not available on a monthly basis or disaggregated by destination for most economies, it is not possible to provide an up-to-date overview of developments in services trade in the aftermath of

¹⁴ According to WTO (2008a), data on commercial services covering Modes 1, 2 and 4 under the General Agreement on Trade in Services (GATS) can be estimated from countries' balance of payments. Commercial services are subdivided into transportation services, travel and other where "other" include communication, construction, insurance, financial, computer and information services, royalties and license fees, other business services and personal, cultural and recreational services (see pp.164-165).

the economic crisis. It should be noted, however, that despite the steady rise in the Asia-Pacific region's exports of services since 1998, the region's economies remain net importers of commercial services (figure 12).

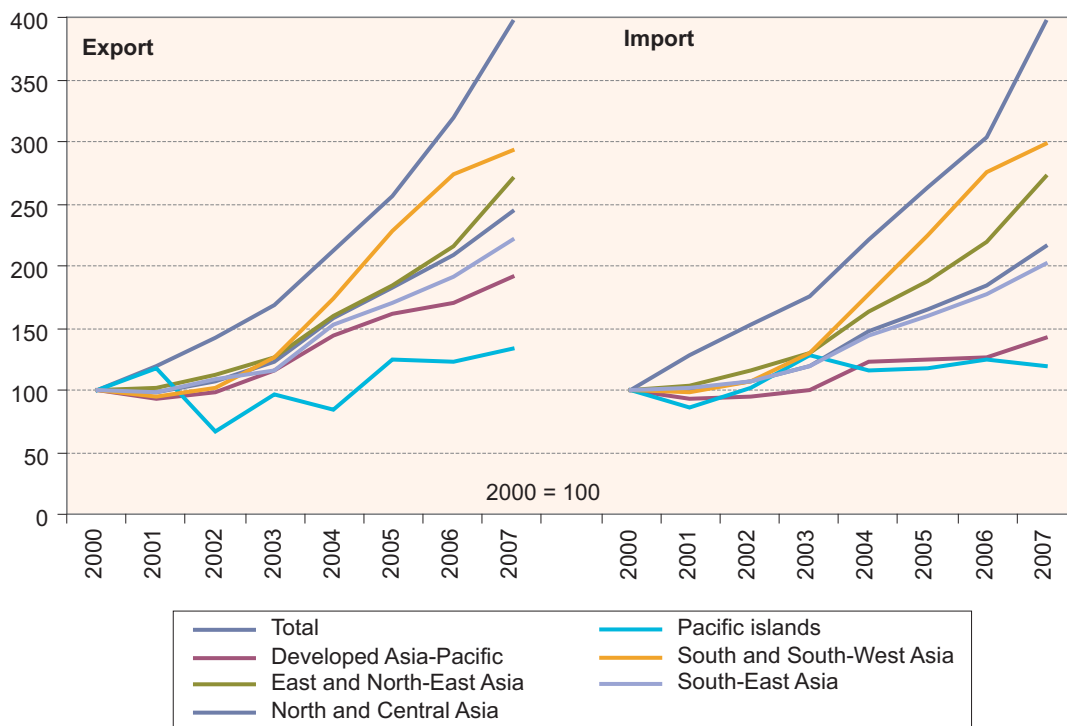
Figure 12. Exports, imports and balance of commercial services of Asia-Pacific economies with the world
(Billions of United States dollars)



Source: WTO, online International Trade Statistics, accessed on 1 August 2008.

Moreover, Asia-Pacific subregions contribute very differently to services exports and imports. Figure 13 clearly shows that most of the growth of services exports and imports is associated with three subregions: East and North-East Asia, South-East Asia and developed ESCAP economies. However, from 2000 to 2007, the total share of these three subregions has fallen in favour of an increased share of South Asia. Pacific island economies lagged the most behind the average growth in the region's exports and imports. The remarkable increase in the share of North and Central Asia is somewhat unexpected, but as many of those economies are landlocked, the rise of fuel and associated transportation costs as part of their exports and imports are certainly a main cause for the sharp increase in transport services trade in that subregion.

Figure 13. Asia-Pacific subregions: growth of commercial services trade



Source: ITC Trade Map, services statistics, accessed from <http://www.intracen.org> on 3 April 2009.

2. Intra-regional trade in services has not reached its full potential

As with merchandise exports, it is clear from table 3 that most of the exports of commercial services in 2006 were destined for the United States and the European Union (with the exception of Hong Kong,

China which has China as top destination), leaving only a small share spread across other Asia-Pacific economies. There are many reasons for the limited intra-regional trade in services, including barriers to direct market access and numerous “behind the border” barriers which are discussed in chapters 4 and 5 of this report.

Table 3. Geographical breakdown of exports of commercial services in 2006

(Per cent)

Exports From	To							Subtotal Asia	RoW
	Japan	Hong Kong, China	Singapore	Republic of Korea	India	China			
Japan	0	2.7	7.5	4.8	..	6.6	21.6	78.4	
Hong Kong, China	7.1	0	2.8	2.6	0.9	24.3	37.7	62.3	
Singapore	8.5	4.4	0	3.2	2.7	4.2	23.0	77.0	

Source: WTO, *International Trade Statistics 2008*, Geneva.

Notes: RoW – rest of the world.

.. – data are not available or are not separately reported.

3. GATS Mode 4 services and the Asia-Pacific region

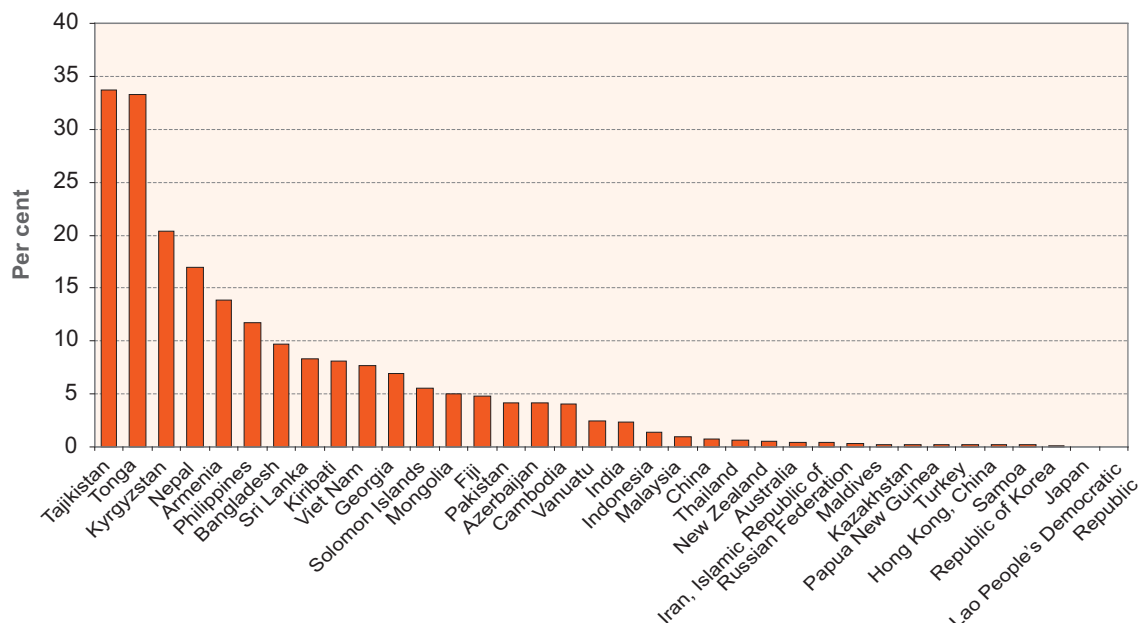
It is now well-established that most developing Asia-Pacific economies would benefit from liberalization that increases mobility of medium- and less-skilled workers across borders. The region has a relative abundance of these categories of labour and their temporary presence overseas to provide a service (the definition of GATS Mode 4 service trade) could bring benefits both to the region and to the place of their temporary presence. Statistics on flows of Mode 4 related services are not readily available. Estimates of labour-related flows based on balance of payments data such as workers' remittances and compensation of employees are a poor substitute, as they confuse temporary movement of service providers with migration. However, until GATS Mode 4 concepts are translated into statistics, they will continue to be used to obtain a rough estimate of the importance of this category of services trade.

On that basis, figure 14 illustrates the dependence of selected Asia-Pacific economies on workers' remittances in 2007. The top recipients of migrant

remittances in Asia and the Pacific were India with \$27 billion, China with \$25.7 billion and the Philippines with \$16.9 billion. Other countries in the region, in particular Armenia, Kyrgyzstan, Nepal, Philippines, Tajikistan and Tonga also derive a substantial share of their national incomes from remittances. As a result of the crisis, many host countries of migrant workers have indicated plans to reduce the quota of migrant workers in the coming years (e.g. Australia, Malaysia, Republic of Korea, Saudi Arabia and Thailand) and that will affect the future flow of remittances into the region.

Reduced remittance inflows to developing economies which have relied heavily on such remittances will potentially cause at least two types of adverse effects. First, many Asian and Pacific migrant workers will be forced to return to their home countries, adding further unemployment pressures to their home labour markets. Second, low remittances will further shrink recipients' purchasing power in their home countries, which would impact businesses. The lack of a regionally agreed treatment of migrant workers could particularly raise tensions between host and home countries on this particular issue.

Figure 14. Share of migrant workers' remittances in GDP, selected Asian and Pacific economies, 2007



Source: Calculated based on data from World Development Indicators online database, World Bank, 2009.

C. TRENDS AND DEVELOPMENTS IN FOREIGN DIRECT INVESTMENT

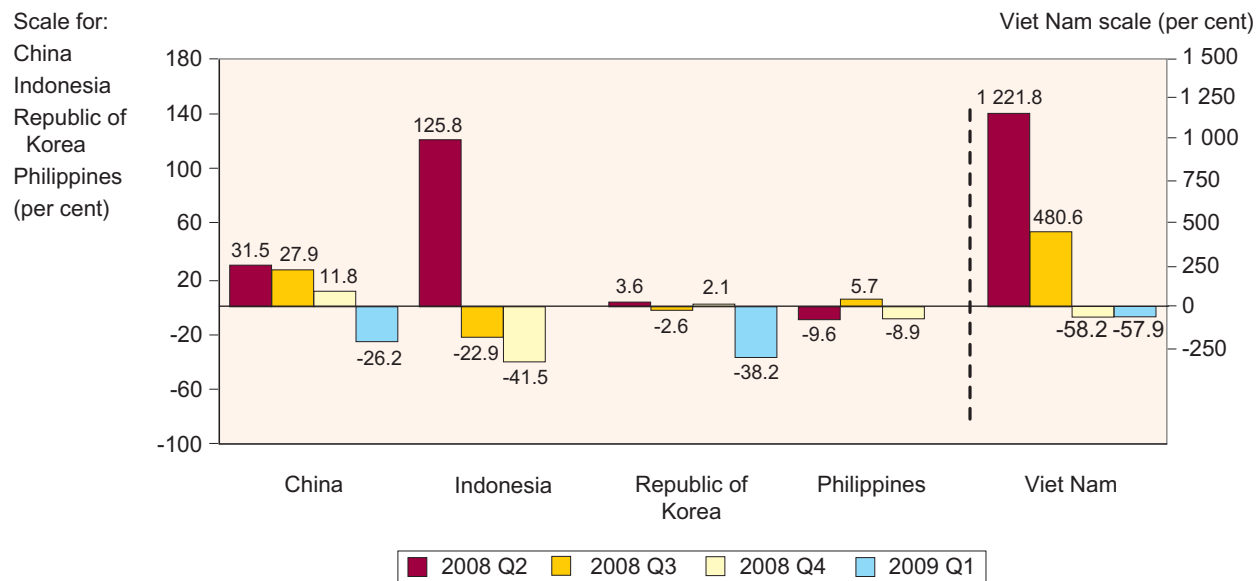
1. FDI inflows to the region are falling

Despite its robust economic performance of recent years, the Asia-Pacific region has not escaped the impact of the crisis on FDI, although this impact has been slower to emerge. Global FDI dropped by 15% in 2008 (UNCTAD, 2009) and an even more dramatic decline is forecast for 2009. In developed countries the fall in FDI inflows could be observed throughout 2008 and the first quarter of 2009. FDI in developing countries continued to rise in 2008, but by the first quarter of 2009 the effects of the crisis were already being felt. The Asia-Pacific region followed the trend: its FDI inflows already slowed down in 2008 and this decline has continued throughout 2009 (see figure 15). China's FDI inflows in the first quarter of 2009 were down 26% year-on-year, Viet Nam's FDI inflows dropped by 60% in this period, while FDI inflows to the Republic of Korea dropped by 38% (ADB, 2009a).

FDI has been an important contributor to growth in many Asia-Pacific countries, opening up access to capital and technologies as well as providing a major external source of financing. In Singapore, FDI comprises about 60% of the overall gross fixed capital formation. These figures are 52% for Cambodia and 25% for Viet Nam (UNCTAD, 2008). The decline in FDI flows therefore may pose a threat to the financial stability and economic development of many developing countries in Asia.

The Economist Intelligent Unit (EIU) forecasts that FDI flows, after a severe dip in 2009, will recover steadily (EIU online database, 2009). This general pattern of development seems to be identical all over the world, although the fall in FDI flows is more drastic in developed countries than in developing countries and the extent of these declines vary around the region. China and Hong Kong, China, which used to attract the highest level of FDI inflows in the region, are predicted to experience falls in FDI flows by 50% and 80%, respectively, in 2009. India, however, is expected to suffer a relatively minor decline of 25% in 2009 and then recover quite rapidly, reaching a record level of inflows in 2011.

Figure 15. FDI inflows to selected countries in Asia
(Quarterly changes in %)



Source: ADB, *The Global Economic Crisis: Challenges for Developing Asia and ADB's Response*, Manila, May 2009; and ADB, *Asian Development Outlook 2009: Rebalancing Asia's Growth*, Manila, March 2009.

2. Intraregional investments grow despite the crisis

As the current economic crisis is hitting developed countries especially hard, developing countries are gaining importance as sources of FDI. Outward FDI (OFDI) from all developing countries reached a record high in 2007 of \$253 billion, which could be ascribed mainly to the outward expansion of Asian transnational corporations (TNCs) (UNCTAD, 2008). For example, Chinese OFDI increased from \$23 billion in 2007 to \$59 billion in 2008 and is expected to reach over \$90 billion by the end of 2009. While figure 16 shows that the share of three Asian economies (China; Hong Kong, China; and India) in world OFDI was around 10% prior to the crisis, their share is projected to increase considerably after the crisis, since their OFDI will grow faster than the world total. If the forecast proves correct, these economies will play an even more significant role as a source of FDI, especially within the region.

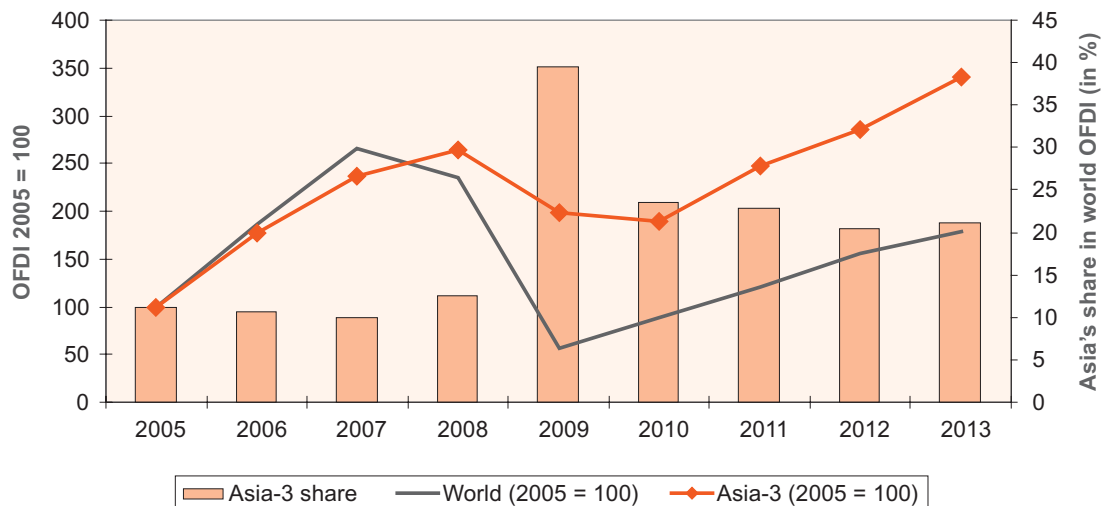
Developing countries' TNCs and sovereign wealth funds (SWF) are expected to continue expanding their investment activities within the region and thus help a recovery in FDI flows within Asia. China's investment has increasingly shifted away from developed to developing countries in Asia (Berger,

2008; OECD, 2008). By the end of 2007,¹⁵ some 67% of China's outward FDI stock was already estimated to be located in other Asian countries while Latin America had received 21% of cumulated Chinese outward FDI, Europe 4%, Africa 4%, North America 3% and Oceania 2% (Davies, 2009).

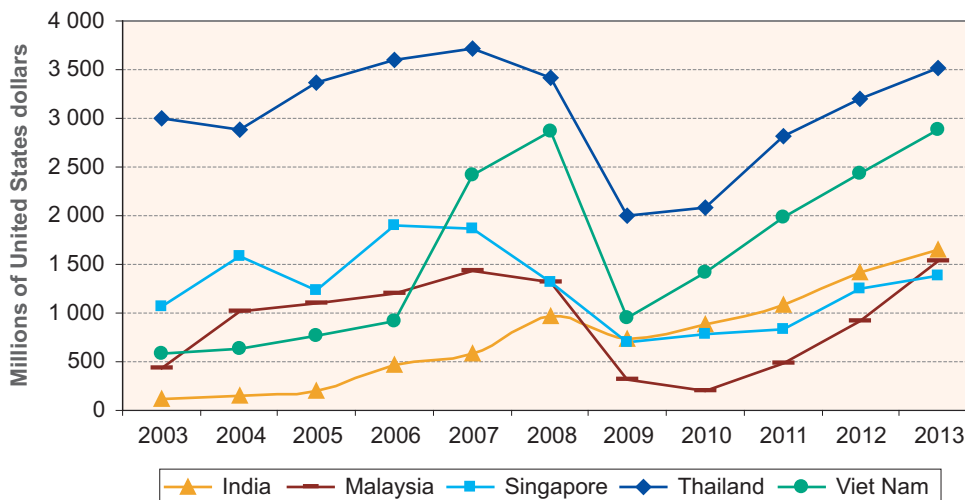
FDI inflows to Asia are expected to recover quickly after the crisis (figure 17) and most FDI destined for Thailand and Viet Nam is expected to come from other Asian countries. In turn, Thailand and Viet Nam, similar to China and Hong Kong, China are becoming valuable sources of FDI to neighbouring countries such as Lao People's Democratic Republic and Cambodia. Recent investments of Vietnamese companies amounting to about \$812 million into Lao People's Democratic Republic (and plans to raise those to \$2 billion by 2010) confirm the trend of increasing South-South investments in Asia. Despite Viet Nam's declining FDI inflows, Vietnamese FDI in Cambodia rose to \$211 million by the end of February 2009 (Business Monitor International, 2009), supporting the trend of growing intraregional investments.

¹⁵ The latest figures published by the Ministry of Commerce of China (MOFCOM) in February 2009 include data until the end of 2007.

Figure 16. Outward FDI trends – world, Asia-3 (China; Hong Kong, China; and India) and share of Asia-3 in total outward FDI



Source: Calculated based on EIU online database, 2009.

Figure 17. FDI inflows from Asia to selected developing countries

Source: 2009, 2010 and onward projections by EIU online database.

FDI among Asian countries accounts for almost half of the region's total FDI inflows while intra-ASEAN FDI particularly shows a rising trend. South-East Asia remains the main destination for Asian OFDI (UNCTAD, 2008). Within South-East Asia, Singapore is the largest source of OFDI, flowing mainly to other ASEAN countries, in particular Indonesia, Malaysia and Thailand.

D. IMPACTS OF THE CRISIS: A QUANTITATIVE ANALYSIS

1. Impacts on total export and import flows

The current global recession ranks easily as the most severe of the post-war period and the most far-reaching. Virtually all advanced economies and many emerging and developing economies have plunged into recession.¹⁶ In previous global recessions, world trade had continued to grow, albeit at a slower rate, but in 2009 both exports and

imports recorded sharp and deep declines.¹⁷ World exports are expected to fall by 12% and world imports by 11% in 2009. Such declines, if realized, would qualify as the most severe crisis in world trade in the past 40 to 50 years.

Table 4 shows that nearly all selected developing economies in the region are expected to experience double-digit negative export growth in 2009. The worst affected country is Thailand with exports expected to contract by over 17% in 2009.

Major industrial countries, such as the United States, are expected to recover in 2010. Led by China, Republic of Korea and Singapore, developing Asian economies are projected to stage a strong recovery in trade in 2010. Exports are projected to grow at 6.3% in 2010, while imports are expected to rebound equally strongly at 7.3%.

2. Impacts on sectoral exports and imports

Since the economic slump hit exports harder than real GDP, it is important for policymakers to be aware not just of the impact on overall trade and output but also of the impacts on different sectors.

¹⁶ In 1982, recessions in many Latin American economies contributed to the decline in global activity, whereas in 1991 declines in the transition economies played an important role. The 1991 recession was a multiyear episode in which the United States recession in 1990/91 was followed by recessions among European countries during the European exchange rate mechanism (ERM) crisis. For details, see IMF (2009c), p. 14.

¹⁷ These estimates are based on the Oxford Economic Forecast model.

Table 4. Trade contraction in 2009 and recovery in 2010

(Percentage change)¹⁸

Economy	Exports			Imports		
	2008	2009 ^a	2010 ^a	2008	2009 ^a	2010 ^a
Japan	2.04	-26.23	8.82	0.91	-14.42	6.39
China	10.92 ^a	-10.35	8.40	8.76 ^a	-3.77	9.11
Hong Kong, China	2.67	-6.91	5.52	1.99	-7.25	4.73
India	17.04	-6.98	5.63	27.68	-16.94	7.18
Indonesia	9.49	-10.85	6.05	10.03	-15.40	7.60
Malaysia	1.31	-11.70	2.98	1.95	-11.65	3.69
Philippines	-1.89	-14.14	6.06	2.39	-12.75	8.23
Republic of Korea	5.73	-3.08	7.58	3.66	-10.89	10.44
Russian Federation	0.50	-9.86	0.89	15.00	-25.55	5.77
Singapore	1.28	-15.84	6.13	6.08	-16.05	5.80
Taiwan Province of China	-0.03	-16.64	4.47	-3.98	-17.49	6.92
Thailand	5.43	-17.02	6.07	7.46	-25.48	2.97
Turkey	2.63	-8.96	6.06	-3.09	-21.29	9.19
Developing Asia and the Pacific ^a	5.74	-10.23	6.33	6.71	-12.41	7.28

Source: ESCAP estimates and projections based on Oxford Economic Forecast, data up to September 2009.

Notes: Figures are based on real prices of exports and imports of goods and services (in United States dollar terms).

^a Estimates.

This analysis focuses particularly on larger developing trading economies such as China, ASEAN and India, and finds that the most affected sectors tend to be those that dominated each economy's or region's exports before the crisis.¹⁹

The sharp decline forecast in exports in 2009 is reflected in a decline of exports in all sectors. Electronics exports from China decline by almost 16% or \$50 billion. In two other large exporting sectors, namely other machinery and textiles and apparel, exports decline by almost 15%, which represents a loss of over \$27 billion. For ASEAN, the electronics sector is the most severely impacted in value terms, while for South Asia it is the textiles and apparel sector and for the Russian Federation and Central Asia it is the extractive sector.

¹⁸ Projections of the World Bank (Prospects of the Global economy, Interactive website) for GDP, export and import growth in 2009 and 2010 differ for some countries from those presented in table 4 (i.e. Indonesia, Philippines, Singapore and Thailand for which the Oxford model predicts deeper declines in exports). See for more details: World Bank, 2009b.

¹⁹ For details on modelling assumptions, see Strutt, 2009.

The pattern of export contractions is mirrored by the pattern of declines in output. All sectors are quite severely affected, suffering declines in output of between 3% and 14%. This is because the lower growth predicted for 2009 implies that there will be less demand from these countries' domestic markets as well as less demand for their exports. Obviously, the stimulus packages undertaken in some economies might reduce the impact of the crisis on domestic demand and thus on output. Furthermore, this analysis does not consider policy changes such as the reduction in barriers to global trade (including in response to the financial crisis).²⁰ It is possible that such policies could help alleviate some of the impacts of the crisis.

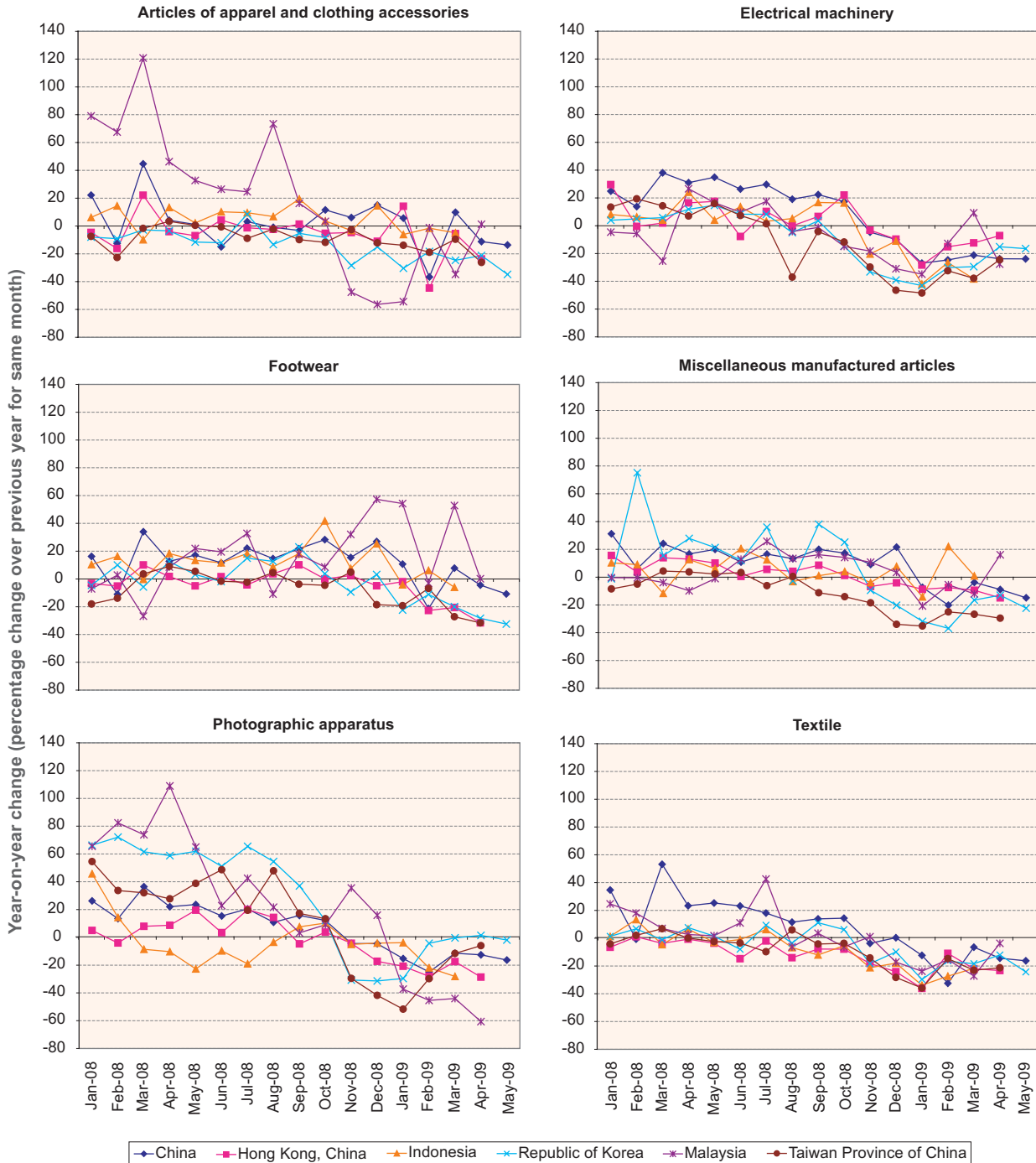
While there are no comprehensive historical data on trends in sectoral exports and imports for all regional economies, figure 18 sums up the most recent available data on monthly changes of exports of apparel and clothing, electric machinery,

²⁰ Tariffs have not been adjusted from the benchmark 2004 database. For further details on the modelling of impacts, see the annex at the end of part I.

footwear, miscellaneous manufacturing, photographic equipment and textiles for economies which provide national data (China; Hong Kong, China; Indonesia; Malaysia; Republic of Korea; and Taiwan Province

of China). With the exception of Malaysian exports of footwear, all economies experience a decline in exports in these sectors, consistent with simulations based on the GTAP modelling exercise.

Figure 18. Monthly changes in sectoral exports of selected Asian exporters



Source: Calculated based on data downloaded from CEIC Database.

3. Impacts on employment and poverty

The collapse of trade has also caused a sharp decline in demand for labour in many Asia-Pacific developing economies. The total number of unemployed people is expected to more than double in Thailand and to nearly double in Singapore. Trade is a major source of employment in these two countries, relying heavily on demand from Japan and the United States, and their unemployment rate will remain relatively high in 2010. Unemployment in Hong Kong, China is projected to increase to 6% in 2009. In contrast, unemployment in India may remain unchanged (see table 5).

Table 5. Projected unemployment rates in 2009 and 2010

	2008	Projected 2009	Projected 2010
United States	5.8	9.3	9.6
Japan	4.0	4.8	5.5
European Union	7.0	8.8	9.8
China	4.1	4.6	4.2
Hong Kong, China	3.6	6.0	6.0
India	8.0	8.0	8.0
Indonesia	8.4	9.3	10.1
Malaysia	3.3	3.9	4.0
Philippines	7.4	8.6	8.9
Republic of Korea	3.2	3.9	4.1
Singapore	3.2	6.0	7.0
Thailand	1.4	3.1	4.4

Source: Oxford Economic Forecast, based on the data up to June 2009.

While this report does not offer a comprehensive quantitative analysis of the impacts of the decline in trade on poverty, some impacts can be inferred from the available theoretical and empirical literature on the relationship between greater trade openness and removal of behind-the-border barriers on the one hand and poverty on the other (Stone, Strutt and Hertel, 2009; Hertel and others, 2009; and Gilbert, 2008). ESCAP-ADB-UNDP (2008) quantifies the elasticity of poverty on trade openness measured as the share of trade in GDP; every percentage point increase in trade openness reduces the number of poor who live on \$1 a day by

0.7%. Because exports and imports fall faster than GDP in an economic slump, openness is expected to contract and poverty is expected to increase.²¹

E. TRADE MEASURES AND POLICIES ADOPTED TO RESPOND TO THE ECONOMIC CRISIS

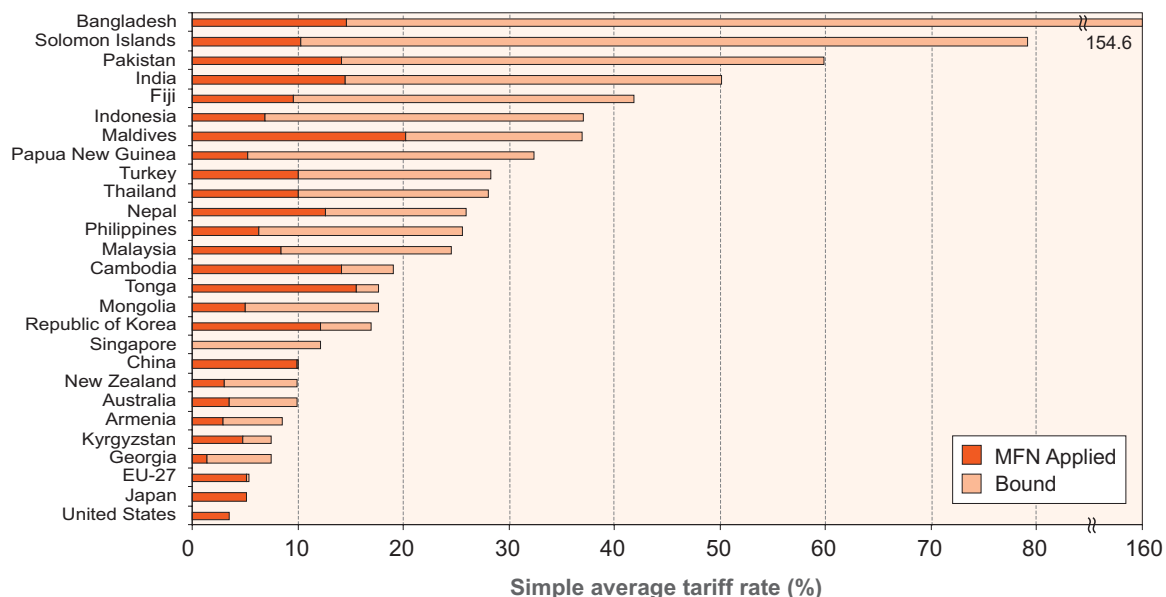
In the second half of 2008, Asia-Pacific countries started to adopt measures designed to address the vulnerabilities caused by the economic crisis. Several countries adopted additional measures in the first half of 2009. Such measures covered monetary and fiscal policy, including stimulus packages, exchange rate policies, social policies, and policies that directly influence trade and investment flows. ESCAP (2009a) and ESCAP (2009b) have comprehensively analysed some of these measures. In what follows, further analysis and comments on trends in protectionism and recently enacted trade-related measures are provided.

The level of tariff protection in the Asia-Pacific region ranges from applied tariffs equal to zero (in economies such as Hong Kong, China; and Singapore) to very high tariffs for specific products (so-called tariff peaks). Most member countries of the World Trade Organization (WTO) agreed to bind their tariffs, often resulting in bound rates at a much higher level than the applied rates (see figure 19 below and table 11 in the annex to the report). Encouragingly, no subregion has an applied MFN tariff averaging higher than 20%, but one needs to consider that (1) the difference between applied and bound tariffs is quite high in most countries,²² and (2) protectionist trade policies are currently determined equally, or even more, by non-tariff measures (NTMs) such as standards, anti-dumping measures or safeguard measures, than by tariffs.

²¹ This elasticity is used to calculate the impact of concluding an Asia-Pacific wide free trade agreement on the number of absolute poor in the region (see chapter 3 in this report).

²² Only very few countries, such as China and Tonga, apply tariff rates equal to or nearly equal to their bound level and would therefore have no flexibility to increase their tariffs, except through recourse to the standard escape provisions (see figure 19; and Mikic and Ramjoué, 2009).

Figure 19. Difference between applied and bound tariffs



Source: WTO, *Trade Profiles 2008*, Geneva, 2008.

However, there is also an issue of how various RTAs impact the rights of WTO members to raise tariffs to their bound levels. Most RTAs provide for a gradual or immediate elimination of all tariffs and prohibit any unilateral increase in tariffs and sometimes even in non-tariff barriers (see also chapter 3). Furthermore, because changing obligations under RTAs is cumbersome, countries end up with limited policy space or flexibility to increase either tariffs or most non-tariff barriers (Mikic and Ramjoué, 2009; Jongwanich and others, 2009).²³ The more agreements a country signs and the more its trade is covered by such agreements, the less freedom it has to change its trade policy compared with the multilateral rules. Table 6 provides some idea of the extent to which trade of selected countries in the region is “covered” by various RTAs. The figures range from less than 10% for Bangladesh, to close to 80% for Brunei Darussalam, with an average close to 40%.²⁴

²³ However, some RTAs include a special safeguard clause allowing the re-establishment of MFN duties on a temporary basis, for example, EU-Republic of Korea Free Trade Agreement signed in 2009.

²⁴ “Covered under RTAs” refers to the proportion of exports among partners that have signed agreements as compared with their total exports. It does not reflect utilization of preferential treatment granted to partners under the agreements.

Table 6. Trade with partners in RTAs in 2006

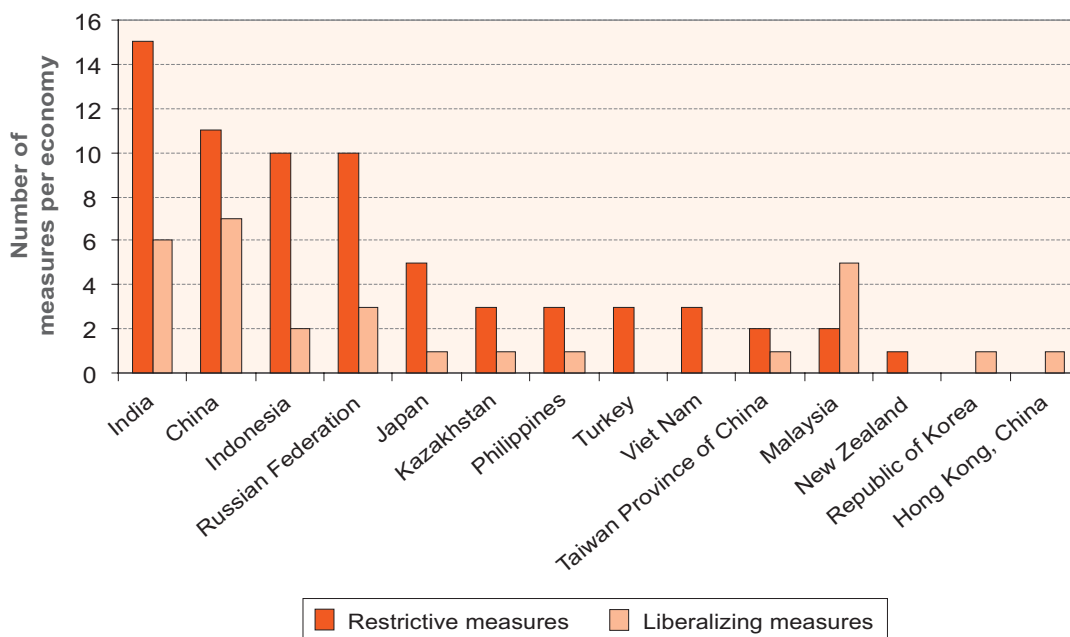
Country	Share of exports under RTAs (in %)
Bangladesh (10)	9.9
Japan (8)	12.6
India (11)	18.5
Republic of Korea (10)	27.1
China (19)	31.1
Viet Nam (12)	39.5
Malaysia (14)	46.7
Philippines (12)	46.9
Thailand (14)	48.3
Indonesia (12)	55.7
Singapore (22)	57.8
Brunei Darussalam (14)	75.7

Source: Mia Mikic and Melanie Ramjoué, “Preferential trade agreements: an insurance against protectionism?”, ARTNeT Alerts on Emerging Policy Challenges, No. 2, Bangkok, February 2009.

Note: Numbers in parentheses indicate the number of trading partners covered under all RTAs a particular country is party to.

Still, Asia-Pacific economies in the region enacted a total of 97 measures in the period October 2008 to July 2009, of which 68 are restrictive measures and 29 are liberalizing measures, according to data collected by WTO, which started tracking and

Figure 20. Trade measures enacted by Asia-Pacific economies
(October 2008-July 2009)



Source: Table 1A in the annex of part I.

reporting such measures in the second half of 2008, and by Global Trade Alert.²⁵ China adopted the largest number of liberalizing measures (7), while India adopted the largest number of restrictive measures (15). Table A1 in the annex to this chapter lists the measures taken by Asia-Pacific economies from October 2008 until July 2009, while figure 20 provides the number of measures per economy.

In addition to trade measures, Asia-Pacific economies have adopted measures to boost liquidity in foreign currency especially for export financing (see chapter 4). A number of countries have negotiated credits from international financial bodies to support trade finance but also for more general purposes.

The decline in FDI from developed countries that many economies faced in 2009 raised some concerns that they might resort to special measures

to lure capital away from other destinations. Fortunately, as described above, intraregional investment has risen during the last few years.

Finally, trade policies are often complemented by exchange rate manipulations to increase relative export competitiveness. Prior to 2008, many Asian governments were pressured into allowing an appreciation of their currencies against the major global reserve currency, i.e. the United States dollar, but not much movement in that direction has taken place since the crisis started to hit real economies in mid-2008. The only exceptions were the Japanese yen and, to some extent, the Chinese yuan. In contrast, regional currencies' movements against the euro have been less volatile and generally showed an upward trend.

F. LOOKING AHEAD

At the end of 2009, after some turbulent months of sharply falling trade flows and investments, there are signs of a rebound in the Asia-Pacific region. While bad news still prevails, reports of increased exports, imports, industrial production and GDP in a

²⁵ A global network established on 8 June 2009 to monitor and provide information on state measures taken during the current global economic crisis that are likely to discriminate against foreign commerce. See more on <http://www.globaltradealert.org>.

number of economies in Asia provide anecdotal evidence of the vitality of the region. Moreover, in contrast to the exit from the Asian financial crisis of 1997, when exports from Asia to the rest of the world proved to be the driver of a rebound, this time around Asia may lead the way out of the global crisis. Given the connectivity of production and markets, the full recovery of trade among Asian countries is likely to be a motor for the global trade recovery. The terms “Asian miracle” or “Asian century,” therefore, remain good descriptions of the times to come.

The crisis is far from over. Volatility in markets and corrections of prices will continue for as long as the global imbalances that existed before the financial

bubble burst remain to be addressed. Trade and investment did not cause those imbalances, but fell victim to the financial crisis spilling over into the real economy. Exposure to external shocks is an obvious result of a strategy seeking the development of an open economy. The appropriate response is to strengthen economies by designing policy tools that can better respond to external shocks, not by walling them off from international trade and cooperation. Inclusive and sustainable development can be achieved more easily and faster by keeping national economies as integral parts of regional and global economies. Part II of this report provides a thorough analysis and discussion of how this can be achieved by countries in Asia and the Pacific.

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Annex

Table A1. Trade measures taken by Asia-Pacific economies, regional members and associate members of ESCAP (October 2008-July 2009)

Note: *italics indicate liberalizing measure; plain text indicate restrictive measures*

Country/economy	Date	Measure
China	November 2008 to February 2009	Export support measure: increase in VAT rebate rates on certain exports.
	<i>1 December 2008</i>	<i>Elimination of export duties on 102 products. Reduction of export duties on 23 products.</i>
	1 December 2008	Export duties on five products raised.
	December 2008	Import ban on Irish pork.
	29 December 2008	Initiation of anti-dumping investigation against iron and steel fasteners from the EU.
	1 January 2009	Elimination of lower Interim Import Tariffs Rates on certain products.
	<i>1 January 2009</i>	<i>Cancellation of export licensing administration on certain silk products.</i>
	12 February 2009	Anti-dumping investigation on terephthalic acid from Thailand and Republic of Korea.
	24 February 2009	Restrictions on the export of certain highly energy-consuming, highly-polluting, and exhaustible resource products.
	10 April 2009	Auditing and approval of state purchases of imported goods. Domestic products shall be purchased if they can meet the demand.
	<i>30 April 2009</i>	<i>Elimination of security testing and certification requirements for United States information technology products.</i>
	5 May 2009	Ban on pigs and pork imports to safeguard stock industry and human health from H1N1 virus.
	26 May 2009	Implementation of State Council Opinion on imported goods. Prioritization of local content in government contracts.
	<i>19 June 2009</i>	<i>Cut of export taxes on various products such as grain, rice, soya, wire wool and chemical fertilizers.</i>
	<i>1 July 2009</i>	<i>Elimination of tariffs for 28 goods originating in Hong Kong, China and 475 goods originating in Macao, China.</i>
	<i>1 July 2009</i>	<i>Pilot project for cross-border national currency (Chinese yuan) trade.</i>
<i>1 August 2009</i>	<i>Automated import licensing for certain milk and milk-related products.</i>	
Hong Kong, China	<i>26 November 2008</i>	<i>Establishment of the State-owned "Hong Kong Export Credit Insurance Corporation (ECIC)" to encourage trade by providing exporters with insurance protection against non-payment risk.</i>
India	<i>31 October 2008</i>	<i>Elimination of export duties on steel products.</i>
	3 November 2008	Ministry of Health Decree No. 1010/08 regulating registration and imports of pharmaceutical products. Import initial registration must now be made through an Indonesian manufacturer.
	18 November 2008	Increase in import duties on a range of iron and steel products from 0% to 5%.
	21 November 2008	Introduction of licensing requirements for imports of certain steel products and auto parts.
	28 November 2008 – April 2009	Temporary imposition of tariff on soybean oils.

Country/economy	Date	Measure
	7 December 2008	<i>Elimination of export duties on iron ore fines; and reduction of export duties on lumps.</i>
	14 January 2009	New mandatory product quality certification for 17 steel imported products.
	20 January 2009	<i>Removal of export duty and reduction of minimum export price for premium Basmati rice.</i>
	23 January 2009	Recommendation to apply provisional anti-dumping duties on Full Draw Yarn (FDY) imported from China, Thailand and Viet Nam.
	23 January 2009; 2 March 2009	Temporary ban on imports of toys from China (six months), except with certification.
	29 January 2009	Provisional safeguard measures imposed on phthalic anhydride.
	13 February 2009	Changes in FDI regulations to facilitate application of caps on foreign ownership in sensitive sectors.
	14 February 2009	<i>Increase in the minimum support price for cotton paid to local farmers.</i>
	24 February 2009	Imposition of 20% duty on imported soybean oils.
	26 February 2009	<i>Export incentives for a variety of exporters.</i>
	26 February 2009	<i>Trade facilitation measures such as removal of import restrictions and simplification of export licensing.</i>
	1 April 2009	Monetary incentives for leather and textile exports.
	15 May 2009	Imposition of anti-dumping duty between 76% and 223% on import of plastic processing machines from China.
	9 June 2009	Imposition of extra levy on compact discs-recordable (CD-Rs).
	15 June 2009	Imposition of safeguard duty of up to 35% for some aluminium products for two years.
	18 June 2009	Imposition of quality restrictions on mobile phones, dairy products and toys to block imports from China.
	20 June 2009	Imposition of anti-dumping duty on vitamin-C imports from China for a period of five years.
	24 June 2009	Up to 30% duty on import of key aluminium products from China.
	27 July 2009	Ban of imports of chocolate and chocolate products from China.
Indonesia	25 November 2008	Restrictions on film imports.
	1 January 2009 and 1 February 2009	New licensing, reporting and pre-shipment inspection requirements on over 500 goods. Restriction on entry points for those products.
	13 February 2009	Increase of import tariffs on 17 tariff lines mainly affecting products that compete with locally manufactured products.
	13 February 2009	<i>Reduction of import tariffs on 18 lines.</i>
	18 February 2009	New procedures for the import of steel and iron products into Indonesia.
	26 February 2009	Civil servants are encouraged to purchase domestic goods and services.
	1 April 2009	New regulation stipulating that exports of certain products with an export value exceeding \$1 million must be supported by letters of credit issued by domestic banks.
	19 June 2009	<i>Government eases imports for 26 textile products.</i>
	1 July 2009	Buy national and State aid support for footwear manufacturers.
	25 November 2009	Restriction on film imports.

Country/economy	Date	Measure
	1 February 2009	Special safeguard measures on food preparations of flour, meal or starch and tubers of konnyaku.
	1 January 2010	Application of ban on foreign ships operating in Indonesian waters.
Japan	28 December 2008	<i>Reduction of import tariffs on equipment and raw materials that are not locally produced.</i>
	6 March 2009	Special safeguard on yoghurt.
	11 March 2009	Price-based safeguard on rice.
	1 April 2009	Green tax initiative on environmentally friendly cars. Temporary lower taxation burden on automobiles that meet higher environmental standards.
	28 May 2009	Provision of long-term finance to own subsidiaries abroad and their supply chains.
	1 June 2009	New volume-based safeguard on yoghurt.
Kazakhstan	28 December 2008	Increase of import tariffs on finished goods, competing with local production.
	1 February 2009	Anti-crisis programme includes "Buy Kazakh" clause. Government should increase the share of products bought from domestic producers.
	March 2009	As from March 2009, tariff on imports of crude oil increased to 3%.
	26 June 2009	<i>Tariff treatment of miscellaneous products.</i>
Malaysia	14 November 2008	<i>Liberalization of imports of iron and steel products.</i>
	14 November 2008	<i>Elimination of import licences for the construction and manufacturing sector.</i>
	14 November 2008	<i>Import duty exemption for raw materials and intermediate goods.</i>
	4 February 2009	<i>Temporary change in the mandate of the New Zealand Export Credit Office, in order to provide short-term trade credit insurance at market rates on a temporary basis.</i>
	2 March 2009	Extension of anti-dumping duties on Indonesian newsprints producers.
	1 July 2009	Malaysia, Thailand and Indonesia limit rubber exports in order to increase world prices.
	1 August 2009	<i>Review of steel policy that will ultimately lead to reduction of import tariffs.</i>
New Zealand	4 September 2008	New "Mineral Ore Export Permit" for the transport/shipment of mineral ores.
Philippines	7 November 2008	<i>Tariff reduction to 0% for certain products.</i>
	18 November 2008	Imposition of a volume-based special safeguard for dried day lilies.
	27 February 2009	Provisional safeguard on steel angle bars for 200 days.
	27 April 2009	Ban on pigs and pork imports to safeguard stock industry and human health from H1N1 virus.
Republic of Korea	14 November 2008	<i>Elimination of the current 10% import duty on cement.</i>
Russian Federation	6 November 2008	<i>Reduction of import tariffs on certain products.</i>
	24 December 2008	<i>Export duties on certain wood products, not raised as scheduled. Elimination of export duties on nickel and copper. Reduction of export duties on oil.</i>
	15 February 2009	Import ban from certain United States facilities which do not meet technical requirements.
	5 May 2009	Ban on pigs and pork imports to safeguard stock industry and human health from H1N1 virus.

Country/economy	Date	Measure
	3 June 2009	Import ban on pork on supplies from the United States.
	25 June 2009	<i>Elimination of tariffs on chemicals for leather production.</i>
	1 July 2009	Quotas for trade in milk and cheese between the Russian Federation and Belarus.
	2 July 2009	Temporary minimum tariff on plates, sheets, film, foil and strips of plastics.
	23 July 2009	Temporary minimum tariff on pentaerythritol.
	1 August 2009	Temporary restrictions of Australian kangaroo meat.
	12 August 2009	Temporary import tariffs on laundry equipment.
	14 August 2009	Minimum tariffs on bodies (including cabs), for specific motor vehicles.
Taiwan Province of China	21 October 2008	Additional duties as a safeguard measure imposed on imports of cotton yarn.
	6 February 2009	Imposition of a volume-based special safeguard for other liquid milk.
	6 August 2009	<i>Amendments to temporary tariff reductions.</i>
Turkey	6 November 2008	Temporary increase of import tariffs (for nine months) on a number of products.
	31 December 2008	Import tariff increase on a number of products.
	17 March 2009	Initiation of three anti-dumping investigations.
Viet Nam	26 December 2008	Increase export duties on sand and stones, mineral products and wood materials.
	10 February 2009	Import tariffs raised on newsprint paper and uncoated paper.
	1 April 2009	Increased import tariffs on semi iron and non-alloy steel.

Source: WTO, "Report to the TPRB from the Director-General on the financial and economic crisis and trade-related developments", document WT/TPR/OV/W/1, 20 April 2009 and www.globaltradealert.org accessed on 14 August 2009.

Figure A1

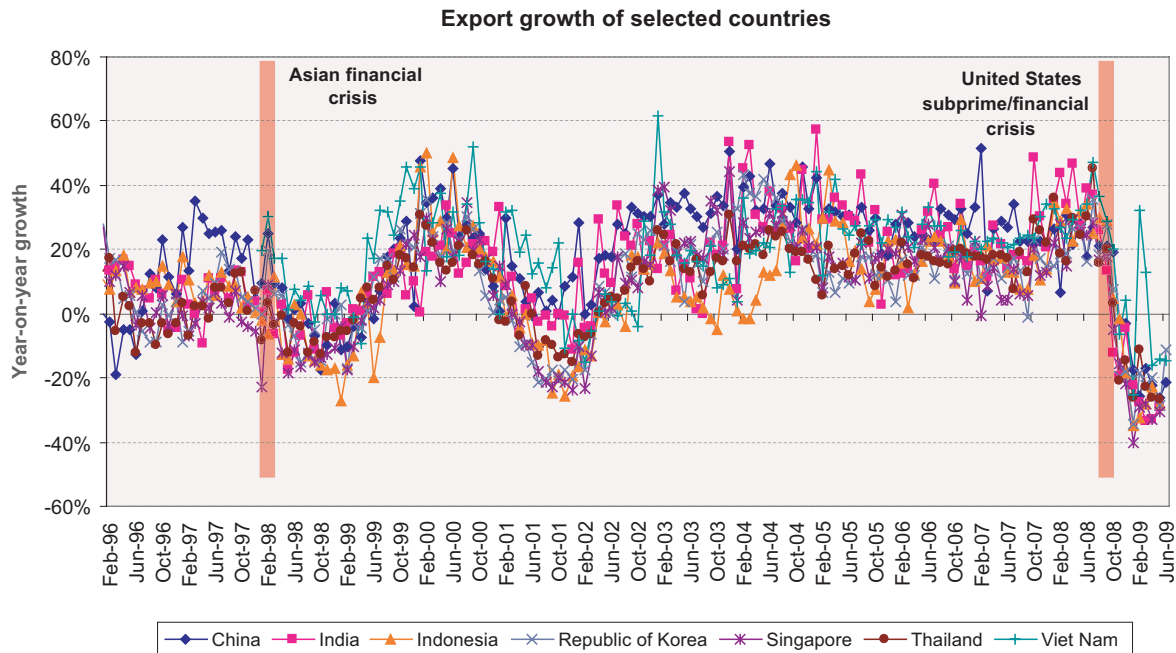


Figure A2

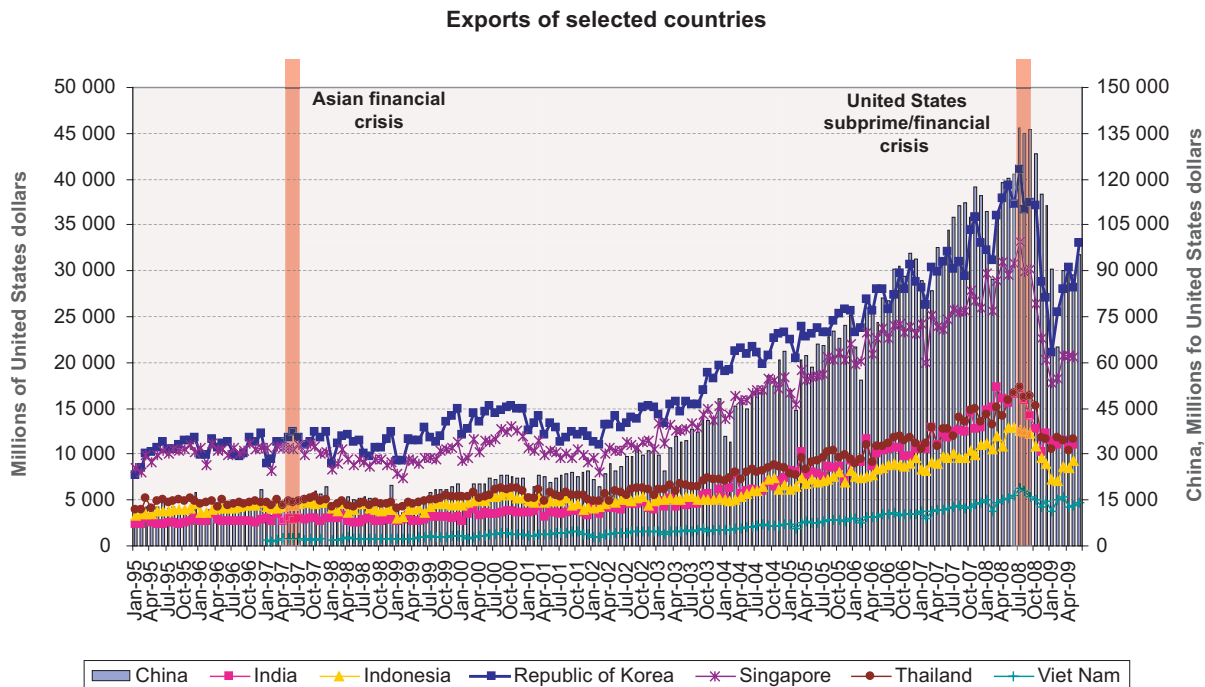


Figure A3

Import growth of selected countries

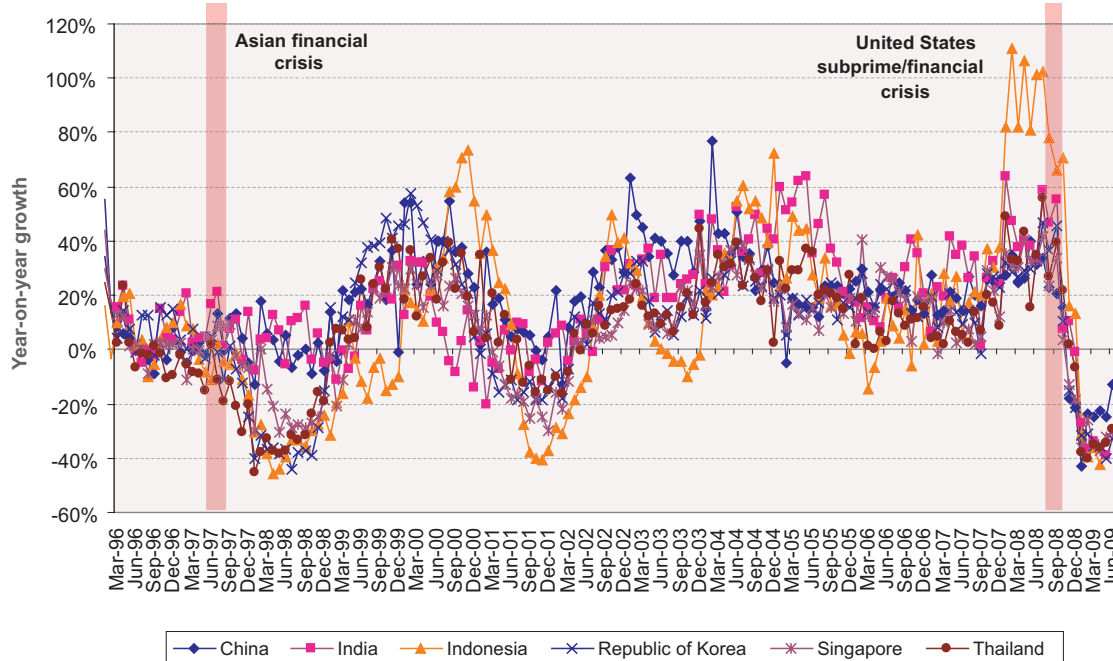
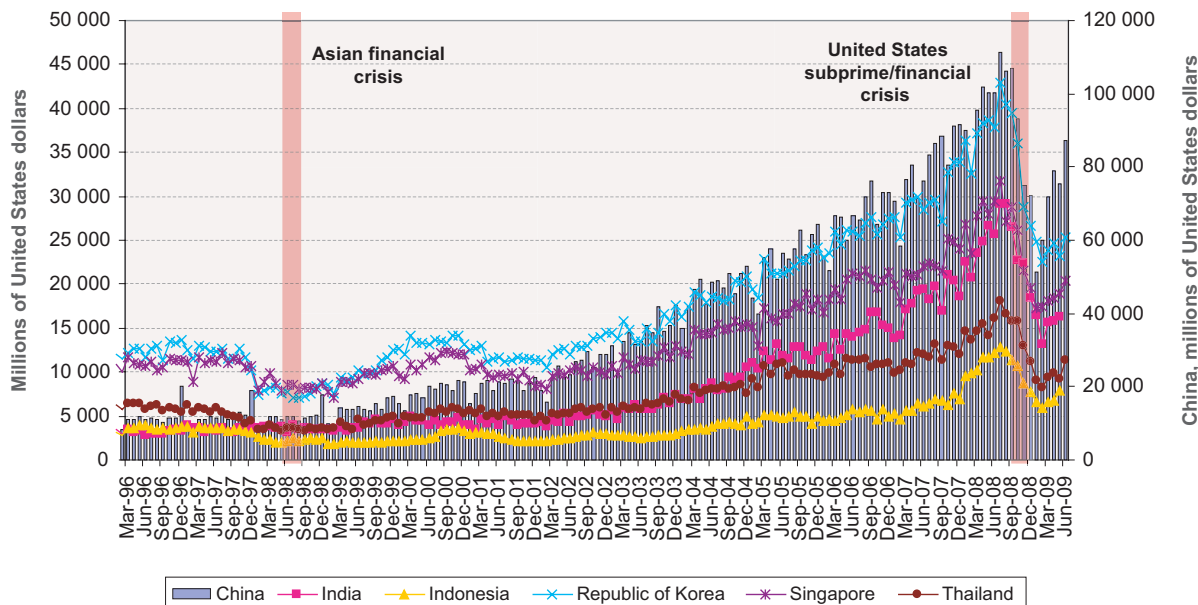


Figure A4

Imports of selected countries



Source for all figures: Calculated based on data from CEIC, 2009.

Modelling the impact of the crisis on sectoral changes of exports and imports

The full extent of the current global economic crisis, in terms of its impact on growth and the duration of the impact, is difficult to predict. Recession in the European, Japanese and the United States economies was evident by 2008. The World Bank forecast that high-income economies' GDP will decline by an average of 0.1% in 2009 and developing economy growth will slow to 4.5%, down from 6.3% in 2008 and 7.9% in 2007 (World Bank, 2009b). A comparison of GDP growth estimates published by the World Bank in 2009 with those it

published the previous year (table A2) gives an indication of the likely impact of the crisis on GDP growth rates. The final row shows how the World Bank's estimate of average world growth in 2008 fell by 0.8% between 2008 and 2009 and was then revised down a further 0.6% in 2009 to a level 1.4% down from the level a year earlier. Similarly, expected growth rates for 2009 are now 5.3% lower than was previously expected. This represents a very substantial further downgrade of estimated global output, within the space of only four months, indicative of the rapidly changing current global economic environment.

Table A2. GDP growth, with and without the global slowdown

Country or area	2008 ^a	2008 ^b	2008 ^b	2009	2009 ^b	2009 ^c	2010 ^c
United States	1.9	1.4	1.1	2.3	-0.5	-2.4	2.0
Japan	1.8	0.5	-0.7	2.1	-0.1	-5.3	1.5
EU-27 ^d	2.1	1.1	0.7	2.4	-0.6	-2.7	0.9
High-income economies	2.2	1.3	0.8	2.6	-0.1	-2.9	1.6
Developing economies	7.1	6.3	5.8	7.0	4.5	2.1	4.4
World	3.3	2.5	1.9	3.6	0.9	-1.7	2.9

Notes:

^a Data from Global Economic Prospects 2008 (World Bank, 2008).

^b Data from Global Economic Prospects 2009b (World Bank, 2009b), forecasts as at November 2008.

^c Data from Global Economic Prospects 2009c Forecast Update, 30 March (World Bank, 2009c).

^d Estimates are only available for the Euro area; therefore these are used for the EU-27 region.

Economic modelling is undertaken using the Global Trade Analysis Project (GTAP) model along with the recently released GTAP version 7 data base (Narayanan and others, 2008).²⁶ A baseline scenario with no global slowdown is modeled first and then compared with alternative scenarios.²⁷ Table A3 shows the changing contribution of each region to global GDP and exports in the 2004 benchmark database and the 2010 baseline projection. Developing economies tend to increase

their share of global GDP and exports, in China's case from 4.1% to over 5.6% of global output over this period, while its exports increase from 6.7% to almost 9.2% of the world total. Likewise ASEAN's contribution to global output increases from 1.9% to 2.2% and its share of world exports increases from 5.9% to 6.5%. Similar patterns are found in South Asia and Central Europe. However, the contributions to global output and trade tend to decline for high-income regions such as Japan, the

²⁶ See <http://www.gtap.agecon.purdue.edu> for detailed information.

²⁷ The baseline scenario projects the GTAP v7 database from its benchmark 2004 to the year 2010. Assumptions are made about a small number of macroeconomic variables, following Hertel and others (1996). In particular, exogenous projections of each region's GDP growth, as well as endowments of population, skilled and unskilled labour and physical capital are

applied. Strutt (2009) provides details of the macroeconomic assumptions, which include total factor productivity being endogenous and accommodating these shocks. Given these assumptions, the structure of the world economy is projected to change by 2010. In particular, developing and transition economies tend to grow at faster rates than do rich countries, leading to them constituting a larger share of the global economy over time (Anderson and others, 2001).

Table A3. Contribution to global GDP and exports, 2004 and 2010 baseline

(Per cent)

	GDP		Exports	
	2004	2010	2004	2010
Australasia	1.84	1.84	1.41	1.38
China	4.09	5.61	6.72	9.18
Japan	11.37	10.57	6.11	5.80
High-income Asia	2.79	2.89	6.17	6.49
ASEAN	1.91	2.17	5.93	6.47
India	1.57	2.03	0.99	1.29
Rest of South Asia	0.45	0.52	0.37	0.41
United States	28.49	26.42	10.51	11.09
EU-27	31.47	30.48	39.73	35.93
Russian Federation	1.39	1.66	1.97	2.29
Central Asia	0.15	0.20	0.28	0.38
RoW	14.47	15.39	19.81	19.76

Note: Australasia includes Australia and New Zealand; "RoW" stands for rest of the world.

United States and the European Union. These projections are of course dependent on macro-economic and other assumptions made in the modelling of this time period.²⁸

The baseline above makes it possible to explore the impact of the global slowdown in 2008 and 2009. The shares of Japan, EU-27 and the United States in global GDP and exports are assumed to contract in 2008 and 2009 by the differences between their contributions to global GDP in the years indicated. It is also assumed that all other regions reduce GDP growth by the world average (see table A2). In particular, all other economies' GDP growth falls from the baseline level by 1.4% in 2008 and by 5.3% in 2009. This scenario is consistent with the most recent average World Bank projections. However, it is important to note that these growth reductions are crude averages which will not

accurately reflect the changing economic conditions in each country.

The impact of the crisis on real exports is generally negative. Exports from India experience a particularly strong decline of 15.8%. A break down of the total reveals that almost half of this decline in exports from India is due to reduced exports to the EU-27. This is perhaps not surprising given that approximately 30% of India's exports go to the EU-27. A further 22% of India's export decline is due to reduced exports to the United States, while the fall in value of exports to Japan is much smaller because Japan is a much less significant export market for India. China also suffers an export shock with exports declining by more than 14% mainly as a result of sharp reductions in its exports to Japan, EU-27, and particularly the United States. With the exception of the Russian Federation and Central Asia, other subregions in Asia and the Pacific are found to experience a larger contraction of real exports than high-income Asia.

Analysis of the effect of the crisis on sectoral trade and output focuses particularly on China, ASEAN, India, along with the composite rest of South Asia, the Russian Federation and Central Asia. The relative significance of sectoral export results tends to depend on which sectors dominate each region's exports. But with a fall in exports of between 8% and 11%, production and exports in all sectors are affected.

China's electronics exports decline by almost 16% or \$50 billion. Other large exporting sectors consisting of "other machinery", and textiles and apparel decline by almost 15%, representing a loss in value of over \$27 billion for both sectors. For ASEAN, the electronics sector is most affected in terms of value, while in South Asia it is the textiles and apparel sector. In the Russian Federation and Central Asia, it is the extractive sector. The fall in output follows the same pattern as the contraction in exports. All sectors are quite severely affected, with output declining by between 3% and 14%. The impact on output is significant, as lower growth implies that there will be both less domestic and external demand for their exports.

²⁸ A range of simplifying assumptions has been made in this comparative static modelling. In particular, there is no explicit modelling of financial markets in GTAP and currency, interest rate changes or differing sectoral exposures to credit markets were not modeled.

PART II

TRADE-LED RECOVERY AND BEYOND

CHAPTER 1

DEVELOPING COHERENT AND CONSISTENT TRADE POLICIES FOR INCLUSIVE AND SUSTAINABLE DEVELOPMENT

INTRODUCTION

As the financial crisis hit the United States and Europe, the resulting drop in demand in these regions led to a massive fall in exports from the Asia-Pacific region, triggering an economic crisis there. While there have been calls for development policy to refocus on promoting domestic demand instead of exports, for many countries the only immediate way to restore growth is through restoring trade. Though trade is essentially a cross-border phenomenon, trade policy formulation takes place at the national level. The current crisis offers an excellent opportunity to review national trade policies and the way they are formulated and implemented. This chapter makes the case for trade as an important, though not sufficient, element of development and to refocus trade policy formulation to enhance the contribution of trade to sustainable development and poverty reduction, i.e. trade for inclusive and sustainable development. This chapter reviews the role of government in promoting trade for development and underscores the need to mainstream trade in development policies and development objectives in trade policy to ensure policy coherence and consistency.

A. TRADE IS STILL IMPORTANT FOR DEVELOPMENT

1. The trade-development nexus

Trade has always been the principal form of interaction between peoples, civilizations, empires and countries and one that contributed to their wealth. The experiences of many Asian economies

over the last few decades point to a strong relationship between exports (and trade in general), trade liberalization and economic growth. The rapid rise in economic growth after various countries switched from import substitution to export promotion is illustrative of this experience. In addition, trade liberalization has helped product variety and competition and can yield dynamic gains (WTO, 2008).

Trade has greatly contributed to economic growth in many Asia-Pacific economies

The experiences of various subregions are illustrative in this regard. South-East Asia (led by the Association of Southeast Asian Nations or ASEAN) and East Asia (mostly China) liberalized the most in the period 1988-1997 and also showed the highest export growth and GDP growth rates. East Asia also had the highest export growth rates in the period 1998-2007 and, hence, the highest GDP growth rates. In contrast, when exports fell in Central Asia during the start of the transition period, GDP growth rates also fell (table 1.1).

Asian developing countries also display among the highest trade to GDP ratios in the world. For instance, this ratio was 130% for South-East Asia in 2006. For small higher-end developing economies, the ratio is even higher: for Hong Kong, China it was 347% in 2006 and for Singapore 374%, showing the importance of trade for these booming economies (ESCAP, 2008c; Klein and Cukier, 2009).

Table 1.1. Export and GDP growth, various subregions in Asia and the Pacific

(Per cent)

Subregion	1988-1997		1998-2007	
	Export growth	GDP growth	Export growth	GDP growth
East and North-East Asia	9.9	7.9	12.7	7.2
North and Central Asia	-10.1	-4.6	7.4	5.6
South and South-West Asia	8.3	4.7	8.6	5.4
South-East Asia	10.5	6.9	6.3	3.5
Developed ESCAP economies	5.3	2.8	4.9	1.3

Source: ESCAP calculations based on data from the World Bank, *World Development Indicators 2009* (July).

Notes: Export growth rates: simple average of annual changes in export values (in 2000 dollars).

GDP growth rate: simple average of annual changes in GDP values (in 2000 values).

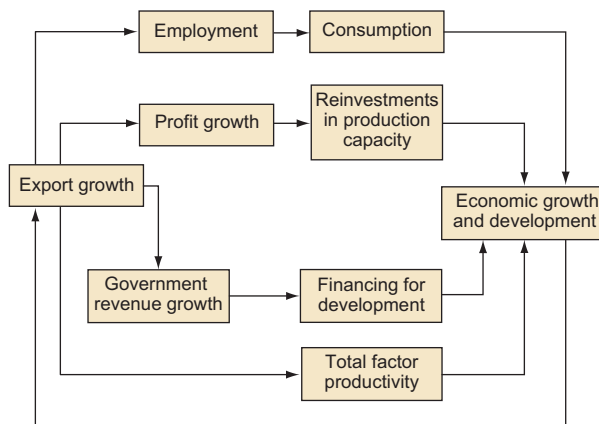
Conceptually, the contribution of trade, in particular exports, to economic growth has many dimensions. First, trade, through exports, is about adding to financial resources. No country can develop without them. Financial resources are required to invest in human resource development, infrastructure, health, etc. and to finance imports of essential goods and services. All of this is necessary for development and poverty reduction. While foreign direct investment (FDI) constitutes a direct inflow of finance capital to a country, exports are a major engine for generating finance for development. The enormous foreign exchange reserves accumulated by Asian countries such as China, which are recycled through sovereign wealth funds into finance capital for development, is largely the result of the export boom these countries have enjoyed over the last decade or two. The contribution of exports to financing for development was recognized in the Monterrey Consensus of the United Nations International Conference on Financing for Development, held in 2003.

Second, export growth is based on increased economic production. Goods and services have to be produced before they can be exported. Increased production means increased employment. Gainful employment is an absolute prerequisite for poverty reduction. According to the International Labour Organization (ILO), employment in most subregions in Asia and the Pacific has risen sharply in recent years until 2008 contributing to falls in poverty, to a large extent as a result of exports (ILO, 2009a). As more people are gainfully employed, consumption increases and, hence, GDP also increases.

Third, exports also contribute to productivity increases as it allows for economies of scale and forces quality upgrading and gains in efficiency of production as a result of international consumer demand and global competition (see e.g. Alcalá and Ciccone, 2004; Hallward-Driemeier, Iarossi and Sokoloff, 2005; WTO, 2008). In the case of the Asian “miracle,” it has been argued that rapid growth emanated more from large capital expenditures than from increases in total factor productivity (TFP). However, increases in TFP would be necessary to sustain long-term economic growth (Krugman, 1994).

Figure 1.1 schematically shows the contribution of exports to economic growth and development in simplified form.

Figure 1.1. A simplified export-led economic growth cycle



Imports are also important for development. Developing countries can only access capital goods and technologies through imports while many rely on imports to meet their food needs. And in many cases, the import content of exports is very high. Most exports of finished goods from China depend on the imports of intermediate parts and components. The export-oriented garment sectors in Bangladesh and Cambodia are also highly import-dependent.

The link between trade and development is not always clear and straightforward

The empirical literature on the relationships between trade and development is extensive but lacks consensus.¹ The relation has most recently been reviewed by WTO (2008). What has emerged from the discussions is that the linkages are complex and not straightforward (e.g. UNCTAD, 2004) and are influenced by many endogenous and exogenous factors. Hence, it is not easy to draw firm conclusions from model-based studies which have inherent limitations.²

Economic growth is not the same as economic development. Development is a complex concept and eludes precise definition. The shining skyscrapers in Asia's booming cities are often seen as exemplary of the region's development success but belie the abject poverty in rural areas and expanding slums in urban ones. Often development is confused with economic growth itself or used

¹ For instance, there are many studies which have focused on the relationship between exports, openness and economic growth. Studies which have pointed to a positive relationship include Balassa (1978), Edwards (1998), Krueger (1990), Berg and Krueger (2003), Bhagwati and Srinivasan (2002), Dollar (1992), Sachs and Warner (1995), Dollar and Kraay (2001) and Xu (1996). Studies and publications which question this relationship or put it in perspective include Rodriguez and Rodrik (2001), Baldwin (2003) and UNDP Regional Centre in Colombo (2006).

² Such limitations arise from the many assumptions necessary to apply the model, problems associated with measurements (i.e. there is no single measurement of "openness"), whether both static and dynamic effects are included, and the problem of biased and possible invalid inferences (see, e.g. Andersen and Babula, 2008).

synonymous with poverty reduction. Development is usually more than mere poverty reduction but for the sake of simplicity and in the context of developing countries, poverty reduction is a good indicator of development.

Again, the empirical literature is divided on the contribution of trade to poverty reduction.³ Critics have pointed out various problems with the trade-led model. First, economic growth does not automatically translate into rising employment. If countries move up the value chain, the labour/capital ratio is expected to fall as capital and technology will be employed more in production than labour. While such a trend could be termed as development, it could actually lead to increased unemployment and poverty. The growth in employment between men and women is also very uneven, especially in South Asia. When employment means rock-bottom wages in order to maintain export competitiveness, the whole purpose of development gets compromised. The market will not address these issues.

Second, there is evidence that trade has contributed to growing income inequalities in some countries and among countries (Egger and Kreickemeier, 2008). Booming trade generates winners and losers. Not everybody stands to gain from trade and economic growth (UNDP Regional Centre in Colombo, 2006). However, it has also been demonstrated that inequalities are basically an outcome of technological change and that trade is a main driver of such technological change (WTO, 2008). This relationship shows that government is important to address this issue and that there is a need for supply-side capacities to enable trade.

Third, the sectoral effects of trade growth are uneven. Most of the export boom in Asia has come from labour-intensive manufacturing which is mostly based in urban areas. However, most of the poor in Asia and the Pacific live in rural areas.

Fourth, while economic growth enables a country to generate financial resources for development,

³ See for instance, ESCAP (2007), chapter IV; 2008a, chapter VII.

actual development depends to a large extent on the way these financial resources are utilized. Trade is of course much more about generating wealth and much less about distributing the wealth. This is a governance issue. However, trade can have a direct impact on development and poverty reduction, if a right mix of policies is adopted in which trade is mainstreamed. The experience of various East Asian countries has demonstrated that such policies may initially include selective trade protectionism for those industries which have been identified as strategic for the development process (box 1.2).

On balance, the evidence shows that trade has helped countries reduce poverty (WTO, 2008). For instance, in China the poverty rate was reduced from over 60% in the late 1970s, the beginning of reform, to less than 10% today. The surge in China's exports from 20% of GDP in 2001 to almost 40% in 2007 strongly suggests that export growth has enabled the sharp reduction in poverty rates. In South-East Asia, Cambodia has witnessed a similar trend. Growth in Cambodia has averaged over 10% a year in the last several years. Exports, driven by the garment sector, rose from about \$700 million in 1997 to over \$4 billion in 2007. The average purchasing power of Cambodian families has more than doubled (Altman, 2008). In South Asia, during the 1990s, India, Bangladesh and Nepal lowered their poverty rates by 7, 9 and 11 percentage points respectively as a result of rapid export and GDP growth (World Bank, 2007).

The most valid conclusions that can be drawn from all the research undertaken so far are, first, that trade is an essential but not sufficient condition for economic growth for the simple reason that no country by itself will have the capacity to efficiently produce all required products and services due to natural, geographic and other constraints. Second, trade, and in particular exports, are important for economic growth, development and poverty reduction but only under certain conditions, such as the presence of supporting policies and institutions, macroeconomic stability, development of supply-side capacities and gradual, inclusive and sustainable trade liberalization (see, e.g. Andersen

and Babula, 2008; WTO, 2008). In other words, government intervention is required to make trade work for development. This role is further explored in section B below.

2. The crisis prompts revisiting the export-led growth model

It is well known that market economies go through busts and booms following business cycles but the severity of the current crisis has put the export-led development model under stress. With the onset of the rapid declines in exports and, hence, GDP growth rates in 2008, trade started to lose favour while the high level of interdependencies among countries became apparent (see box 1.1). This has led to discussions in international policy circles on reducing dependence on trade and focusing instead on stimulating domestic demand. However, the choice is not black and white.

Domestic demand is not an alternative but complementary to exports

It should be emphasized though, that the crisis did not emanate from trade but rather from systemic financial failure in the United States which led to recession in the developed world. Trade itself became a victim of this crisis, simply because the developed countries are the main buyers of products from Asia (Baldwin and Evenett, 2009).

This does not mean that there is anything fundamentally wrong with the concept of exports in development. Instead it highlights that exports should be diversified both in terms of products and markets to reduce dependency on a single market and accompanied as well by a healthy development of domestic demand. It should be borne in mind that if export markets can collapse as a result of external shocks, internal instability and lack of prudential regulation can affect domestic demand as well (e.g. as witnessed when unemployment rose during the Asian 1997 crisis).

Domestic demand can and must complement exports. However, many countries have a domestic

Box 1.1. Export-led growth model and the risk of contagion from crisis

A disadvantage of export-led growth is its vulnerability to regular economic cycles and sudden crises in the importing markets which destabilize growth. A slowdown in growth in importing markets leads to reduced demand for consumer goods as well as intermediate products, commodities, services and factors. As the absorption capacity of the domestic market declines, governments are tempted to favour domestic products to imports through trade protectionism and exchange rate manipulation. Initially foreign suppliers will try to compete and maintain their share in the market by reducing export prices (though – as most recent evidence from WTO shows – they may risk encountering anti-dumping allegations). This will cause a drop in profitability, which is exacerbated as a result of reduced production runs, rising costs as a result of efforts to search for alternative markets and costs of idle capacity, among other costs. Unless the domestic market can compensate for falling export market demand (e.g. helped by stimulus packages or similar “New Deal” policies), business profitability will continue to decline, which pushes national economies into a probable recession. In short, reduced import demand in overseas markets leads to reduced export sales which lead to reduced domestic production, rising unemployment and a fall in GDP growth rates in national economies, turning the export-led growth into an export-led recession.

Transmission of course is not instantaneous, and the intensity of impacts from one economy to the next may either increase or decrease in the process of transmission. For policymakers in exporting developing countries, the principal question is how to break, or even better, prevent the contagion of recession from hitting their economy. Weakening the link between a country’s GDP growth and the principal factors that lead to such growth (i.e. exports or, more precisely, overseas demand in developed countries for exports from developing countries), has become known as decoupling or delinking.⁴ Lewis (1979) suggests that delinking can be made possible only by a sharp acceleration in trade among developing countries. No other crisis in modern times has tested the need and possibility for such acceleration in South-South trade more than the current crisis.

Another important channel for the transmission of recession is financial in nature. Financial linkages among countries are based not only on the capital flows that normally cross national borders in search of higher returns, but also on financial market integration in general. For many developing countries, for instance, reduced flows of remittances as a result of recession abroad significantly affect the level of investment capital at home, and, hence, domestic investment and economic growth as well. Typically, both trade and financial linkages will operate at the same time even though they may have seemingly different manifestations and/or effects.

To formulate appropriate policies in support of decoupling, policymakers need to understand the main factors which will influence how intensely a shock in another economy will be transmitted to their own. The literature on this topic includes studies which claim that the more integrated countries are through trade and financial market linkages the more they tend to share correlated business cycles.⁵ On the other hand, some argue (e.g. Krugman, 1994) that countries trading on the basis of comparative advantage will have fewer synchronized fluctuations. This is based on the assumption that comparative advantage supports inter-industry trade and that the shock particular to one industry is less likely to be transmitted to other industries.

However, in today’s globalized world, production locations tend to be spread across several countries in a number of suitable centres (most often, special zones within countries) and are connected through complex supply (or value) chains. Since these supply chains are mostly organized along intra-industry linkages, it is expected that countries which are engaged more extensively in intra-industry trade would be affected to a larger extent. This is because the industries producing similar products are technologically more similar and thus shocks are more easily transmitted across borders into the “same” industry. On the other hand, an important characteristic of the globally integrated world is that shocks are not industry specific and do not discriminate among industries.⁶ As found by Kim, Lee and Park (2009), growth of most of Asia has been tightly linked to integration into a global economy, so much so that their intraregional integration also was driven by global integration. However, these linkages became bi-directional signaling that Asian economies grew into influencing global economy. This stronger interdependence of growth, trade and financial flows within Asia and between Asia and the developed economies signals the need to enhance regional coordination mechanisms in Asia and the need to manifest the region’s larger influence by increasing its role in global economic governance.

⁴ Decoupling in an economic sense implies weakened linkages rather than completely breaking them. However, note that older literature uses term “linkage” (e.g. Lewis, 1979). See also Akin and Kose, 2008; and Kim, Lee and Park, 2009.

⁵ Empirical studies seem to go along with this claim. See for example, “Asia’s growth and financial cycles: are they synchronized with the United States?” in IMF, *Regional Economic Outlook: Asia and Pacific*, (Washington, D.C.), April 2008.

⁶ Apart from technology differentiation, there are other reasons why a financial crisis may have different impacts on different industries.

market too small (either in terms of population size or purchasing power or both) to absorb the decline in exports. Businesses regard an export as merely another sale, only the sale is abroad rather than at home. With the emergence and development of complex global and regional supply chains, a business's market has also become diversified and complex. It cannot merely stop exporting and refocus on the domestic market.

Domestic demand can play an important role in large countries. For instance, in Indonesia, economic growth in 2008 and 2009 was largely sustained on the basis of domestic demand. However, most countries are too interdependent economically to have an alternative to reboosting their exports. Moreover, stimulating domestic demand is easier said than done, especially in times of crisis when incomes plummet as a result of rising unemployment.

In the final analysis, domestic demand can only play a larger role when incomes rise and demand becomes more sophisticated. The rise of a middle class is symptomatic of a higher development level and can go a long way to absorb domestic demand. The increase in wages and the share of wages in overall workers' compensation are also important to stimulate domestic demand (Klein and Cukier, 2009). However, this takes time while a rise in wages depends on economic growth, and exports have played an important role in realizing such growth. In fact, in order to boost trade and investment for economic growth, countries are increasingly integrating with each other rather than turning inward. This is a process which should be actively promoted. Such integration, in the absence of a conducive international regulatory environment, may perhaps expose individual countries to contagion from external shock in the short run, but will ultimately lead to a more stable and efficient global economic environment and, hence, national development process.

In conclusion, apart from government spending, only a rebound in exports (and, hence, imports) will lead to a lasting rebound from the crisis in the medium to long term. There are promising signs that exports are on the rebound in the region. For

that reason, trade should figure prominently in any integrated strategy for solving the crisis. Rather than emphasizing domestic demand over trade, it may be better to adopt strategies for inclusive and sustainable development in which both domestic demand and exports have roles in proportion to market size. When incomes rise, domestic demand will automatically follow. Furthermore, rather than dismissing trade, efforts should be made to achieve diversification of products and markets with a focus on stimulating intraregional trade so as to reduce exposure to external shocks.

B. REVIEWING THE ROLE OF GOVERNMENT IN TRADE AND DEVELOPMENT

Making trade work for development, as was mentioned above, requires government intervention. The question arises, what and how big should be the role of government in the trade-led development model? Asia's development process is to a large extent the result of government intervention (box 1.2). Moreover, the crisis has once again demonstrated that markets are not perfect. They need government intervention to ensure that

The economic crisis has once again revealed the need for government to address market failure

the market economy, and business that drives it, functions both efficiently and in a stable environment and that excesses, such the subprime mortgage and derivative-driven crisis in the United States, are avoided. However, this requires very skillful action on the part of governments. Over the years, governments, with varying levels of success, have been able to fine-tune the normal fluctuations of the business and market cycle, which are common to the market economy model and are no reason for major concern. Higher levels of government intervention require full compliance with recognized standards and principles of "good governance". Therefore, an increased role of the government needs to be premised on a concrete

Box 1.2. Lessons from the Asian “miracle”

If anything can be learned from the so-called Asian “miracle”, it is the role of government in the development process. It has been recognized that the role of government through active industrial policy is likely to have been important (World Bank, 2005). The Asian “miracle” was not a result of unbridled import liberalization. In most countries, governments played an important role in targeting specific sectors and industries for development (e.g. Rodrik, 2007; Chang, 2009). Often, those industries developed on the basis of high trade barriers and government subsidies while the required parts and components and raw materials were imported at low duties (tariff escalation). It is said that the Asian “miracle” was as much export-led as import-led. The development of the “chaebol” in the Republic of Korea, the semiconductor industry in Malaysia and the automobile industry in Thailand are good examples. However, the protection of “infant” industries was temporary and accompanied by policies to strengthen competitiveness. Interventionist policies in South Asia have not been as successful because supporting policies were lacking while protection became ingrained and long-term.

Public-private sector cooperation is the key. In countries such as Japan and the Republic of Korea, capital goods embodying technology were often imported at low duties, to be taken apart and put back together through the process of “reverse engineering”. As a result, these countries managed to import fundamental technologies which could then be employed to produce improved products for exports accompanied by smart marketing campaigns and promotion of indigenous brands.

Such practices have become more difficult as the global intellectual property rights regime has been strengthened. Tariff escalation still exists today, both in developed and developing countries, and particularly in the agricultural sector, but it is coming under pressure in a globalizing world within the framework of the multilateral trading system. With sustained tariff reductions and market liberalization in the post-1997 era, crisis-affected countries have largely recuperated their losses and regained economic vigour and international competitiveness, but not without increasing transparency and competition and a change in the role of government from active participant to that of facilitator and regulator.

The crisis has once again revealed the need for government to address market failures. However, this role should be adapted to the realities of the modern world and within the confines of international obligations. In the words of Rodrik (2009) on industrial policy: “what distinguishes good performers from bad performers is not the presence or absence of the policy, but the skill with which it has been implemented”.

definition and description of this role and needs to take place in a system of proper checks and balances, transparency and public accountability.

Rather than emphasizing either a government-led or market-led approach, the crisis offers opportunities to fine-tune the right balance between both to expedite development. While the Washington Consensus approach has been discredited, there is still widespread agreement that the government has no business doing business and that the private sector is best placed to provide private goods and the public sector public goods. The principal public good is the establishment of a conducive climate for business to do business with due regard to the interests of society as a whole. The success of trade therefore rests on two premises: the capability

of business to formulate competitive trade strategies at the micro-level; and the capability of governments to formulate conducive trade policies at the macro-level. However, the ability of businesses to formulate and implement competitive trade strategies depends to a large extent on government policy which defines the environment in which they have to operate.

At the same time, improved financial performance at the micro-level of a company does not necessarily translate into inclusive and sustainable development at the macro-level. By formulating and implementing appropriate public policies towards, For example, the protection of the environment and appropriate labour standards, as well as by promoting corporate social responsibility (CSR),

governments can enforce and encourage responsible and inclusive business practices that consequently create inclusive and sustainable development at the macro-level. By institutionalizing the private sector’s socially responsible actions and systematically encouraging voluntary actions, governments can influence business’ impact on the overarching goal of inclusive and sustainable development.

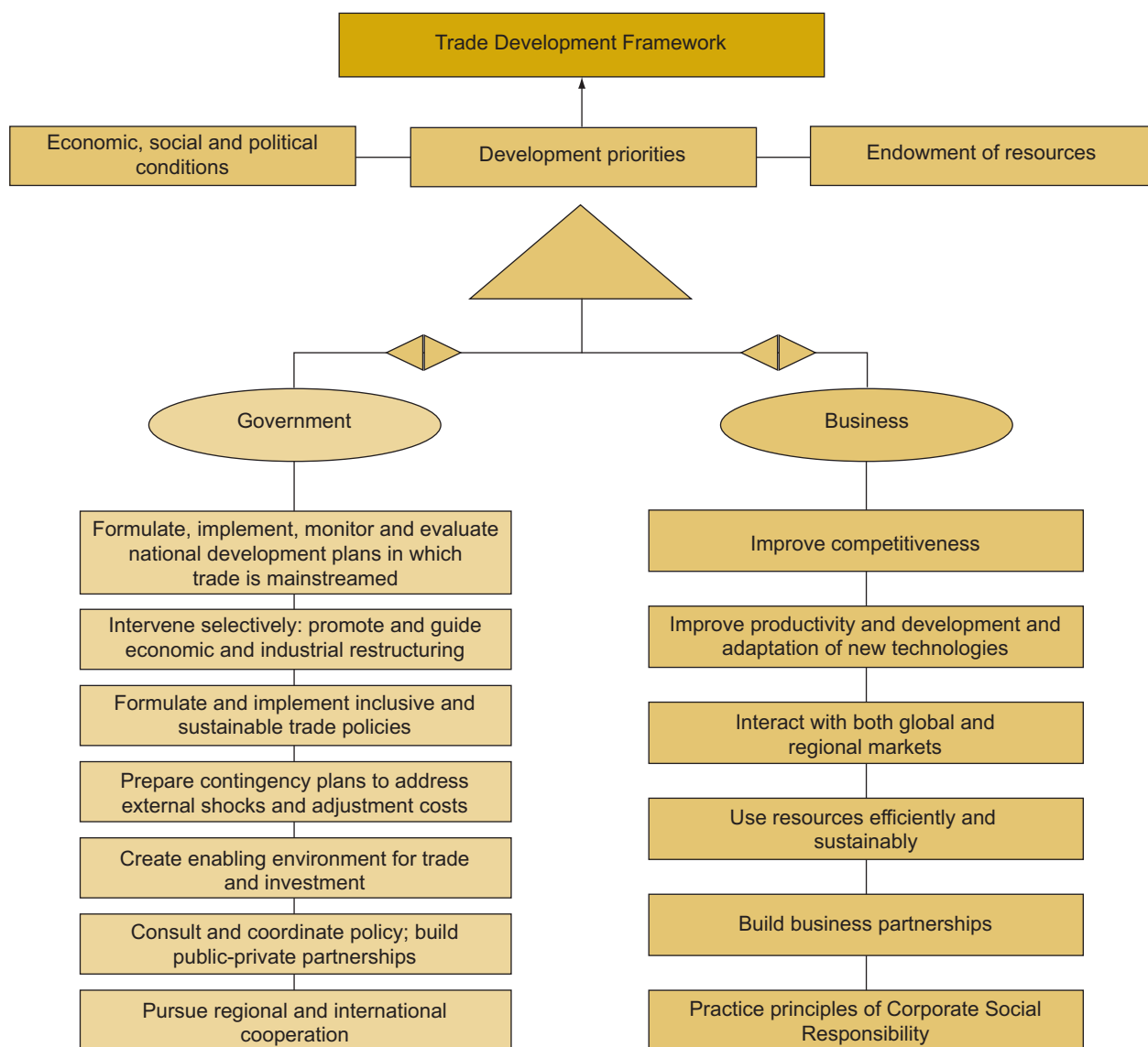
are conditioned by economic, social and political factors as well as by resource endowments and are not necessarily mutually exclusive. In many cases, public-private partnerships need to be pursued to make trade work for development. However, there is no one-size-fits-all model.

The principal roles of the government in trade and development are ten-fold and strongly interlinked:

Figure 1.2 provides an overview of the possible roles of government (state) and business (market) in the trade-led development process. These roles

First, governments need to formulate comprehensive national development plans, implement such plans and monitor and evaluate their

Figure 1.2. Trade Development Framework: the role of government and business



implementation. Planning and implementation need to proceed on an inclusive basis (i.e. consultation with all stakeholders) with due regard to the mainstreaming of trade and contribute to inclusive and sustainable development.

Second, governments can intervene selectively when this is required, especially to prevent market failure (which is more efficient than to solve it), and guide economic and industrial restructuring to adapt the national economy to changing competitive advantages and conditions in the international environment (as part of national development plans). In times of crisis, intervention can entail bail-outs of enterprises of crucial importance to the health and survival of the national economy. Intervention can imply picking winners, i.e. selected industries or enterprises for active support. Such support is more restricted as a result of international trade rules and may be expensive as the Asian experience has demonstrated. It can also involve the implementation of stimulus packages as is currently witnessed all over the world. However, care should be taken that such packages would not result in lasting distortions which are difficult to dismantle in the long run. Stimulus packages are rarely sufficient and lead to longer-term problems such as government deficits, inflation and crowding-out of the private sector. In any case, they are somewhat outside the capability of developing countries. Therefore, they should be adopted with extreme care. At the same time, bail-out packages need to come with strict conditions for restructuring and should not lead to moral hazards.

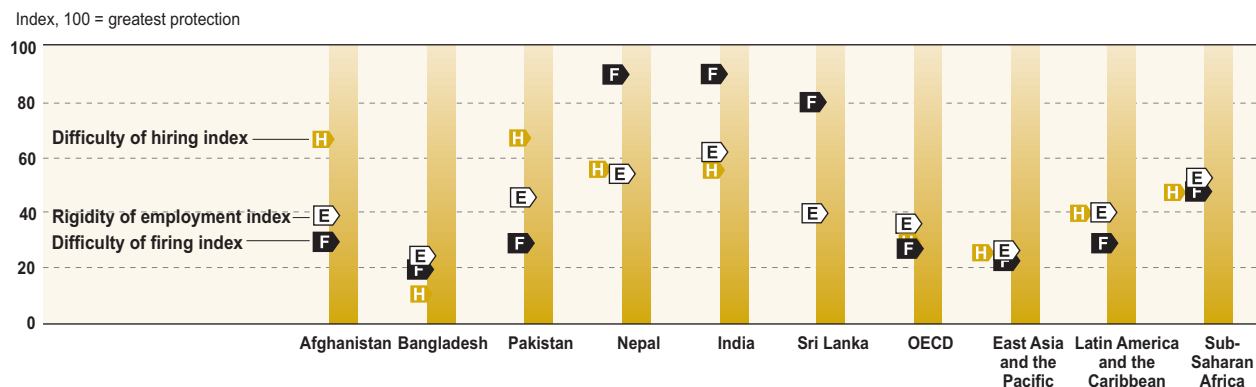
Third, governments are responsible for the formulation and implementation of trade policy which should figure prominently (and be mainstreamed) in national development plans and economic and industrial restructuring initiatives. Trade policy should ensure that trade contributes to inclusive and sustainable development, which means that society as a whole benefits from trade and that trade proceeds without due harm to the environment and unsustainable exploitation of human and natural resources.

Fourth, governments need to prepare contingency plans to address external shocks such as contagion

from crisis and to address adjustment costs of economic and industrial restructuring. Such plans normally focus on the establishment of safety nets and retraining programmes. Adjustment costs are incurred in any development process. As stated before, trade generates winners and losers. Governments need to ensure that the winners do not take all and that short-term losers are turned into long-term winners. This adjustment takes time. Government needs to plan accordingly and make such plans part and parcel of development plans.

Fifth, government is responsible for providing public goods and services, i.e. goods and services which the private sector cannot provide more efficiently and equitably. In particular, this includes creating an enabling environment for business. The establishment of an enabling environment requires the formulation and enforcement of a conducive set of rules and regulations to ensure stability, transparency and predictability of the trading environment. But it also involves deregulation and liberalization by removing unnecessary hurdles to efficient trade. Finding the right balance between stability and efficiency is difficult and requires some trial and error. Too much liberalization may lead to excessive reliance on the market and the risk of market failure. Too much regulation may stifle the market and undermine effective wealth creation. For instance, employment regulations in South Asia are among the most restrictive in the world (figure 1.3), preventing the necessary labour flexibility and mobility in times of crisis and under economic or industrial restructuring programmes. An enabling environment also includes building infrastructure. This is also part of trade policy.

An essential part of providing an enabling environment is establishing or strengthening effective public and private sector institutions. These are essential in an effective and inclusive development process. Trade-related institutions include financial institutions, export promotion agencies, and private sector institutions such as chambers of commerce, but also institutions for enforcing competition and intellectual property rights (IPR), and setting and implementing technical and sanitary and phyto-sanitary standards.

Figure 1.3. Employment regulations: South Asia and other selected (sub)regions

Source: PowerPoint presentation by Shanta Devarajan, (World Bank), 2009 on: "Why are there so many poor people in Africa and South Asia?", downloaded from <http://www.basis.wisc.edu/ept/presentations/devarajan.ppt>.

Sixth, governments need to ensure coherence and consistency among various policies, including trade policies, and effective coordination and consultation among relevant government institutions and other stakeholders. In particular, governments need to pursue effective public-private partnerships. After all, with regard to trade and investment they are in together and only together they can ensure an effective inclusive and sustainable development process. This issue is also further explored in section D below.

Seventh, governments have a role to play in promoting regional cooperation and integration. Such an integration process is the most important aspect of ensuring effective and efficient trade. Chapter 3 will further explore this issue in the context of promoting intraregional trade.

With regard to the role of business, in pursuing profits businesses have a responsibility to boost their own competitiveness, be innovative, respond to market signals, interact and explore international markets, build business partnerships domestically and abroad, and use resources efficiently and prudently. Businesses also have a responsibility to act socially and environmentally responsibly for their own sake, not just because of government regulation. Ultimately, such behaviour will give them a competitive edge in global and regional markets. This issue is further explored in chapter 5.

C. FORMULATING AND IMPLEMENTING INCLUSIVE AND SUSTAINABLE TRADE POLICIES

With the considerations and arguments presented in the previous sections in mind, the first and arguably most important role of the government in promoting trade for development is the formulation and implementation of coherent and consistent trade policies. This involves the identification and definition of the objectives of trade policy and the means to achieve those objectives. A typical objective of trade policy is achieving export growth of x% by a certain date. However, governments need to mainstream development objectives in trade policy. This issue will be further discussed below.

At the same time, the linkages of trade to other development areas need to be understood. Trade can contribute to achieving other development objectives as diverse as infrastructure development and providing affordable health. In this regard, trade needs to be mainstreamed in national development plans to ensure the coherence and consistency of trade policy with other development policies. Finally, mainstreaming trade requires effective institutional coordination mechanisms for the formulation and implementation of trade policy as well as effective mechanisms for consultation with major stakeholders, in particular business. These issues will be further discussed in section E below.

1. Conventional trade policy

(a) A typology of trade policy

While the ultimate goal of trade policy is to contribute to economic growth, its immediate goal is to affect trade flows. In this regard, trade policy can be aimed at increasing or decreasing exports or imports of goods and services in a particular sector or across the board. In particular, three sets of trade policies defined by their intermediate goal can be identified:

- (i) policies related to market access (both foreign and domestic markets);
- (ii) policies related to direct export promotion;
- (iii) policies related to supply-side capacity-building.

Trade can be promoted by increasing market access, direct export promotion and strengthening supply-side capacities

Market access policies are core trade policies and most references to trade policies mean market access policies. They involve laborious and extensive negotiations at multilateral, regional or bilateral level. These policies will be discussed in further detail below.

Direct export promotion policies are aimed at the marketing of a country's products and services abroad. Virtually every Asia-Pacific country has a department for export promotion or similar and operates trade promotion offices abroad. Other promotion activities normally consist of trade fairs or trade missions abroad. These activities have variable results. However, a study on the effects of trade promotion offices revealed that on average they have a strong and statistically significant impact on exports (Lederman, Olarreaga and Payton, 2006). Both market access and direct export promotion policies seek to influence foreign demand for a country's products and services. However, without effective market access and

supply-side capacities, direct export promotion policies would have little effect.

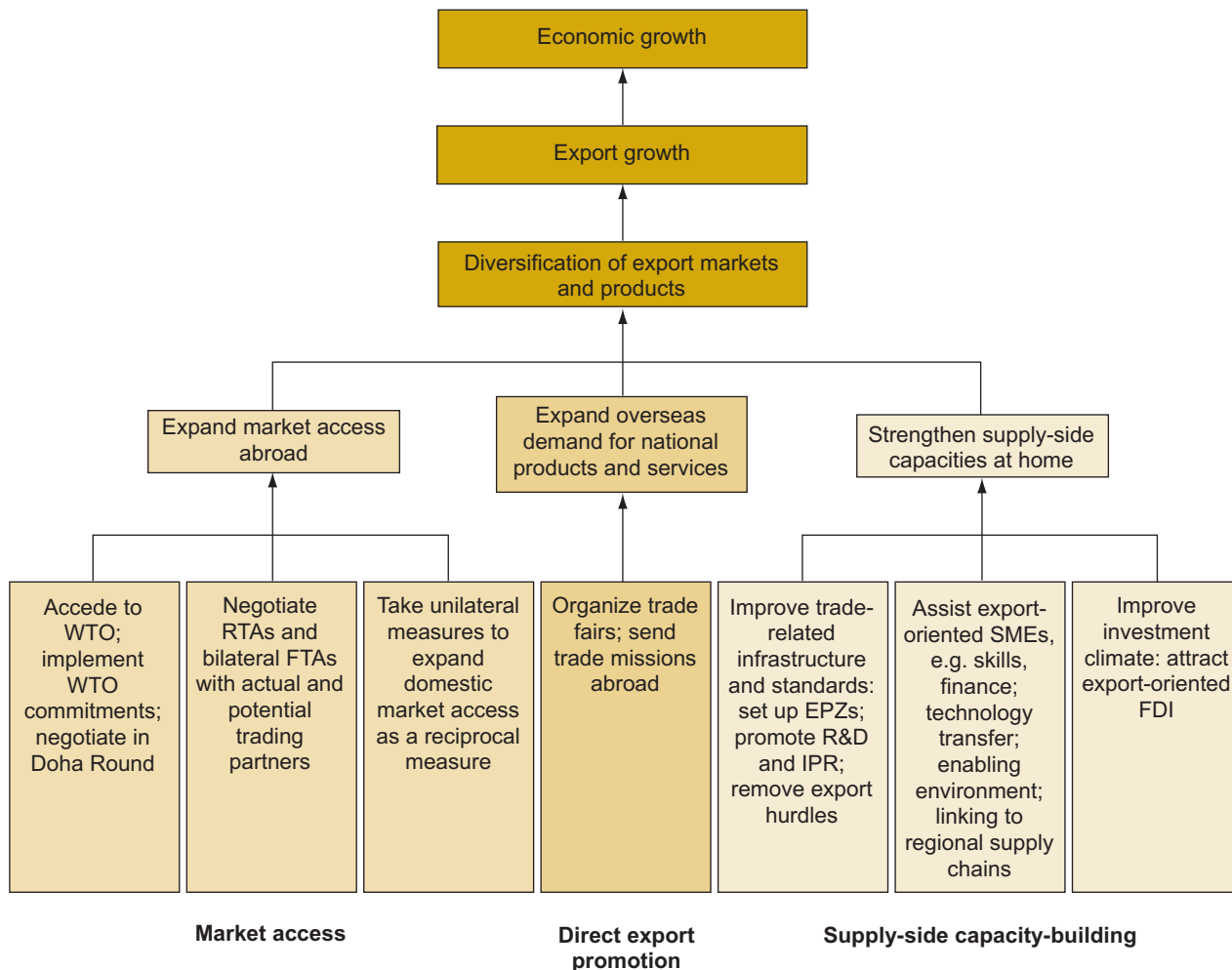
Supply-side capacity-building policies seek to build domestic capacities to meet foreign demand. They range from strengthening the regulatory environment to assisting selected SMEs. They involve infrastructure development, strengthening trade-related financial institutions, standard setting, technology transfer, strengthening research and development, etc. As such policies cut across all dimensions of development, it is often difficult to distinguish a trade-related supply-side capacity-building policy from similar policies in other development areas. In a wide interpretation, supply-side capacity-building policies are policies which strengthen a country's international competitiveness. Without supply-side capacities, market access gains are rather meaningless. But given the wide range and cross-cutting development dimensions of supply-side capacity-building policies, the remainder of this chapter focuses on the formulation of core trade policies, i.e. those related to market access. Supply-side capacity-building policies are further discussed in chapters 4 and 5.

An example of a simplified trade policy aimed at export promotion is provided in figure 1.4.

(b) Gaining market access

The objectives of market access-related policies can be two-fold: to liberalize or to restrict access to the domestic market and/or gain access to foreign markets. Gaining market access in other countries for the country's exports and investments is usually the most important objective of trade policy and may be linked to a wider objective of market diversification. However, market access-related objectives also need to be formulated with regard to the access of imports and foreign investors to the domestic market. Such objectives may consist of widening or restricting such access for selected products or sectors or across the board. Whatever the objectives selected, they need to be based on a thorough understanding of the implications and links with the objectives of policies in other areas of development.

Figure 1.4. An example of a conventional trade policy aimed at achieving export growth



Four modalities exist for enhancing market access:

- (i) multilateral trading system (WTO);
- (ii) regional trade agreements and integration processes;
- (iii) bilateral trade agreements;
- (iv) unilateral measures (non-reciprocal).

Table 1.2 provides an illustration of various market access policies defined by their immediate objective. This list is not exhaustive, nor are the policies listed mutually exclusive.

It is easy to see why developing countries want to gain market access. They tend to have comparative advantages in primary products, natural resources

and labour-intensive manufacturing products such as textiles and clothing, but market access barriers in their major export markets, in the form of tariffs and non-tariff measures (NTMs), are often insurmountable. In particular, as tariffs have fallen steadily over time, NTMs have become more prominent in market access restrictions. New NTMs have emerged over time, in particular in the form of overly restrictive technical standards and sanitary and phyto-sanitary measures, such as food standards. Anti-dumping has also increased considerably. Agricultural subsidies, normally outside the capability of developing countries but widely used in developed countries, are another major stumbling block to agricultural exports from many developing countries. However, in order to export, countries depend on increased access to

Table 1.2. An illustration of market-access related trade and investment policies by intermediate objective

Gaining market access abroad	Multilateral	Obtain WTO membership
		Conclude Doha Round with clear benefits for the country (achieve less protectionism in export markets, i.e. lower agricultural subsidies in Western markets)
	Regional	Enter selective regional trade agreements
	Bilateral	Negotiate bilateral trade agreements/bilateral investment treaties with major trading partners
	Multilateral, regional, bilateral	Attain GSP status/special and differential treatment exceptions
	All modalities	Diversify export markets
Expand or restrict access to the domestic market	Multilateral	Obtain WTO membership
		Negotiate in Doha Round
		Implement existing WTO commitments in: <ul style="list-style-type: none"> • non-agricultural products • agricultural products • services • IPR • Rules Etc.
	Regional, bilateral	Enter into RTAs/BTAs/BITs
	All modalities	Raise or lower tariffs or NTMs in selected sectors
		Increase or relax anti-dumping measures
		Tighten or relax customs clearance facilities
		Tighten or relax local standards and permits
		Tighten or relax conditions for entry of foreign investors
		Set up export promotion zones for foreign investors

the markets of their major trading partners. Trade negotiations therefore focus on gaining such access.

The multilateral trading system (MTS) offers the best framework for developing countries to expand market access to the world as a whole and diversify markets. However, the progress in the Doha negotiations has been slow and cumbersome while WTO accession and the implementation of commitments afterwards are very costly and therefore often not affordable to the least developed countries. It is generally believed that the least developed countries such as Cambodia and Nepal agreed to commitments as part of their WTO accession that they are not in a position to implement without significant economic and social costs. The MTS will be discussed in more details in chapter 2.

Another, less efficient but more progressive modality of gaining market access is the negotiation of regional and bilateral trade agreements. These agreements are also not problem-free, as will be discussed in chapter 3. Under multilateral, regional and bilateral agreements, market access gains abroad need to be reciprocated by increased access to the domestic market, though developing countries often have access to less than reciprocal flexibilities under many such agreements. In addition, developing countries, in particular the least developed countries, often enjoy non-reciprocal or less than reciprocal market access under the so-called Generalized System of Preferences (GSP) schemes of various developed countries (see chapter 2). Reciprocal commitments are also the norm in multilateral trade agreements though provisions for “less than reciprocal” commitments

are routinely made as part of special and differential treatment provisions for developing countries, while the least developed countries rarely have reduction commitments at all.

Many countries in the region, including the least developed countries, have implemented unilateral trade measures, which can expand or restrict access to the domestic market. Unilateral liberalization measures have often been undertaken as part of the implementation of international commitments under World Bank and IMF structural assistance programmes. Such liberalization measures have been increasingly replaced by measures implemented as part of commitments under multilateral, regional and bilateral reciprocal arrangements. The success of all liberalization efforts largely depends on the phasing-in and sustainability of its implementation and availability of support policies. Also, governments need to find compensation for the resulting revenue loss, e.g. through introducing value-added taxes. Governments also resort to unilateral trade measures to protect the domestic market, in particular in times of crisis. Such measures should be consistent with obligations under multilateral, regional and bilateral trade agreements.

While market access gains are commonly known to refer to trade liberalization, they can also be achieved through trade facilitation. Cumbersome customs clearance formalities may prevent effective market access. Market access strategies and policies therefore need to address the issue of trade facilitation as well, both as a market access issue and a supply-side capacity issue. The issue of trade facilitation is further discussed in chapter 4.

2. Inclusive and sustainable trade policy

While the previous subsection discussed traditional trade policy, the crisis has offered opportunities to rethink the role of trade policy in the development process. In the end, trade policy and its objectives need to contribute to inclusive and sustainable development. They need to contribute to achieving the MDGs. Traditionally, this has meant that trade

policy should contribute to income growth and that the gains from trade should be equitably distributed. However, trade policy should contribute to achieving wider development objectives given the many and complex linkages between trade and other development areas.

*Trade policy needs to be “green”,
pro-poor and in support of the
Millennium Development Goals*

This report proposes that trade policy is refocused to promote inclusive and sustainable trade more actively and directly in support of each MDG. In other words, there is a need to mainstream development objectives in trade policies.

(a) Inclusive trade

In order to make trade work for development, trade should be pro-poor and contribute to human development (UNDP Regional Centre in Colombo, 2006). A recent UN report clarifies what a pro-poor trade policy entails. According to the report, trade policy should be formulated in such a way that it: (a) prevents the poor from bearing the burden of trade disciplines and liberalization; (b) equips poorer people to derive maximum benefit from trade and globalization; and (c) contributes to achieving the MDGs. In particular, trade policy should aim

*Pro-poor trade policies need to target the
agricultural and services sectors in a
non-trade distorting manner*

at: (a) enabling poorer people to compete in a globalized world market by increasing their productivity; (b) ensuring that the benefits of trade are shared in the most equitable manner; (c) ensuring that poor people, women and other disadvantaged groups can draw benefits from exports and that equality within the country and between social groups, regions and genders can be promoted; (d) shielding vulnerable groups from the impact of trade liberalization when this threatens

their livelihoods; and (e) ensuring that the liberalization of goods and services effectively contributes to these objectives (Gibbs for UNDESA, 2007).

A pro-poor trade policy would pursue market access for products and services which are dominated by the poor and develop their supply-side capacity. Such a policy would preferably not include trade-distorting measures which may have negative effects in the long run. Such a policy would target underdeveloped areas within countries, in particular

rural areas, boosting agricultural and industrial production in those areas. The agricultural sector has often been overlooked over the years in favour of industrialization but it remains an essential sector not just in terms of development and economic growth, but in particular in reducing poverty. It has therefore been a traditional stumbling block in the multilateral trade negotiations. Box 1.3 explores the role of agricultural trade policy in addressing inclusive development and rural poverty in more detail while chapter 2 reviews the issues in agriculture in the Doha Round.

Box 1.3. Pro-poor trade policy: promoting agricultural trade

Global trade in agricultural products is small in terms of value, yet it has social impacts that highlight the importance of mainstreaming development in trade and vice-versa. Agricultural trade accounts for less than 9% of global trade. In Asia, agricultural products accounted for just 5.6% of total merchandise exports and 7.5% of total merchandise imports in 2005. Of agricultural trade, food products account for 80% and raw materials 20%. Nearly half of the world agricultural trade is accounted for by trade among industrial countries (same as in 1980).

However, the share of agriculture in GDP and employment of many poor Asia-Pacific economies, although declining, remains relatively high, ranging from less than 10% in the higher-income countries to 50-60% in the least developed countries. In net-food exporting countries, agriculture is an important export sector, accounting for about 10-20% of many Asian countries' exports. Currently, 85% of those living on less than a dollar a day live in rural areas. Trade policy therefore has an important role in promoting the agricultural sector, ensuring food security and reducing rural poverty.

To date, market access policies have been rather unsuccessful as prevailing distortions in international agricultural markets are caused by developed countries and can only be effectively addressed at the multilateral level. Value addition in agriculture is often difficult due to tariff escalation in principal export markets. In the DDA, agricultural trade has once again proved a major stumbling block to a successful deal. As agricultural products have assumed increased importance as sources of biofuels, the sector has become even more sensitive as food security and energy security become intertwined.

Liberalization of agriculture is often perceived as threatening the sector and affecting the livelihood of the rural poor as well as national food security. There is evidence that small-scale farmers who produce for local markets may risk losing their livelihood as a result of cheaper imports. This concern rises in sectors which are dominated by transnational corporations (TNCs) in the agricultural, food and retail sectors (Oxfam International, 2008). There is also a risk that trade liberalization would shift production from traditional food products to the production of crops for exports reducing food security (Madely, 2000). For poor countries, liberalization of agricultural raw material exports and imports seems to be the most promising approach (Maier, 2005).

Trade liberalization is particularly complicated in agriculture as the interests of countries diverge widely. The huge diversity in the size and development of countries in Asia and the Pacific illustrates the problem. Developed countries, such as Japan and the Republic of Korea mostly have relatively high levels of agricultural protection, largely for "non-trade concerns" such as the protection of a way of life and preservation of the rural countryside, food safety and environment protection. On the other hand, net agricultural exporters such as Australia, Indonesia, Thailand and the Philippines, call for accelerated liberalization.

Some of these countries have resorted to RTAs to promote their interest, such as the Thailand-China early harvest in fruits and vegetables. However, due to the sensitivities, agriculture is not widely covered in RTAs and BTAs either.

(Continued on next page)

Box 1.3 (Continued)

Net-food importers, including most least developed countries, are concerned that the elimination of export subsidies would result in a price increase of food and hence increase their import bill, a concern exacerbated by the current triple food/fuel/financial crisis. They would gain, however, from lower tariffs in their own market which would make food imports cheaper for consumers, unless they are potentially competitive and, hence, may wish to raise tariffs to allow the development of a domestic competitive farm sector. But this would affect domestic consumers, the bulk of the poor, negatively. Obviously, different groups of countries and different groups within countries have different trade policy interests.

ESCAP research has revealed that comprehensive liberalization of global trade in agriculture would lift 48 million people out of poverty in Asia in the short run, and over 50 million in the long run. Welfare gains for developing countries in the region would amount to \$3.3 billion in the short run and \$3.5 billion in the long run (ESCAP, 2008b).

On the whole, however, trade policy towards agriculture tends to be protective of local farmers and barriers to agriculture trade remain high. Yet farmers often are not competitive because they face many other obstacles such as poor infrastructure, lack of quality control and other obstacles which need to be resolved through consistent policies but will not be resolved through liberalization (Ivanic and Martin, 2008). Supply-side policies, therefore, are absolutely essential to develop the agricultural sector. Raising agricultural productivity can take 218 million people out of poverty (ESCAP, 2008b). For instance, it would be more effective and efficient to use scarce resources to develop rural infrastructure and promote the establishment of value-added farm and off-farm enterprises rather than provide export subsidies or food aid even though, of course, a clear justification could be found for the latter. With regard to the development of off-farm employment, China in particular has been very successful in nurturing export-oriented township and village enterprises (TVEs) located in rural areas producing both agricultural value-added and non-agricultural products. Finally, governments need to reduce the influence of middle-men in agricultural trade transactions to ensure that farmers share in the benefits from increased trade.

In conclusion, the way in which welfare gains are realized and utilized remains to a large extent a function of domestic policy. For trade to have a greater impact on growth requires not just a supportive macroeconomic policy environment but effective institutions and good governance as well. Unfortunately, liberalization of trade in agriculture faces stiff opposition in both developing and developed countries. As a result, the full benefits of international trade in agriculture have not reached the poor (ESCAP, 2008b).

In addition to agriculture, trade policy should increasingly focus on the services sector (ESCAP, 2008b). Trade in services has grown rapidly as discussed in part I of this report. Developing countries have developed strong competitive advantages in selected services sectors such as IT (for instance in India) and tourism. While services do not always directly help the poor (e.g. the IT industry in India), the revenue generated from such industries helps government invest in trade-related infrastructure which does benefit the poor. But there are many more possibilities. Improving services related to transport and communications yield an immediate development dividend and indirectly strengthen the supply-side capacity of domestic industry. Here again, governments need to ensure that the promotion of the services industry is inclusive and sustainable.

Trade should benefit society at large

While trade and trade liberalization generate winners and losers, governments need to ensure that ultimately society at large benefits in the long run, and that in the short run trade at least does not disproportionately affect vulnerable groups. This is particularly important for women. In most developing countries in Asia and the Pacific, women still constitute the majority of temporary, casual, seasonal and contract labourers and low-skilled workers. In South Asia, agriculture remains the biggest employer of female workers, whereas in East Asia, South-East Asia and the Pacific, the majority of women workers have moved into industry and services. These workers are the most vulnerable to job loss because they are unlikely to

be covered by formal unemployment insurance or social protection schemes. As a result, women, especially those working in export-oriented industries such as textiles, garments and electronics, have been disproportionately affected by the crisis (ILO, 2009b). Women also represent a large proportion of the workers in the informal economy. They are assuming increasing roles as owners and managers of SMEs but face routine discrimination when applying for finance or government support. Their vulnerability increases with the crisis, as when formal sector workers switch to the informal economy during crises, it depresses the wages of the informal economy. As a result, women are considered as part of the “flexible” workforce that can be easily discarded during economic downturns.

Inclusive trade policies therefore need to include gender appropriate measures and specifically target export-oriented enterprises which are owned or managed by women. Women entrepreneurship needs to be promoted and access to credit, including micro-credit should proceed on a non-discriminatory basis.

(b) Sustainable trade

Sustainable or “green” trade is trade which contributes to sustainable development. “Green” trade requires investment and production of, and trade in, products which are produced with environmentally sound technologies (ESTs) and processes, including renewable energy. They conform to environmental standards such as ISO 14000, cause no or minimal harm to the environment, both at home and abroad, and are traded (transported) in an environmentally sustainable way. The Republic of Korea has appeared as a champion of the “green” growth development paradigm in which “green” trade would figure prominently. Figure 1.5 provides an example of a simplified “green” trade policy.

On the supply side, policies aimed at strengthening a country’s competitiveness need to be aware of the changing determinants of such competitiveness. The government role is to push determinants which

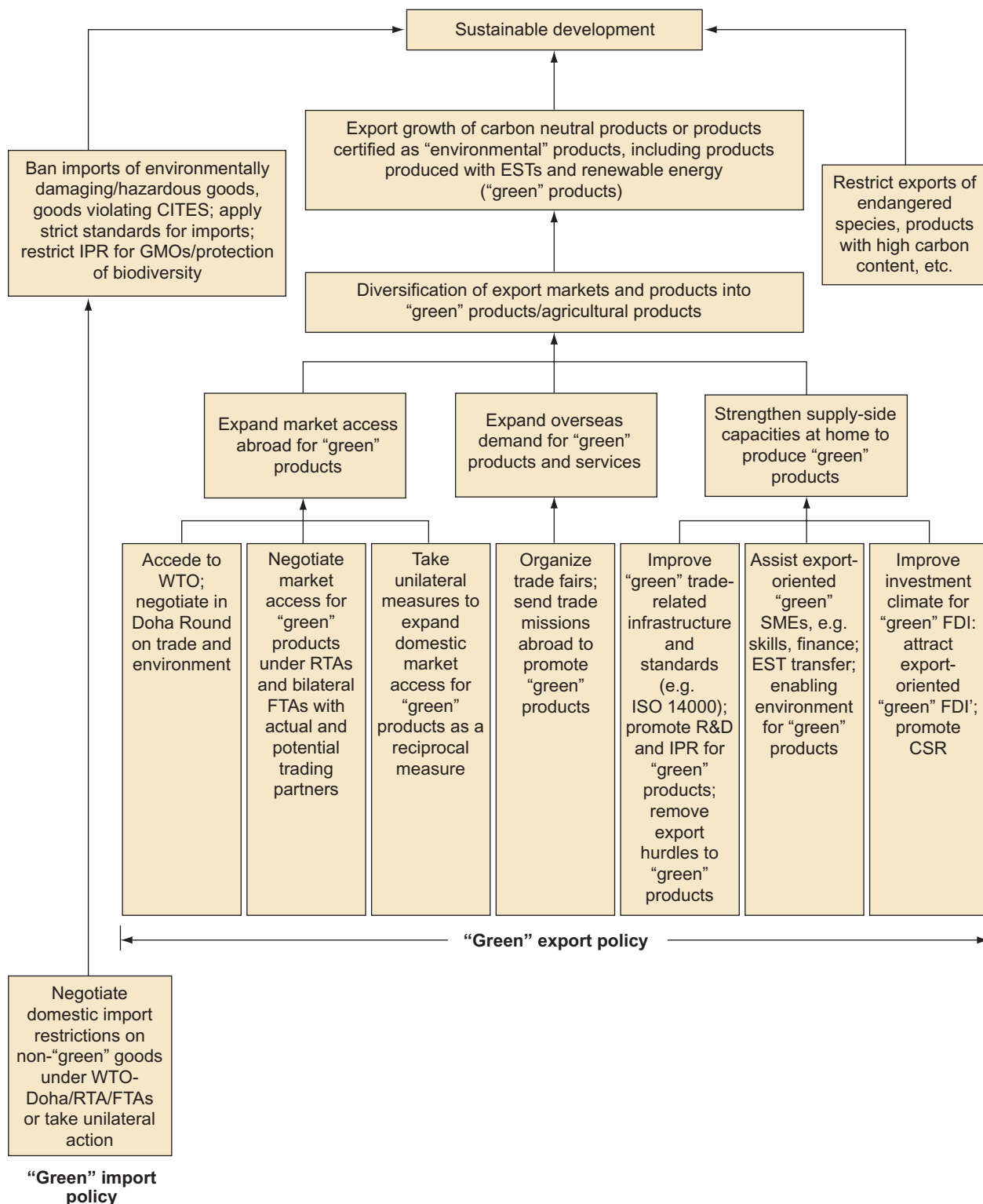
include social and environmental considerations. Such determinants are also increasingly consumer-driven. Businesses which can develop brands, or are associated with global and regional supply chains linked to brands that are recognized as environmentally friendly and produced on the basis of sound labour practices are likely to become the most competitive brands.

While price and quality still matter, these additional considerations gain importance among consumers and government can aggressively drive this agenda. Already business is responding. The Toyota Prius hybrid car, the recently introduced “green” phones by Sony-Ericsson and the increasing competition among computer makers to produce “green” laptops are good examples. The failure of the United States auto industry to respond to these changing determinants has contributed to their rapid loss of market share. It is no longer business as usual and where many businesses do not get the message, governments play an important role in delivering the wake-up call.

In fact, policies encouraging CSR activities in the private sector can be a means for governments to enhance inclusive and sustainable development strategies and could form a component of their national competitiveness strategies to compete for “quality” foreign investment, to position their exports globally, and to improve delivery of public policy goals addressing poverty alleviation. In other words, through a greater voluntary commitment from businesses to socially and environmentally responsible activities, national competitiveness objectives can be aligned with the overarching goal of inclusive and sustainable development.

A final word of caution is in order. Care should be taken not to use trade policy to meet development objectives where other policies may be more suitable. In particular, often less trade-distorting methods can be found to achieve the same development objective. The issue of coherence and consistency of trade policies with other development policies is obvious but requires elaboration. This will be done in the next section.

Figure 1.5. An example of a sustainable trade policy



D. PROMOTING POLICY COHERENCE AND CONSISTENCY

1. Mainstreaming trade in development: understanding linkages

If development is mainstreamed into trade policy, trade, as the main engine of growth and driver of development, should be mainstreamed into other development policies as well to ensure a coherent and consistent development strategy. The linkages work both ways.

Mainstreaming trade in development and vice versa is essential to an effective and efficient development process

Mainstreaming trade in other development policies requires appropriate levels of consultation and coordination, particularly given the broad scope and cross-cutting nature of the trade agenda at the international, regional, bilateral and national levels. Rules and regulations on trade that are much broader in scope than they were decades ago currently apply in a complex variety of new areas including agriculture, services, investment, trade facilitation, IPR, competition, environment, labour standards, government procurement and electronic commerce. In particular in the area of trade in services, a multitude of industries such as telecommunications, banking, health, education and tourism is involved. Policies in all these areas involve trade policy elements. However, these areas often involve different ministries and agencies that have not been routinely or closely involved in international trade and investment policy issues, leading to a lack of coherence and policy predictability in these areas.⁷ For instance, trade agreements and investment treaties are negotiated by different ministries. This may lead to inconsistencies between the commitments agreed to. While the link between trade policies and other

policies is probably stronger with regard to supply-side, capacity-related policies, even in the case of market access the negotiation and implementation of multilateral, regional and bilateral trade agreements requires the involvement of most government ministries and agencies apart from other stakeholders. The concept of the Single Undertaking at WTO has made such coherence and coordination even more important and has therefore been an instigator of domestic reform.

Mainstreaming trade in other policies is only one aspect of promoting coherence and consistency. A fundamental understanding of the many linkages between trade and other development areas helps in formulating coherent and consistent policies in all areas. Trade policy has economic, social and environmental links. There is no way of determining which of these links is more important or stronger than the others but all are important and may have different weight depending on the country or a particular policy in question.

Most obvious is the linkage between trade policy and macroeconomic and financial policies which directly affect trade. In fact, macroeconomic stability is a prerequisite for stable trade and investment transactions. Policies affecting exchange rates directly affect export competitiveness. Trade liberalization affects government revenue and hence fiscal policy. Financial policies directly affect the amount of trade and investment finance capital available for businesses. Also, trade policies which address the current economic and financial crisis have a strong bearing on policies which address the energy and food crisis as well as environmental emergencies such as climate change. Policies which address food and energy security obviously have a strong trade and investment link. The inclusion of IPR in trade agreements has widened the linkages between trade and other development policies, such as health, environment and culture. Table 1.3 shows an overview of possible linkages between trade and other policy areas.

This list is clearly not exhaustive. The point is to stress the need to streamline overall development objectives and principles into trade policies while

⁷ Yann Duval and others, "Trade and investment linkages and policy coordination: lessons from case studies in Asian developing countries", ARTNeT Policy Brief No. 15, June 2008.

Table 1.3. Mainstreaming trade: linkages between trade and other development policies

Economic dimension	
Macroeconomic policies	<ul style="list-style-type: none"> • Fiscal policy directly affects (restricts or expands) imports • Monetary policy affects interest and exchange rates which directly affect trade and investment
Financial policies	<ul style="list-style-type: none"> • Access to investment capital; loans and working capital requirements for SMEs • Trade finance availability
Infrastructure policies (transport, communications, ICT)	<ul style="list-style-type: none"> • Strengthen physical infrastructure for trade (roads, railroads, ports, airports, communication facilities, ICT, stable electricity supply, etc.) • Use trade to strengthen infrastructure
Agriculture policies	<ul style="list-style-type: none"> • Ensure food security through trade (i.e. imports of food) at reasonable prices • Increase market access for agricultural exports
Industrial policies	<ul style="list-style-type: none"> • Protect “infant industries” • Lower barriers to essential imports, including tariffs, NTMs and trade facilitation • Promote market access for industrial exports
Investment policies	<ul style="list-style-type: none"> • Attract export-oriented FDI • Assist export-oriented SMEs • Remove trade-related investment measures (TRIMS) • Promote CSR
Competition policies	<ul style="list-style-type: none"> • Promote competition including import liberalization and promotion of FDI
Intellectual property rights	<ul style="list-style-type: none"> • Promote IPR as part of policies to strengthen competitiveness, competition policy and business innovation (see also environment and health policies)
Environmental dimension	
Environmental policies	<ul style="list-style-type: none"> • Market access barriers to hazardous goods • Promoting trade in environmental goods and services • Promoting trade in low-carbon goods • Implement “murky” protectionist measures based on environmental considerations • TRIPS and environment issues: promoting biodiversity; etc. • Issues related to CITES
Energy policies	<ul style="list-style-type: none"> • Ensure energy security through trade (i.e. imports of oil, gas, etc.) • Ensure stable energy supplies for export-oriented industries
Social dimension	
Education policies	<ul style="list-style-type: none"> • Promote vocational training and skills development for value-added export-oriented industries
Health policies	<p>IPR and public health issues:</p> <ul style="list-style-type: none"> • Promote imports of generic medicines • Issue compulsory licensing for domestic production of generic medicines • Promote exports of generic or patented medicines • Prevent production or imports of genetically engineered foods
Labour policies	<ul style="list-style-type: none"> • Protect labour rights in export-related industries • Restrict or promote movement of natural persons (Mode 4 GATS) • “Murky” protectionism: use labour rights as a protectionist measure against imports
Gender policies, labour	<ul style="list-style-type: none"> • Mainstreaming gender in trade policies
Cultural policies	<ul style="list-style-type: none"> • Restrict or promote trade in cultural goods and services • Policies related to IPR and traditional knowledge

trade should play an important role in other development-related policies. National planning organizations play a major role in the process of mainstreaming and coordinating policies. In fact, already trade appears in most development plans of Asia-Pacific countries but usually as a separate

chapter rather than as a coherent link with other development areas.

Trade policies have a strong link with social policies to the extent that they may necessitate the provision of safety nets and retraining programmes for labour

laid off as a result of economic or industrial restructuring, including restructuring necessary as a result of the crisis. There is also a need to mainstream gender considerations in trade policies. The need for trade to benefit men and women equally was discussed above. And finally, the inclusion of IPR in trade agreements has revealed the strong link between trade and health policies. With the spread of the (A) H1N1 influenza epidemic, trade in anti-viral medicines and vaccinations is also expected to grow.

Environmental policies also have a strong link with trade policies. Concerns over environmental pollution, ozone layers, climate change, desertification, soil erosion, etc. require adaptation of the way products and services are produced and delivered. After all, trade and investment lead to all these environmental problems. The need for low-carbon trade in connection with climate change and global warming is only the most recent issue that links trade with environment. On the other hand, environmental policy is often used as a hidden NTM to protect domestic business rather than the environment. As discussed above, governments and business alike need to work together to adopt the concept of “green” trade. In other words, trade needs to take place in a sustainable manner while protection of the environment should not unduly and unfairly affect trade. WTO is currently looking into these issues, partly as a discussion item and partly as a negotiation issue under the Doha Round.

Protection of the environment makes good business sense as environmental awareness of consumers is rising and environmental degradation affects business efficiency as well. But often there are conflicts between environment and trade policies. For instance, where environment policy tries to restrict the import of or investment in hazardous products, trade policy or obligations may seek the liberalization of trade in these products. Trade in environmental goods and services may contribute to environment policy objectives. Again, the coordination of trade policy and environment policy is absolutely essential and both need to be geared towards the ultimate goal of inclusive and sustainable development.

The use of trade policy to achieve development objectives needs to be based on a solid cost/benefit and effectiveness analysis

Given the strong interlinkages between trade policies and other policies, it is tempting for governments to use a policy in one area to achieve the policy objectives in another area. Often, this makes sense. For instance, to develop infrastructure, governments may wish to liberalize trade in infrastructural goods and services. However, there are also examples where such an exercise may backfire. For instance, to help their economies cope with the economic crisis, governments may be tempted to resort to trade restrictions while other measures, such as stimulus packages and unemployment insurance, may be more effective and efficient. Trade policy used as a means to achieve environmental objectives is allowed under WTO rules but is often ineffective. It is therefore important that governments evaluate the means to achieve ends carefully on their costs and benefits and ultimate effectiveness to achieve the desired objectives and goals.

2. Promoting institutional coordination and stakeholder consultations

The interlinkages between trade and other policy areas give national policy consultation and coordination unprecedented importance in the overall trade regime of any individual country. National decisions in these areas require the

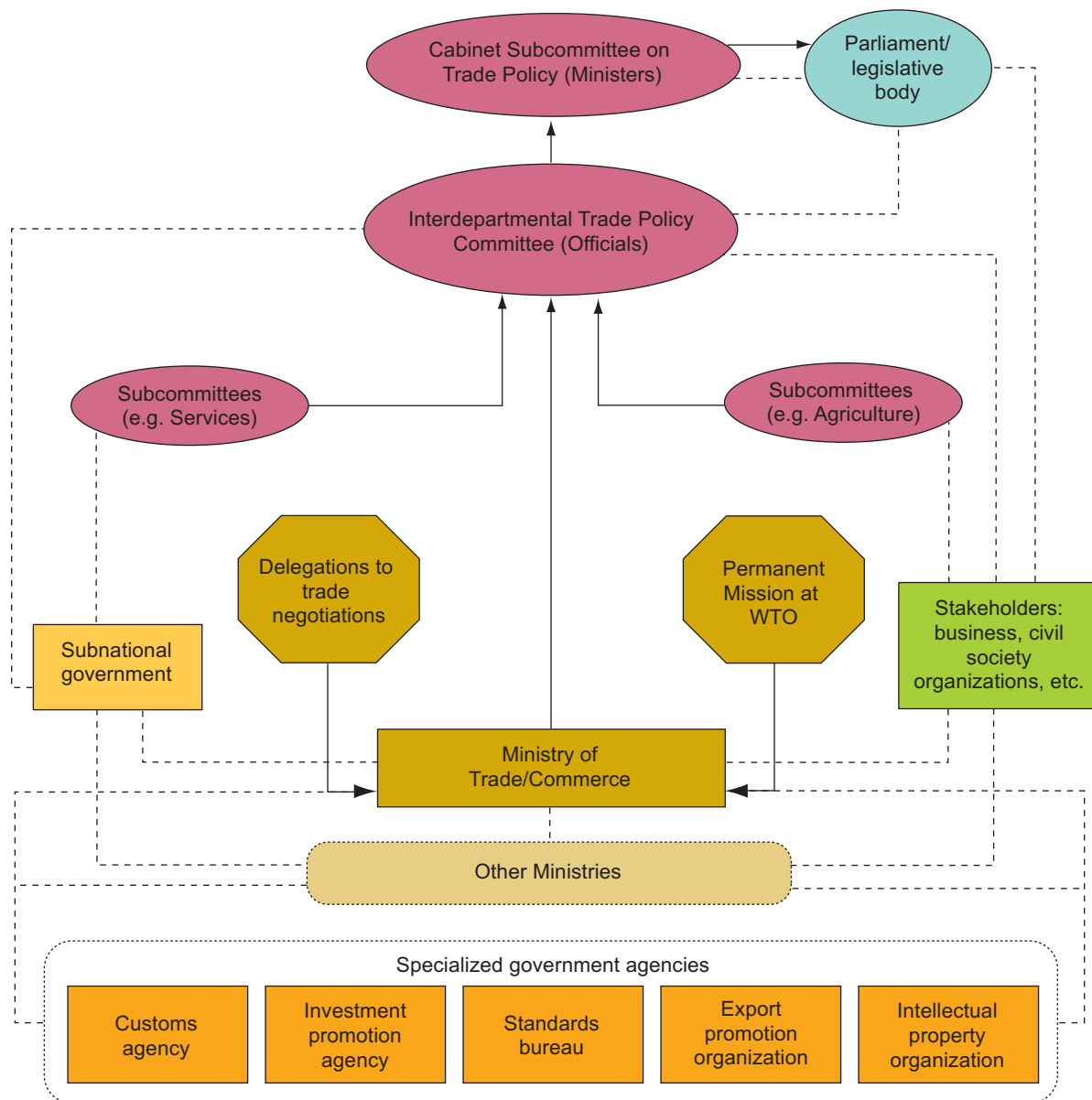
Institutional coordination and due consultation with stakeholders promote policy coherence, consistency and effectiveness

engagement of a wide range of ministries, departments and agencies, not only at central government level, but also at subnational (i.e. provincial, state and municipal levels), all of which need to work together to ensure that international trade contributes to national development and is in compliance with international rules and regulations.

Indeed, poor coordination across government levels can have significant and immediate negative effects when policies intended to expand trade and enhance competitiveness are undermined by other

policies. Timely consultations with parliament and its relevant committees are also important and interaction with legislative bodies should not be postponed until the final submission of policies,

Figure 1.6. A schematic presentation of a national level institutional coordination mechanism for trade policy formulation and implementation



Key
 ———> Reporting
 - - - - - Communication

Source: United States Agency for International Development, *Improving Trade Policy Coordination and Dialogue in Developing Countries: A Resource Guide* (Washington, D.C.), December 2003.

treaties etc. to avoid last minute approval and ratification hurdles.

To promote national policy coordination, an institutional framework incorporating related government agencies should be put in place. Figure 1.6 provides an example of an institutional framework for executive trade policy making and implementation. In this figure only the most important trade-related institutions are shown. Different institutions may be involved in the implementation process. Others can be added depending on the particular trade policy being formulated and implemented. While an effective coordination process requires resources, commitment and interest from all involved institutions – all of which are usually lacking in most countries – the top level of government has an interest in enforcing this process as the long-term benefits would justify the costs (UN Millennium Project, 2005). In the absence of available financial resources, aid for trade or other forms of technical assistance should be used for this purpose.

In many countries, the ministry of commerce or trade is designated as the lead agency for trade policy formulation and interagency committees are established for coordination purposes. Given the broad scope of the trade agenda, the establishment of subcommittees to cover specific areas also proves to be worthwhile. To ensure the effectiveness of policy coordination, the institutional framework should be complemented with a working mechanism covering the full life-cycle of policy formulation, implementation, monitoring, review and evaluation and adjustment. To achieve a seamless work flow, continuous interdepartmental consultation, communication and consensus building are key. In addition to day-to-day coordination and discussion between related ministries at working level and ad hoc meetings on emerging issues, interagency committees and subcommittees should meet on a regular basis to review the progress in trade negotiations in various fora, and to form country positions on the trade agenda.

Continuous consultation and joint responsibility ensure political and bureaucratic commitment to

the decision to initiate trade negotiations, conduct negotiations and implement negotiation results. It also ensures that the legislative and regulatory implications, as well as the financial and human resource consequences for government are under continuous review. Only through sound communication could negotiators know whether, from the perspective of the relevant government departments, various negotiating proposals can be implemented. A good example of trade policy coordination is provided by Cambodia (box 1.4).

Very importantly, the formulation and implementation of trade policies, given their strong interlinkages with other policy areas, should not be confined to government ministries and agencies in the area of trade. Active consultation with prime stakeholders, i.e. business, and also civil society, is needed to ensure that ultimately trade and investment contribute to development (UN Millennium Project, 2005). The absence of such consultations often leads to suboptimal policies and low acceptance and, ultimately, their failure. Such consultation also serves the purpose of public advocacy to make trade policy and its objectives acceptable by the public at large.

Governments also need to understand that they cannot please all parties all the time. Often, different business groups or industry sectors or non-governmental organizations (NGOs) come with conflicting demands. Where one stakeholder or business wants liberalization, another wants protection. Governments therefore need to consult with a broad array of stakeholders, including academia, to understand clearly the implications of their policy decisions and ensure that whatever decision they take results in a net benefit for the national economy/society. Again, the formulation of government policy is a balancing act.

At the same time, governments need to take care that such consultation processes do not result in endless debate and delays in the implementation of much needed measures. Therefore, both the process of policy formulation and implementation need to be bound by strict time schedules. Internal government consultations and coordination should

Box 1.4. Trade and investment policy coordination in Cambodia

To promote trade and investment policy coordination, the Government of Cambodia established a Public-Private Forum. The Forum comprises a chairman (the Prime Minister), a first vice-chairman (the Minister of Economy and Finance), two vice-chairmen (Ministers of Commerce), the Secretary of the Council for the Development of Cambodia (CDC) and the Secretary-General of the Cambodian Investment Board (CIB). The Forum is organized every six months.

To facilitate public-private dialogue, the Government created eight working groups on the respective subjects of: agriculture and agro-industry; tourism; manufacturing and distribution; legislation, taxation and governance; services; energy and infrastructure; export processing; and vocation and training. The working groups are set to meet on a monthly basis to discuss outstanding and emerging issues. Each working group is co-chaired by one representative from the Government and another representative from the private sector group. In case issues could not be solved at the working group level, they would be brought to the attention of the Prime Minister during the Public-Private Forum.

The Forum mechanism functions well. Its achievements include the establishment of a joint permanent customs-control focal point to facilitate and accelerate inspection and clearance in big garment factories; simplifying the issuance of certificates of origin and export licences; a significant cut in customs fees; and the development of a single administrative document.

Coordination of trade policy was not always as strong point of Cambodia and the lack of it has been cited as one of the obstacles in the process of accession to the World Trade Organization (see chapter 2).

Source: Inputs by Yuvaroath Tan at the ARTNeT Consultative Meeting on Trade and Investment Policy Coordination, 16-17 July 2007, Bangkok.

proceed on the basis of formats and platforms under direct supervision and chairmanship of the highest responsible government official, e.g. the Prime Minister, President or a person appointed by this official with clear mandate and accountability (i.e. national planning agency or similar institution). Without a clear political commitment, any attempt at policy coordination is doomed to fail. The purpose of consultations and coordination involving all levels of government, including provincial/state and municipal governments, is to prioritize objectives, find and eliminate potential areas of conflicts or inconsistencies among policies, and establish a comprehensive and transparent mechanism for monitoring, analysis and reporting (OECD, 2008).

Finally, effective coordination is premised on the fact that all involved institutions function effectively and efficiently themselves. Often, lack of adequate

resources and skills undermine the effectiveness of institutions. The lack of institutional capacity is a fundamental issue in development. Without institutional capacity effective trade and investment policy cannot be formulated. Without effective private sector organizations, the views of the private sector are not properly reflected in policy decisions. In the end, the issue boils down to principles of “good governance” and the requirements for it.

As trade is a cross-border phenomenon, policy coherence and institutional coordination also needs to take place at the global and regional levels. This is particularly important to address global trade imbalances which are unsustainable. At the global level, WTO is probably the best placed for that purpose. Chapter 3 will further discuss this issue at the regional level.

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CHAPTER 2

THE ROLE OF THE MULTILATERAL TRADING SYSTEM IN GOVERNING INTERNATIONAL TRADE

INTRODUCTION

As the global crisis deepened and affected Asia and the Pacific at the end of 2008 and beginning of 2009, various countries in the region showed a tendency to resort to protectionist measures (Gamberoni and Newfarmer, 2009).¹ This disturbing trend was described in part I of this report. Despite early signs of economic recovery in Asia, the risk that countries continue to resort to protectionism remains. In such an uncertain economic climate, trade governance must be a key element of the response to the crisis.

Trade governance takes place at three levels: at the multilateral level there is the multilateral trading system (MTS) as overseen by the World Trade Organization (WTO); at the regional level there is a network of regional trade agreements (RTAs), complemented at the bilateral level by bilateral trade agreements (BTAs). Repeated setbacks and delays in negotiations on the Doha Development Agenda (DDA)² at the multilateral level have led countries to seek cooperation through other mechanisms, in particular through RTAs and BTAs.³

This chapter discusses the MTS and seeks to evaluate its significance for developing countries and its role in managing international trade in times of crisis and beyond. An annex contains a more

detailed update of the state of play in the DDA in the areas of agriculture and non-agricultural market access (NAMA).

A. ROLE AND IMPORTANCE OF THE MULTILATERAL TRADING SYSTEM

1. The threat of rising protectionism in times of crisis

It was argued before that trade is a victim of the crisis, not its cause. As rapidly falling exports plunge countries into recession, the promotion of domestic demand can only partly compensate and it is therefore essential to revive trade. For that purpose, markets need to remain open in the interest of all. The argument in favour of open trade is recognized and emphasized by leaders from both developed and developing countries. For instance, the ASEAN Summit in Thailand in February 2009 reiterated its

Despite the rhetoric, protectionism is on the rise but this is ultimately a self-defeating course of action

commitment to free trade and the conclusion of the Doha Round as important mechanisms to mitigate the crisis.⁴ These commitments were echoed by the APEC Trade Ministers Meeting in Singapore in July 2009, the G20 summits in London in April 2009 and in Pittsburgh in September 2009 and the East Asian

¹ See also WTO Director General Report to the Trade Policy Review Body, (JOB09/30), 27 March 2009.

² DDA and Doha Round refer to the same process and both terms are used in this report.

³ Unless otherwise stated, the mention of RTAs is meant to incorporate BTAs as well.

⁴ Chairman's statement of the 14th ASEAN Summit, "ASEAN Charter for ASEAN People's", Cha-am, Thailand, 28 February – 1 March 2009.

Summit in June 2009. However, the actions of leaders sometimes belie their words and some countries have pushed “buy-local” programmes as part of “murky” protectionism, (i.e. abuses of legitimate discretion under WTO rules which are used to discriminate against foreign goods, companies, workers and investors, including “green” policies and abuse of health and safety regulations) (Baldwin and Evenett, 2009). While protectionist policies in some developed countries have been widely condemned, some developing countries have also taken action to protect their industries. This may be harmful particularly to other developing countries considering that trade among developing countries has risen rapidly in recent years and may partially absorb the decrease in demand from the traditional developed country markets. Part I details some of the measures countries have taken, some of which can be labelled as protectionist.

The Great Depression of the 1930s revealed the devastating effects of protectionism and “beggar-thy-neighbour” policies which led to the collapse of global trade (Kindleberger, 1986). While the current crisis is not nearly as severe, the world is much more integrated today than it was in the 1930s. Many large companies today have complex supply chains scattered across the world. Disruptions in those supply chains because of protectionism would lead to increased failures of both large and small companies and, hence, increased unemployment (Yi, 2009). Recent research has revealed that the cost of protectionism could be as high as \$728 billion, in effect neutralizing the effects of the United States stimulus package (Bouët and Laborde, 2008). Therefore, the proper response to the crisis is more open trade rather than less.

2. The primacy of the multilateral trading system

Imagine a world without sovereign countries and, hence, without international borders. In such a world, trade would flow freely: neither tariffs nor non-tariff measures (NTMs) would hinder trade. Disregarding cultural considerations, a world without borders would be the most efficient in terms

of resource allocation, and the complexities of international trade as we know them would no longer exist.

The primacy of the multilateral trading system in governing international trade cannot be overemphasized

In the absence of one world and truly free and stable trade, WTO and the MTS provide a much-needed system of rules and regulations which govern international trade.⁵ In times of crisis, the MTS is the only functioning global system which can monitor and control protectionism. With multiple sovereign independent countries as members of WTO, this system is far from perfect and has in fact accounted for only a small share of total liberalization of trade. According to a World Bank study, unilateral or autonomous tariff reductions were much higher between 1983 and 2003 than those under the MTS, although the tariff-reducing effects of the Uruguay Round were higher than those under preferential trade agreements (World Bank, 2004). However, WTO is not just about liberalization. It provides the only universal set of rules which are stable, transparent and predictable. It is also the best mechanism to promote fair rather than free trade meaning that all countries should benefit from the MTS. The MTS has also allowed disadvantaged countries to participate more effectively in international trade and benefit from it.

The reason that liberalization under the MTS has been rather limited is due to the fact that under the various multilateral trade rounds commitments were made largely on the basis of bound tariff rates and other ceiling levels rather than on the basis of actually applied rates. Even the most positive result of a successful Doha Round conclusion would see reductions based on bound levels again without affecting actual tariff rates.

⁵ See, for instance the publications of Jagdish N. Bhagwati, who emphasizes this point, including his latest book, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*, 2008.

The conclusion of the Doha Round would be a boost for international trade

Nevertheless, an early conclusion of the Doha Round would send a positive message that the world is still open for business and would at least limit the flexibilities for countries to increase protectionism. In monetary terms, the expected benefits would be rather modest (for the same reasons as outlined above), certainly compared with the amounts involved in the bail-out packages for

financial institutions and other economic stimulus packages (see box 2.1). However, the benefits for developing countries are still significant and tangible and may be much higher in the long run. Stimulus packages, to the extent that they include protectionist measures, run the risk of violating WTO rules (in particular the ban on export subsidies in manufacturing and measures which may violate the WTO's non-discrimination principles) and hence may trigger a spate of litigation cases at WTO turning the organization from a negotiation platform to a trade litigation body.

Box 2.1. Benefits from concluding the Doha Round

Estimates of medium-term global welfare gains under various scenarios of a successful conclusion to the Doha Round range from \$180 billion to \$550 billion, with about one third going to developing countries (Anderson, Martin and van der Mensbrugghe, 2005). In 2003, the World Bank had forecast an \$832 billion-per-year boost to the global economy from the total elimination of trade barriers; the majority – \$539 billion – going to the developing world. In 2006, new projections estimated potential overall welfare gains at only \$287 billion – just one third the original forecast. Furthermore, developing country gains dropped to \$90 billion, a “loss” of more than 80%. According to the Carnegie Institute, any of the plausible trade scenarios will produce only modest gains in the order of a one-time increase in world income of \$40 billion to \$60 billion. This represents an increase of less than 0.2% of current global gross domestic product. Most recent World Bank analysis of “likely Doha scenarios” (which are more ambitious than the July 2008 package) revealed global gains by 2015 of \$96 billion, with only \$16 billion of that going to the entire developing world (Gallagher and Wise, 2008). WTO itself estimates welfare gains of about \$150 billion.

A more comprehensive study undertaken by the Carnegie Endowment for International Peace on Doha scenarios in the wake of the Sixth WTO Ministerial Conference in Hong Kong, China in 2005 estimated that maximum gains or losses are only about 1% of GDP. Among developing countries, about 90% of the gains from Doha scenarios would come from liberalization of trade in manufactured goods, while the gains from liberalization in agricultural trade would accrue mostly to the developed countries (Polaski, 2006).

These estimates pale in comparison with the \$787 billion stimulus programme of United States President Obama in early 2009 and the more than a trillion dollar bail-out of financial companies and banks. However, estimates are based on many assumptions. They also do not take into account the costs associated with implementing the results of the Doha Round such as revenue loss due to tariff reductions. Hence, the research is not without critics. The actual benefits from a successful conclusion of the Round depend on the actual final deal and also depend on whether the analysis includes dynamic and spill-over benefits. If the estimated results are limited, this is probably due to the limited offers on the table and the fact that commitments are made on the basis of bound levels. Not much recent research has been conducted on the benefits from the Doha Round as the proposals are in continual flux.

One recent study tried to estimate the costs of not completing Doha, and, in fact a return to protectionist measures within the allowed confines of existing rules and commitments. The study found that in a scenario where applied tariffs of major economies would go up all the way to currently bound tariff rates, world trade would decrease by 7.7% and world welfare would be reduced by \$353 billion. In a more modest scenario where countries would raise tariffs to maximum rates applied over the past 13 years, world trade would decrease by 3.2% and global welfare would be reduced by \$134 billion. Agricultural exports would be most affected. If world leaders failed to conclude the Doha Round and resorted to protectionism, there would be a potential loss of at least \$1 trillion. The failure of the DDA would prevent a \$336 billion increase in world trade coming from the reduction in tariffs and domestic support, while a worldwide resort to protectionism would contract world trade by \$728 billion (Bouët and Laborde, 2008).

The challenge of the multilateral trading system is to find a balance between fair and stable trade on the one hand and free and efficient trade on the other

The need to find a balance between stability and efficiency of all economic transactions, including trade, and the need to ensure that trade contributes to inclusive and sustainable development was discussed in chapter 1. Similarly, at WTO member countries need to find the balance between fair and stable trade on the one hand and free and efficient trade on the other, while ensuring that the commitments benefit the poor, or at least do not have a disproportionately negative effect on the poor, and contribute to sustainable development. This is exactly the purpose of the MTS and makes it indispensable, although in actual practice the negotiations are skewed towards the interests of developed countries. Nevertheless, developing countries constitute the largest number of WTO members and only through the MTS can WTO members set the rules to increase the transparency, predictability and stability of the world trading system and seek to dismantle barriers to trade to increase its efficiency. As this is not an easy task, it is hardly a surprise that the Doha Round has taken as long as it has, as the optimal balance will vary among different countries. This variation is not merely a North-South divide. More worrying, as long as countries are not sure where their own balance lies at the national level, it is very difficult to come to compromises at the international level.

Given the importance of WTO and the conclusion of a comprehensive Doha deal, it is opportune to review the main issues and obstacles in the negotiations, with a special focus on agriculture as, perhaps, the most controversial and sensitive area of negotiations.

B. SPECIAL FOCUS ISSUE IN THE DOHA NEGOTIATIONS: AGRICULTURE

1. The WTO Agreement on Agriculture

The Agreement on Agriculture (AoA), adopted as part of the Uruguay Round package, helped discipline the many arbitrary and non-tariff barriers preventing effective global agricultural trade which brought an increased level of predictability and transparency.

The WTO Agreement on Agriculture is a first attempt to establish an enforceable system of multilateral rules for international agricultural trade

However, the AoA did little in terms of actual trade liberalization (Orden, Kaukab and Diaz-Bonilla, 2002).⁶ While it “bound” and reduced tariffs from the bound rates, it did not affect actually applied tariff rates but left room for countries to increase those applied rates up to the agreed bound rates. Thus, in practice there are instances when tariffs have gone up rather than down, in particular in the wake of the current global economic crisis and this practice, though perhaps regrettable, is perfectly in conformity with WTO rules. A Doha deal would reduce the flexibility of countries to increase their applied rates by further reducing the bound rates but would still not result in much actual liberalization. As a result, welfare gains also would remain limited though they are not insignificant (box 2.2). Developing countries proposed a Special Safeguard Mechanism (SSM) replacing the old Special Agricultural Safeguard,⁷ but only for developing countries with flexible application provisions. They have also insisted on a certain number of “special products” (SPs) to be exempt from reductions or subject to smaller reductions

⁶ The accompanying Agreement on Sanitary and Phyto-Sanitary Measures, meanwhile, enhanced transparency and predictability to the use of SPS measures. However, the abuse of those measures has emerged as a serious non-tariff barrier to imports from developing countries.

⁷ The AoA allows for a Special Agricultural Safeguard which countries are permitted to use for products whose non-tariff restrictions have been converted to tariffs in case of sudden falling prices or surges in imports which could hurt their farmers. Only a limited number of countries have availed of this option. The Special Safeguard Mechanism was incorporated in the July Framework Agreement for use by developing countries only.

based on the criteria of food security, livelihood security and rural development. The principles of both SSM and SPs were accepted in the July 2004 Package of Framework Agreements. However, disagreements remain on their coverage, conditions for use, and modalities for implementation.

Box 2.2. Welfare gains from Doha reforms in agriculture

ESCAP estimates of the aggregate welfare gains under current Doha proposals show modest annual gains of \$4.6 billion globally in the short term, increasing to \$5.2 billion in the long run. Two thirds of the total gains would accrue to Asia, with Japan gaining the most. Developing countries in Asia would gain a modest \$365 million (8% of the total) in the short run, rising to \$640 million (12%) in the long run. India, Republic of Korea and Thailand appear to gain the most from agricultural trade liberalization under Doha, due mainly to gains in the terms of trade. China, which stands to gain the most in poverty reduction under Doha, appears to lose in overall absolute welfare gains. Others would also lose, though marginally, mainly due to a terms of trade shift. The small aggregate gains reflect the relatively small degree of reform anticipated. Similarly, in India Doha reforms would lead to rising income inequality. However, under more comprehensive agricultural trade reform, developing Asia and the Pacific could gain \$3.3-3.5 billion in welfare gains (see also chapter 1).

Source: ESCAP, Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity (United Nations publication, Sales No. E.08.II.F.7, ST/ESCAP/2476), 2008.

2. Recent developments in the Doha negotiations

Since the adoption of the July 2004 Package of Framework Agreements, no tangible commitments have been made in all Doha negotiation areas, including in agriculture. Revised texts have continued to circulate and negotiations have continued, ever postponing the deadline for concluding a deal. The last “make or break” mini-ministerial conference in Geneva in July 2008 also collapsed without an agreement, although

negotiators had come agonizingly close to clinching a deal. Revised texts on agriculture and non-agricultural market access (NAMA) continue to circulate but the global economic crisis put the Doha negotiations on hold until the talks were revived in September 2009 during a mini-ministerial conference hosted by India. WTO members, as well as WTO itself, continue to call for a conclusion of the negotiations as soon as possible. However, in most cases the only real commitments under the Doha Round still standing are those contained in the 2004 July framework agreement.

The agricultural negotiations revolve around three areas: (a) market access; (b) domestic support; and (c) export competition.

With regard to market access, tariffs account for about half of all protectionist measures in the agricultural sector. Although the AoA converted most non-tariff measures (NTMs) into tariffs, the result was often a specific tariff rather than the more transparent *ad-valorem* tariff. In addition, the tariffication process led to higher than average ceiling rates on some products, sometimes referred to as tariff peaks. The introduction of so-called tariff quotas raised new concerns on their implementation and transparency. Tariff escalation, where tariffs rise with the level of value-added, are also concerns for developing countries, along with the emergence of new NTMs in the form of overly strict sanitary and phyto-sanitary (SPS) measures and anti-dumping measures. However, NTMs are not part of the negotiations.

One of the sticking points has been the number of SPs and the nature of their treatment. The right of developing countries to designate a certain number of SPs has been recognized. However, depending on the interpretation of the criteria of food security, livelihood security and rural development, for some countries most agricultural products would be exempt. For instance, India is the world’s largest producer of milk, fruits, pulses, cashew nuts, coconuts, cotton, sugar, sugarcane, peanuts, jute, tea and an assortment of spices, and the second largest producer of rice and wheat. However, productivity is much lower than the world average. The Group of 33, of which India is a member,

argued for 20% of tariff lines to be designated as special products with 50% of these products exempt from tariff reductions. The United States proposed only 8%. In July 2008 agreement was reached on 12%.

Another issue with SPs is the extent to which they would be exempt from reductions or subject to smaller reductions than other agricultural products. In addition, developing and developed countries would be able to designate a certain portion of their agricultural tariff lines as “sensitive” products. Some developing countries have argued that there should not be a limit on the number of SPs and sensitive products but this has proved unacceptable to developed countries which fear that market access in developing countries will continue to be severely constrained. At the same time, five developing and two developed Asia-Pacific countries belong to the “Cairns Group”, a group of agricultural exporting countries with a commitment to reforming agricultural trade.⁸ This includes four ASEAN countries. They want to limit the number of SPs and sensitive products while recognizing the need for “policy space”. All developing countries, however, agree on the need to enhance transparency in tariffs applied by developed countries (many tariffs are in the form of specific duties) and to reduce tariff peaks and tariff escalation.

Disagreements on the SSM were the principal reason for the collapse of the most recent Doha ministerial talks

During the mini-ministerial of July 2008, it appeared that countries had achieved some convergence on the issue of special and sensitive products. Those negotiations collapsed mainly (but not only) because of disagreement on proposals for using the SSM that would allow developing countries, under some scenarios, to raise duties above their previously agreed ceiling limit. This was

⁸ The Cairns Group consists of the following countries: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Uruguay.

unacceptable to developed countries. This was too bad as the conference had led to basic agreements on other issues, such as the EC’s banana policy. The EC later withdrew on the basis that their agreement on the banana issue was subject to a comprehensive trade deal. It also put under threat the commitment made at the Sixth WTO Ministerial Conference that WTO developed country members and developing country members declaring themselves in a position to do so, would grant duty-free and quota-free market access for at least 97% of products, including agricultural products (such as tropical products) originating from the least developed countries by 2008, or no later than the start of the implementation period, in a manner that ensured stability, security and predictability.

Domestic subsidies account for major distortions in international prices for agricultural products

With regard to domestic support, the AoA had distinguished between allowed subsidies (“green” box) for scientific and development purposes (and which supposedly do not or minimally distort trade), subsidies contingent on limited production (“blue” box) and subsidies which were directly linked to the level of production (calculated as “aggregate measures of support” or AMS) and considered the most distorting. This third category would have to be reduced, again from ceiling levels (“amber” box) with the exception of a “*de minimis*” provision of 5% (of total agricultural production or of total production of a specific agricultural product) for developed countries and 10% for developing countries. Domestic subsidies are used mostly by developed countries and account for major distortions in international food prices. The most recent text contains proposals for the reducing overall trade-distorting support (OTDS) (see annex for details).

With regard to the third pillar, export competition, it is noteworthy that export subsidies are prohibited for industrial products (as long as they are “specific”) but are allowed for agricultural products under the AoA, subject to reduction commitments. At the Sixth WTO Ministerial Conference, countries

***A Doha deal would eliminate
export subsidies***

finally agreed to eliminate agricultural export subsidies by 2013 and for cotton in 2006, but this was subject to a comprehensive Doha deal. Countries also agreed to review and strengthen the provisions for food aid, which is sometimes used as a guise for export subsidies.

C. OTHER IMPORTANT NEGOTIATION ISSUES

Apart from agriculture, there are other important areas of negotiations, in particular NAMA, trade in services and rules. Within the context of development, issues related to trade-related aspects of intellectual property rights (TRIPS) and trade and environment also assume special importance. This section seeks to briefly highlight the most important issues in those areas. A more detailed overview of the state of play in NAMA is provided in the annex to this chapter.

1. Non-agricultural market access (NAMA)

Trade in manufactured goods constitutes about 70% of world trade. Industrial tariffs are on average much lower than agricultural tariffs (see annex table 7) and NTMs seem to affect industrial trade more than tariffs. While in 2006 the average tariff worldwide on industrial goods was only 5%, it was 60% on agricultural products.⁹ For developed countries the difference between applied and bound rates are on average negligible and often zero. However, there are some tariff peaks on products of importance to developing countries, such as textiles and garments, fish products and other labour-intensive industries. Industrial tariffs in developing countries are on average much higher with relatively high bound rates (on average 28.5%) which enable them to increase their applied rates.

⁹ According to WTO figures for 2006 as reported by the WTO Director-General, Mr. Pascal Lamy in an opening address at the Twelfth Session of the Steering Committee of the Parliamentary Conference on the WTO, 22 June 2006.

Developing countries often argue that lowering their tariffs would result in an influx of imports which their domestic industry is not yet capable of competing with. Tariff reductions would also lead to revenue loss for the government. Therefore, they need to base their negotiating positions on realistic expectations of how well they are able to improve their supply-side capacities, mature their “infant” industries to adulthood, and adjust their tax system within a reasonable time-frame. Aid for trade could play an important role in this regard (see section D below).

***Industrial tariffs are generally already relatively
low in developed countries but they are
still high in developing countries while
NTMs are a major obstacle in
all countries***

The traditional economic argument is that trade liberalization would lead to increased competition forcing domestic industry to upgrade in order to survive. The consumer would be the ultimate beneficiary. However, as was discussed in chapter 1, unbridled liberalization could affect the economy in the absence of supporting policies and the poor could suffer the most. Therefore, developing countries need a minimum degree of policy space to implement their industrial policy. In this regard, tariffs can be a useful tool to discourage the import of non-essential products and encourage the import of products that are essential and also critical for industrial development. Another concern is that tariffs account for only a small portion of trade protection in NAMA. As in agriculture, the incidence of NTMs seems to be on the rise in overly restrictive standards and certification requirements (i.e. technical barriers to trade) and anti-dumping measures which disproportionately affect developing countries. Unlike in agriculture, NTMs are part of the negotiations but progress is slow.

While there is a basic agreement to use the so-called “Swiss formula”¹⁰ for tariff cuts in various

¹⁰ A Swiss formula would result in larger reductions of higher tariffs. A smaller coefficient would result in a larger cut.

Sectoral agreements have emerged as a major stumbling block to a successful Doha deal

bands, and a convergence emerged in July 2008 on the coefficients to be used, major disagreements remained on the participation of selected developing countries in so-called “sectoral agreements”, i.e. agreements in particular industrial sectors. Without substantive increases in market access in selected sectors, developed countries say there is little in it for them. On the other hand, developing countries stress the voluntary nature of the negotiations and have little appetite to make commitments in areas where they do not have to. In the end it is all about the perceived benefits of trade liberalization and the readiness and political willingness to make hard choices. As this differs among countries, a compromise is hard to achieve, though probably easier in NAMA than in agriculture.

2. Services

Unlike agriculture and NAMA, the negotiations in services have taken a bit of a back seat. Services traditionally eluded multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) but the Uruguay Round for the first time produced the General Agreement on Trade in Services (GATS). This probably results from the fact that services trade has expanded enormously in recent decades and, according to WTO, now accounts for almost one fifth of international trade and two thirds of global output. Before the crisis hit, in 2007 it grew at a higher rate than trade in manufactures for the first time in five years (18% versus 15%), with China and India leading the world together with the European Union, Japan and the United States (WTO, 2008). Various developing countries have developed a competitive advantage in selected services sectors, such as tourism and off-shore finance.

Liberalizing trade in services has the potential to help speed up a country’s development as other economic sectors, such as agriculture and manufacturing depend on services such as transportation

and communications and financial services. Even other services sectors depend on these services. Countries that successfully reformed their financial and telecommunications services sector have grown, on average, about 1.0 percentage point faster than other countries (Mattoo, 2003). Some research concludes that the increase in real income if protection of services was cut by half would be five times larger than that generated from comparable trade liberalization of goods (Robinson, Wang and Martin, 1999). On the other hand, it has also been argued that there is no “one size fits all” approach to liberalization of trade in services and that developing countries need to conduct a careful cost-benefit analysis before making commitments in this area. It is understood that liberalization of trade in services alone does not automatically lead to services growth and development in developing countries, and that there is a need for supporting policies and regulatory frameworks. In addition, liberalization should not result in reducing access to essential services by vulnerable segments of the population (UNCTAD, 2006b).

Services are the most promising trade sector for developing countries. Liberalization could speed up development as all economic sectors depend on services

The GATS covers all services except government services and air traffic rights. It identifies four modes of supply of a service: (1) cross-border supply; (2) consumption abroad; (3) commercial presence; and (4) presence (understood as movement) of natural persons. Mode 3 is generally understood to mean foreign direct investment (FDI) in services, the first time that investment is perceived as a form of trade. However, the least commitments and the highest demands from developing countries are in Mode 4 as this mode contributes to remittances to many developing countries which, for some countries, are a major source of foreign exchange. Mode 4 would also alleviate labour pressure in the home country. It has been estimated that liberalizing the movement of natural persons, for instance by introducing a temporary visa in developed countries permitting movement of up to 3% of the total labour

force, would increase world income by nearly \$160 billion (Walmsley and Winters, 2003).

Members' commitments on each services sector and on each mode are contained in their schedules. However, relatively little liberalization in services has resulted from the GATS (Adlung, 2009). Subsequent agreements were reached on financial services, basic telecommunications and movement of natural persons, which are attached as protocols to the GATS. The GATS has a "built-in" agenda committing members to a progressive liberalization through further rounds of negotiations (Article XIX) starting at the turn of the Millennium. These negotiations were incorporated into the Doha Round when it was launched in 2001.

In March 2001, WTO members agreed on the guidelines and procedures for the negotiations and, by so doing, set the objectives, scope and method for the negotiations in a clear and balanced manner. The current negotiations take place on the basis of request-offer and cover issues such as: emergency safeguards, allowances for autonomous liberalization, government procurement and subsidies, domestic regulations for foreign service suppliers, review of MFN exceptions, adjustments in response to an assessment of trade in services, special and differential treatment (SDT) for the least developed countries (modalities for which were agreed on in September 2003), and a review of air transport services, which are currently excluded from the GATS.

The negotiations on trade in services have also stalled in recent years. First, countries are wary to engage in multilateral negotiations on trade in services as it is difficult to make the deep legislative and regulatory changes needed to open services markets. Second, while the negotiations are dominated by demands from developed countries to open up services in developing countries, they are reluctant to reciprocate in areas where developing countries have a competitive advantage, i.e. in Mode 4. Third, many countries have not been able to identify their national sectoral interests in services, the barriers to their exports, or to properly evaluate the requests they have received and have therefore failed to table proposals. And lastly, many

are waiting for tangible progress first in the areas of agriculture and NAMA.

A positive final outcome in the services negotiations is therefore contingent on a final deal in other sectors, in particular agriculture and NAMA.

3. Trade-related aspects of intellectual property rights (TRIPS)

Intellectual property rights (IPR) are protected by a number of international agreements monitored by the World Intellectual Property Organization (WIPO), but it was the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), adopted as part of the Uruguay Round, that first made a strong link between trade and IPR, while also updating and strengthening the provisions on IPR in the WIPO agreements.

Intellectual property rights and their effective protection have emerged as a serious non-tariff barrier to international trade but are important in developing competitiveness

The TRIPS Agreement strives to strike a balance between the rights of IPR holders and promote innovation on the one hand and serving the needs of society on the other, for example, in areas such as affordable access to medicine. But the Agreement has been controversial from the start. It is often seen as running counter to developing countries' interests, particularly in areas such as public health, protection of plants and animals, biodiversity, and traditional knowledge. Leading economists such as Jagdish Bhagwati and Arvind Panagariya have argued that IPR is not a trade issue and does not belong in WTO.

On 30 November 2005, members agreed to extend the deadline for the least developed countries to implement most provisions of the TRIPS Agreement from 1 January 2006 to 1 July 2013. However, many developing countries complain that the provisions of TRIPS are too stringent and that they lack the capacity to implement the Agreement.

A major issue concerns TRIPS and public health. Article 31 of the TRIPS Agreement allows governments to issue compulsory licences under certain conditions, for instance, when efforts to obtain authorization from the right holder on reasonable commercial terms and conditions within a reasonable period of time have failed. However, this requirement may be waived by a member in the case of a national emergency or in other circumstances of extreme urgency, or in cases of public non-commercial use. Any such use shall be authorized predominantly for the supply of the domestic market of the member authorizing such use, and the rights holder shall be paid adequate remuneration.

When the Doha Round was launched in 2001, ministers adopted a Declaration on TRIPS and Public Health in which they reiterated a commitment to the TRIPS Agreement but affirmed that it can and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to

medicines for all. The Declaration states that each member has the right to grant compulsory licences and the freedom to determine the grounds upon which such licences are granted. It also says each member has the right to determine what constitutes "a national emergency or other circumstances of extreme urgency." Some countries have availed themselves of the option to grant compulsory licences (see box 2.3 for the case of Thailand).

Paragraph 6 of the Declaration recognizes that WTO members with insufficient or no manufacturing capacities in the pharmaceutical sector could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement. The Declaration also states that the least developed countries will not be obliged, with respect to pharmaceutical products, to provide protection of patents or test data or enforce patent rights until 1 January 2016. On 30 August 2003, the General Council of WTO adopted the Decision on the Implementation of Paragraph 6 of the Doha Declaration allowing parallel imports of generic

Box 2.3. TRIPS and public health: the case of Thailand

Various Asian countries have availed themselves of compulsory licences for medicines. Malaysia and Indonesia have issued so-called "government use authorizations" for the importation and local production respectively of generic medicines overriding patents. However, perhaps the most conspicuous case highlighted by the media has been the issue of compulsory licences by the Thai Government. In 2006, the Ministry of Public Health issued a five-year compulsory licence (CL) for the anti-retroviral drug, Efavirenz, commonly used in first line treatment for HIV after failed attempts to obtain the drug from the patent holder, United States pharmaceutical company Merck, at more reasonable prices. The CL allows the Thai Government to import a generic version of Efavirenz from abroad until the national Government Pharmaceutical Organization is able to produce its own generic version saving the public health system millions of baht a year. After Thailand issued the CL, Merck offered to make its medicine available for half the price. In January 2007, Thailand issued a second CL on the medicine Kaletra, made by Abbott, a second line of HIV treatment. Abbott responded by announcing it would not register new medicines for sale in Thailand. A third CL was issued for Clopidogrel, a heart medication sold by Bristol Myers Squibb. Plans for the issuance of CLs for four cancer drugs were announced but postponed after deals were made with one of the original manufacturers of a drug. The United States Government has responded by putting Thailand on its priority watch list of IPR violations but did not launch an official complaint under the WTO Dispute Settlement Understanding (DSU). However, the United States can retaliate by withholding Generalized System of Preferences (GSP) privileges from Thai imports. Arguments have been forwarded both in favour and against the Government of Thailand's move.

It is generally understood that IPR is essential to compensate companies for the high costs involved in R&D and reap the rewards for those efforts. Without IPR, new medicines would not be found easily as most new medicines are found by transnational corporations (TNCs). However, a patent effectively grants a monopoly position to a TNC and may undermine competition. Secondly, the rights of the patent holder of essential goods such as life-saving medicines should be balanced by public interests. The TRIPS Agreement and related declarations and decisions have come a long way towards finding this balance. It is perhaps not perfect, but at least provides a system of rules which is enforceable and subject to interpretation by the DSU.

medicine under strict notification and other conditions to countries unable to manufacture generic medicines themselves. According to a 6 December 2005 General Council Decision, this 2003 Decision would become part of the TRIPS Agreement upon acceptance by two thirds of the WTO membership. Members have until 31 December 2009 to accept the amendment. So far, only 23 out of 153 countries have done so.

The Doha Declaration itself also opened negotiations on geographical indications for wines and spirits and beyond, the relation between TRIPS and the Convention on Biodiversity, traditional knowledge and folklore, and other new relevant developments raised by members pursuant to the relevant article in TRIPS.

4. Other negotiation issues: rules, trade and environment, and trade facilitation

(a) Rules

The Doha mandate includes negotiations on rules with the purpose of clarifying and improving existing disciplines and procedures in the areas of anti-dumping, subsidies and countervailing duties, in particular fisheries subsidies, and RTAs. Progress was made only in the area of RTAs with the adoption of a transparency mechanism.

The current crisis has witnessed a rise in the incidence of anti-dumping and subsidies while attention to issues related to trade and environment may wane

The issues related to fisheries subsidies are particularly important, highlighting the interlinkages between trade and environment. Fisheries are not considered an agricultural product but they provide the livelihood of millions in most coastal Asia-Pacific countries, in particular the Pacific islands. However, while specific export subsidies on goods are banned under the WTO Agreement on Subsidies and Countervailing Measures, subsidies on fisheries are allowed as they are not contingent on

export performance. Global fisheries subsidies amount to \$30 million to \$35 million per year, of which about \$20 million contributes to capacity-building and are considered harmful to healthy fish stocks (Sumaila and Pauly, 2006). The problem these subsidies highlight is that of overfishing and depletion of fisheries resources. According to the UN Food and Agriculture Organization (FAO), in 2004, 75% of global marine fisheries were either overexploited, fully exploited, significantly depleted or recovering from overexploitation and this figure is believed to be higher today (FAO, 2004). In addition, of course there is the issue of to what extent fisheries subsidies distort trade. However, fisheries subsidies are considered essential for the survival of many poor people who depend on fishing for their income.

On 19 December 2008, the Chair of the Negotiating Group on Rules issued a “roadmap” on fisheries subsidies. This roadmap identifies the key questions that the Negotiating Group will need to address to reconcile participants’ different approaches to disciplining subsidies that contribute to overcapacity and overfishing while formulating appropriate and effective special and differential treatment that addresses the interests and concerns of developing members. The Negotiating Group has discussed the roadmap at various meetings but so far has made no tangible progress.

(b) Trade and environment

Issues related to trade and environment are being discussed in WTO with specific issues subject to negotiations as part of the Doha Round. The issues are complex and are directly related to the negotiations in virtually all other areas, such as NAMA (environmental goods), services (environmental services), agriculture (many agricultural goods can be considered as environmental goods), TRIPS (related to preserving biodiversity and preventing biopiracy), and rules (fisheries subsidies). The issue is important, particularly in light of rising concerns related to climate change, food security and energy security. It is understood that trade has an environmental impact and that specific trade rules can contribute to protecting the environment, but some disciplines in multilateral

The trade and environment negotiations are important to ensure policy coherence and liberalize trade in environmental goods and services in which many developing countries have a comparative advantage

environmental agreements (MEAs) can also undermine market access for selected goods and services. However, there is a risk that in times of crisis, policymakers will pay less attention to environmental matters. That would be a mistake as these matters are urgent and will not disappear. This is the time to make trade part of the solution.

The Committee on Trade and Environment (CTE) is mandated to negotiate under its special sessions on three specific issues: (1) relationship between WTO rules and specific obligations under MEAs; (2) procedures for information exchange between MEAs and specific WTO committees; and (3) reduction, or elimination of tariffs and non-tariff barriers on environmental goods and services (EGS) (box 2.4). The following focused issues are for discussion only: (1) effects of environmental rules on market access and of trade rules on the environment; (2) clarification of certain provisions of the TRIPS Agreement; and (3) labelling requirements for environmental purposes. The Hong Kong Ministerial Declaration welcomes the progress and calls for negotiators to complete the work expeditiously. At the moment, all issues are still on the table and no consensus text has emerged. Among the outstanding issues are the precise definition and categorization of environmental goods and services which would enjoy higher levels of market access than other goods and services and the identification of “specific trade obligations” found in MEAs. The CTE has determined that among the 250 MEAs in force, only about 20 contain trade provisions.¹¹

A successful deal would help strengthen the linkages between trade and environment and increase coherence between these two important areas for inclusive and sustainable development.

¹¹ WTO, http://www.wto.org/english/tratop_e/envir_e/envir_neg_me_a_e.htm.

It would help contribute to environmental sustainability and stimulate trade in climate-friendly products and technologies.

Box 2.4. Defining environmental goods

A large part of the negotiations on the liberalization of trade in environmental goods deals with the question of what goods qualify as such. As a precise definition has been elusive, countries have adopted a “list approach,” with initial lists produced by APEC and OECD as a starting point. Liberalization would follow normal market access practices by reductions from bound rates. On 27 April 2007, Canada, the European Union, Japan, New Zealand, Norway, Republic of Korea, Taiwan Province of China, Switzerland and the United States (termed “Friends of Environmental Goods”) submitted a revised shorter “Potential Convergence Set” of 135 products. Environmental goods and services could be conceptualized in two ways. The first is the narrow, conventional conception that focuses on treating a specific environmental problem through the end-use of a particular good or service. This characterizes the traditional classification of EGS and includes goods and services such as wastewater treatment equipment or solid waste disposal services. The second is broader and involves environmentally preferable goods, which are defined by UNCTAD (1995) as products which cause significantly less “environmental harm” at some stage of their “life cycle” than alternative products that serve the same purpose, or goods that by their production and sale contribute significantly to preservation of the environment.

Source: ICTSD, “Trade in environmental goods and services and sustainable development: domestic considerations and strategies for WTO negotiations”, Policy Discussion Paper (Geneva, 2007).

(c) Trade facilitation

With falling international tariffs, trade facilitation has assumed centre stage in removing bottlenecks to international trade transactions. These bottlenecks include trade procedures which tend to be more cumbersome in developing countries than in developed countries and are therefore major obstacles to promoting South-South trade. These obstacles are also of much higher concern to

landlocked developing countries than tariffs. Trade facilitation was the only “Singapore” issue¹² to be formally included in the Doha negotiations in accordance with modalities set out in the July 2004 Package.

The Doha negotiations on trade facilitation are progressing but the coverage is limited

In the context of WTO, trade facilitation is generally defined as the simplification and harmonization of international trade procedures, where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade. While many existing WTO provisions and agreements relate to trade facilitation (e.g. the Agreements on Technical Barriers to Trade and Application of Sanitary and Phyto-Sanitary Measures), the decision was made to narrow down the trade facilitation negotiations mainly to clarifying and improving relevant aspects of Articles V (freedom of transit), VIII (fees and formalities connected with importation and exportation) and X (publication and administration of trade regulations) of the GATT 1994. The aim was to further expedite the movement, release and clearance of goods, including goods in transit, as well as to enhance technical assistance and support for capacity-building in this area. The negotiations also aim to improve cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. The results of the negotiations are expected to take fully into account the principle of special and differential treatment for developing and least developed countries.

¹² The original agreement adopted by the Second WTO Ministerial Conference in Singapore in 1996 was to explore the possibility of launching negotiations as part of the Doha Round in the areas of investment, competition policy, government procurement and trade facilitation.

Negotiations on trade facilitation have made good progress and provided an opportunity for many countries to assess their needs and priorities in this area. More than 150 proposals have been submitted since 2004, in many cases joint proposals by developed and developing countries. There is agreement that the extent and the timing of entering into commitments should be linked to the implementation capacities of developing and least developed countries. As a result, one implementation mechanism under consideration would allow developing countries, based on a capacity self-assessment, to classify trade facilitation measures in three different categories: (1) measures that are ready to implement from the date of entry into force of the agreement; (2) measures that will be implemented after a specified transition period; and (3) measures that will be implemented after technical assistance and capacity-building needs are fulfilled. Establishment of a Trade Facilitation and Capacity-building Support Unit has also been proposed.

Regardless of the final outcome, negotiations on trade facilitation have already broken new ground in linking commitments in multilateral negotiations to technical assistance and capacity-building (aid for trade) and taking into account developing countries needs and priorities. In addition, while the current scope of the trade facilitation negotiations may not cover all the priority issues identified by traders in the region (e.g. customs valuation), a first multilateral agreement on trade facilitation would certainly set the stage for closer cooperation on a wider array of trade facilitation issues. Substantive issues related to trade facilitation are further discussed in chapter 4.

(d) Other issues

Another negotiation issue is strengthening the Dispute Settlement Understanding mechanism. Other issues that are being examined and discussed but not negotiated in WTO include electronic commerce; small economies (with a view not to creating a sub-category of WTO members); trade, debt and finance; and trade and transfer of technology.

D. THE MULTILATERAL TRADING SYSTEM AND DEVELOPMENT

1. General development concerns, including policy space

The MTS does not exist for its own sake. It exists because countries, developed and developing alike, realize that it is the most effective system in governing international trade relations. Coupled with the notion that trade is essential for the development of all countries, especially in the current context of increased globalization and interdependence of countries, the logical conclusion is that the MTS is good for development. While this link can be made theoretically, in practice, the contribution of the MTS to development is not very clear. WTO should be seen as an organization where needs and obligations are balanced and where both the stability and efficiency of the multilateral trading system are ensured. However,

Policy space has been restricted under WTO rules, but developing countries still have considerable flexibility to make trade work for development

many developing countries continue to harbour suspicions of WTO as a developed country driven organization which basically harms rather than promotes developing country concerns. These suspicions have been enhanced when developing countries discovered that the gains they expected in access to developed countries' markets upon acceptance of restrictions on "policy space" (i.e. their flexibility to implement policies and measures they consider important for their development process, e.g. in areas such as trade-related investment measures or TRIMs and TRIPS) did not materialize (UNCTAD, 2006a). On the positive side, developing countries have been able to vastly increase their bargaining power in the current Doha Round by building coalitions, a mechanism to which the MTS is open. However, it has also been pointed out with regard to the MTS as a mechanism to

integrate developing countries into the international trading system, that too rapid a rate of integration or integration in the wrong areas and in the wrong way can be harmful rather than helpful (Khor, 2003).

The current agreements impose many obligations and commitments on developing countries which they find difficult to implement given their current state of development. Developing countries routinely refer to burdensome restrictions imposed on their "policy space". Such limits are an inevitable consequence of international governance systems and are designed to prevent countries from resorting to trade-distorting measures for development purposes where other, more efficient measures would perhaps be more appropriate. However, some have argued that the major concern with the limitations on policy space is that the MTS constitutes a one-size-fits-all model which fits developed countries but is perhaps not suitable for all developing countries (UNDP, 2003). The concerns are perhaps most justified with regard to TRIMs and, even more so, TRIPS (UNCTAD, 2006a). Yet, many developing countries have signed RTAs with TRIPS- and TRIMs-"plus" commitments.

Commitments undertaken as part of the accession process are particularly burdensome and in most cases WTO-plus. Least developed countries have not been exempt from such obligations (see box 2.6). While some countries have embraced WTO accession to spur their own national development process and accept legally binding commitments to circumvent vested interests and embark on a road of no return, the problems and obstacles encountered in actual implementation of those commitments are not to be taken lightly.

Most important for developing countries is the continuing protectionism they face in their traditional export markets and this should be their core concern in the Doha negotiations. Agricultural subsidies, tariff peaks and escalation, and the rise of various forms of NTMs undermine their potential to use or develop comparative advantages. Where developing countries, including the least developed countries, have preferential access to the markets of developed countries under GSP schemes or

BTAs, they often encounter cumbersome rules of origin and NTMs which continue to effectively hinder their exports. In the meantime, there are concerns that continued reduction in MFN tariffs leads to the erosion of these preferences (see below).

As discussed above, another particular bone of contention relates to TRIPS. Many developing countries complain that the standards contained in TRIPS are too strict and prevent the kind of development process which others have followed before them (including the practice of reverse engineering). The issues are particularly sensitive in the area of TRIPS and public health and environment. Although developing countries have increased their access to generic medicine through compulsory licensing, the conditions for such practice are still considered too strict and cumbersome by many (see box 2.3).

It appears that developing countries may have concluded a Uruguay Round deal not entirely in their favour. This is because they expected market access gains which have not fully materialized. In addition, they lacked negotiation capacity and feared being left out of the MTS if they did not sign onto the deal (Garcia, 2004). Still, many developing countries have gained experience and considerable expertise. The Doha Round, therefore, should offer opportunities to rectify the imbalances, preferably not through reopening concluded agreements and renegeing on earlier commitments (which would undermine the credibility of the MTS) but through the granting of meaningful market access and provision of aid for trade (AfT) by developed countries and more advanced developing countries to the less and least developed countries.

2. Special and differential treatment

While the existing multilateral trade agreements have ample provisions for SDT for developing countries, including no reduction commitments in most cases for the least developed countries, the implementation of these provisions is often lacking. Most of the 145 SDT provisions under the Uruguay Round agreements are in the form of “best endeavour” clauses but are not legally binding.

*Special and differential treatment issues
are at the core of a successful
conclusion of the DDA*

Indeed, the Doha Round was launched with the specific commitment to take development concerns into due account and hence is known under the formal name of Doha Development Agenda. As part of the negotiations, implementation issues related to the Uruguay Round agreements would be taken up (as contained in a separate Ministerial Declaration adopted at the Doha Ministerial Conference). While some issues could be solved immediately, most were integrated into the negotiation process. SDT provisions would be made more *precise, effective and operational*. Any new deal would integrate SDT provisions including less than full reciprocal commitments with longer time periods for implementation of commitments. Least developed countries would be mostly exempted from making any concessions at all.

The Committee on Trade and Development has received various proposals on implementation and SDT issues but is currently deadlocked. Developing countries are concerned that development issues are not adequately addressed and accuse developed countries from backtracking on their commitments. It is possible that growing mistrust on the part of the developing countries contributed to the collapse of the July 2008 mini-ministerial and the delay in forming a deal.

Yet putting too much insistence on expanding SDT can be counterproductive to developing countries. According to some, such insistence can lead to further marginalization of developing countries and least developed countries in a globalizing world (Srinivasan, 1999). Others argue that well-designed, effective, enforceable and time-bound SDT constitute an important aspect to ensure effective integration of these countries into the MTS (Adhikari, 2004). However, while SDT is important, its pursuit should not be the focus of negotiations for developing countries and should only be extended to those countries which really need it, while a proper graduation system should be put in place (Michalopoulos, 2000). The MTS and the

Doha negotiations are all about reforms deemed necessary to promote trade for development. In this regard, SDT should be used prudently to allow for a sustainable and inclusive reform process, rather than as an excuse not to implement necessary reforms (Matthews, 2004). The implementation of SDT should also be closely monitored.

3. Generalized system of preferences

Since the adoption of the 1971 Enabling Clause, many developing countries around the world, including in the Asia-Pacific region, have been recipient of various GSP schemes, in particular those granted by Canada, the European Union, Japan and the United States. Such schemes are not rights of developing countries and are completely at the discretion of the country granting them (see box 2.5 for the GSP schemes of the European Union). Under the auspices of UNCTAD there is also a Global System of Trade Preferences among Developing Countries (GSTP). However, the negotiations under the GSTP have made little progress so far. Least developed countries are beneficiaries of duty- and quota-free market access under various schemes implemented by a number of developed and developing countries, such as the European Union Everything But Arms (EBA) scheme. One of the outcomes of the Sixth WTO Ministerial Conference in Hong Kong, China was that developed countries and developing countries in a position to do so, would grant duty- and quota-free market access to 97% products from the least developed countries. All these schemes have their own conditions and graduation clauses. They also have rules of origin, which can sometimes be restrictive to the point of annulling the benefits of the preference.

On balance, GSP schemes seem to have benefited developing countries. With the reduction of MFN tariffs, the concern of developing countries is that their preferences are eroded. On the other hand, such as in the banana case, developing countries not part of a GSP scheme feel discriminated against. Of course, GSP schemes are by definition violating the most sacred of WTO principles, the MFN clause of non-discrimination, but it was felt that GSP

There is evidence that GSP schemes have on balance benefited developing countries. However, there are inherent problems associated with such schemes which need to be addressed

schemes could help developing countries boost exports and diversify their products and markets. In actual fact, however, the utilization of GSP schemes has been rather limited. Reasons include the emergence of NTMs in developed countries (notably standards and requirements, particularly those related to health, labour and environment), restrictive rules of origin and anti-dumping.

There are other concerns associated with GSP schemes. First of all, such schemes keep developing countries dependent on developed countries for exports. Second, GSP schemes may lead to inefficient production and export patterns which do not fit the recipient country's natural comparative advantages. Third, the non-reciprocal character of the schemes acts as a disincentive for recipient countries to upgrade their competitiveness, innovate and strengthen supply-side capacities. Fourth, GSP schemes may benefit some developing countries but discriminate against other developing countries which are not members of the scheme (ESCAP, 2001).

While developing countries have expressed concern over preference erosion, the reductions in MFN tariffs relate to bound tariffs, leaving applied rates more or less untouched. GSP schemes, however, cover applied rates. Therefore, the level of preference erosion may not be as high as feared. Furthermore, most least developed countries have already duty-free access to most developed markets (WTO, 2005).

In the medium term a case can be made to strengthen the effectiveness of GSP schemes by ensuring their stability and expanding their coverage to all products with rules of origin and related administrative procedures that reflect the supply capacity and industrial development of the least developed countries (UNCTAD, 2004). Moreover, some richer developing countries would

be in a position to establish their own GSP schemes for less and least developed countries. Already China provides duty-free access to selected products from some least developed countries. India provides duty-free access to products from Nepal with some conditions and applies a Duty Free

Tariff Preference (DFTP) Scheme to 92.5% of global exports of all least developed countries (Ratna, 2009). Since 1 January 2008, the Republic of Korea has also provided duty- and quota-free market access to products from the least developed countries (see details in Khan and Farhad, 2009).

Box 2.5. The GSP schemes of the European Union

Of all GSP schemes, those of the European Union are the most widely used and 176 countries benefit from them. There are three types of scheme. The standard GSP is a non-negotiated arrangement under which the European Union provides non-reciprocal preferential access. In the case of textiles and clothing, for instance, GSP duties amount to 80% of the full common customs tariff. There has been a significant increase in recent years in the value of preferential imports under GSP. Imports under the scheme totalled €51 billion in 2006 (an increase of 10% over 2005) and €57 billion in 2007 (an increase of 12% over 2006). GSP+ aims to encourage sustainable development and good governance in vulnerable developing countries. Beneficiaries must ratify and apply 27 core United Nations and International Labour Organization (ILO) conventions relating to such matters as human and labour rights, the environment, the fight against drug production and trafficking and corruption.

The Everything But Arms (EBA) GSP scheme offers duty-free and quota-free access to the least developed countries for all products except arms and armaments with a small adjustment for the full liberalization of sugar imports from the least developed countries which took place on 1 October 2009. Bangladesh and Cambodia's garment exports benefit from this scheme. Imports under the EBA cover 7,200 tariff lines and amounted to €4.3 billion in 2007. The GSP is governed by strict rules of origin – to ensure that the benefits go only to the countries intended. Products “originate” in a country if they are wholly obtained in the country or sufficiently worked upon or processed within it. However, “cumulation” rules enable production processes to take place in certain other locations without affecting the country's entitlement to GSP benefits.

Whenever an individual country's performance on the market of the European Union over a three-year period exceeds or falls below a set threshold, preferential tariffs are either suspended or re-established. Following the opinion of the European Parliament, the European Union General Affairs and External Relations Council adopted a regulation on 22 July 2008 applying a new GSP scheme for the period from 1 January 2009 to 31 December 2011. Under the new scheme, preferences were re-established for the following Asian countries: India (jewellery, pearls, precious metals and stones), Indonesia (wood and articles of wood), and Thailand (transport equipment). Myanmar remains temporarily withdrawn from the GSP. Viet Nam graduated with regard to footwear, headgear, umbrellas, sun umbrellas, artificial flowers and other products. India was the biggest beneficiary in 2007, accounting for almost 20% of total preferential trade. Other Asian beneficiaries are Bangladesh, Indonesia, Malaysia, Pakistan, Thailand and Viet Nam. Of the 16 future beneficiary countries offered the GSP+ incentive arrangement, five are from Asia: Armenia, Azerbaijan, Georgia, Mongolia and Sri Lanka. New rules of origin have been proposed but they do not cover agricultural and processed agricultural products.

A related scheme is the Cotonou Agreement between the European Union and the African, Caribbean and Pacific Group of States (ACP). Since the First Lomé Convention in 1975, the European Union has granted *non-reciprocal* trade preferences to their ACP partners. Under the Cotonou Agreement, signed in 2000, however, this system will be replaced by a new scheme which took effect in 2008: the Economic Partnership Agreements (EPAs). These new arrangements provide for *reciprocal* trade agreements to solve the dilemma of how to safeguard the development requirements of the ACP while respecting international rules. The European Union has either initialled or already signed interim or full EPAs with 36 countries of the 77 in the ACP. The other 41 are the least developed countries and therefore qualify for the EBA provisions. The European Union is currently negotiating with the Pacific ACP (PACP) countries. These include 14 states: Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Another ACP (Timor-Leste) has observer status in EPA negotiations.

Source: http://ec.europa.eu/trade/issues/global/gsp/index_en.htm.

In the longer run, it is probably advisable to fully integrate GSP schemes into the MFN schedules so as to avoid discrimination among developing countries themselves (UN Millennium Project, 2005). At best they should form a temporary system of measures which could be linked to AfT to help recipient countries develop genuine export competitiveness on a fair and equitable (i.e. non-discriminatory) basis.

4. Aid for trade and its relevance for the Asia-Pacific region¹³

One way to address the concerns of developing countries is technical assistance, though all WTO members agree that this is not a substitute for meaningful market access. Nevertheless, the lack of effective supply-side capacities continues to undermine the benefits of the MTS, and trade in general, for developing countries. Promises under the Uruguay Round agreements for technical assistance have largely failed. These concerns have been partly addressed by introducing the aid for trade concept at the Hong Kong Ministerial Conference in addition to existing initiatives such as the Integrated Framework for Trade-Related Technical Assistance to the least developed countries which is ineffectual and lacks funding.¹⁴

AfT is important in addressing supply-side capacity constraints and deficits in trade-related infrastructure. It is also an important modality to enhance the net development gains from increased trade by forging coherence and consistency between mutually supportive trade, environment and development policies at the national level.

¹³ The material for this section is taken from Marc Proksch and Noordin Azhari, "Aid for trade and public-private partnerships in the Asian and Pacific region", in Philippe de Lombaerde and Lakshmi Puri (2009), chapter 8. The chapter also appeared as a research article in ESCAP, *Asia-Pacific Trade and Investment Review*, vol. 3, December 2007 and formed a separate background paper for the Committee on Managing Globalization, fourth session, Part I, 12-14 September 2007.

¹⁴ See, for instance, Frank J. Garcia, "Beyond special and differential treatment", *Boston College International and Comparative Law Review*, vol. 27, pp. 291-317, 2004; Boston College Law School Research Paper No. 86, available at SSRN: <http://ssrn.com/abstract=863904>.

Moreover, it helps to raise countries' capacity to integrate inclusive and sustainable development dimensions into trade policy and practices.

Effective aid for trade is an important modality to help developing countries benefit from trade but it should be needs-driven and clearly operationalized

A WTO Task Force defined AfT, identified challenges and gaps, and made recommendations concerning the operationalization of AfT, at the multilateral, regional and national levels.¹⁵ With regard to the regional-level implementation of AfT, the report recognizes that "many countries require cross-border infrastructure and regional policy cooperation to trade more effectively. The ability to identify cross-border and regional needs should be strengthened at the country, regional and multilateral level." In particular, the Task Force recommends strengthening the following functions in relation to regional, subregional and cross-border issues: "diagnosis of needs; costing of projects; preparation of project proposals; and the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes, (e.g. cross-border infrastructure and policy-integration projects)". In this context, it recommends the establishment of a regional aid for trade committee, "comprising subregional and regional organizations and financial institutions, to oversee the implementation of the subregional and regional dimensions of aid for trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation".

A recent WTO note¹⁶ identifies three principles for future work on AfT: (a) AfT must be a complement to, not a substitute for, results from the DDA; (b) AfT must not have to compete for existing official development assistance (ODA) flows with other

¹⁵ See "Recommendations of the Task Force on Aid for Trade," WTO, WT/AFT/1 of 27 July 2006.

¹⁶ See "Aid for Trade: WTO Work Programme on Aid-for-trade", Background Note (WT/AFT/W/26), 29 May 2007.

development and poverty reduction priorities (this was a problem for the Integrated Framework); (c) the case for attracting AfT to implement WTO agreements and build trade-related capacity more broadly must have the commitment of trade, development and finance ministers in developed and developing countries, including the least developed countries, and the support of private business.

The Asia-Pacific region has been a major beneficiary of AfT but the perception is that, given its economic dynamics, other regions should perhaps receive priority. This is a misconception. Two thirds of the world's poor live in the region. While it hosts some of the world's richest countries, it also hosts some of the poorest, including 14 of the world's 49 least developed countries. These countries face severe capacity constraints, since they do not necessarily have access to finance from the capital-surplus countries. In addition, despite significant progress in reducing it, the incidence of poverty remains high in some of the high-growth countries.

Although some countries in the region have big foreign exchange reserves, such reserves are not necessarily easily available for investment purposes and as sources of finance for development. In particular, foreign reserves by themselves do not constitute investment capital and some countries actually experience huge capital outflows to developed countries (in particular to the United States) as a result of their investments in generally low-yielding (United States) Government bonds and other securities. Finally, the Asia-Pacific region also accounts for the largest number of economies of any region in the world that are not yet members of WTO (see below).

The region may have more advanced developing countries and developing countries with a greater potential than those in some other regions, but it could be argued that such countries merit increased AfT to ensure that they can take full advantage of the emerging opportunities for trade. In other words, countries which show promise for development should be actively supported to enable them to keep the development momentum. Not surprisingly,

middle-income countries have seen their share of total AfT grow significantly to almost 40% since 1995. There is also evidence that, of all regions, the impact of AfT has been the greatest in Asia.¹⁷

Furthermore, while the region is awash with capital, demand for investment capital tends to outstrip supply. The need for infrastructure financing already far surpasses available resources, both public and private. For that reason, there is a strong argument in favour of delivering AfT to those most in need in the Asia-Pacific region, in particular, because the region is the world's most dynamic and because opportunities for economic growth and development, as well as for economic integration through trade and investment, are abundant. It would be truly unfortunate if those opportunities were missed due to capacity constraints and inadequate AfT to address them. For instance, there are strong indications that sustained technical and financial assistance from multiple donors played a significant role in facilitating accession to WTO of the least developed countries such as Cambodia and Nepal. While Africa has the Joint Integrated Technical Assistance Programme (JITAP), Asia and the Pacific does not have such a programme. A convincing argument could be made that a similar programme should be developed for the Asia-Pacific region as well. Such a programme should have strong linkages with the Integrated Framework, and ESCAP and the Asian Development Bank (ADB) could take a leading role in its coordination.

Among the latest developments regarding AfT in Asia is the preparation of an AfT roadmap for the member countries of the United Nations Special Programme for the Economies of Central Asia (SPECA) in which Azerbaijan has taken the lead. The objective is to articulate AfT national and regional priorities for the SPECA countries (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) with special reference to the challenges and prospects during and after the global economic crisis.

¹⁷ See, for instance, the Rapporteur's Report of the OECD Policy Dialogue with Non-members on Aid for Trade: from Policy to Practice, Doha, 6-7 November 2006, paragraph 57, <http://www.oecd.org/dataoecd/24/55/37819542.pdf>.

ADB is currently leading AfT efforts in the region in cooperation with ESCAP. In September 2007, ADB, WTO and the Government of the Philippines hosted the Asia and the Pacific Regional Aid for Trade Review in Manila. Among the major conclusions of the Review was that regional cooperation and integration, as well as infrastructure development, trade facilitation and trade finance matter most to increase trade; that public-private partnerships played an important role in delivering effective AfT; and that AfT should be interpreted as aid for trade for development (ADB and WTO, 2007). The Review also established a regional technical group to: (a) synthesize subregional/country needs and priorities; (b) identify ongoing assistance programmes; and (c) develop an integrated approach that will operationalize AfT for the medium term in Asia and the Pacific with ADB as coordinator (ESCAP is a member).

A high-level dialogue (“Global Financial Crisis, Export-led Growth and Aid for Trade: Focus on the ASEAN Experience”) organized by WTO and ADB in Siem Reap, Cambodia, on 29 May 2009 decided that Cambodia and Japan would lead the Asia-Pacific Regional Technical Group on Aid for Trade. The group was tasked with preparing plans for stepping up AfT in Asia and the Pacific which were reported at the Second Global Review Meeting on Aid for Trade, held in Geneva, Switzerland, on 6 and 7 July 2009. Among the main conclusions of that meeting were the need: (a) for trade to be mainstreamed in development plans; (b) to strengthen the regional dimension of AfT; (c) to strengthen the role and contribution of the private sector; (d) to continue careful evaluation of the impact of AfT; and (e) to continue mobilizing additional resources beyond 2010.¹⁸

5. Accession

Finally, there is the issue of accession. Accession negotiations are important for many developing countries. However, accession involves a cumbersome process which often results in commitments for many developing countries and least developed countries that go beyond commitments of existing members (see box 2.6 for the case of Cambodia and Nepal). The ESCAP region is home to 21 economies not yet member of WTO – 12 of which are in the process of accession

The Asia-Pacific region has the highest number of countries not yet a member of WTO

– making it the region with the highest number of economies not yet a member of WTO. Countries in the region that recently completed accession are China (2001), Armenia (2003), Cambodia (2004), Nepal (2004), Tonga (2007) and Viet Nam (2007). These countries are known in WTO as Recently Acceded Members (RAM) and are subject to lower or no commitments depending on the area of negotiation. Efforts to simplify the accession process, especially for the least developed countries, have so far failed. The main compensation for accession is expected to be in the form of technical assistance such as AfT as many countries, in particular the least developed countries, will have difficulty in implementing their commitments, including some that recently acceded (e.g. Cambodia, Nepal) and some that are completing accession negotiations (e.g. Afghanistan, Bhutan, Lao People’s Democratic Republic and Vanuatu and most countries in Central Asia).

¹⁸ Closing speech of WTO Director-General Pascal Lamy at the Second Global Review Meeting on Aid for Trade, Geneva, 7 July 2009.

**Box 2.6. Accession to WTO of the least developed countries:
the experiences of Cambodia and Nepal**

Cambodia and Nepal were the first least developed countries to accede to WTO. Despite attempts to streamline and simplify the accession of the least developed countries to WTO, the process remains an arduous and costly affair. Both completed their accession in 2004 after a more than 10-year accession process. Both were anxious to become WTO members in order to integrate in the international trading system and to diversify markets and products. They also expected to benefit from more predictable market access, access to technical assistance and SDT and from locking in domestic reforms.

By all accounts, both Cambodia and Nepal agreed to much deeper commitments than any founding least developed country member. Nepal's average bound rate is only 42% for agricultural products (31% in Cambodia and 188% in Bangladesh) and 26% for non-agricultural products (compared with Bangladesh's average bound rate of 163.6%). Cambodia agreed to significantly deeper commitments than Nepal. However, the costs of accession have been large for both countries and have mounted during implementation.

According to some assessments, Nepal appeared to be more prepared for implementation than Cambodia: it had stronger institutions and the number of laws and regulations it had to adopt or change was much lower than in the case of Cambodia. In Nepal, most required laws and regulations are already in place. Cambodia, as of end 2007, had enacted 25 out of 47 to which it committed under its accession package. Yet it can be argued that Cambodia has done better since accession than Nepal, probably due to Nepal's political instability.

In both cases, the expected trade gains have not materialized, probably due to the fact that both countries already had relatively liberal trade regimes before they joined and because of severe supply constraints. But there is also no compelling evidence that WTO membership has negatively affected trade of either country or worsened poverty. It appears that both countries are severely lagging in implementing their commitments, but other WTO members have not pressed the matter and it is unlikely that any least developed country will ever be sued for negligence.

At the same time both countries are fully integrated into the MTS and enjoy the benefits such as MFN access to all other 153 members. Cambodia in particular has enjoyed a six-fold increase in FDI since joining WTO. WTO membership has also increased the predictability of non-preferential tariffs and other border measures, including assurance that no quotas would be imposed on their garment exports following the phase-out of the Textiles and Clothing Agreement in 2005. And both countries have joined coalitions to pursue their trade interests in the Doha Round, such as duty- and quota-free access to all exports from the least developed countries.

The lesson from both countries' accession is the need for consultation with stakeholders, not only with the private sector but also with civil society groups, to ensure broad legitimacy and acceptance of WTO accession. Moreover, such consultations need to continue after the accession process is completed, which did not happen in either country. The lack of coordination among involved ministries in both countries has been a major stumbling block to an efficient and effective accession. Other obstacles were the lack of sufficient human skills and experience and financial resources. These obstacles also probably played a part in the two countries' weak implementation of commitments. Technical assistance played an important role in both countries completing the accession process and will continue to play an important role long afterwards. ESCAP is currently assisting Nepal in its implementation process under an European Commission-funded project (under a similar project, ESCAP is also assisting another least developed country, Bhutan, in its accession to WTO). Activities include assistance in notifications, training, and the strengthening of WTO reference centres. The need for effective donor coordination taking into account the countries' absorption capacity has emerged as an important issue in providing meaningful technical assistance.

Sources: http://www.tradeknowledgenetwork.net/pdf/bridges12_5.pdf.
<https://www.gtz.de/de/dokumente/en-wto-accession-of-cambodia-and-nepal-2008.pdf>.
<http://www.tradeknowledgenetwork.net/research/pub.aspx?id=101>.

E. THE WAY AHEAD: PRESERVING AND STRENGTHENING THE MULTILATERAL TRADING SYSTEM

The continuing failure of WTO members to conclude the Doha negotiations coupled with a perception by many that the MTS has failed developing countries and favours the rich, has led to calls to review the role of WTO and the modalities of negotiations. WTO, and the MTS it oversees, is certainly flawed but it is probably as good as it gets when one bears in mind that it is merely a group of 153 economies, with often widely diverging interests and ranging from large, rich and therefore powerful members to small, least developed and poor members. It is certainly better than no multilateral system at all. After all, the MTS comprises a system of non-discriminatory rules which apply to all, small and big, rich and poor. It allows for coalitions among weaker states to increase their influence and there is no doubt that developing countries have become increasingly vocal in the negotiations and are less prone to yield to pressure from developed countries in the Doha Round than under previous rounds. No such influence can be wielded in bilateral negotiations with a powerful developed country.

Balancing the needs and demands of 153 sovereign states makes no perfect multilateral trading system but there is simply no better alternative

The MTS is therefore the best option and should be nurtured and strengthened. There is room for improvement, particularly with regard to decision-making and representation of developing countries in the “green room” of consultations during the negotiations.¹⁹ Major developing countries are already included in “green room” consultations but many other developing countries still feel that they are not duly consulted when major decisions are made there. This threatens consensus without

¹⁹ The “green room” consultations became a synonym for informal small group consultations among key players in the WTO negotiations, dominated by Western countries and large developing countries.

which a deal cannot be reached. It is therefore in everybody’s interest to work towards the establishment of a decision-making and negotiating process which is efficient, effective and inclusive, while taking a realistic view towards imbalances in size, wealth and power among the sovereign WTO members that are not likely to ever disappear.

The risk is that after many delays in the negotiations, the MTS may become increasingly marginalized in favour of the proliferation of RTAs. Worse, as pointed out before, the current crisis tempts countries to resort to protectionist measures which may violate WTO rules and, even when they do not, still undermine the system which is geared towards the promotion of free and fair trade. Protectionism, by definition, is neither free nor fair. On the other hand, any Doha deal should not unduly restrict the policy space of countries to take measures necessary to mitigate the impacts of economic crisis. The WTO secretariat has no supranational powers to coerce countries to stay the course towards free trade. It does offer a dispute settlement mechanism which can be used by countries to sue others but proceedings take a long time. But in the absence of a speedy conclusion of the Doha Round, WTO may well end up as an organization for litigation rather than negotiation.

WTO needs a strengthened mandate and capacity to undertake surveillance and monitoring of its members’ trade policies and measures which affect trade

There are ways, however, in which WTO can exert its influence in times of crisis. In other words, WTO can grasp the crisis as an opportunity to reassert itself. In particular, WTO’s existing mandate to conduct regular trade policy reviews could be extended to include strengthened monitoring of its members’ stimulus packages and measures for protectionist content and possible violation of WTO rules (Birckbeck and others, 2009). In fact, WTO already has taken such measures and issues periodical reports. There is a need, however, to increase the transparency of reporting of violations

and to ensure that such violations should not be allowed without repercussions (Gosh, 2009).

It is very likely that WTO has helped control the mayhem caused by the crisis. A greater role for WTO to monitor its members' trade and trade-related policies is certainly welcome and could help in naming and shaming countries which have implemented measures that violate WTO rules or undermine its principles and mission. However, such a role could also backfire as the more powerful countries will not be pleased with an international organization that snoops in and exposes their affairs beyond a level they are comfortable with. Again, as long as the world consists of sovereign states, with some of them larger, richer and more powerful than others, asymmetries will continue to prevail in any multilateral system and the MTS is no exception. One can only strive to make it as fair as possible

and demonstrate that it yields net benefits to all its members in an interdependent and trade-linked world. To preserve and strengthen the credibility of the MTS and WTO, the benefits for developing countries need to be enhanced and made more tangible. This is the responsibility of all WTO members.

At their summit in L'Aquila in July 2009, G8 leaders and leaders of major emerging countries agreed to "an ambitious and balanced conclusion" of the Doha negotiations in 2010. A mini-ministerial meeting hosted by India in New Delhi in early September 2009 seems to have given new momentum to the negotiations. The Seventh WTO Ministerial Conference is scheduled to take place from 30 November to 2 December 2009 in Geneva. One can only hope that this time the commitment to conclude the Round will go beyond the rhetoric.

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Annex

Doha Round: state of play in agriculture and NAMA

1. Agriculture

The negotiations in agriculture are traditionally divided into three areas, known as the three pillars: (a) market access (tariffs and NTMs); (b) domestic support (subsidies); and (c) export competition (mainly export subsidies and export credits). The Doha Declaration commits to comprehensive negotiations aimed at:

- Substantive improvement in market access;
- Substantive reductions in trade-distorting domestic support;
- Reductions of, *with a view to phasing out*, all forms of export subsidies
- Strengthening special and differential treatment (SDT).

The state of play in these three pillars as of mid-2009 was as follows:

(a) Market access

The July 2004 Package of Framework Agreements (1 August Decision) stipulates that different formulas for tariff reduction will be used for four bands of tariffs. Higher tariffs would face steeper cuts than lower tariffs. All countries could designate a limited number of products as “sensitive products” for which commitments could be delayed, while only developing countries could designate a limited number of products as “special products” based on the criteria of (i) food security, (ii) livelihood security, and (iii) rural development. Such products would receive more flexible treatment. Developing countries would also have recourse to a Special Safeguard Mechanism (SSM) based on import quantity and price triggers. Tariff quotas would be expanded and their administration improved. Least developed countries would be exempt from reduction commitments. Market access negotiations would address full implementation of the long-standing commitment to achieve the fullest

liberalization of trade in tropical agricultural products as well as issues related to preference erosion. Prior to the Sixth WTO Ministerial Conference, countries agreed in May 2005 on a formula to convert specific duties into equivalent *ad-valorem* duties (except sugar). This conversion is necessary before negotiations can start on the actual reduction formulas.

The latest revision of the 6 December 2008 Chairman’s draft text on the modalities (previous versions were circulated on 10 July, 19 May and 8 February 2008) proposes, *inter alia*, that for developed countries agricultural tariffs above 75% would be subject to a 70% cut, with an average reduction in import tariffs from 15% to 11%. Developing countries would have to reduce import duties exceeding 130% by 46.7%. As agreed in July 2008, developing countries would be allowed to select 12% of tariff lines as “special” products which would have special treatment. Up to 5% of those products could keep existing tariffs and for the rest an average tariff cut of 11% would be required. Import tariffs on tropical products with rates less than 20% would be reduced to zero while rates over 20% would be reduced by 80% over five years. The text also allows for more flexible options for the use of the SSM and proposes a maximum of 4% of tariff lines to be designated as “sensitive” with expanded import quotas for these products. The text limits the number of new quotas to 1% of tariff lines. Some developed countries have called for a higher number of sensitive products and this issue may well prove another deal breaker in future agricultural trade talks. Other exceptions also apply, especially for the net-food importing developed countries.

(b) Domestic support

As a result of the July 2004 Package, WTO members agreed, *inter alia*, to “substantial reductions” from bound levels of AMS through a “tiered” formula with different levels of cuts for different tariff bands but cutting higher levels of AMS

deeper than lower levels. At the Sixth WTO Ministerial Conference, it was agreed that there should be three bands. Product-specific AMS would be capped (i.e. a maximum allowed level would be agreed to) to prevent circumvention. The “blue” box criteria would be reviewed but total “blue” box support will not exceed 5% of a member’s average total value of agricultural production during an historical period (i.e. blue box outlays will be “capped”). WTO members agreed to a down payment (minimum commitment): in the first year and during the implementation period, the sum of all trade distorting support will not exceed 80% of total of final bound total AMS + *de minimis* + “blue” box at capped level. And finally, “green” box criteria would be reviewed. Reductions in *de minimis* will be negotiated taking into account the principle of SDT. Developing countries that allocate almost all *de minimis* support for subsistence and resource-poor farmers will be exempt. Least developed countries are exempt from making any reduction commitments. The European Union, Japan and the United States are the biggest users of domestic support.

The December 2008 text proposes cuts in overall trade-distorting support (OTDS) by 70% for the United States to roughly \$14.4 billion, 80% for the European Union to around \$22 billion, and 70% for Japan. However, the use of “green” box subsidies is unlimited with no cap or reduction commitment. Some developing countries have argued that developed countries are merely shifting subsidies from one box to another and that “green” box subsidies actually do distort trade. Developing countries would cut their OTDS by a third less than developed countries.

(c) *Export competition*

In the July 2004 Package of Framework Agreement on Agriculture, countries agreed to phase out all export subsidies but could not agree on a date. At the Sixth WTO Ministerial Conference, countries finally agreed to eliminate export subsidies by 2013 and for cotton in 2006. Countries have also agreed to review and strengthen the provisions for food aid, which is sometimes used as a guise for export subsidies.

2. NAMA

Unlike in the case of agriculture, the July 2004 Framework Agreement on NAMA is short on detail. The Agreement was reached that, inter alia, product coverage shall be comprehensive without a priori exclusions; tariff reductions or elimination shall commence from the bound rates after full implementation of current concessions; credit shall be given for autonomous liberalization by developing countries provided that the tariff lines were bound on an MFN basis in WTO since the conclusion of the Uruguay Round; all non-*ad valorem* duties shall be converted to *ad valorem* equivalents on the basis of a methodology to be determined and bound in *ad valorem* terms.

The Fifth WTO Ministerial Conference in Hong Kong, China in its Declaration, inter alia, adopted the Swiss formula with coefficients at levels which shall, inter alia, reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs and tariff escalation, in particular on products of export interest to developing countries; and take fully into account the special needs and interests of developing countries, including through less than full reciprocity in reduction commitments. Since that Conference, revised texts were circulated on 22 June 2006, 17 July 2007, 8 February 2008, 19 May 2008 and 10 July 2008, 12 August 2008 and 6 December 2008.

The Chair’s July 2008 text refined the July 2004 Framework Agreement on NAMA by including concrete modalities. The July 2008 text stipulated one coefficient for developed countries and three for developing countries based on various levels of flexibilities though the proposed numbers were not agreed on. Special provisions would be made for 31 Small and Vulnerable Economies (SVEs), 4 Recently Acceded Members (RAMs) and 12 developing countries with low levels of bindings. The 32 least developed country members would be exempt from tariff reductions. An agreement on preference erosion would be part of the final outcome. Depending on the level of coefficient, countries could select a certain number of products

as “sensitive” on which lower reduction commitments would be made. The Agreement contains other flexibilities for various groups of countries. An anti-concentration mechanisms would be negotiated which restricts the concentration of flexibilities that would shelter entire sectors from cuts. Approximately 40 members, accounting for close to 90% of world industrial trade would apply the Swiss formula, while other countries would have special provisions. NTMs would also be addressed but no specific commitments were made. The Agreement also contains a reference to the ongoing negotiations in selected industrial sectors where tariff cuts would be deeper with SDT for developing countries. Participation in these negotiations is voluntary. However, a push by Canada, Japan and the United States to force the three big developing countries, i.e. Brazil, China and India, to participate in at least two of these “sectorals” is widely seen to have contributed to the collapse of the July 2008 conference.

The December text contains actual numbers rather than ranges and contains the following numbers for coefficients of the Swiss formula: 8 for developed members and 20, 22 and 25 for developing members. The use of the different coefficients would depend on three options with implications on the number and level of cuts in sensitive products and required level of bindings. A member choosing to apply the highest coefficient, 25, would have to apply it on all its products without exceptions. According to the text, the maximum tariff in

developed countries would be below 8%. This would mean that developed countries would have bound tariffs at an average of well below 3%, and tariff peaks below 8% even on their most sensitive products to be implemented over five years. Developing countries can choose to reduce their maximum tariff rates to 20%, 22% or 25% with varying flexibility (rates will average 11-12% with a limited number of products above 15%) to be implemented over 10 years. Numbers are also provided to prevent concentration of flexibilities.

All other issues remain open. The voluntary participation in sectoral agreements is underscored. Tariffs in 14 selected sectors would be reduced or even brought down to zero but a critical mass of participating members is required for the agreements to take off. Among the Asian RAMs, Kyrgyzstan, Mongolia, Tonga and Viet Nam would not have to make additional commitments to those they made under their accession package while China would have an additional three years (13 instead of 10) to implement their Doha commitments. The issue of preference erosion is tackled by granting the European Union and the United States a longer time period for reducing tariffs on selected products though Pakistan and Sri Lanka managed a reduction at a regular pace for their exports. Bangladesh, Cambodia and Nepal secured an accelerated phase-out of United States tariffs on their exports in the text. The text also contains special flexibilities for SVEs such as Mongolia and Papua New Guinea.

CHAPTER 3

MANAGING REGIONAL INTEGRATION

INTRODUCTION

While a case can and must be made for trade and investment to play a fundamental role in navigating out of the crisis and achieving inclusive and sustainable development, it has also become apparent from the analysis in part I that there is a need for the Asia-Pacific region to reduce its trade and investment dependence on the markets of the developed countries. Full “decoupling” is neither feasible nor desirable. Nevertheless, given the diversity of the region in terms of economic development, resource and skill endowment, and comparative advantages, the scope to expand trade and investment flows and relations among Asian and Pacific developing countries is high.

This chapter explores ways of promoting intraregional trade and investment, in particular among developing countries of the region (i.e. intraregional South-South trade), arguing that such a process is desirable but feasible only on the basis of a more profound regional integration process. The most important building blocks of this process are the regional trade agreements (RTAs) and hence, these agreements are the focus of this chapter. Section A provides an overview of and rationale for intraregional South-South trade. Section B provides an overview of the landscape of (regional and other) trade agreements in Asia and the Pacific. Section C discusses modalities to strengthen, deepen and consolidate such agreements to build long-term resilience to external shocks and to promote inclusive growth through deeper regional integration. Section D reveals the results of ESCAP secretariat research on the

impacts of several liberalization scenarios in the region and globally. Section E describes the role of the Asia-Pacific Trade Agreement (APTA) as one possible emerging modality for deepening regional integration. Finally, section F takes the debate beyond RTAs and trade policy in general to reveal the need for more wide-ranging trade-related coordinating mechanisms to achieve regional integration.

A. PROMOTING INTRAREGIONAL SOUTH-SOUTH TRADE

1. A brief overview

Intraregional trade flows of Asia-Pacific economies have been increasing steadily but are still below their potential (as discussed in section A, part I of this report). Intraregional trade is easier to document for merchandise trade than for trade in services, as statistical data for services trade are often incomplete and not geographically disaggregated.¹ Based on UN Comtrade data, the share of intraregional exports of Asia-Pacific developing countries (members and associate members of ESCAP) for which there are consistent data, rose from 45% in 1998 to 47.5% in 2008 (see the annex to this report for more details).

Intraregional exports of Asia and the Pacific are often compared unfavourably with those of the EU-27 (on average around 68% for the period

¹ There are also many discrepancies between various sources of data for merchandise trade (i.e. WTO, UN Comtrade, IMF Direction of Trade Statistics).

**Intraregional trade in Asia and the Pacific
has been the driving force behind
expanding global South-South trade**

2000-2007) and the North American Free Trade Agreement (NAFTA) (on average around 55% for the same period). However, it should be realized that both EU-27 and NAFTA have one formal (contractual) framework on intraregional trade and investment while the economies of Asia and the Pacific are part of many. Therefore, achieving a rate of almost 50% intraregional exports² should be considered a success. Within Asia and the Pacific, there are numerous formal preferential trade agreements (PTAs) (see section B below), but none of them has reached a level of intraregional trade higher than Asia and the Pacific as a whole.

Most Asia-Pacific economies are still categorized as “developing” even though a small number enjoy

² Including the three developed economies of the region (Australia, Japan and New Zealand).

high GDP per capita and belong to OECD. Trade among developing countries, also known as South-South trade, has been promoted by ESCAP and other United Nations agencies, led by UNCTAD, on the ground that such trade “represents an opportunity for developing countries to diversify production and to export ‘relatively high skill content’ manufactures with greater ‘developmental effects’ ” (Klinger, 2009, p. 1). Before discussing the rationale for intra-regional trade, it is useful to review the extent of global South-South trade associated with Asia-Pacific countries. A breakdown of this trade is given in table 3.1 (Shirotori and Molina, 2009).

Since the mid-1990s, 85% of global South-South trade has originated in Asia, about 5% in Africa and about 10% in the Americas. Of this Asian component, almost all (91% in 1995 and 92% in 2005) is directed to Asia, with the remainder split between Africa and the Americas (with the African share increasing slightly). Finally, Asian developing countries sent about 50% of their exports to other developing countries in 2005 as compared with 45% back in 1995.

**Table 3.1. Exports to the South as a percentage of each region’s total exports to the world
(2005 and 1995)**

Exports to	RoW	South	South			Total
			Africa	Americas	Asia	
Total (per cent)						
RoW	74.56 [77.07]	25.44 [22.93]	3.12 [2.22]	4.78 [4.61]	17.54 [16.10]	100 [100]
South	54.47 [59.19]	45.53 [40.81]	2.48 [2.53]	4.42 [4.92]	38.63 [33.36]	100 [100]
Africa	69.70 [77.60]	30.30 [22.40]	9.48 [10.45]	3.26 [1.79]	17.56 [10.16]	100 [100]
Americas	72.53 [71.75]	27.47 [28.25]	1.69 [1.36]	16.97 [19.28]	8.81 [7.07]	100 [100]
Asia	49.50 [54.90]	50.50 [45.10]	1.94 [2.02]	2.12 [2.18]	46.44 [40.90]	100 [100]
Total	68.10 [72.09]	31.90 [27.91]	2.91 [2.31]	4.67 [4.70]	24.32 [20.91]	100 [100]

Source: Miho Shirotori and Ana Cristina Molina, *South-South Trade: The Reality Check: Issues in New Geography of International Trade*, UNCTAD/DITC/TAB/2008/1 (Geneva, UNCTAD), 2009, annex table 1.2, p. 36.

Notes: Figures in [] are for 1995; other figures are for 2005.

RoW – rest of the world.

2. Rationale for enhancing intraregional South-South trade

The desirability of expanding intraregional trade among developing countries, or South-South trade in general, in the context of promoting development is not universally acknowledged and arguments against or in favour of South-South trade are directly related to ideological considerations on the role of trade for development in general. However, most research clearly demonstrates that if developing countries want to reap the maximum gains from multilateral trade liberalization, they need to liberalize their markets and boost trade among themselves. OECD research indicates that about half of the gains from future South-South tariff liberalization would be realized by low and middle income countries in Asia. Additionally, most of the gains from South-South liberalization in Asia would be regional (OECD, 2006a). Already, intra-Asian trade accounted for about 90% of total South-South trade in 2006 (UNCTAD/JETRO, 2008 and Shirotori and Molina, 2009).

Intraregional trade and investment among developing countries can help countries utilize their resources better, add value to their production and expand productive capacity...

Research undertaken by the International Trade Centre (ITC) has revealed that the range of tradable products in developing countries is considerably more diverse and complementary than believed and that countries in the South spend large amounts on importing goods from the North that are available, under competitive conditions, in other developing countries, often in the same region (Roelofsen for ITC, 1999).³ Most studies also conclude that intraregional trade among developing countries can have a positive effect on development. For instance, a UNDP study shows that “South-South trade is

³ Perhaps the reason they are not importing from each other has to do with the lack of sufficient trade finance and marketing information, the existence of restrictive licences, etc.

needed to supplement North-South trade for a fuller utilization of unemployed resources of developing countries and for the expansion of their productive capacity and upgrading of their industrial structure” (UNDP Regional Centre in Colombo, 2008, p. 8). When there are unemployed (or underemployed) resources, export expansion does not crowd-out production for the domestic market unless the export sector enjoys favourable treatment, for instance as a result of preferential access to some exporting markets or domestic support in the form of export incentives. UNCTAD notes that intraregional trade plays an important role in export diversification and upgrading of manufacturing (UNCTAD, 2007a). Obviously, more is required to ensure that trade indeed contributes to development as explained in chapter 1. However, enhanced intraregional trade and investment could enable developing countries to establish higher value-added industries through cooperation among countries. For this cooperation to work, however, it would be necessary to eliminate domestic protection, in particular where economic and industrial structures among countries are similar rather than complementary (such as in ASEAN). The inability of developing countries to develop high value-added industries is often attributed to the incidence of tariff escalation in developed countries which contributes to developing countries’ dependence on exporting commodities.

The opportunities to use expanded intraregional trade to boost high value-added production is more manifest but not without obstacles. On the one hand, developing countries can trade with each other on a more equal footing than with developed countries (in particular as technical barriers to trade tend to be higher in developed countries). On the other hand, the differences in comparative advantages and development levels are perhaps not sufficient enough to trigger (mutually beneficial) trade. However, it should be kept in mind that although differences in comparative advantages among countries still can and do cause trade, the determinants of trade have shifted and have become much more focused on differentiated manufacturing products with or without economies of scale.

...although such trade should be promoted as a complement, not a replacement to existing trade promoting efforts

The main argument for promoting South-South trade hinges on the claim that such trade is more amicable to growth as it drives structural transformation based on upgrading skills and knowledge embodied in traded goods. This claim, until recently, was based on stylized facts and preconceptions that South-South trade contains a higher share of goods that embody more skilled labour or human and physical capital than do goods exchanged between the South and the North. Since production of such goods with a higher share of human and physical capital is deemed to be growth-enhancing, and provides more learning opportunities necessary for development, developing countries had better focus on South-South trade. Klinger (2009), however, finds that this is only partially true. He shows that in Asia, exports to the North are more sophisticated and more associated with learning opportunities than exports to the South. Furthermore, when it applies to trade based on RTAs as in the case of ASEAN, he also finds that more sophisticated exports go outside the bloc than within it. Therefore, the promotion of South-South trade should be seen as a complement of, and not as a substitute for, existing policies that promote North-South trade and cooperation and as a mechanism to diversify markets and products and reduce dependence on the North.

3. How to enhance intraregional South-South trade?

Promoting intraregional trade inevitably requires liberalization to ensure that the efficiency of intraregional trade is increased or maximized. In fact, barriers, visible and hidden, to trade remain relatively higher among developing countries in general, and among Asian and Pacific economies in particular, than those maintained by developed countries on imports and investment inflows from developing countries (OECD, 2006a). The exception might be selected agricultural products and textiles and clothing. It has been estimated that

about 70% of all tariffs faced by developing countries are imposed by other developing countries,⁴ while non-tariff measures (NTMs) are also a major obstacle.

Barriers to South-South trade are relatively high

However, liberalization alone will not be sufficient. As trade is obviously affected by macroeconomic policies as well as a host of other policies, as was demonstrated in chapter 1, a more intensive form of economic integration and cooperation is required. This will maximize levels of, and benefits from, intraregional trade and investment, notably for the developing and the least developed countries. The latter have been routinely marginalized in the regional integration process which is centred in East Asia, in particular around China and ASEAN. For them, the issue of supply-side capacity is much more important than market access.

Experience from the region suggests that promotion of intraregional trade and investment in Asia and the Pacific has resulted from interaction of two processes. The first is led by the market and based on the spread of international supply chains, or rather the fragmentation of vertically integrated supply chains in line with each country's comparative advantages (Deardorff, 2001; Ando and Kimura, 2005). The second process is through intergovernmental agreements (Sauvé, 2007; Aminian and others, 2008; Baldwin, 2006). In this chapter, the second process is explored. The first process was mentioned in part I with respect to recent trade developments and will be further discussed in chapter 5.

From a policy perspective, the most fundamental building block for economic integration remains the RTA, to be understood to include bilateral trade agreements (BTA), and this is where the discussion of modalities to enhance intraregional trade and investment must start. While bilateral investment treaties (BITs) also play a role in the integration

⁴ As reported, for instance, in a paper by the Department of Foreign Affairs and Trade, Government of Australia, (2004).

process, increasingly investment provisions are included in RTAs and most recently RTAs tend to replace existing BITs (such as in the case of the Singapore-Peru BTA). Furthermore, in some cases RTAs have evolved into comprehensive economic partnership agreements (EPAs), for instance the Trans-Pacific Strategic Economic Partnership Agreement and, in the case of ASEAN, into a planned economic community. Therefore, a strengthening and consolidation of those RTAs is the most fundamental aspect of enhancing intraregional trade and investment.

B. REGIONAL AND BILATERAL TRADE AGREEMENTS IN ASIA AND THE PACIFIC: OVERVIEW AND ISSUES

1. Background and overview

RTAs are by definition discriminatory and therefore undermine the MFN principle of the multilateral trading system (MTS) (Bhagwati, 2008). More generally, they threaten the coherence of the MTS (UNCTAD, 2007a). They also undermine multilateral liberalization efforts (Limão, 2006) as well as unilateral liberalization (Sally, 2006). They are therefore always a second best policy compared with multilateral trade liberalization. However, under WTO rules they are allowed provided that they meet certain conditions (i.e. GATT Art. XXIV and GATS Art. V), though these conditions are somewhat relaxed for RTAs concluded among developing countries under the Enabling Clause. Members of WTO who sign RTAs are required to notify these to the Council for Trade in Goods, Council for Trade in Services or Committee on Trade and Development but many fail to do so quickly or at all (Mikic, 2008).

In addition to undermining the MFN principle, there are several other inherent problems associated with RTAs. These are particularly present in RTAs between a developed and a developing country, and some of those concerns are comparable with the concerns associated with GSP schemes, as discussed in chapter 2.⁵ First, countries which are

⁵ Though GSP schemes are non-reciprocal while RTAs are reciprocal.

Regional trade agreements are by definition discriminatory and have generally led to relatively little new trade

not a member of a particular RTA, i.e. countries not receiving preferential market access under the RTA, may lose their relative competitiveness in products which they used to export to RTA member countries before the RTAs was concluded (i.e. the trade diversion effect). These countries are often developing countries. Second, RTAs through preferential market access may contribute to incentives for establishing production in activities in which countries do not enjoy competitive or comparative advantages. Such production structures based on artificially created advantage may prove difficult to be dismantled in the long run when the preferences start to erode and production is lost to countries which in fact have competitive advantages in those products. Third, the incidence of preferential treatment may undermine countries' willingness to innovate and improve productivity in order to improve on this artificial competitive advantage since it may not last (ESCAP, 2001). Fourth, the existence of a preference margin may create a resistance from countries to push for further multilateral liberalization as it would reduce the value of negotiated preferences among the members of the RTA.

It has been found that only in the case where RTAs involve deep and wide commitments (typically, but not always, this implies North-South and North-North RTAs rather than South-South RTAs) there is not only a larger trade creation effect but also a notable impact on intra-RTA FDI flows (Park and Park, 2008). In the case of North-South RTAs, this typically means a significant inflow of FDI from the Northern partner into the Southern partner.⁶ However, South-South RTAs can have a positive effect on FDI if it involves regional drivers of

⁶ Though it is understood that other conditions need to be met. For instance, after Viet Nam signed an agreement with the United States to normalize trade relations between the two countries, FDI from the United States surged, but the United States still makes up a small share of total inward FDI.

economic growth and builders of regional and global supply chains such as China and India.

The empirical literature examining the net trade creation⁷ and diversion⁸ effects of Asian RTAs is not conclusive. Some ESCAP research has found that generally RTAs in the region have contributed relatively little to net trade creation.⁹ In some cases, however, the trade creation effects have been significant (see box 3.1 for the case of the India-

⁷ Defined as trade that occurs between members of a RTA that replaces what would have been production in the importing country were it not for the RTA; associated with welfare improvement for the importing country since it reduces the cost of the imported goods.

⁸ Defined as trade that occurs between members of a RTA that replaces what would have been imports from a country outside the RTA; associated with welfare reduction for the importing country since it increases the cost of the imported goods.

⁹ For example, Bonapace and Mikic (2007), or ESCAP (2007) for agricultural trade.

Sri Lanka BTA). Tumbarello (2007) has found that membership in Asian RTAs has not occurred at the expense of trade with non-members, as most Asian countries' integration with the global economy preceded regional integration. In contrast, Raihan (2009) finds that an EU-India free trade agreement (FTA) would cause significant trade diversion effects for other developing countries and the least developed countries, as India would replace them as the main source of imports for the EU under the implementation of the FTA.

Theory and empirical literature support the arguments that, in order for RTAs to be net trade-creating they should be comprehensive, "substantially cover all the trade" and be open to an expansion of membership. They should also be deep in liberalization commitments and have simple and development-friendly rules of origin. Furthermore, they should include a comprehensive programme of integration which goes beyond

Box 3.1. India-Sri Lanka FTA

India and Sri Lanka signed an FTA in December 1998. The FTA became operational in March 2000 and covers 5,112 goods for duty-free or preferential treatment. Products having domestic value addition of 35% will qualify for preferential market access. Sri Lanka's exports with a domestic value addition content of 25% also qualify for entry to the Indian market if they have a minimum 10% Indian content. The FTA entitles Sri Lanka, with effect from 2003, to export more than 4,000 products to India at zero rate of duty. Sri Lanka was allowed to keep 1,220 products (which cover most sensitive agricultural and industrial products) without granting any tariff concessions to India while India maintained only 200 products without granting any concessions for Sri Lanka. The FTA has increased bilateral trade by four times since 2000, according to a study by the Federation of Indian Chambers of Commerce and Industry (FICCI). The FTA implementation period for India was from 2000 to 2003 and for Sri Lanka from 2000 to 2008. India's exports to Sri Lanka increased from \$640 million in 2000/01 to \$2.2 billion in 2006/07, with an annual growth rate of 25%. Sri Lanka's exports grew from \$45 million in 2000/01 to \$470 million in 2006/07, with an annual growth rate of 47%. FICCI noted that Indian investment in Sri Lanka increased to \$8.5 million, while Sri Lankan investment in India has remained relatively very small.

While there are concerns in Sri Lanka that the FTA has resulted in a surge in imports from India, it can be noted that imports from India were already growing before the FTA was signed. India strengthened its position as Sri Lanka's main source of imports. Between 1999 and 2005 imports from India grew almost fourfold, while Sri Lanka's exports to India increased tenfold. As a result, the import-export ratio narrowed to less than 3 to 1 even though the trade deficit for Sri Lanka increased to \$880 million (see more details in de Mel, 2008). Notwithstanding this increase in trade flows, their commodity structure might not have improved. Sri Lanka's exports to India remain undiversified – around 50% of exports consisted of copper and "vanaspathi" until 2006 – with low domestic value-added and high import content. Para-tariffs such as discriminatory state taxes in India have also eroded preferences. Indian port restrictions have limited Sri Lanka's exports of tea and "vanaspathi" (de Mel, 2008b).

Still, the two countries are discussing a Comprehensive Economic Partnership Agreement (CEPA) which would address NTMs and cover trade in services and investment (Kumar, 2007).

reducing tariffs, and is aligned with national economic reforms (World Bank, 2005). They should lead to benefits to all members, even though the benefits may be unevenly spread (UNCTAD, 2007a). In such cases, RTAs would also be attractive to new members and would be more likely to evolve as building blocks of the MTS.

Many South-South RTAs remain shallow in liberalization and limited in coverage and membership

In practice, however, many South-South RTAs are characterized by relatively weak liberalization commitments and limited coverage (UNCTAD/JETRO, 2008). Though many are dubbed “free trade agreement”, they are actually PTAs and coverage hardly considers all tradable goods. Many RTAs exist on paper but are not implemented. There is also a perception that many RTAs remain underutilized because business considers that the margin of preference does not warrant the hassle of going through the bureaucratic requirements for application to use the preferences, i.e. transaction costs are sometimes prohibitively high. In fact, business is often not even aware that those preferences exist. As a result, intra-RTA trade remains relatively small in most cases while other trade performance indicators show variable results. A recent ADB study (Kawai and Wignaraja, 2009), however, has revealed that this perception may not apply for all business or agreements. Utilization rates are higher than presumed though there is certainly room for improvement, including the need to rationalize rules of origin.

Table 3.2 shows that AFTA has the highest intra-block share of total RTA exports amounting to almost 25% in 2006. But in terms of growth, it was APTA that more than doubled the intra-block trade share in just over 15 years.

Table 3.3 contains some basic trade performance indicators for a small group of RTAs in the region. These indicators capture different aspects of trade performance of the agreement as a whole. For example, export-import coverage indicates how

Table 3.2. Share of intra-RTA exports, selected Asian RTAs

(Per cent)

RTA	Year		
	1990	1995	2006
ASEAN/AFTA	18.4	22.2	24.8
APTA	3.9	7.8	10.3
ECOTA	6.3	3.2	8.5
SAFTA	3.3	4.6	5.9

Source: ESCAP, *Statistical Yearbook for Asia and the Pacific 2008*, 2008.

much of imports are paid for by exports in a given year. Looking across five RTAs, at intra-RTA level, the ASEAN Free Trade Area (AFTA) and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) are earning from exports to each other more than they need for paying for their imports from each other, while the Economic Cooperation Organization Trade Agreement (ECOTA) pays only a very small percentage of its intra-RTA imports from earnings derived from intra-RTA exports. The export orientation index is expressed as a ratio of exports destined to three developed markets (European Union, Japan and the United States) over the exports to three emerging Asian markets (ASEAN, China and India) and indicates relative export-dependency on the developed market of the RTA. AFTA's ratio is below 1 indicating larger exports to emerging markets than to developed ones, in contrast to ECOTA's ratio of 2.35 indicating a large dependency on developed markets. The complementarity index shows the degree to which the RTA's members joint supply structure matches their joint demand structure. For example, in the case of AFTA 81% of what is jointly supplied in exports by its members matches their demand. On the other hand, ANZCERTA's trade profile is much less compatible.

These and other indicators featured in the statistical annex to this report are useful information for anticipating the potential for further trade creation (or trade diversion) of a particular RTA. While one must be careful not to assign more explanatory power to these indicators than they deserve (they

Table 3.3. Trade performance indicators for selected Asia-Pacific RTAs

RTA	Trade intensity (%) (2006)	Export orientation index (2006)	Complementarity index (%)	Export-import coverage (%) (2006)	Normalized trade balance (%) (2006)	Competitiveness index (2004)
AFTA	4.43	0.95	81.10	128.5	8.03	6.21
APTA	NA	1.94	44.54	87.78	7.88	10.87
ECOTA	NA	2.35	NA	5.2	-6.40	NA
SAFTA	3.63	1.39	52.4	2.78	-20.34	1.21
ANZCERTA	6.19	1.25	42.6	114.88	4.60	1.22

Source: Asia-Pacific Trade and Investment Agreements Database (APTIAD).

Notes: Indicators are calculated for intraregional trade except the indicator of normalized trade balance which is calculated for total trade. For definitions of indicators, see APTIAD or annex of this report.

NA – not available.

are, after all, the reflection of past and present trade policies), they can be used along with other quantitative and qualitative analysis tools to assess the performance and prospects of such agreements.

2. Features of Asia-Pacific RTAs

In the Asia-Pacific region, subregional trade blocks such as AFTA, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) FTA, ECOTA and South Asia Free Trade Area (SAFTA) dominate, while inter-continental RTAs, such as the Singapore-USA FTA, Republic of Korea-Chile FTA, Japan-Mexico FTA,

Trans-Pacific Strategic Economic Partnership (SEP) and India-Mercosur FTA are gradually becoming popular. ESCAP Asia-Pacific Trade and Investment Agreements Database (APTIAD) shows that there were 151 RTAs involving an ESCAP member state either in force, signed or under negotiation at the end of July 2009. Out of these RTAs, 104 agreements were in force, 75 of those were bilateral, and 26 of them were among the members in different regions (see also table 3.4).

All of the Asia-Pacific region's major trading countries now belong to one or more preferential trade arrangements, the majority following a negative list approach of scheduling goods trade

Table 3.4. Architecture of RTAs in Asia and the Pacific

	Bilateral		Country-block		Regional		Global (GSTP)	Total
	within region	cross-region	within region	cross-region	within region	cross-region		
Customs union	0	0	0	1	1	0	0	2
FTA & EIA ^a	17	9	0	2	0	2	0	30
Free trade agreement	25 ^b	12	2	1	4	0	0	44
EIA	1	0	1	0	0	0	0	2
Preferential agreement	4	2	1	0	4	0	1	12
Framework agreement	2	3	2	5	2	0	0	14
Subtotal	49	26	6	9	11	2	1	104
Total	75		15		13		1	104

Source: Compiled from APTIAD, August 2009.

Notes: ^a "FTA & EIA" stands for Free Trade Agreement and Economic Integration Agreement – a category of agreements that are notified both under goods and services.

^b Includes six agreements between Central Asian countries and members of the Commonwealth of Independent States (CIS) not in ESCAP.

liberalization. The ASEAN Free Trade Agreement (AFTA) has succeeded in moving beyond tentative efforts, developing an “inclusion list” that covers more than 85% of traded products. However, acceptance of a negative list of a country by its partners remains questionable and sometimes becomes a stumbling block (such as the size of India’s negative list for ASEAN) for taking negotiations further. In the case of India-ASEAN negotiations, India had stressed the domestic sensitivity of several products, especially in agriculture. However, some products such as palm oil, rubber, pepper, coffee, are major exports of selected ASEAN countries which would like India to include these products in the negotiations. In South-South trade negotiations, especially on agricultural products, such discussions are common as a large part of the population is dependent on agriculture both in exporting and importing countries. The India-ASEAN FTA was finally signed in August 2009 after several delays.

Most RTAs with members only from the region aim at complete elimination of trade barriers after 2010 and some beyond 2015. Relatively poorer countries, which have unilateral liberalization policies, are making an effort to reach a balance between unilateral and regional liberalization policy and seek a longer time to liberalize completely. Nevertheless, the coverage of trade in services, investment and protection of intellectual property rights (IPR) is on the rise, though commitments in these areas are often limited to cooperation rather than liberalization commitments.

Agreements such as AFTA, SAFTA, BIMSTEC-FTA, Pacific Island Countries Trade Agreement (PICTA) and APTA provide room for special and differential treatment (SDT) to the least developed countries providing longer time to eliminate tariff and offering safeguard measures and/or concessions regarding rules of origin. However, it is noticeable that negotiations regarding rules of origin take longer and many RTAs display a system of complicated rules of origin consisting of both value-addition-based rules and product-specific rules. In isolated cases, compensation for revenue loss for the least developed country members of RTAs is provided for, i.e. under SAFTA.

In addition to the proliferation of RTAs, Asia-Pacific countries are also party to over a thousand bilateral investment treaties (BITs) and have been the most active in concluding such treaties in the last few years (UNCTAD, 2008a). Pursuance of BITs by countries is apparently in recognition of the contribution of FDI to trade and development. The contribution of BITs to actual investment is a topic of debate but recent research has indicated that on the whole these treaties have had positive effects on FDI to developing countries (in particular on FDI from developed countries) though (like their RTA counterparts) they are not the principal determinant of FDI. In other words, in the absence of macro-economic growth, political stability, market size, quality of infrastructure and work force (among other important determinants), the existence of BITs would be of little help (Sauvant and Sachs, 2009).¹⁰ In any case, as mentioned before, investment-related provisions are increasingly incorporated into RTAs. Some studies have indicated that these provisions have contributed to larger trade and FDI flows (OECD, 2006b). In Asia and the Pacific, only ASEAN has a comprehensive framework for cooperation and integration on investment (see also box 3.2), though APTA has also made progress in this area.

C. MAKING SENSE OF THE “NOODLE BOWL”

1. The need for strengthening and deepening RTAs

In order to evolve RTAs into building blocks of regional integration and, indirectly, of the MTS, it is first of all important to strengthen them in terms of coverage and commitment, secondly to expand their membership to limit the discriminatory effect, and thirdly, to consolidate and integrate them. While the first two steps appear to be less difficult than the third step of consolidation, all require time and political will.

¹⁰ See also the online discussion at <http://www.investmenttreatynews.org/cms/news/archive/2009/04/30/do-bilateral-investment-treaties-lead>.

Regional trade agreements can be important building blocks of regional integration but they require deepening, widening, expanded membership and, ultimately, consolidation

To strengthen RTAs, it is important to move beyond liberalization of trade in goods on a positive list basis towards negative lists. RTAs should expand coverage to include reduction of NTMs, and liberalization of trade in services as a minimum. Research indicates that the elimination of NTMs in particular would yield greater benefits for economic growth than tariff elimination (UNCTAD/JETRO, 2008). In fact, many RTAs already contain provisions which go beyond trade in goods. Some RTAs have evolved into Comprehensive Economic Partnerships (e.g. the India-Singapore CEP at the bilateral level, and the planned ASEAN Economic Community at the subregional level). As of end-July

2009, 47 RTAs in force in the region had investment provisions, while 32 RTAs had provisions on trade in services. Other areas increasingly emerging in RTAs are IPR provisions, competition, trade facilitation and commitments on NTMs. However, more often than not the commitments refer to cooperative arrangements, rarely to concrete liberalization, or they refer to existing commitments under WTO. Some RTAs involving a developed country are considered WTO-“plus”, in particular regarding IPR provisions. In such type of agreements, the expected benefits from market access may be compromised by the loss of policy space (UNCTAD, 2007a). Table 3.5 shows selected RTAs containing provisions beyond trade in goods. A good example at the subregional level of comprehensive investment commitments is the ASEAN Investment Area (AIA) which was recently complemented by the ASEAN Comprehensive Investment Agreement (2009) (see box 3.2 and Lim and Tay, 2008). APTA members also completed

Table 3.5. RTAs with commitments beyond trade in goods

RTA	NTMs	Investment	Services	Competition	IPR	Trade facilitation
ASEAN-Australia-New Zealand FTA (AANZFTA)	✓	✓	✓	***	✓	✓
ANZCERTA ¹	✓*	-	Separate agreement	Separate agreement	-	Separate agreement
APTA ²	-	In progress	In progress	-	-	In progress
ASEAN (AFTA) ²	✓	Separate agreement	Separate agreement		✓	✓
ASEAN-China PTA ²	**	**	Separate agreement	-	***	-
BIMSTEC-FTA	**	**	**	-	-	**
India-Singapore BTA ¹	✓	✓	✓	✓	***	✓
PICTA	✓	-	-	✓	-	***
SAFTA	-	**	-	**	-	**
TRANS-PACIFIC SEP ¹	✓	In progress	✓	✓	✓	✓

Source: Compiled from APTIAD, September 2009.

¹: notified under GATT Art. XXIV (and under GATS Art. V where applicable).

²: notified under Enabling Clause.

✓: commitments exist.

-: no commitments exist.

*: limited to quantitative restrictions; standards covered with different arrangements.

**: expressed commitments to negotiate.

***: limited to one article in the Agreement and/or to cooperation.

Box 3.2. The ASEAN Investment Area and Comprehensive Investment Agreement

ASEAN Ministers signed the Framework Agreement on the ASEAN Investment Area (AIA) on 7 October 1998 in Manila. The AIA aims to make ASEAN a competitive, conducive and liberal investment area through the following measures: (1) implementing coordinated ASEAN investment cooperation and facilitation programmes; (2) implementing a coordinated promotion programme and investment awareness activities; (3) immediate opening up of all industries for investment, with some exceptions as specified in the Temporary Exclusion List (TEL) and the Sensitive List (SL), to ASEAN investors by 2010 and to all investors by 2020; (4) granting immediate national treatment, with some exceptions as specified in the Temporary Exclusion List (TEL) and the Sensitive List (SL), to ASEAN investors by 2010 and to all investors by 2020; (5) actively involving the private sector in the AIA development process; (6) promoting freer flows of capital, skilled labour, professional expertise and technology amongst the member countries; (7) providing transparency in investment policies, rules, procedures and administrative processes; (8) providing a more streamlined and simplified investment process; and (9) eliminating investment barriers and liberalizing investment rules and policies in the sectors covered by the Agreement. A ministerial-level ASEAN Investment Area Council was established to oversee the implementation of the Framework Agreement. The Council is assisted by the ASEAN Coordinating Committee on Investment. The AIA followed the 1987 ASEAN Agreement on the Promotion and Protection of Investment.

In 2009, all ASEAN investment provisions were consolidated and strengthened in the ASEAN Comprehensive Investment Agreement (ACIA) to realize an open and free investment regime in ASEAN in anticipation of the ASEAN Economic Community to be established in 2015. Unlike the AIA Framework Agreement, the new ACIA adopts a wide definition of investment (covering portfolio investments) and grants both pre- and post-establishment MFN and national treatment. It also covers cooperative arrangements among ASEAN member states in the promotion and facilitation of investment.

Source: ASEAN website: <http://www.aseansec.org>.

negotiations on a Framework Agreement on the Promotion, Protection and Liberalization of Investment (see below).

The expansion of membership is often not a straightforward affair as RTAs (other than bilaterals) are frequently established on a geographical basis comprising contiguous states (APTA and the Trans-Pacific Strategic Economic Partnership Agreement are notable exceptions). Theory and empirical evidence suggest that the benefits from RTAs increase with expanded membership (UNCTAD/JETRO, 2008) but there are not many examples in the region of expansion of membership (in contrast to the developments in Europe), nor do agreements usually clearly signal the desirability or conditions for accession of new members. In recent developments, Bhutan and Nepal acceded to BIMSTEC in 2004, Afghanistan to SAFTA in 2008, while China acceded to the Bangkok Agreement in 2001. The agreement that experienced the largest expansion in terms of members is ASEAN. APEC adopts the principle of open regionalism but as APEC does not

have binding commitments, it lacks teeth as a driver of regional integration (and of course involves countries outside the Asia-Pacific region). APTA is also in the process of expanding membership, but countries are cautious, given the current commitments they have while potential members give priority to their accession to or implementation of WTO commitments.

2. Strengthening the development dimensions of RTAs

Finally, the impact of RTAs should not be assessed only on the basis of net trade creation, but also on what they contribute to development. In this respect, the track record of RTAs is not very good. For instance, there is no compelling evidence that RTAs in the region have contributed significantly to poverty reduction or have benefited men and women equally. Of course, this is partly due to the relative shallowness and low utilization rates of most RTAs. But it is also probably true because, even where coverage is comprehensive, products

Box 3.3. Impact of agricultural liberalization in Asia-Pacific RTAs

Despite the importance of agriculture for poverty reduction, this sector is not well covered in RTAs, though there are exceptions (e.g. AFTA, ASEAN-China FTA, Thailand-China early harvest in fruits and vegetables, etc.). Most provisions are limited to market access as domestic support and export subsidies are more effectively covered at the multilateral level. Model-based empirical studies on the impact of agricultural liberalization in RTAs have shown different results. India and Pakistan would be net winners from agricultural liberalization within the framework of SAFTA but Bangladesh and Sri Lanka would experience moderate welfare losses. This is not surprising considering the relative share of South Asian trade in total world trade and the fact that India, for instance, has a high revealed comparative advantage in a wide variety of agricultural products, while Bangladesh and Sri Lanka are net food importers. But as a result, Sri Lanka has been reluctant to liberalize agriculture under the India-Sri Lanka FTA. Welfare gains would be high for both countries under agricultural liberalization in a Japan-Thailand FTA.

Agricultural liberalization in the framework of AFTA would yield moderate welfare benefits for the main agricultural exporters such as Thailand and Viet Nam. However, for ASEAN+3, the welfare benefits would be much higher for all participating countries. The welfare benefits are also high for all participating countries when India is included in the ASEAN+3 scenario. But the welfare effects are the highest when all ESCAP countries are included in a mega-RTA, even higher than under Doha scenarios. These results clearly make the case for deeper levels of trade integration among subregions and wider membership of RTAs.

Source: ESCAP, Agricultural Trade – Planting the Seeds of Regional Liberalization in Asia: a study by the Asia-Pacific Research and Training Network on Trade, Studies in Trade and Investment No. 60, 2007.

and services which matter for the poor are either not, or not sufficiently, covered by RTAs (e.g. agricultural products – see box 3.3) or face prohibitive non-tariff barriers, including cumbersome rules of origin. As in all cases of trade liberalization, capacity constraints are also an issue.¹¹

The development dimensions of RTAs need strengthening

Particularly, controversial is the inclusion of labour and environmental clauses in RTAs. Where provisions in these areas are included in RTAs in the region, they comprise areas and modalities for cooperation rather than market access commitments. Clearly, such clauses would in principle enhance the contribution of RTAs to inclusive and sustainable development, which is the whole rationale for having RTAs in the first place. However, developing countries have been traditionally reluctant to include such provisions as

they fear they may be used as hidden (“murky”) protectionist measures. This is particularly so in the case of North-South RTAs where such provisions are routinely demanded by developed countries. However, consumers worldwide are also becoming increasingly demanding with regard to such provisions, not least because of concerns over climate change and labour exploitation. While such provisions could indeed help develop supply-side capacities (e.g. conformity with international environmental standards), it is important that formulations in RTAs covering labour and environmental issues are clear and development-oriented and that a proper monitoring system is put in place to prevent such provisions being used as protectionism. The availability of a strong dispute settlement provision which can enforce the provisions is also important. In the context of North-South RTAs, technical assistance could be built in but there is nothing to prevent a middle-income developing country from providing such assistance to the less developed partner within the context of an RTA.

The inclusion of SDT provisions for developing and least developed countries, including temporary revenue compensation schemes, also goes a long

¹¹ See, for instance, Overseas Development Institute (ODI) Briefing Paper on “Regional Integration and Poverty” (London), March 2005.

way to ensure that the commitments undertaken under RTAs are implemented in a sustainable manner. However, as in the case of the MTS, SDT should not be an end in itself but contribute to an inclusive and sustainable reform and liberalization process. The impact of RTAs on poverty reduction ultimately depends on the level and nature of support policies governments put in place, including both policies which stimulate the supply-side capacities and competitiveness of the industries and companies who stand to benefit from the RTAs, and policies which address the implications for potential “losers”.

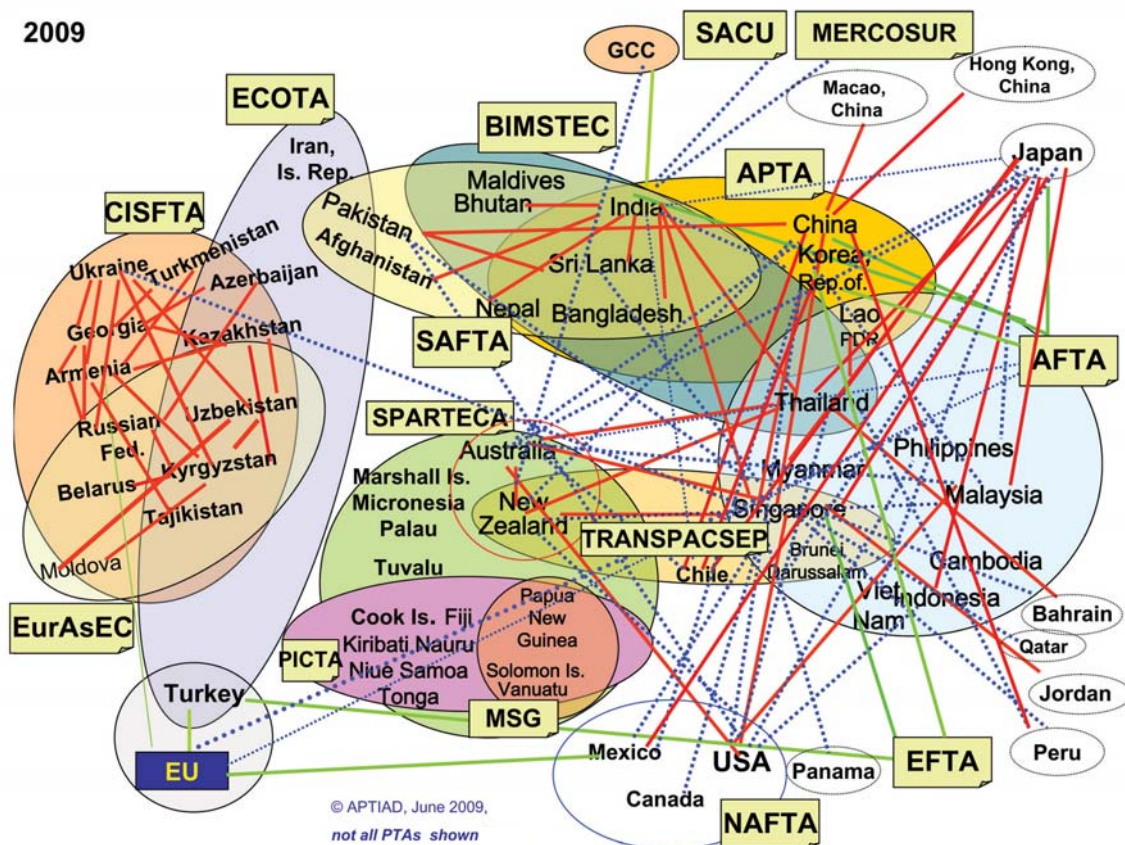
3. Harmonization and consolidation of RTAs

The third stage, consolidation, in principle could achieve both geographical widening and functional consolidation (i.e. RTAs adopted common

To evolve RTAs as building blocks for regional integration and the multilateral trading system they need to be consolidated and integrated, both geographically and functionally

frameworks related to rules of origin and other commitments). Consolidation is necessary as the proliferation of RTAs and other bilateral and regional economic agreements depicted in figure 3.1 has resulted in conflicting and overlapping commitments which increase implementation and monitoring costs for governments and transactions costs for businesses. However, one has to harbour realistic expectations of the feasibility of such consolidation and, at best, will take a very long time. However, given the desirability of consolidation, some thoughts and guidelines on this issue are presented below.

Figure 3.1. The Asia-Pacific “noodle bowl”



The success of RTAs and their consolidation ultimately depend on national policies

Recalling the discussions in chapter 1 on policy coherence and consistency, the success of RTAs and their consolidation ultimately depends on the orientation of national policy, its objectives and its internal consistency and coherence with other national policies. It also depends on political will. A recent study by ADB has highlighted the role of national policy in regional integration efforts (Francois and others, 2009). While the study acknowledges that the process of regionalism is too complex and *sui generis* to generate universal operational rules, it reveals the following lessons for national policy aimed at regional integration: (a) integrate with a large neighbouring economy; (b) emphasize the role of the market in the regional integration process; (c) tailor the policy mix to fit national circumstances; and (d) involve the private sector in developing regional strategy. The study also presents five lessons from the ASEAN integration process: (a) establish a clear charter and develop long-term implementation strategies; (b) strengthen institutional structures; (c) narrow development gaps among members; (d) move towards FTA consolidation; and (e) ensure that dispute settlement mechanisms are pragmatic. The last recommendation regarding pragmatic dispute settlement mechanisms is particularly noteworthy, not only for the consolidation of FTAs but also for the consolidation of international investment treaties.

(a) Geographical aspects of consolidation

In the case of geographical consolidation, a first step may involve an RTA or EPA between two or more other RTAs/blocs. Ideally, larger RTAs would absorb smaller ones (including BTAs among the members of the RTA) or two RTAs would merge (for example, the Central Asian Cooperation Organization merged with the Eurasian Economic Union to form the current Eurasian Economic Community (EurAsEC)).

Efforts towards consolidation are taking place with ASEAN having emerged as the most active hub, but APTA is also appearing as a complementary

modality of regional integration (see below). This consolidation is also spurred by growing trade among different subregional groups. Pacific island countries have significant trade with AFTA and Australia and New Zealand. India, Maldives, Pakistan and Sri Lanka trade intensively with countries in AFTA. The Russian Federation and China, both APEC members, trade actively with the Central Asian members of ECO. There is an overlap in membership between ECOTA and SAFTA. However, ECOTA is a relatively small PTA while SAFTA lacks effective implementation. The linkage between RTAs that has been most explored is that between ASEAN and ANZCERTA and between ASEAN and China. Of course, ASEAN is about to implement its FTA with China but also has FTAs either signed or about to be signed with India, Japan and the Republic of Korea. These arrangements may help in consolidating agreements and create an East Asian trade block which can guide the direction of Asia-Pacific trade liberalization. The ASEAN+3 framework has been making steady progress in regional cooperation in East Asia, including the development of a durable institutional framework for region-wide dialogue and cooperation. ASEAN+3 arrangements, which mainly connect the region's more open economies, together with an expanded APTA would bring new dynamism to the region.

However, it has to be noted that as yet the ASEAN+ agreements are not consolidating anything, but rather expanding the number of RTAs (instead of expanding membership in existing ones). Thus, as ASEAN is signing a bilateral trade agreement with India so are individual ASEAN members such as Singapore and Thailand. Similarly, the ASEAN-Australia-New Zealand FTA (AANZFTA) does not replace or absorb the Thailand-Australia, Thailand-New Zealand and Singapore-Australia, Singapore-New Zealand FTAs. And while China is engaged in the comprehensive ASEAN-China FTA, and India has also signed a framework agreement with ASEAN, these agreements do not affect trade relationships between China and India. In other words, China and India do not become members of a wider ASEAN + block but instead they become part of the typical hub-and-spoke kind of RTAs with ASEAN as the hub. Similarly, the ASEAN-China and

ASEAN-Republic of Korea FTAs have no direct implications for bilateral trade relations between China and the Republic of Korea. Interestingly, China, India and Republic of Korea are all three members of APTA.

The situation is even more complicated in South Asia where various countries are members of multiple overlapping agreements. For instance, Bangladesh is a member of SAFTA, BIMSTEC and APTA and has a BTA with India. Similarly, Sri Lanka's trade relations with India are governed by SAFTA, BIMSTEC, APTA and a comprehensive BTA between the two countries, while Sri Lanka also has a BTA with Pakistan. In Central Asia a multitude of BTAs among countries exist while they are simultaneously members of the customs union under EurAsEC.¹² These multiple memberships create confusion on the part of the private sector, enhance transaction costs and create bureaucracy and red tape. They may lead to fragmentation rather than integration of trading relations in the region. They may also lead to hub-and-spoke arrangements where the integration among the "spokes" remains absent (turning them into "spikes").

Another consolidation scenario may position China as the hub for regional integration based on the fact that China is the largest country in the region; it is strategically located and may play the role of regional locomotive. Already, China has succeeded Japan as the main force for regional integration through the establishment of regional supply-chains (UNCTAD, 2007a). China is forging trade relationships with Central Asia through the Shanghai Cooperation Organization (though this organization is focused on security cooperation rather than economic cooperation) and with ASEAN through the ASEAN-China FTA. It is engaged with India and the Republic of Korea through APTA. China also has a bilateral trade agreement with Pakistan, Singapore and New Zealand and has almost finished negotiating an agreement with Australia. However, to evolve into a hub, China would need to switch towards negotiating more comprehensive FTAs.

¹² While this customs union is to be implemented by 2010 (Evgeny Vinokurov, ed., 2008).

(b) Developing common frameworks for RTA consolidation

Geographical consolidation, however, requires functional consolidation. In other words, agreements can only be consolidated if they adopt common rules of origin and harmonize the other commitments and provisions under their various agreements. After all, a larger RTA cannot encompass smaller RTAs if the smaller RTAs have deeper commitments. For instance, SAFTA would not be able to absorb the India-Sri Lanka FTA due to the larger scope of the latter and the lack of implementation of the former. But if the larger RTA deepens its commitments and broadens its scope, there will be incentives for the members of the RTA involved in BTAs with lower levels of commitments among each other to dissolve them in favour of the larger RTA. The absorption by RTAs of the BTAs among its individual members is also difficult when the two members in a particular bilateral agreement do not want to multilateralize provisions and preferences among themselves to the other members of the RTA. Nevertheless, there is a certain convergence emerging among provisions of various RTAs which may lead to the adoption of common frameworks and templates for RTAs. When that happens, the consolidation of BTAs into RTAs and RTAs into region-wide economic cooperation agreements becomes more likely. Various attempts at developing templates based on best practices have already been made. The issue is how to apply and popularize them.

A good starting point in this exercise is the development of a common region-wide framework of principles, guidelines and procedures for preferential rules of origin (Sally, 2006). The APTA template could play a role in this regard.¹³ It is already clear that the current proliferation of agreements in force, and those under negotiations are spinning a complex web of rules of origin. Not only does each agreement have its own rules of origin; in addition, a bewildering array of product-specific rules of origin is emerging. Adopting the

¹³ See, chapter III in ESCAP (2005) and Bonapace and Mikic (2007).

least restrictive rules of origin could result in significant trade deflection and redundancy of a trade agreement, while adopting the most restrictive rules of origin may defy the whole purpose of promoting trade. Attempts to address the issue of preferential rules of origin in WTO have not been very successful. GATT Article XXIV also has nothing to say about the issue. WTO does have an agreement on non-preferential rules of origin establishing a programme for international harmonization of non-preferential rules of origin. The Agreement also has an annex on preferential rules of origin which contains a notification obligation. Under the Agreement, each country is free to adopt its own preferential rules of origin, or to adopt different preferential rules of origin for its different preferential agreements. However, the harmonization efforts have long passed their stipulated deadline and have taken a back seat to the current DDA.

Common templates for the classification of NTMs could also be developed for information exchange among RTA members. UNCTAD and ESCAP have jointly prepared such a format already. Common formats for the adoption and application of technical standards and SPS measures also exist as developed by the relevant global agencies in these areas. The adoption of these formats would help in achieving international policy coherence and consistency as well, as was explained in chapter 1. Common formats in other areas such as labour and environmental standard clauses in FTAs could also be considered. The issue of IPR is a bit trickier. The TRIPS Agreement provides minimum standards but countries are free to adopt standards higher than those contained in that Agreement. Many developing countries object to TRIPS-“plus” provisions demanded by developed countries in FTA negotiations but sometimes go along with them in expectation of benefits in other areas. It will therefore be difficult to develop common frameworks in this area.

Another area is investment. As noted above, most ESCAP countries are members of many BITs. As investment is increasingly integrated into RTAs, there is room to consolidate the BITs either within

the framework of regional investment regimes or consolidate them within the context of RTAs. For coherence and consistency sake, the second option would probably be preferable. The consolidation of BITs is possible as most of them follow a similar format which is increasingly based on the investment chapter of NAFTA. A common format is particularly important with respect to dispute settlement for which international mechanisms exist. However, as UNCTAD (2007b; 2008b) notes, while international arbitration is an important means to strengthen the rule of law and to increase legal stability, a number of conflicting awards have also led to new uncertainties concerning the interpretation of core investment provisions. These concerns resulted in the revision of several model BITs. UNCTAD also notes that while BITs and other international investment treaties may look similar at the core, they can show significant variation at the periphery.

Moreover, the realm of international investment treaties is vast, covering BITs, RTAs, and double taxation treaties. Increasingly, these agreements are South-South with China in particular very active concluding BITs with ESCAP member countries. Like RTAs, these agreements increasingly overlap, as they are concluded at the bilateral, regional, interregional, sectoral, plurilateral and multilateral levels. But as yet, there is no multilateral agreement on investment. Attempts to negotiate one failed both at OECD and WTO as developing countries feared a developed country-dominated agenda emphasizing investor rights. There are pros and cons to formulating a multilateral agreement on investment. The current global investment regime seems to work and the need for a multilateral investment agreement does not seem to be urgent. Still, consolidation and harmonization of these agreements, especially in the context of RTAs, would create more transparency and promote policy coherence and consistency, not only with regard to trade and investment but also with regard to other areas such as services, IPR and competition and, in the final analysis, with development as a whole.

And this is where complications arise. Common frameworks and templates would serve the purpose

of clarity and transparency, but it is never possible nor often desirable to strive for a one-size-fits-all model. After all, countries are widely divergent in terms of development levels, and, hence, needs and capacity. A NAFTA-style investment chapter or BIT or a TRIPS-“plus” FTA would not be appropriate for many developing countries and severely limit their policy space, i.e. their ability to regulate FDI or IPR in such a way that it meets their development objectives. The recently concluded ASEAN Comprehensive Agreement on Investment may provide a useful template for the purpose of developing countries. Again, it is a matter of balance. The current regime of many overlapping RTAs and BITs is not transparent, efficient and stable. Nor is the application of a single model RTA or BIT workable. The best solution therefore may be to develop various templates or models for different groups of developing countries. Understandably, this recommendation is difficult to put into practice, which explains why attempts have rarely passed the stage of lip service. Nevertheless the effort is worthwhile and must be made.

D. THE ASIA-PACIFIC TRADE AGREEMENT (APTA)

As the only non-contiguous RTA encompassing member states from various subregions in the Asia-Pacific region, the Asia-Pacific Trade Agreement (APTA) has great potential to evolve into a pan-Asia-Pacific trade agreement. APTA was signed in 1975 under the name of Bangkok Agreement. It is the oldest preferential trade agreement between developing countries in the Asia-Pacific region and aims at promoting economic development by a continuous process of trade expansion and furthering international economic cooperation through the adoption of mutually beneficial trade liberalization measures. The current members include Bangladesh, China, India, Lao People’s Democratic Republic, Republic of Korea and Sri Lanka. China acceded to the Agreement in 2001. Under a revitalization package, the Agreement was revised and renamed APTA in 2005 by the First Session of the APTA Ministerial Council. That session also adopted the results of the Third Round of tariff negotiations. APTA is open to membership

The Asia-Pacific Trade Agreement is emerging as a potential force for regional integration

from all ESCAP developing countries and has SDT for the least developed countries. ESCAP is the secretariat of the Agreement. APTA was notified to WTO in 2007.

APTA has simple, common Rules of Origin with a minimum local value content requirement of 45% f.o.b. (35% for the least developed countries) that compare favourably with other RTAs, although currently APTA members are in the process of slightly revising the rules of origin in order to increase the utilization of preferences. A set of operational procedures for the certification and verification of the origin of goods was adopted in October 2007, the first time such a common agreement was reached among developing countries in the region. As such, the APTA rules of origin could serve as a template for other RTAs among developing countries.

APTA is still a preferential trade agreement adopting a positive list approach. However, the coverage is steadily increasing. The Third Round, entering into force on 1 September 2006, led to tariff concessions on more than 4,000 items (table 3.6). The Fourth Round, launched in October 2007, is scheduled to be concluded by the Third Session of the Ministerial Council in December 2009. This Round aims to widen the coverage of preferences to at least 50% of the number of tariff lines of each member, and at least 20-25% the value of bilateral trade. It also aims to provide a tariff concession averaging at least 50%.

Table 3.6. Results of the Third Round under APTA

	Before 3 rd Round	After 3 rd Round
Number of products under concession	1,721 (112)	4,270 (587)
Margin of preference (MOP) (%)	21.6 (32.2)	26.8 (58.8)

Note: Numbers in parentheses refer to the least developed countries.

At the Third Round negotiations the adopted modality was the margin of preference. This modality has also been adopted for the Fourth Round negotiations. This means that in the event of MFN tariff reductions as a result of the conclusion of the Doha Round, the preferential margin is maintained. APTA, as an agreement among developing countries, was notified to WTO under the Enabling Clause. It cannot yet be considered compliant with GATT Article XXIV. As a result, the level of trade integration among APTA members is still relatively small. For that reason, the utilization rates of the Agreement are also relatively small, although rising, in particular in China-Republic of Korea trade. However, APTA's development has been very swift in recent years. In particular, under the Fourth Round, the scope of the negotiations was extended and framework agreements concluded for investment, trade facilitation and trade in services. These framework agreements are important in forging coordination of trade and investment policies of the respective APTA members and can serve as templates for similar RTAs among other developing countries.

APTA has a unique opportunity to emerge as a second axis of geographical consolidation of RTAs as well, due to its scattered membership across subregions. It is the only Agreement linking China

with India and China with the Republic of Korea. As APTA is a fully functioning Agreement, i.e. its provisions and commitments are fully operational and implemented, APTA may well emerge as a stronger force of integration than SAFTA or BIMSTEC in South Asia (see figures 3.2a and 3.2b). Its role will only increase with expanded membership. Understandably, ASEAN members

Figure 3.2a. APTA as a bridge between other RTAs in the region-1

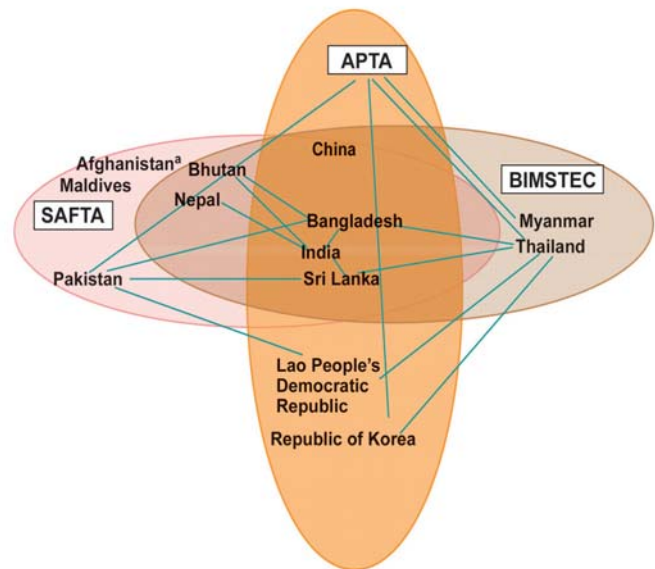
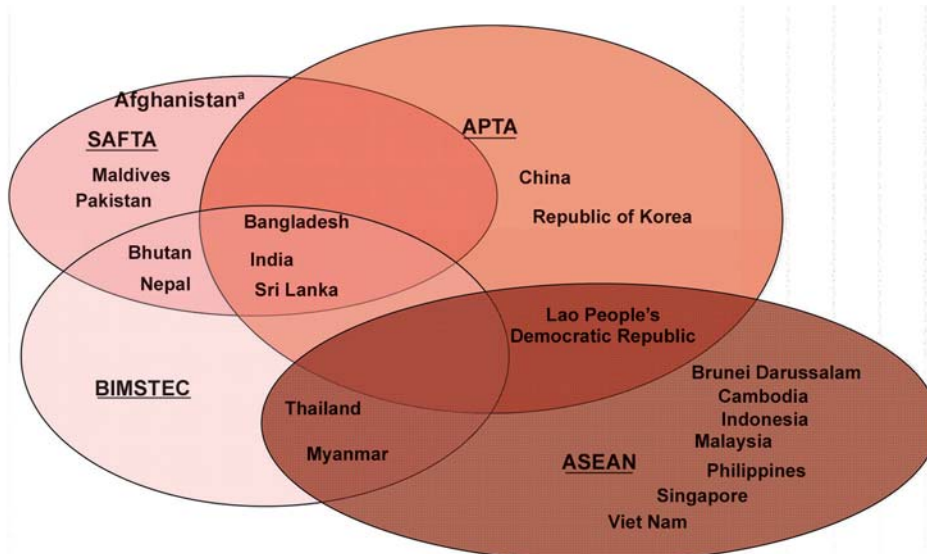


Figure 3.2b. APTA as a bridge between other RTAs in the region-2



^a Membership is pending subject to ratification by all current SAFTA members.

are reluctant to become members of APTA due to their current commitments under ASEAN. However, if common approaches to economic cooperation can be found under both regional integration frameworks (for instance, the framework agreement on investment under APTA was based to a large extent on the text of the AIA), a merger of APTA and ASEAN in the future cannot be entirely ruled out. Such a merger would make an Asian Economic Community no longer a mere figment of the mind.

The Third Session of the Ministerial Council of APTA is to be held in December 2009 in Seoul with a view to adopting the results of the Fourth Round. Ministers also pledged to continue the deepening and strengthening of APTA as a force for regional cooperation and integration.

E. SIMULATING IMPACTS OF INTRAREGIONAL LIBERALIZATION

If consolidation worked, one could envisage an Asia-Pacific-wide block as the result of a liberalization process which would enhance intraregional trade, in particular among developing countries of the region. Four different liberalization scenarios were modeled to compare the impact, and therefore the desirability, of promoting intraregional trade. These scenarios are summarized as:¹⁴

Scenario 1	Asia-Pacific-wide 25% tariff reductions
Scenario 2	Asia-Pacific-wide tariff elimination
Scenario 3	ASEAN+6 tariff elimination
Scenario 4	WTO-wide 25% tariff reductions

The first scenario reflects a shallow level of integration which aims for a reduction of applied MFN tariffs on goods only among a large number of economies in the Asia-Pacific region.¹⁵ The second

scenario envisages that this group of economies eliminates all tariffs on goods traded intraregionally. The third scenario replicates full elimination of tariffs but only for the intra-trade among ASEAN+6 countries (ASEAN, Australia, China, India, Japan, New Zealand and the Republic of Korea). The fourth scenario extends the small reduction of goods' tariffs by 25% to the whole WTO membership.

The results obtained showed that all economies and subregions participating in the various liberalization scenarios would experience increased real GDP growth (box 3.4). As expected, the more ambitious the liberalization scenarios, the greater the increase in exports and imports. For example, the formation of an FTA with full tariff elimination covering all Asia-Pacific economies (scenario 2) increases trade flows much more than a liberalization scenario with limited tariffs cuts (scenario 1), or involving a limited number of countries (scenario 3). Specifically, when tariffs are completely eliminated under Asia-Pacific-wide full liberalization, intraregional exports increase by 17.7%.¹⁶ A partial tariff cut (only 25% reduction from the current levels) corresponds to an increase in intraregional exports at the Asia-Pacific level of only 3.6%. When tariffs are fully eliminated but only among the ASEAN+6 countries, their exports rise by 15.5%, while Asia-Pacific-wide intraregional exports increase by 12%.

ESCAP research also finds that full liberalization of trade among Asia-Pacific economies could help substantially reduce poverty in the region. Using the elasticity of poverty with respect to trade openness, Asia-Pacific-wide full tariff elimination would reduce the number of people currently living on less than \$1 a day to by 42.9 million.¹⁷ This includes around 18 million less poor in India, 10 million in China, 6.8 million in Bangladesh, 3.6 million in Viet Nam, and 1.6 million in Pakistan.

¹⁴ See details in Strutt (2009).

¹⁵ Table 1A in the annex to this chapter lists the economies included in the scenarios. The inclusion was limited to Asia-Pacific economies which are also covered in the GTAP Database version 7.

¹⁶ As also discussed in part I of the report, applied tariffs imposed and faced by Asia-Pacific economies vary a lot; ranges for averages on all goods are from 0% (Singapore; Hong Kong, China) to 12.6% (South Asia) while the highest tariffs are imposed on crops and other foods, motor vehicles and textile, clothing and leather.

¹⁷ Elasticity coefficient is 0.71 (ESCAP-ADB-UNDP, 2008, p. 41).

Box 3.4. How beneficial would greater intraregional trade in Asia and the Pacific be?

It has been argued that more intraregional trade is better. ESCAP has undertaken research to determine what would be the effect of increased intraregional trade on the output, trade flows and welfare of individual countries and subregions. These impacts have been calculated by using the Global Trade Analysis Project (GTAP) model and database.¹⁸ In a nutshell, the variant of the model used here is a comparative, static model based on the standard set of assumptions with regard to the behaviour of private individuals, firms and governments. When the various trade liberalization scenarios are simulated, changes in welfare, real GDP, and trade are all endogenously determined. A number of different liberalization scenarios are modelled, including variations of South-South trade liberalization among a large number of members of ESCAP; liberalization of ASEAN+6 and multilateral WTO liberalization. These scenarios are designed to explore some of the potential gains of switching from the Asian “noodle bowl” type of intraregional trade to intraregional trade driven by a single tariff-reducing/eliminating trade agreement. A brief summary of the impacts is provided below.

Impact on trade flows

Removal of tariffs causes trade to increase as expected, especially for those economies where tariffs are still relatively high (see also annex tables to this report). The more ambitious the liberalization, the greater the increase in exports and imports. For example, intraregional exports of Asia-Pacific developing economies increase the most when tariffs on trade among them are fully eliminated.¹⁹ Intraregional exports and imports increase by over 7% and 8%, respectively, for China, 17% and 13% for India, and 17% and 14% for rest of South Asia, while exports and imports of ASEAN economies as a group increase by 2% and 8%, respectively. In comparison, full elimination of tariffs within ASEAN+6 brings smaller increases in exports and imports for the individual economies of the ASEAN+6 group. Nevertheless, they are considerably larger than in the case when liberalization is only partial (as under scenarios 1 or 4 where tariffs are cut by 25% only), irrespective of whether it is limited to Asia-Pacific or WTO-wide. Thus, from the perspective of developing countries, including transition economies, the largest increase in exports and imports come from full liberalization covering the whole region of Asia and the Pacific, followed by full liberalization in the ASEAN+6 area, WTO-wide partial liberalization and, lastly, Asia-Pacific-wide partial tariff liberalization. Table 3.7 reports changes in intraregional exports aggregated for regions and the world. With the WTO-wide 25% reduction of tariffs, world exports increase by just over 1%, more than three times the result of when similar liberalization is limited to Asia and the Pacific. However, Asia-Pacific economies are expected to capture almost two thirds of these gains if they implement similar liberalization measures among themselves.

Impact on aggregate output and welfare

All economies and (sub)regions that participate in the liberalization effort are found to benefit through an increase in real GDP. Not surprisingly, economies involved in full liberalization at the Asia-Pacific-wide level experience the largest increase in real GDP (ranging from 0.06% for China to almost 0.7% for high-income Asia and 0.6% for ASEAN). Compared with this scenario, WTO-wide but limited reduction of tariffs on goods contributes less to real GDP increases of these economies, except for China. Free trade among ASEAN+6 economies causes a contraction in real GDP of China, the rest of South Asia as well as real GDP of the Russian Federation and Central Asia.

The experience of economies and subregions is more varied when it comes to the impact on welfare, measured as an equivalent variation of income. This results from the fact that the chosen measure of impact on welfare combines effects from improved allocative efficiency and changed terms of trade. The impacts on China and India of all region-limited liberalization efforts are either welfare-reducing or increase welfare by a very small amount. However, WTO-wide liberalization contributes to an increase of almost \$3.5 billion in China and \$1.3 billion in India. This is dwarfed by increases in welfare that ASEAN, high-income Asia, Japan, Australia and New Zealand are expected to gain from an Asia-Pacific-wide full elimination of tariffs (\$15 billion for ASEAN). China and India lose under this region-wide liberalization scenario, because their terms of trade deteriorate much more than their allocative efficiency is improved. This deterioration is driven in the case of China by a sharp increase in their import prices (e.g. electronics, machinery and chemicals) while in the case of India there is a decline in prices of manufacturing exports (e.g. chemicals, rubber and plastic and similar).

¹⁸ See also <http://www.gtap.org> for detailed information on the model and database. This research aggregates version 7 of the GTAP database to 24 sectors and 40 economies/subregions (table 1A in the chapter annex) but results are reported on even more aggregated levels.

¹⁹ It is also plausible to expect that the removal of behind-the-border barriers in trade among these economies would contribute even more to the increase in their intraregional trade. Research to explore these impacts is still ongoing.

Table 3.7. Change in intraregional exports

(Per cent)

	To	Asia-Pacific	ASEAN+6	WTO	Total
From					
Scenario 1					
• Asia-Pacific		3.57	3.52	0.83	0.97
• ASEAN+6		3.77	3.75	0.89	1.04
• WTO		1.52	1.69	0.32	0.33
• Total		1.57	1.71	0.33	0.34
Scenario 2					
• Asia-Pacific		17.69	17.29	4.72	5.39
• ASEAN+6		18.55	18.28	5.03	5.78
• WTO		7.86	8.55	1.79	1.86
• Total		8.08	8.68	1.82	1.90
Scenario 3					
• Asia-Pacific		11.67	15.49	3.75	3.62
• ASEAN+6		15.73	20.91	5.03	4.87
• WTO		5.84	7.90	1.44	1.39
• Total		5.60	7.61	1.39	1.34
Scenario 4					
• Asia-Pacific		1.69	1.98	1.46	1.40
• ASEAN+6		1.91	2.23	1.73	1.67
• WTO		2.23	2.62	1.12	1.09
• Total		2.09	2.48	1.08	1.04

F. MOVING BEYOND RTAs: INTERNATIONAL AND REGIONAL DIMENSIONS OF POLICY COHERENCE AND COORDINATION

The strengthening, deepening and ultimately consolidation of RTAs requires regional policy coherence and coordination, which are fundamental aspects of deepening regional integration. In the words of OECD (2008): “Global interdependence means that there are hardly any issues that can or should be treated in isolation.” The need for countries to work together was also recognized in the adoption of internationally agreed development goals, including the Millennium Development Goals (MDGs) and in particular goal 8 for building a global partnership for development.

If the trade policy objective of country A is to increase exports to country B while the trade policy objective of country B is to reduce imports from country A, obviously there is a mismatch. This

problem is particularly acute in the area of agriculture. As the WTO World Trade Report 2004 notes: “international cooperation reduces transaction costs, provides economic agents and governments with a greater flow of information, and in some cases lessens the risks of regulatory failure” (WTO, 2004). International cooperation

Enhancing intraregional trade and regional integration requires deeper and wider levels of regional policy coherence and consistency and regional cooperation beyond RTAs

can also play a valuable role in augmenting infrastructure and human capital in low-income countries, thereby assisting the latter to take greater advantage of opportunities offered by the international community. Trade and investment coordination at the regional and international levels basically takes place through subregional

organizations such as APEC, ASEAN, SAARC, ECO and the Pacific Forum Secretariat, but such coordination is often of an ad hoc nature and does not, in most cases, carry legal enforcement status (see box 3.5).

Besides, such coordination refers to trade and investment matters within an organization, but not necessarily to coordination of trade and investment policy formulation of its individual members. Where trade and investment policies are discussed, actual

Box 3.5. Trade and investment coordination mechanisms in subregional organizations

Various subregional organizations in Asia and the Pacific have coordination mechanisms for trade and investment. APEC has a Committee on Trade and Investment (CTI) which coordinates its work in trade and investment liberalization and facilitation. It also discusses trade and investment policy with the aim of reducing impediments to business in selected areas. There are 9 subgroups – Business Mobility Group, Electronic Commerce Steering Group, Government Procurement Experts' Group, Group on Services, Intellectual Property Experts Group, Investment Experts Group, Market Access Group, Sub-Committee on Customs Procedures, and Sub-Committee on Standards Conformance. It also has three industry dialogues – Automotive Dialogue, Chemical Dialogue and a Life Sciences Innovation Forum, as well as numerous other working groups, such as the working group on SMEs. APEC also has an Economic Committee which addresses wider policy issues and coordination affecting business. APEC has issued principles for trade facilitation and transparency standards.

In ASEAN, the strongest form of coordination is through the commitments undertaken under AFTA, the framework agreement on services and the ASEAN Comprehensive Investment Agreement, following the AIA. However, various platforms and mechanisms exist to coordinate trade and investment policies of members, often on a sectoral basis. For instance, there is an ASEAN Framework on Intellectual Property Cooperation and various agreements to promote intra-ASEAN investment, such as the ASEAN Industrial Projects and ASEAN Joint Ventures schemes. ASEAN also has a Consultative Committee on Standards and Quality and sectoral mutual recognition agreements. An SME network exists and ASEAN is in the process of establishing a subregion-wide single window for customs clearance. In finance, ASEAN countries have issued a common understanding on the reform of the international financial system while they are forging an ASEAN bond market. The Chiang Mai initiative of currency swaps also originates from ASEAN. There are agreements and action plans for cooperation in areas such as transport, tourism, ICT and telecommunications, minerals and energy. All these mechanisms basically start from and support ASEAN's original agreements on trade. The strongest commitment towards policy coordination across the board is the intention to establish the ASEAN Economic Union by 2015 along the lines of the European Union.

The Economic Cooperation Organization (ECO), apart from monitoring and overseeing the implementation of the ECO Trade Agreement and the Agreement on Promotion and Protection of Investments among ECO member states, operates a coordination body of its members' trade promotion agencies, has a Trade and Development Bank, a Technology Transfer Centre and a transit transport framework. It also has an action plan for coordinating transport and communications and an agreement on transit trade.

The South Asian Association for Regional Cooperation (SAARC) monitors the implementation of the SAARC Free Trade Area (SAFTA) and has a Regional Integrated Programme of Action which is implemented through a number of technical committees and high level working groups in areas such as IPR, ICT, tourism and energy. However, no such committee or working group exists for investment, although a Committee on Economic Cooperation coordinates all issues related to economic and trade policies. Cooperation mechanisms also exist in the areas of finance, customs and standards.

The Pacific Islands Forum (PIF) operates an Economic Governance Work Programme under which the implementation of the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Relations (PACER) are monitored. The PIF also has a Regional Trade Facilitation Programme linked to PACER.

Various organizations also have coordination frameworks for business and operate platforms for dialogue with the business sector, such as the APEC Business Council, ASEAN Business Advisory Council (which organizes the annual ASEAN Business and Investment Summit featuring a public-private sector dialogue) and the ECO Chambers of Commerce.

Source: Respective organizations' websites.

coordination may not be forthcoming. Effective coordination therefore is achieved through multi-lateral, regional and bilateral agreements in trade and investment, where reciprocal commitments, including mechanisms for proper coordination and dispute settlement, are enforced and have legal status.

However, effective coordination goes beyond commitments contained in those agreements and, as shown above, involves a wide spectrum of policies. Most RTAs are confined to market access commitments and do not extend to cooperation in supply-side capacity-building. ASEAN is a notable exception but the cooperation mechanisms this organization has evolved over time are outside the scope of AFTA and have had mixed results (box 3.6).

With regard to other trade-related policies and as part of wider regional integration efforts, countries should be encouraged to adhere to international standards and principles, such as labour standards

issued by ILO, financial standards issued by the Bank of International Settlements, product standards issued by the International Standards Organization (ISO) and other specialized agencies. Accession to multilateral agreements and institutions such as WTO ensures a greater level of coordination and harmonization of policies, particularly as WTO agreements cut across many policies beyond trade.

Although there are no multilateral agreements on investment and competition, the formation of such agreements may be considered, either as new initiatives or as an exercise to harmonize the existing international legal frameworks in these areas. Developing countries have traditionally voiced concern over the conclusion of such agreements, but they promote transparency and predictability of trade, competition and investment provided they are negotiated with due consideration of the legitimate concerns of all countries, developed and developing. In the meantime, there are various international frameworks on investment

Box 3.6. Cooperative mechanisms in ASEAN for supply-side capacity-building

ASEAN cooperation aimed at supply-side capacity-building has taken the form of various industrial cooperation schemes: the ASEAN Industrial Projects (AIPs), the ASEAN Industrial Complementations (AICs) (including a Brand-to-Brand complementation (BBC) scheme) and the ASEAN Industrial Joint Ventures (AIJVs). AIPs are large-scale government-to-government projects while AICs are designed to avoid duplication in industry by assigning specific industrial processes or components to each ASEAN country on a time-bound, exclusive basis with a preferential regime in the entire ASEAN market. AIJVs are government-approved private sector ventures, designed as an improvement of the AIPs. Some specific incentives such as margin or tariff preferences as well as provisions on the equity participation favourable to encourage intraregional joint ventures are also built into these ASEAN Industrial Cooperation (AICO) programmes. However, the schemes encountered problems, including a lack of government commitment and private sector interest. While the AIPs basically focused on public investment projects aimed at import substitution, the other schemes were more private sector-oriented but suffered from disagreements on product packages and private sector indifference.

The most successful scheme is the AICO programme which was launched in 1996. AICO aimed at improving the availability of intermediate inputs and components within ASEAN by offering accelerated Common Effective Preferential Tariff (CEPT) treatment to qualifying products. The AICO agreement replaces the ASEAN Industrial Joint Venture (AIJV) and BBC agreements. Equity provisions in AICO ventures are not as strict as under AIJVs.

The ASEAN experience demonstrates that efforts by governments to attempt to direct industrial production or production-sharing arrangements are not very successful. Amid ongoing trade and investment liberalization, efforts to pick winners are counter-productive. Governments play a more conducive role by providing an enabling environment for business and helping them to build supply-side capacities through facilitating technology transfer, boosting skills development and education, and helping SMEs to access finance and link up with regional and global supply chains.

standards: the OECD Policy Framework for Investment; United Nations Global Compact; OECD Guidelines for Multinational Enterprises; and the many international investment agreements which follow a similar template.

WTO is currently conducting negotiations on harmonizing multilateral trade agreements with multilateral environmental agreements (MEAs). And in the area of finance, the current crisis has revealed that national regulation and prudential supervision are not sufficient to deal with the complexity of international financial flows and that a new system of international regulation and supervision is needed to enhance the efficiency and stability of these flows. Such a system would have to fit with the WTO agreements and other multilateral agreements.

Finally, regional level agreements would have to be harmonized and made compatible with multilateral ones. Few people would argue against the desirability of promoting intraregional trade, in particular to reduce dependence of Asian and Pacific developing countries on the markets of developed countries. Harmonizing and possibly consolidating regional and bilateral trade agreements into coherent region-wide trade cooperation frameworks which could form the basis of more comprehensive economic cooperation agreements, is therefore necessary but difficult.

ASEAN+3 is taking the level of cooperation beyond trade to include financial and monetary cooperation. For example, the Chiang Mai Initiative (CMI) has been put in place since the 1997 Asian financial crisis. The CMI consists of an expanded ASEAN Swap Arrangement (ASA) and a network of bilateral swap arrangements (BSAs) among ASEAN member countries, China, Japan and the Republic of Korea. In the wake of the economic crisis, the CMI has been further strengthened and as part of monetary and finance cooperation, substantive progress has been made in the development of the Asian Bond Market Initiative (ABMI). ASEAN+3 countries are undertaking efforts to modify existing regulations to facilitate the issuance of, and

investment in, local currency-denominated bonds under the ABMI. The Asian Bonds Online Website (ABW) was launched in May 2004. Efforts to establish an Asian Monetary Fund are also intensifying. Integration efforts in finance are essential as they provide support to trade and investment. Trade and investment both constitute financial flows and without cooperation to make these flows more stable and efficient, the mere reduction of tariffs and some NTMs will not be sufficient.

Other policy areas need to be coordinated in support of trade and investment. A Free Trade Area of the Asia-Pacific (FTAAP), involving all APEC countries, or an Asia-Pacific single market with free movement of goods, services, capital and labour, is still far off, let alone an Asian Monetary Union or Economic Union with a common currency and central bank. ASEAN is currently the only regional organization in Asia and the Pacific which envisages the formation of an ASEAN Economic Community by 2015, but much remains to be done before this idea can be realized. The formation of economic unions is politically sensitive as it inevitably involves the surrender of a significant degree of national sovereignty but they make perfect sense from an economic point of view and provide an efficient means of achieving social and economic policy objectives.

For the moment, the most pressing issue is to enhance international policy coordination as a first step towards higher levels of regional integration. However, while lip service is paid to the idea of international policy coordination, it remains haphazard in many cases and absent in practice. Agencies such as ESCAP have an important role to play in forging international policy coordination where it is desirable and feasible through publications such as this report and by organizing meetings for policymakers such as the Committee on Trade and Investment. In addition, regional platforms such as the Asia-Pacific Business Forum (APBF) help in forging regional level coordination and dialogue between government and business for more effective trade and investment policies.

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Annex

Economies/regions covered by the liberalization scenarios

Aggregated regions	Economy/Region	Description
China	*China	China
Japan	*Japan	Japan
High-income Asia	*Hong Kong, China	Hong Kong, China
	*Taiwan Province of China	Taiwan Province of China
	* Republic of Korea	Republic of Korea
ASEAN	*Cambodia	Cambodia
	*Indonesia	Indonesia
	*Lao PDR	Lao People's Democratic Republic
	*Malaysia	Malaysia
	*Myanmar	Myanmar
	*Philippines	Philippines
	*Singapore	Singapore
	*Thailand	Thailand
	*Viet Nam	Viet Nam
	*Rest of South-East Asia	Brunei Darussalam, Timor-Leste
India	*India	India
Rest of South Asia	*Bangladesh	Bangladesh
	*Pakistan	Pakistan
	*Sri Lanka	Sri Lanka
	*Rest of South Asia	Afghanistan, Bhutan, Maldives, Nepal
US	US	United States of America
EU-27	EU-27	European Union 27 members
Russian Federation	*Russian Federation	Russian Federation
Central Asia	*Kazakhstan	Kazakhstan
	*Kyrgyzstan	Kyrgyzstan
	*Armenia	Armenia
	*Azerbaijan	Azerbaijan
	*Georgia	Georgia
	*Rest of the former Soviet Union	Tajikistan, Turkmenistan, Uzbekistan
ROW (rest of the world)	Rest of Europe	Rest of Europe
	*Australia	Australia
	*NZ	New Zealand
	*Oceania	Rest of Oceania
	Rest of North America	Rest of North America
	Latin America	Latin America
	*Rest of East Asia	Macao, China; Mongolia; Democratic People's Republic of Korea
	*Islamic Republic of Iran	Islamic Republic of Iran
	*Turkey	Turkey
	MENA	Middle East and North Africa
	SSA	Sub-Saharan Africa

Note: Economies with an asterisk (*) are included in Asia-Pacific FTA (APFTA).

CHAPTER 4

FACILITATING TRADE AND INVESTMENT

INTRODUCTION

The global economic crisis has put enormous pressure on exporters to increase their productivity and reduce costs so as to secure their share of a shrinking global market. In an environment characterized by a depressed global market and increasing trade dependence, government measures to improve trade competitiveness will be crucial to sustain economic growth in many developing countries of the region.

Trade facilitation is an essential component of a comprehensive strategy to exploit rapidly declining export opportunities, and increase trading opportunities for domestic firms

Trade facilitation, defined here broadly as improving the efficiency of the processes associated with trading across national borders,¹ is an essential component of a comprehensive strategy to exploit rapidly declining export opportunities. Fulfilling export or import procedures in most developing economies of the region still takes at least 50% more time than it does in developed economies. Given that reducing export time by a day may increase trade by a full percentage point (Djankov and others, 2006) and that reducing behind- and at-

¹ An international trade transaction involves many processes, as it typically requires the coordinated movement of goods, money and documents and the associated interactions between an often large number of parties (e.g. banks, logistics providers, customs and other government agencies).

the-border costs of exports by 10% may increase trade in the Asia-Pacific region by up to \$286 billion (Duval and Utoktham, 2009), it is more urgent than ever for governments to find ways to reduce red-tape, i.e. to rationalize regulations and procedures that affect an enterprise's capacity to trade and conduct business efficiently across borders. In addition, emphasizing trade facilitation in the national strategy for trade competitiveness would be fully consistent with the overarching goal of inclusive development, as eliminating unnecessarily cumbersome procedures and requirements would enable more firms to benefit more directly from engaging in international trade.

Asia-Pacific economies have gained more from trade facilitation than from tariff liberalization

Although estimates vary widely, it is generally found that trade transaction costs (TTC) associated with import and export procedures (excluding tariffs) amount to 7 to 10% of the value of goods traded (Engman, 2009).² TTC estimates are generally higher for developing countries and average gains from improved trade facilitation in the Asia-Pacific region have been found so far to exceed those that might be achieved through further tariff liberalization. Importantly, inefficient trade procedures may lead to the de facto exclusion of a country from regional and global production

² Depending on the definition of trade transactions costs and the countries studied, estimates vary from 1% to 15% of transaction value.

networks and value chains, significantly affecting that country's trade and investment prospects as well as opportunities for its enterprises to climb up the value chain.

Inefficient trade procedures may lead to de facto exclusion of a country from regional and global production networks and value chains

The economic significance and development impact of trade facilitation has been increasingly acknowledged over the past decade. WTO members agreed to begin negotiations on trade facilitation in 2004, albeit on a relatively narrow set of issues. These negotiations have since progressed well – arguably better than negotiations on any other issue in the Doha Round. Trade facilitation has also been emphasized in regional and subregional fora within the region, particularly in APEC, ASEAN, PACER and the GMS, but also increasingly in SAARC and in Central Asia. Reflecting this trend, the share of PTAs in Asia and the Pacific featuring trade facilitation provisions rose from less than 20% for agreements that came into force before 2004 to 70% for agreements that came into force in or after 2004 (Duval, 2008).

Beyond issues of trade regulations and documents, there is an increasing realization that facilitating trade requires a more integrated and dynamic approach, looking at the broader and evolving needs of those engaging in international trade. The current crisis has, for example, brought the issue of trade finance facilitation to the fore as enterprises in the region not only face shrinking global demand but higher costs of trade finance as well. There is also mounting evidence that domestic business and investment procedures and regulations that affect all firms regardless of their trade orientation have a highly significant impact on international trade flows. This means that addressing these broader business and investment regulations and bottlenecks may be an effective way to further increase a country's international trade competitiveness, in particular that of SMEs, resulting in more inclusive and sustainable development.

This chapter therefore discusses the progress made by economies of the region in facilitating trade in the context of the current crisis (section A), highlighting in particular behind-the-border (BtB) trade facilitation issues (section B). The chapter also discusses the importance of trade finance (section C).

A. TRADE FACILITATION IN ASIA AND THE PACIFIC: ROOM FOR IMPROVEMENT

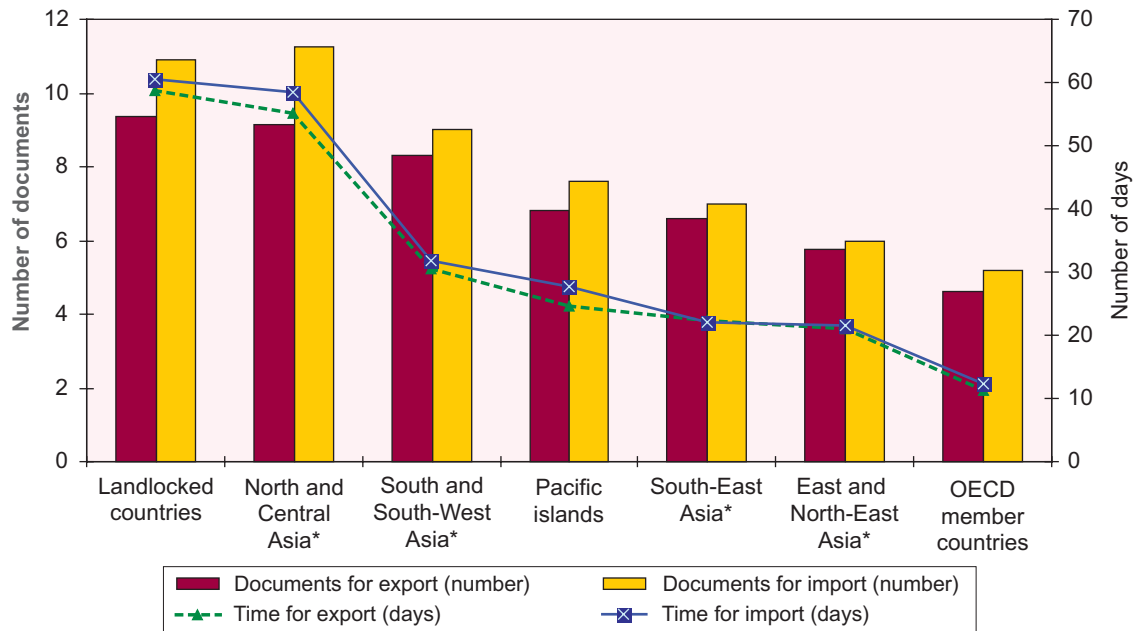
Increasing the transparency and efficiency of trade procedures is at the core of trade facilitation, and many countries in the region have taken steps to improve their performance in this area (ESCAP, 2006b; ESCAP, 2008).³ Countries that were particularly successful in shortening time to complete export procedures during the past five years include Cambodia (-21 days), India (-19 days), Lao People's Democratic Republic (-16 days) and Thailand (-10 days).

The average number of documents and time required for import/export in many subregions in Asia and the Pacific remains at least twice as high as in OECD

The most popular trade facilitation measure taken in the Asia-Pacific region in the past two years has been the introduction or improvement of electronic data interchange for submission of trade-related documents and information.⁴ In Pakistan, the percentage of goods cleared within a day increased from 4.3% to 93% after it introduced its electronic system. Another popular measure in the region has been the introduction or improvement of risk-based

³ Results of exploratory private sector surveys on trade facilitation needs and priorities conducted by ARTNeT member research institutions in Bangladesh, China, Fiji, India, Indonesia and Nepal show that traders, while acknowledging governments ongoing efforts to facilitate trade, suggest that there is scope for further improvement.

⁴ The Doing Business Report 2009 of World Bank indicated that India, Mongolia, Palau, Philippines and Thailand took this measure in 2007/08. Bangladesh also made significant advances on electronic exchange of trade-related information in 2008/09.

Figure 4.1. Trading across borders at a glance

Source: Calculated based on data from Doing Business 2009, World Bank, available at <http://www.doingbusiness.org>.

* Landlocked countries (Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan and Uzbekistan) are excluded from subregional averages.

inspections, typically enabling economies who implemented it to reduce inspection to less than 20% of shipments, as opposed to over 50% previously on average.

Despite the progress made, however, the average number of documents and time required for import/export in many subregions remains well above the OECD average, even when landlocked countries are excluded (see figure 4.1).⁵ For example, exporting takes about 22 and 29 days in South-East and South Asia, respectively, while exporting in OECD countries typically takes less than 12 days. Moving goods from a factory to a ship ready for departure at the nearest seaport in Central Asian and landlocked countries typically takes six times as many days than in OECD, suggesting an even greater scope for improvement in these countries. Accelerating trade facilitation reforms may therefore

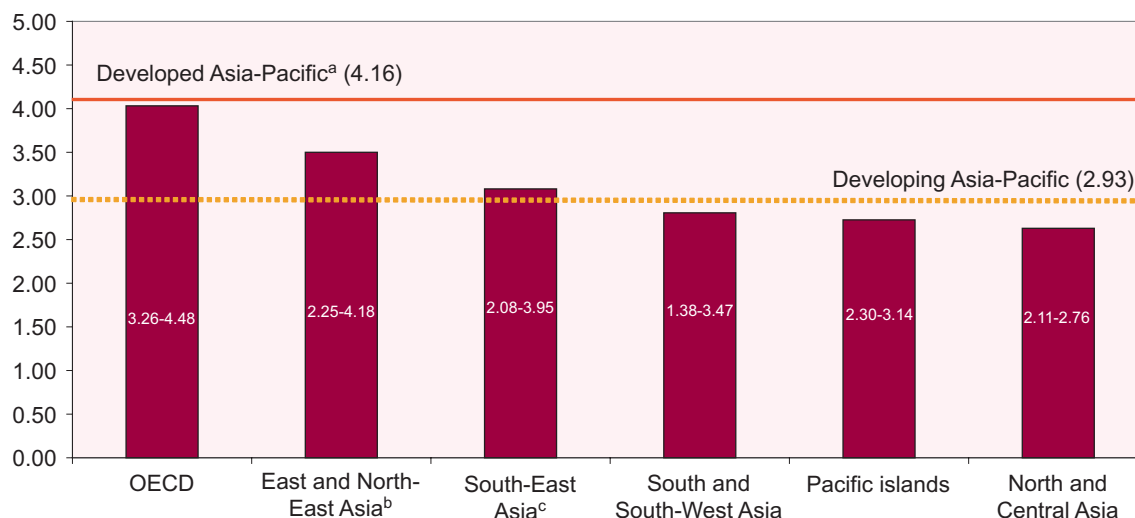
be a powerful way to enhance trade competitiveness in many subregions and mitigate the negative effects of the crisis on businesses and traders.

Predicting when a shipment will arrive at its destination remains a challenge in many countries of the region

Beyond the average number of documents and days involved in trade, an important issue for manufacturers is timeliness, meaning the likelihood that imports or exports will arrive at their destination on schedule. It is particularly important in a highly competitive environment where businesses need to deliver on time while holding minimum inventories to keep costs down. However, figure 4.2 shows timeliness is lacking in many countries of the region. This may be attributed to a combination of poor trade infrastructure, non-transparent and predictable clearance procedures, and an underdeveloped logistics service sector, highlighting the need for an integrated approach.

⁵ The indicators included in the table are directly related to domestic trade facilitation measures, i.e. the number of documents necessary for imports and exports, and the average time and cost of moving a container from factory gate to a ship ready for departure at the port of exit.

Figure 4.2. Timeliness: perceived likelihood of on-schedule delivery
(Subregional averages; 5: nearly always on schedule)



Source: Calculated based on data from the World Bank Logistic Performance Index (2007), available at <http://go.worldbank.org/88X6PU5GV0>.

Notes: ^a Developed Asia-Pacific consists of Australia, Japan and New Zealand.

^b East and North-East Asia average does not include Hong Kong, China.

^c South-East Asia average does not include Singapore.

Range of country timeliness scores in each subregion is reported on each bar.

In many countries, the preparation of documents accounts for at least half of the total number of days necessary to move goods from factory to ship

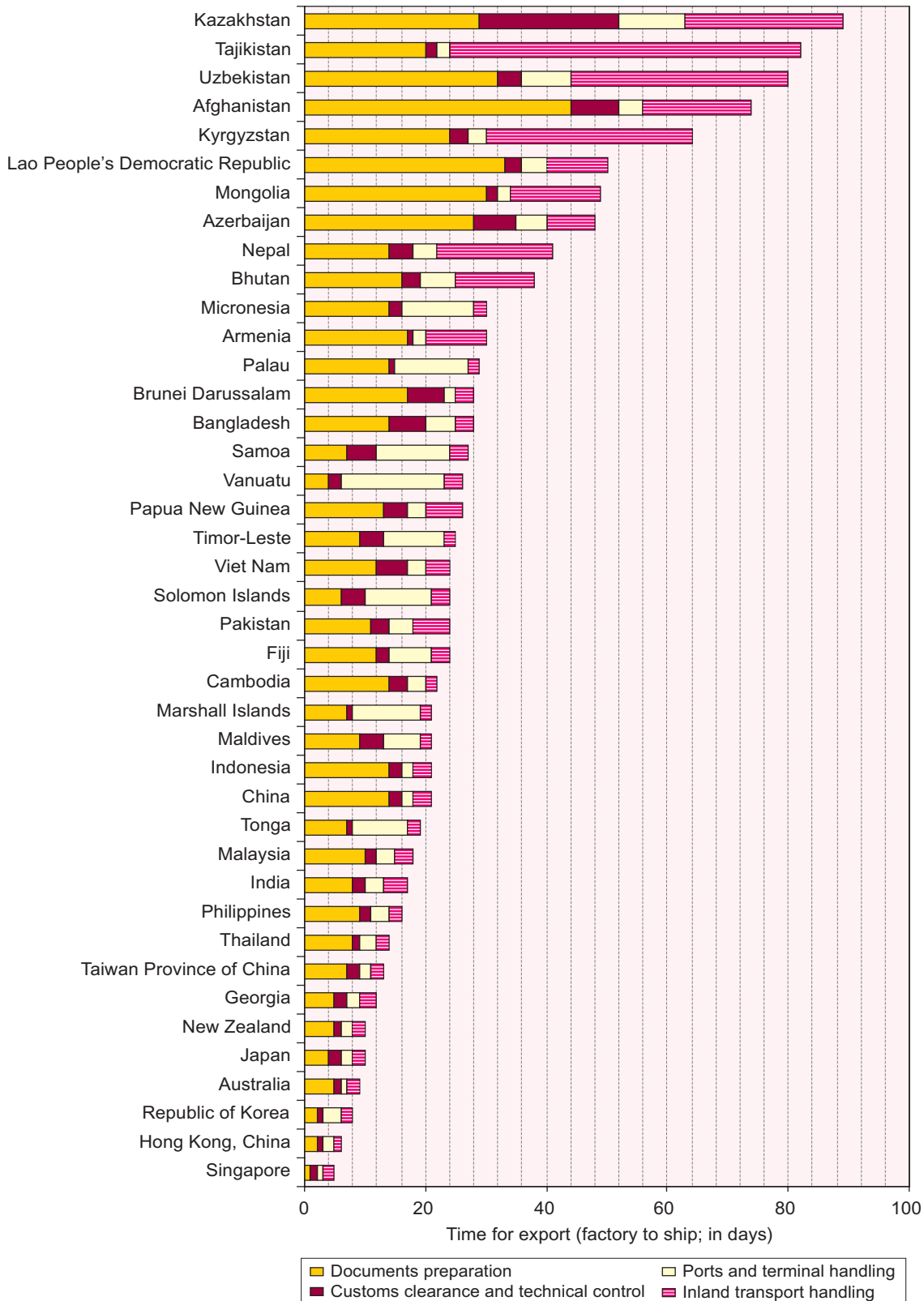
While trade facilitation has often been narrowed down to customs modernization and procedures, customs clearance and technical control at the border generally account for less than a fifth of the time needed to move goods from factory to ship (see figure 4.3). Inland transport and handling as well as port and terminal handling often account for a much larger share of export and import time and cost. What generally takes most time, however, is the preparation of documents required for imports and exports, as these involve interactions with an often large number of agencies and organizations, such as health authorities, agencies and service providers involved in ensuring conformity with product standards prevailing in the destination country, port authorities, banks and immigration services. As a result, an increasingly comprehensive approach to trade facilitation is being adopted in

many countries, focusing on enhancing coordination and collaboration not only between the government agencies involved but also between these agencies and the providers of transport, logistics, conformance assessment and financial services. For example, the Republic of Korea has now brought well over 60 governments and private sector organizations together through its electronic single window. At the subregional level, ASEAN is also working towards the establishment of an ASEAN electronic single window facility.

Even when submission of electronic documents is possible, traders are often still required to submit paper documents as well

Many countries of the region have realized the importance of computerization and automation of trade procedures, particularly in the context of the increasing number of often relatively technology-intensive requirements of supply-chain security initiatives implemented after 11 September 2001. These may require, for example, advance (electronic)

Figure 4.3. Components of export time: documents preparation is the most time consuming



Source: Data compiled from <http://www.doingbusiness.org>; accessed on 5 July 2009.

submission of cargo information to authorities in the importing country before the goods can be loaded onto a vessel at the port of departure (Donner and Kruk, 2009). However, while most countries have launched national or regional initiatives in this area, SMEs and customs service providers find that the potential benefits have often not yet been fully realized as the computerization and automation of trade processes remains very partial and fragmented (Albuero, 2009). Even when submission of electronic documents is possible, traders are often still required to submit paper documents as well.

Although technological solutions have become widely available and increasingly affordable, a number of case studies conducted by the ESCAP

secretariat and ARTNeT suggest that the time it takes to develop national single window systems – where all traders can submit the information only once at one time and place to satisfy all regulatory requirements of the many different agencies involved – has not decreased significantly over time, as progress still depends essentially on strong political leadership and effective inter-agency and public-private sector collaboration (see box 4.1). Unfortunately, many countries in the region still lack trade facilitation bodies that can effectively influence and advice on the simplification of trade procedures.⁶

⁶ A good example of such a body is the Simpler Trade Procedures Board (SITPRO) of the United Kingdom (<http://www.sitpro.org.uk>).

Box 4.1. Moving forward on trade facilitation: lessons learned from the Republic of Korea's e-Trade facilitation initiatives

The Republic of Korea has pursued e-trade since the late 1980s. The Government of the Republic of Korea initiated the “Comprehensive Trade Automation Plan” in 1989 and two years later passed the “Act on Trade Automation” to give legal basis for the use of IT in cargo clearance as well as automation of the cargo clearance process. In the same year, 1991, the Ministry of Trade and Commerce (currently Ministry of Knowledge Economy) signed an “Agreement on Trade Automation” with the Korean Customs Service (KCS).

The private sector has also played a key role. The Korea International Trade Association (KITA), a private organization composed of traders, which often acts as an intermediary between traders and the Government, funded the establishment of the Korea Trade Network (KTNET) designed to build and operate e-trade infrastructure and e-trade services. In 1991, KCS designated KTNET as a sole Trade Automation Service Provider. Being the primary e-trade infrastructure operator and service provider, KTNET has played an important part in facilitating trade in the Republic of Korea.

The introduction of IT to cargo clearance procedures in the Republic of Korea took place in stages. An EDI Customs Clearance Automation programme initiated in 1992 resulted in a 100% electronic clearance system in 1997, consisting of a value added network/electronic data interchange (VAN/EDI) which linked KCS and traders. KCS then expanded the VAN/EDI so that traders could access it through the Internet, and use it to submit paperwork to agencies other than customs. By the end of 1999, 19 government agencies and 48 organizations such as industry associations, and national institutes of plant and veterinary quarantine were interlinked in the electronic network.

The establishment of a Paperless Customs Clearance System arguably achieved by 2001. The legal framework for e-commerce was completed that year when an e-commerce and electronic signature law was passed and the external trade law was amended to define and allow e-trade, rendering paper documents mostly redundant.

A National e-Trade Facilitation Committee – a body chaired by the Prime Minister and with balanced representation from the Government and the private sector – was established in 2003, with the goal of establishing a complete e-trade system encompassing not only government-business (traders) procedures but also business-business transactions and procedures. Through four e-trade services (eTradeFrame, eCustomesFrame, eLogisFrame, and eTradeInfo), the system provides information on the status of cargo and paperwork, and allows submission of electronic paperwork.

(Continued on next page)

Box 4.1 (Continued)

However the major benefit is that these transactions are all made in real time. The paperwork would be delivered automatically to all parties which required it, and it would provide real-time assistance. KCS and KTNET continually improved the system, tying more agencies and organizations into the network, and in 2004 they launched a Single Window allowing for one-time only submission of information.

The National Assembly took a meaningful step in 2005 by passing the “e-Trade Facilitation Act”, which is a crucial law that supports paperless trading as it introduces for the first time in the world an electronic letter of credit (L/C). This second stage of e-trade facilitation culminated in the launch of “uTradeHub” in 2007, which ties not only government with traders, but other trade-related organizations and private agencies such as shippers, insurers, banks and financial institutions.

The Republic of Korea has witnessed remarkable benefits from the introduction of e-trade, such as savings in time and costs as well as strengthening national competitiveness. The implementation of an e-trade system, for example, cut export documentation processing time from days to minutes and led to an estimated \$6.4 billion annual savings in trade costs. By the end of the first stage of implementation, the Republic of Korea reported that 96% of the exports utilized electronic paperless clearance system, and that the total time for processing from the submission of a declaration to acceptance by relevant authorities had fallen from almost 3 hours to 45 minutes. Furthermore, a report from KTNET mentions that the use of EDI resulted in savings of up to 81% of the paperwork-related costs for exports and 79% for imports, totaling about 578 billion won⁷ per year.

In 2006, the Hyundai Economic Research Institute analysed the impact of e-trade in the Republic of Korea and found that e-trade and uTradeHub have saved Korean firms approximately 2.6 trillion won a year. Savings in freight storage costs accounted for 52% of the total, followed by manpower costs with 9% of the total savings. The introduction of e-trade also allowed the Korea Exchange Bank (KEB) to lower some of its fees by 50%. More than 600 KEB employees had worked on processing trade related paperwork before the introduction of e-trade; today, the bank needs less than one person per branch. Another example of the benefits is Daewoo Electronics, where single transaction time has dropped from 22 minutes to 6 minutes.

The Korea Paperless Trading Center and other observers have identified the following factors as some of the keys to the success of the e-trade initiative:

- *Strong leadership by the Government.* E-trade initiatives in the Republic of Korea were launched as part of a strong national drive to harness the potential of modern information technology in all aspects of government and business. High-level political support at the prime ministerial level ensured that all agencies worked together towards a common e-trade goal.
- *Public and private cooperation.* All relevant organizations or users involved in trade procedures were involved from an early stage. In addition, the system scope was designed to encompass not only business-to-government information exchange, but also government-to-government and business-to-business.
- *An appropriate legal framework.* In order to create an environment where innovative trading procedures can flourish, legal reform is necessary to accommodate new means of information exchange and communication.
- *Adequate budget/financial resources.* Sufficient funds must be committed to cover the initial investments. Public-private business models may be considered.
- *User-friendly interface and access.* Understanding both IT and the trade process was fundamental in developing an effective system.
- *Adoption of international standards.* They provide a ready-to-use basis for harmonizing procedures across agencies and can greatly facilitate the exchange of trade documents and information across borders.
- *Phased implementation.* It allowed users to adapt to the new system and at the same time provided room for gradual adjustments and system upgrades.

Source: ESCAP/ADB Trade Facilitation Handbook (2009, forthcoming); Junsok Yang, “Small and medium enterprises (SME) adjustments to information technology (IT) in trade facilitation: the South Korean experience”, ARTNeT Working Paper No. 61 (Bangkok, ESCAP), 2009. UN/CEFACT, *Case Studies on Implementing a Single Window*, February 2007 (ECE/TRADE/364; www.unece.org/cefact).

⁷ On 3 August 2009, \$1 equaled about 1,222 Korean won (source: <http://www.xe.com>).

The existence of an operational public-private trade facilitation institutional structure enabling the timely identification of trade facilitation issues and solutions is particularly important in the current crisis environment, where issues and priorities are likely to evolve significantly. As international trade transactions typically involve at least a dozen government agencies and private parties, the institutionalization of inter-agency and public-private consultation mechanisms for trade facilitation should be considered as a necessary step towards the development of timely and practical solutions to the changing mix of administrative, infrastructural and other problems and bottlenecks faced by companies seeking to benefit from international trade opportunities.⁸

Each country has to determine its specific trade facilitation needs and priorities, but computerization and automation of trade procedures is an important and ultimately necessary step for effective participation in global trade. Reaping the full benefits from these initiatives requires completing or integrating existing IT applications to enable one-time-only submission of information by traders to all government agencies and other parties to a transaction. Organizations such as ESCAP and UNCTAD, often in partnership with development banks and aid donors, are facilitating access to technical and financial resources for the development of such systems.⁹

In light of the economic slow-down in major developed country markets, it may be timely to revise trade regulations and procedures so as to further facilitate intraregional trade, including through land borders and with landlocked countries. Indeed, national trade facilitation programmes in many developing countries have often inherently focused on facilitating imports and exports from and to developed countries through sea and airports – in

part because of the increasingly sophisticated requirements imposed by developed countries on their trading partners as part of trade security initiatives. Meanwhile trade facilitation concerns at many land borders remain yet to be addressed.

The need to find new markets – alternatives to developed country markets – requires a renewed emphasis on intraregional and subregional trade and transit facilitation

The availability of cross-country data on trade facilitation has improved in recent years, but there is still a dearth of information on intraregional trade and transit facilitation. However, an increasing number of subregional analyses undertaken locally by developing country research institutions suggest that the situation at many land border crossings is often dismal and has sometimes even deteriorated in recent years (see box 4.2). Progress has been slow even in the Greater Mekong Subregion (GMS), where countries signed a landmark cross-border transport facilitation agreement covering a number of ambitious trade facilitation measures such as single window/single stop inspections in 2003 (ARTNeT, 2009).

The need to find new markets – alternatives to developed country markets – makes a renewed emphasis on intraregional and subregional trade facilitation necessary. Crossing borders remains unduly costly and cumbersome in many subregions in Asia and the Pacific. Speeding up the implementation of existing regional transit and trade facilitation initiatives, such as the ASEAN Framework Agreement on the Facilitation of Goods in Transit, the ASEAN Single Window initiative and the Sectoral Mutual Recognition Arrangements for selected tradable goods, should therefore be actively considered.

New initiatives may also be considered in regions and subregions where trade is least efficient, focusing on regionalizing bilateral transit agreements and actively developing collaboration among agencies on both sides of land borders.

⁸ See UN/CEFACT recommendation No. 4 on establishment of a national trade facilitation body (NTFB).

⁹ For example, ESCAP and ECE, in collaboration with UNCTAD, recently launched a United Nations Network of Experts for Paperless Trade, bringing together expertise from the Asia-Pacific region in this area. See <http://www.unescap.org/unnext/>

Box 4.2. Crossing borders is a costly affair in South Asia

A large portion of South Asia's merchandise trade is carried overland through land borders such as those between India and its neighbouring countries. However, there is no direct cross-border road or rail transportation in South Asia. For example, the direct movement of goods and vehicles is not allowed across the borders between India and Bangladesh, and between India and Pakistan. Goods have to be trans-shipped.

Obstacles to cross-border trade among South Asian countries did not improve between 1998 and 2005. In fact, they appear to have increased. Border delays for India's exports to Bangladesh increased from 2.5 days in 1998 to 3.9 days in 2005 and border transaction costs increased from 10.3% in 2002 to 16.8% in 2005.

Indian exporters to Bangladesh have to obtain up to 330 signatures on 17 documents, according to De and Ghosh (2008). Some of the required documents are standard for international trade, but the two governments have added many others of a purely local nature. The increasingly complex procedures not only affects the composition and direction of trade in South Asia, but also attracts a considerable number of unemployed people who see opportunities to earn large sums by informal means and turn these into full-time formal employment. Similar situations at most other land borders in South Asia raise transaction costs and foster rent-seeking informal economies. The considerable costs and time delays offsets, and possibly wipes out, the benefits of trade liberalization in the region.

Unlike the European Union, South Asia does not have a regional transit arrangement, although limited bilateral transit arrangements exist for landlocked countries such as Afghanistan, Bhutan and Nepal. As a result, trade in South Asia is heavily penalized by the impact of border delays on transport costs as well as by high tariffs.

Source: Prabir De, "Inclusive growth and trade facilitation: insights from South Asia", ARTNeT Policy Brief No. 16 (Bangkok, ESCAP), 2009.

Initiatives focusing on facilitating trade across subregions would seem to be particularly timely, keeping in mind that a pragmatic approach based on consultations with stakeholders – including border traders and communities – will be essential for achieving real progress in intraregional trade facilitation.¹⁰ As discussed in chapter 3, expanding the scope of regional preferential trade agreements to include non-discriminatory trade and transit facilitation measures may also be considered, to encourage and facilitate cross-border cooperation in this area. In particular, the challenge is to ensure that the free trade goal of these agreements is not compromised by members erecting administrative barriers (e.g. pre-shipment inspection requirements) as non-transparent alternatives to tariffs.

¹⁰ Ongoing research under the ARTNeT GMS initiative suggests that national and subregional consultation mechanisms are essential in making progress on trade facilitation at the border, as trade and transport facilitation commitments made at the national level will ultimately need to be implemented at the provincial and community levels in border areas. See <http://www.artnetontrade.org> for more details.

Needs and priorities are likely to vary significantly from country to country and from sector to sector depending on the existing regulatory systems in place and the nature of products traded. However, focusing on concrete improvements that can yield quick efficiency gains, such as providing clear, complete, and easily accessible information on *existing* rules and procedures for import and export, may be given priority in the short term. In the medium term, simplification, harmonization and standardization of the rules and procedures may then be actively pursued, using existing trade facilitation instruments developed under the auspices of the United Nations and other relevant agencies, such as the World Customs Organization (WCO). National trade finance institutions may also be strengthened or established.

As discussed in chapter 2, the beginning of formal negotiations on trade facilitation at WTO has contributed to increasing awareness among policy-makers of the importance of removing procedural and administrative bottlenecks. While the negotiations are limited in scope, a number of countries in

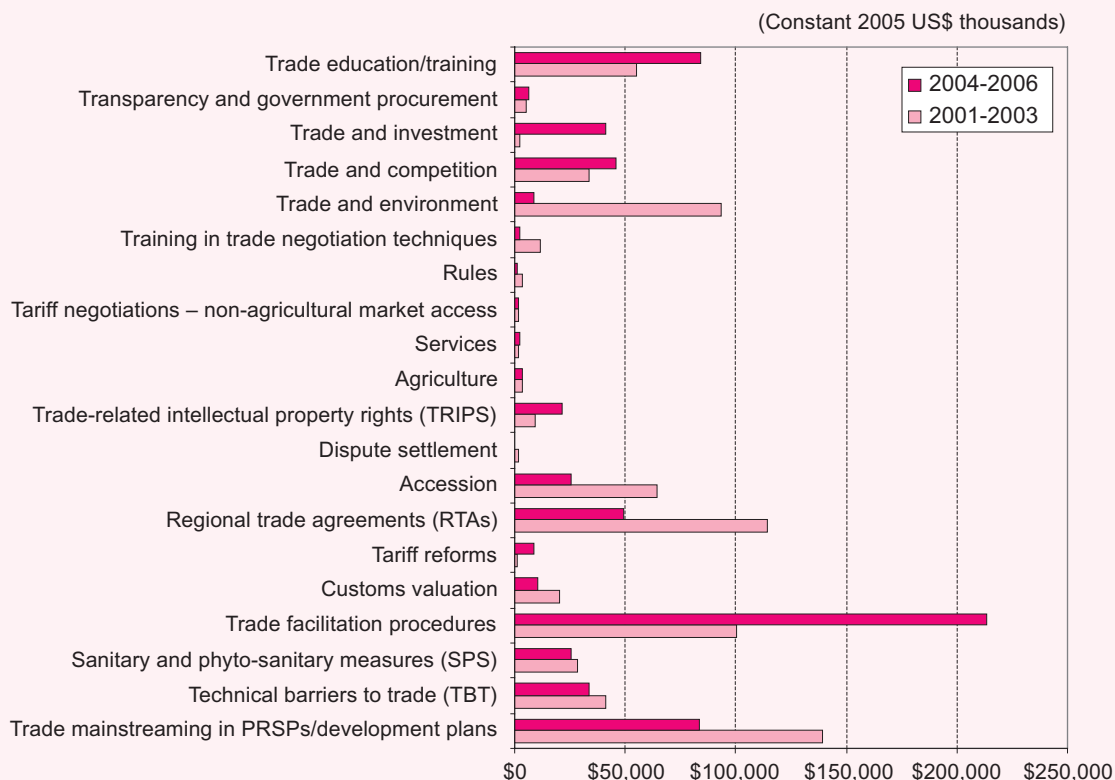
the region have conducted detailed needs and priority assessment – some of which are supported by the ESCAP secretariat – and established public-private sector trade facilitation task forces as part of the negotiation process and related technical

assistance. Bringing the negotiations in this area to a successful conclusion would provide further motivation to reform trade facilitation and encourage donors to prioritize this area for technical assistance and capacity-building (see box 4.3).

Box 4.3. Aid for trade facilitation

The Second Aid for Trade Global Review, held in Geneva in July 2009, revealed that aid for trade has grown by more than 10% year-on-year since 2006. Many recipient countries of aid for trade put trade facilitation among their top three aid for trade priorities, including Afghanistan, Armenia, Bangladesh, Cambodia, Indonesia and Viet Nam.

Aid for trade policy and regulations, Asia, 2001-2003 versus 2004-2006



As shown in the figure above, the prioritization by countries of this area is reflected in the increase in the amounts allocated to aid for trade facilitation, which more than doubled between 2001-2003 and 2004-2006. As the ongoing multilateral negotiations on trade facilitation at WTO make an explicit link between implementation of commitments and the provision of adequate technical assistance and capacity-building in this area, further increase in aid for trade facilitation may be anticipated in the coming years.

Source: WTO/OECD, *Aid for Trade at a Glance, 2009* and OECD-WTO Aft database, <http://tcdbd.wto.org> (accessed April 2009).

Note: PRSPs – Poverty Reduction Strategy Papers.

B. TRADE IS BUSINESS: IMPORTANCE OF BEHIND-THE-BORDER BUSINESS REGULATIONS

There is increasing evidence that BtB policies matter for trade performance. Some of the BtB factors identified as affecting trade include poor roads and ports, poor customs performance, weakness in regulatory capacity, and limited access to finance and business services (Hoekman, 2008). Interestingly, a growing number of empirical studies (Wilson and others, 2004) confirm that BtB business (investment) regulations affect a country's export competitiveness and that the domestic business environment may have an impact on trade of a magnitude similar or greater than that of trade-specific barriers (e.g. tariffs and customs procedures) and bottlenecks (e.g. port infrastructure).¹¹

Most countries in the Asia-Pacific region have scope to increase their trade competitiveness by tackling non-trade specific regulations affecting all domestic businesses

For example, Wilson and others (2004) found that the overall regulatory environment and the quality of the service sector infrastructure each had a greater impact on trade flows than the transparency in customs procedures. The complexity of the contract enforcement process in both the country of the importer and the exporter is also found to affect bilateral trade flows and empirical estimates suggest that an improvement in contract enforcement may ultimately increase bilateral exports by an amount 50% greater than what could be expected from a 5% reduction in the cost of exports (Duval and Utoktham, 2009; Ranjan and Lee, 2007).

¹¹ The gravity model is extended to trade facilitation measures and related BtB factors. In addition to two indicators specifically affecting cross-border transactions – port efficiency and customs transparency – they considered the impact of the overall regulatory environment in each country as well as the quality of the service sector infrastructure – proxied by use of the Internet by businesses and speed and cost of Internet access.

The average “Ease of Doing Business” ranking shown in figure 4.4¹² provides an indication of how easy it is to conduct business in each Asia-Pacific subregion, including – but not limited to – the ease of trading across the border in each country. A higher average rank indicates a poorer overall business facilitation performance. Landlocked countries, which face unique geographical constraints, are not included in the subregional averages but reported as a separate group.

Improving contract enforcement may increase bilateral exports by an amount greater than what could be expected from a 5% reduction in export costs

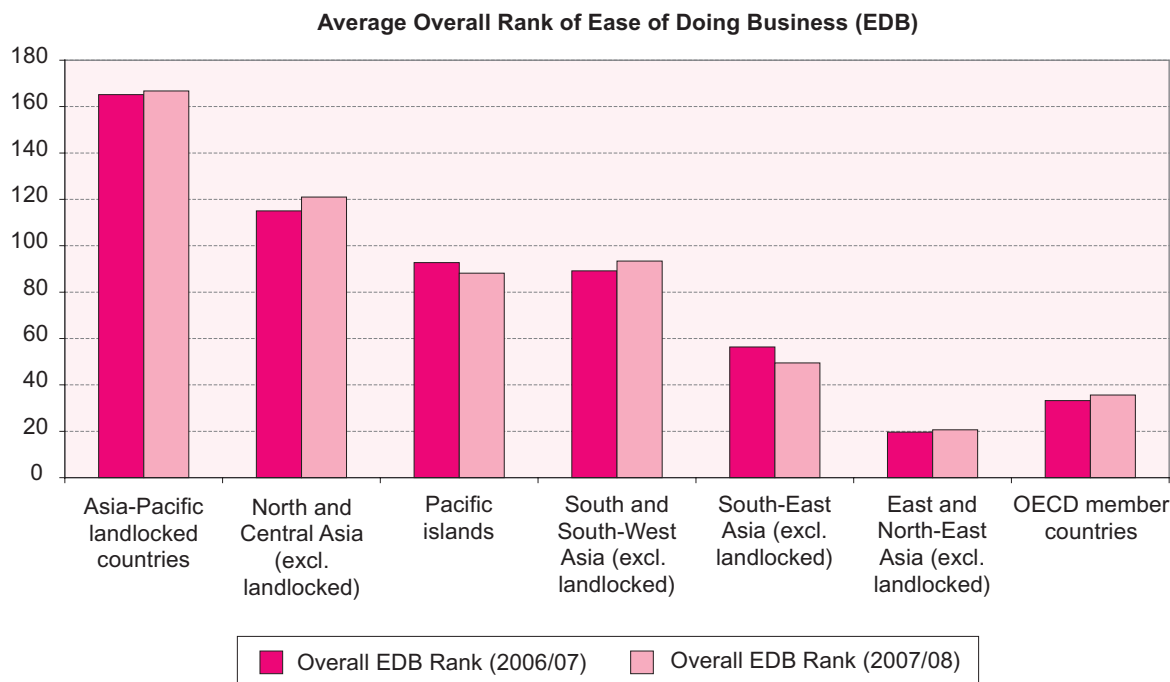
Sharp differences exist in the level of business facilitation across subregions. While East and North-East Asia and South-East Asia perform relatively well, South and South-West Asia, the Pacific islands, and especially North and Central Asia show relatively low levels of business facilitation. Landlocked countries rank most poorly, and they seem to be falling further behind with deteriorating rankings from 2006 to 2008.

South-East Asia and the Pacific islands are the only subregions which have improved their world standing in business facilitation over the past two years

South-East Asia and the Pacific islands are the only subregions which have made progress in business facilitation over the past two years, “catching up” with the OECD group, which experienced a fall in average relative performance. This does not mean that national governments in other subregions did not work towards business facilitation, however, but

¹² Details on the methodology used for data collection and its limitations are available at <http://www.doingbusiness.org>. The ten areas covered by the Doing Business database are: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business.

Figure 4.4. Business facilitation in selected subregions of Asia and the Pacific



Source: World Bank, Doing Business Report, (<http://www.doingbusiness.org>).

Notes: (1) Overall Rank of Ease of Doing Business are derived from the simple average of the percentile ranking of both behind-the-border and trading-across-border components. (2) Economies in each category are as follows: (a) Landlocked: Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Lao People’s Democratic Republic, Afghanistan, Bhutan, Nepal, Mongolia; (b) North and Central Asia: Georgia, Russian Federation; (c) South-East Asia: Brunei Darussalam, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam; (d) South and South-West Asia: Bangladesh, India, Islamic Republic of Iran, Maldives, Pakistan, Sri Lanka, Turkey; (e) East and North-East Asia: China; Hong Kong, China; Republic of Korea; (f) Pacific islands: Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Vanuatu.

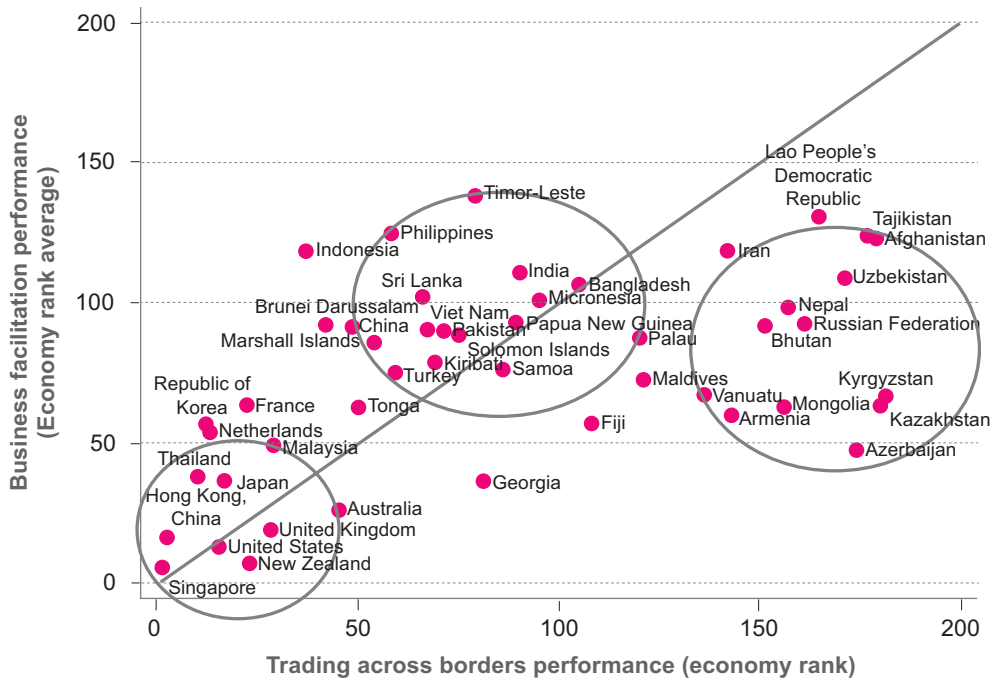
that whatever progress they may have achieved did not increase their world standing as other countries achieved relatively more progress in this area.

Overall, it appears that most countries in the Asia-Pacific region, including many countries that have invested heavily in rationalizing and automating trade procedures, may have scope to further increase their trade competitiveness by broadening their efforts to include non-trade specific regulations affecting all domestic businesses. Such an approach may be particularly beneficial as it is likely not only to benefit existing exporters but also to make it easier for other emerging businesses to develop and grow, and possibly start engaging in international trade as well.

Interestingly, as figure 4.5 shows, Asian and Pacific developing countries that do well in the area of Trading Across Borders¹³ do not necessarily do well in other business (investment) facilitation areas, and vice versa (ESCAP, 2008).¹⁴ For example, Indonesia

¹³ The Trading Across Borders performance indicator in Doing Business is calculated based on the number of documents for import and exports, the cost of export and import, and the time for import and export. A low country rank (e.g. 150) indicates poor performance.

¹⁴ A country’s Business Facilitation Performance is calculated as the average of a country’s ranking in the following nine areas covered by the Doing Business Report: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. A low country rank (e.g. 150) indicates poor performance.

Figure 4.5. Behind-the-border trade facilitation versus business facilitation performance

Source: Yann Duval and Chorthip Utoktham, “Behind-the-border trade facilitation in Asia-Pacific: cost of trade, credit information, contract enforcement and regulatory coherence”, ESCAP TID Staff Working Paper No. 02/09, 2009.

performs relatively well in the area of Trading Across Borders (37th of 181 countries) but much more poorly in other areas of business facilitation (119th). In contrast Nepal, which performs very poorly in the area of Trading Across Borders (157th) – to a large extent because it is landlocked – ranks significantly better in other areas of business facilitation (99th). Overall, only a weak positive correlation can be identified between trade facilitation and business (investment) facilitation performance in developing countries. The disconnect existing in developing countries between trading across borders performance and business facilitation is much less apparent in the case of developed countries, suggesting that it is indeed important to tackle trade facilitation and business facilitation in an integrated manner.

Figure 4.5 also shows how well economies perform in terms of both Trading Across Borders and other “doing business” indicators. Economies above the line do relatively better in facilitating Trading Across Borders than in other areas of business facilitation,

Trade facilitation and business facilitation need to be tackled in an integrated manner

while those below the line put relatively less emphasis – or do less well – in Trading Across Borders relative to other business facilitation measures. Three groups of countries seem to emerge from the figure: (1) developed and advanced developing countries that do well in both trading across borders and other facilitation measures, having developed a good balance between the various trade-focused and general business facilitation measures; (2) developing countries, many of them are middle-income economies, which have emphasized trading-across borders relative to more general business facilitation measures; and (3) landlocked countries and economies in transition, which have been unable to improve their trading across border performance. Overall, the figure suggests that middle-income developing countries, as they strive to catch up with the first group of developed

countries, may have to reach a better balance between Trading Across Borders facilitation measures and business facilitation.

A chain is only as strong as its weakest link. Therefore, above and beyond the competitiveness gains associated with improving a country's performance in a specific area of business facilitation, ensuring that adequate performance (rank) is achieved across all areas of business facilitation can be important. Such a country may be described as one having a more coherent and integrated approach to trade and business facilitation. A recent study conducted at ESCAP (Duval and Utoktham, 2009) showed that a country could increase its intraregional and South-South trade significantly by achieving a more homogeneous performance across all trade and business

facilitation areas. It suggests that focusing on coherence would be a way for countries – especially those which have already made some good progress in trade facilitation – to gain a competitive edge in an increasingly challenging global environment. A more integrated approach to trade facilitation and business (investment) facilitation may also contribute to lowering the cost of entry into new markets and sectors of activity, leading to much needed export diversification in times of crisis (see box 4.4).

Although there is much variation within each subregion, economies in East and South-East Asia have on average achieved a much higher level of trade and business (investment) regulatory coherence than those in South Asia and the Pacific (see figure 4.6). Singapore is the country with the

Box 4.4. Trade facilitation for export diversification

Countries that have achieved greater export diversification, either in the sense of exporting a wider range of products or exporting to a larger number of foreign markets, are arguably better positioned to weather an economic crisis. In addition, there is emerging evidence that more diversified economies tend to grow faster and have higher per capita incomes.

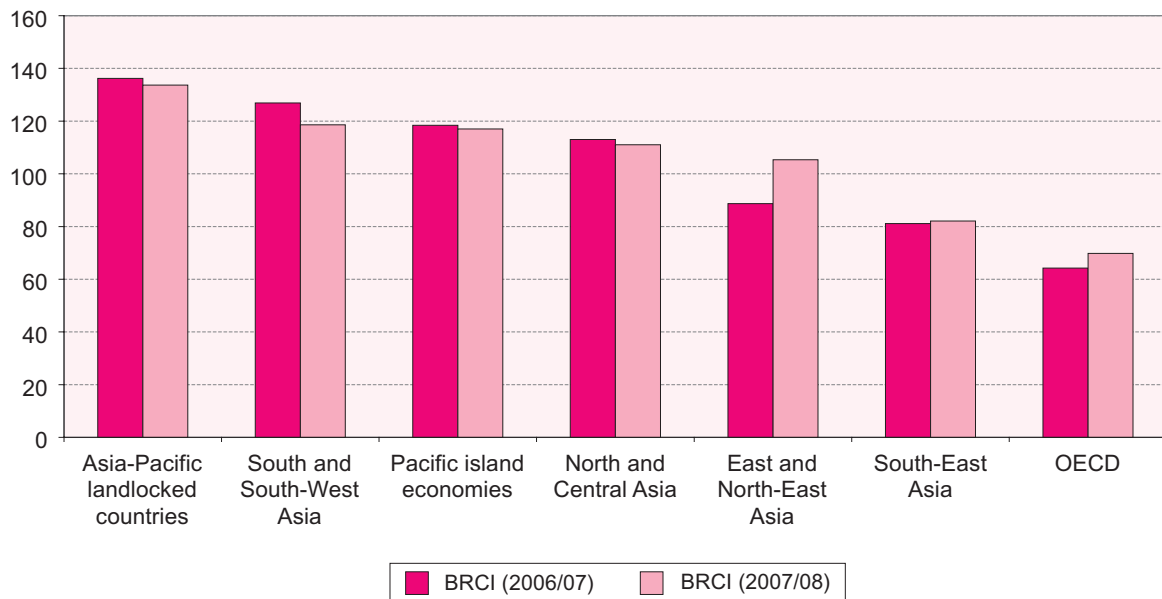
Dennis and Shepherd (2007) suggest that lower trade costs – and in particular, lower fixed costs of exporting – can do much to expand the range of products that developing countries export. The reason fixed costs are so important is that they are the primary determinants of a firm entry into particular overseas product markets. By contrast, the variable costs of trade, such as tariffs, primarily influence the quantity of goods a firm sells once it has made the decision to make a product, and enter a given market. Concretely, a 10% improvement in trade facilitation – as measured by the Doing Business dataset's cost of exporting – is associated with gains of the order of 3% to 4% in product diversity, and 5% to 6% in export market diversity.

The start-up costs businesses face before entering the domestic market (e.g. the amount an entrepreneur must deposit with a bank prior to company registration) is also found to have an effect on export diversity, as higher costs result in a smaller number of active enterprises, and thus fewer exporters and export products. While the effect is significant, a 10% reduction in domestic market entry costs is associated with only a 1% increase in export diversity.

Product standards and harmonization policies in import markets are also found to affect export diversification in low income countries, as different standards in different import markets lead to fixed costs of entry associated with products redesigned to meet the various standards.

Overall, to be effective in promoting export diversification, trade facilitation measures should pay particular attention to the fixed cost barriers to international trade. The full range of policies that affect trade costs need to be taken into account, both at- and behind-the-border, and including costs of entering a market and starting a business.

Source: Based on Ben Shepherd, "Enhancing export diversification through trade facilitation", ARTNeT Policy Brief, No. 19, May 2009. Available at: <http://www.unescap.org/tid/artnet/pub/polbrief19.pdf>.

Figure 4.6. Business regulatory coherence in selected subregions of Asia and the Pacific^a

Source: Same as for figure 4.5, excluding landlocked countries.

^a A country's Business Regulatory Coherence Index (BRCI) is based on the variance of that country's rankings in the 10 business regulatory areas considered in the Doing Business Reports, including Trading Across Borders. The average of BRCI country ranking in each subregion is shown in this figure. A lower rank denotes higher overall regulatory coherence.

most coherent trade and business environment.¹⁵ Malaysia and Thailand also stand out in Asia as countries with coherent trade and business environments, achieving a well-balanced performance in all areas of business facilitation, including trade. In contrast, the overall business regulatory coherence in China and the Republic of Korea is less impressive, as a heavy emphasis seems to have been placed on facilitating trade across borders while performance in some other areas of business (investment) facilitation has remained relatively weak.¹⁶

¹⁵ Countries that rank among the best in terms of Ease of Doing Business also tend to rank well in terms of business regulatory coherence. However, some of the worst performing countries in terms of overall Ease of Doing Business also do relatively well in terms of trade and business regulatory coherence, since they rank uniformly poor in all areas. This is particularly the case for the Lao People's Democratic Republic and Nepal.

¹⁶ This was also noted by Yang (2009) in the case of the Republic of Korea.

Overall, it is important to recognize that, while importers and exporters have to fulfil specific procedures associated with their international trade activities, they are also subject to domestic regulations and procedures faced by all businesses. In light of the growing evidence that generally applicable business and investment regulations have a highly significant impact on a country's trade competitiveness, institutions in charge of trade facilitation should ensure they are in a position to address the key procedural and information bottlenecks faced by importers/exporters. Trade policymakers may need to allocate more time and resources to building cooperation with non-trade regulatory agencies in order to identify trade-friendly solutions to regulatory and other issues not directly under their purview, including trade finance. Such an integrated approach to trade and business facilitation can be expected to further increase opportunities for domestic firms and SMEs to engage in and gain from trade.

C. TRADE FINANCE: AN ESSENTIAL TRADE ENABLER

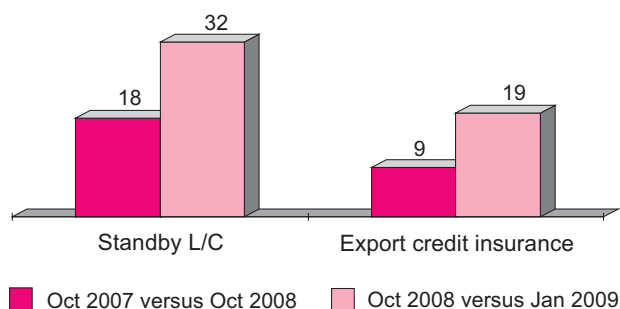
The global economic crisis has attracted renewed attention to the issue of trade finance, as exporters in some countries, particularly SMEs, struggle to secure much needed short-term financing and protection against rising commercial risks at a time when demand for their products has fallen dramatically. The higher costs and limited availability of trade finance has prompted action by international financial institutions but the threat it poses to regional economies is significant. A recent empirical analysis (Liu and Duval, 2009) suggests that a 10% decline in trade finance could lead to a drop in total trade of \$129 billion in developing Asia, representing 3.6% of their total trade.

Renewed attention to trade finance is needed as Asia-Pacific traders struggle to secure much needed short-term financing and protection against rising commercial risks

Reliable and comprehensive information on trade finance is scarce, but various surveys of financial institutions or exporters conducted at the national, global and regional levels in late 2008 and during the first half of 2009 confirm there has been an increase in the price of letters of credit – a trade finance instrument whereby the bank of the importer guarantees payment to the exporter or its bank upon satisfactory delivery of a shipment – and export credit insurance (see figure 4.7). Banks surveyed expected little improvement during the course of 2009.

Countries with high risk ratings have suffered the most from the drying up of trade finance, as financial institutions have looked for quick ways to reduce the overall risk of their trade finance portfolios by reducing coverage of transactions considered as high risk. Since “country risk” is the basis for setting minimum premium rates for transactions covered by many export credit agencies, a country’s sovereign default risk directly affects an individual exporter’s ability to get trade financing. Least developed countries such as

Figure 4.7. Rising cost of trade finance
(Average basis point increase over costs)



Source: IMF-BAFT, Trade Finance Survey (March 2009).¹⁷

Afghanistan, Lao People’s Democratic Republic, Myanmar and Nepal, are classified in the highest country risk category.¹⁸ Transactions with those countries have traditionally been associated with higher risk premiums and the current crisis makes this worse.

Some countries in the region have attributed the more difficult access and higher cost of trade finance to a general liquidity shortage in their economy, but many have pointed to the increased risk aversion of financial institutions towards enterprises and to the higher perceived counterparty risk of banks as key factors.¹⁹ Strong interventions by central banks have markedly improved the situation in many economies, but a general lack of information about trade finance has contributed to uncertainties about the solvency of counterparties in foreign markets and increased the perceived risk of trade finance products relative to other products.

Increased capital requirements have also become more important factors in the rising cost of trade finance²⁰ and there is a clear possibility that national authorities will impose even tighter controls

¹⁷ Results based on responses from 44 banks in 23 countries. Accessed on 24 July 2009 at http://baft.org/content_folders/Issues/IMFBAFTSurveyResults20090331.ppt

¹⁸ OECD, <http://www.oecd.org/dataoecd>, accessed on 25 March 2009.

¹⁹ APEC, Senior Officials’ Meeting Chair’s Office, 17 July 2009, Singapore. Accessed on 23 July 2009 at http://www.news.gov.sg/public/sgpc/en/media_releases/agencies/mti/press_release/P-20090717-2.print.html?AuthKey=

²⁰ See IMF-BAFT Survey Results (reasons for increased pricing of trade finance).

on banks' international operations (Koeppen, 2009). Indeed, cross-border financial flows have declined for the first time in 30 years. The International Chamber of Commerce (ICC) has pointed to the implementation of the Basel II charter²¹ as having particularly adverse consequences for trade lending to SMEs and counterparties in developing economies (ICC, 2009). Reviewing these regulations may therefore be needed to ensure that they do not unduly constrain the provision of trade finance, particularly to the less developed countries of the region.

Increased bank capital requirements have already raised the cost of trade finance and tighter regulations may follow

Serious concerns that constraints on the supply of trade finance as an essential trade enabler would further reduce the capacity of enterprises to trade have prompted international financial institutions and the G-20 to take a number of trade finance facilitation measures in the last quarter of 2008 and the first quarter of 2009. At the global level, the G-20 committed to ensuring availability of at least \$250 billion over the next two years to support trade finance through their export credit and investment agencies and trade finance schemes of international financial institutions, including the IFC Global Trade Liquidity Pool.²²

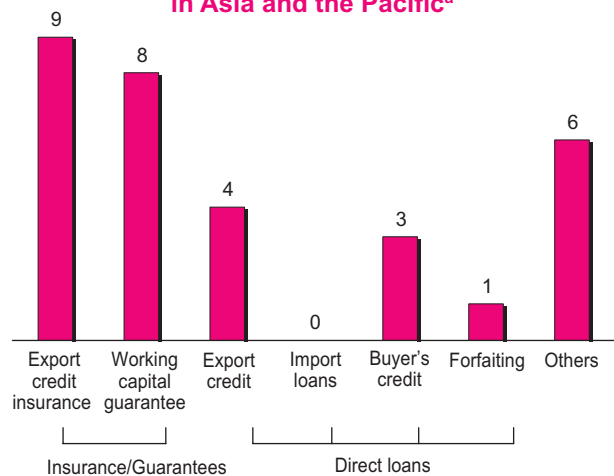
At the regional level, the Asian Development Bank has agreed to a significant expansion of its trade finance programme, which is expected to generate up to \$15 billion in support until 2013 to help counter an export slump that has been exacerbated by the lending difficulties of commercial banks. At the national level, many countries have also implemented new or enhanced trade finance

²¹ Basel II is a set of banking regulations put forth by the Basel Committee on Bank Supervision, which regulates finance and banking internationally.

²² The new IFC Global Trade Liquidity Pool which should provide up to \$50 billion in trade liquidity support over the next three years, with significant co-financing from the private sector (as part of the global effort to ensure the availability of at least \$250 billion of trade finance over the next two years).

schemes in response to the crisis, most often focusing on providing export credit insurance and guarantees to help enterprises and banks to manage their risks (figure 4.8). These global, regional and national initiatives will certainly contribute to increased availability of trade finance in the near term and it is heartening to see how quickly they have been agreed upon and implemented across the region.

Figure 4.8. New or enhanced trade finance facilitation measures implemented in Asia and the Pacific^a



Source: Survey by APEC Senior Officials' Meeting Chair's Office (17 July 2009, Singapore).

^a This figure indicates the number of APEC member economies that have taken different types of measures in response to the trade financing problem. Schemes under "Others" included equity financing, bonding and surety, SME funding schemes, rediscount of trade bills, less conservative capital adequacy ratio, documentary credit guarantees, trade finance advisory service, multi-currency trade finance, indirect exporter finance scheme, SME assistance guarantee scheme and industry restructuring guarantee fund scheme.

However, many of the smaller and less developed countries in the region have very limited capacity to address trade finance shortages on their own and may not fully benefit from global and regional schemes as they lack the required national trade finance institutions and infrastructure. Government-backed export credit insurance and guarantee institutions and/or export-import (EXIM) banks are still inefficient or missing in many developing countries of the region (Auboin and Meier-Ewert,

Many developing countries have very limited capacity to address national trade finance shortages on their own

2003).²³ These institutions can be particularly useful in times of crisis when financial markets may not be functioning efficiently and worthy borrowers find it difficult to secure financing and insurance from commercial institutions, and they can also therefore play an important role in facilitating South-South trade (see box 4.5).

²³ Cambodia is planning to conduct a feasibility study for the establishment of an export-import bank in 2009 (George McLeod, "Cambodia plans launch of export-import Bank, of establishing this kind of institution", *The Phnom Penh Post*, 27 May 2009. Accessed from <http://www.phnompenhpost.com> on 4 August 2009).

Credit rating institutions are also weak or absent in many developing countries in the region, and the current crisis has shown how important these institutions are in ensuring the proper functioning of financial markets (see box 4.6). One recent study estimates that improving the quality and availability of credit information in China and India to the average level achieved in OECD could ultimately increase their exports by 7% or more (Duval and Utoktham, 2009). Reliable information on importers' or exporters' creditworthiness is indeed essential for trade finance providers to accurately assess the risk associated with a given transaction and offer affordable trade finance products.

Establishing or strengthening national trade finance institutions should be given serious consideration, as the absence or ineffectiveness of such institutions

Box 4.5. The role of national export-import banks: the case of EXIM Thailand

The success of Thailand's economic development efforts during the second half of the 1980s had prompted many economists to believe that Thailand could extend this success by adopting an export-led growth strategy that would provide SMEs with an opportunity to participate in international trade. To support this strategy, Thailand consolidated and/or created a number of institutions specializing in foreign trade, among them the Export-Import Bank of Thailand (EXIMT).

EXIMT was established in 1993 as a 100% government-owned corporation to provide financial services to support imports, exports and foreign investment beneficial to the Thai economy. Its start-up capital of 2.5 trillion baht (\$100 million) came from the Bank of Thailand (BoT) and the Ministry of Finance and its Board of Directors comprised high-level representatives from all the trade-related ministries as well as private sector representatives.

The Bank was mandated and authorized to provide a wide array of financial services, ranging from export refinancing to export credit insurance. Packing Credit Facilities (subsidized pre-shipment and post-shipment financing facilities provided to exporters mostly through commercial banks) previously provided by BoT were transferred to the newly-formed EXIMT, which complemented this facility with a standard pre-shipment (unsubsidized) facility directed at small and new exporters. EXIMT subsequently discontinued its subsidized packing credit facility to comply with WTO rules, but also because the facility had become unnecessary due to the high level of market liquidity and falling interest rates.

An Amendment to the Export-Import Bank of Thailand Act promulgated in 1993 further broadened the mandate of EXIMT to allow it to support export-related domestic investment. As a result, the Bank added to its product portfolio a credit facility for business expansion. EXIMT's number of products and services has increased over time and become more sector-specific with a focus on SMEs. Foreign investment advisory services as well as export advisory services began to be offered in 1999. In recent years, the Bank has developed an SME Financial Service Centre offering streamlined products and services and a faster response time.

The current global crisis has prompted the Bank to further emphasize its development banking role, providing entrepreneurs with complete business solutions, ranging from loan, export credit insurance and financial advisory services, with a special focus on three sectors: (1) logistics services; (2) the energy sector, especially alternative and biomass energy sources and technology; and (3) infrastructure and public utilities.

(Continued on next page)

Box 4.5 (Continued)

As of February 2009, EXIMT was expected to receive a capital injection of 5 billion baht from the Ministry of Finance for use in providing additional export credit insurance facilities to struggling Thai exporters. Its Buyer/Bank Risk Assessment Service has also become particularly popular, as exporters were increasingly concerned of the possibility of defaults. The Bank also adopted a more pro-active role in regional and South-South trade facilitation and promotion, opening a branch in Moscow, Russian Federation, and planning to establish specialized country and industry focus desk units in Cambodia, Indonesia, Viet Nam, India and the Lao People's Democratic Republic.

After more than 15 years of operation, including during the Asian financial crisis of 1997/98, a review of EXIMT's experience indicates that:

- An EXIM bank can be effective in stimulating the development of trade finance, by introducing new products and services (such as export credit insurance) and by disseminating relevant information to potential exporters. Once an EXIM bank has good experience in evaluating SMEs export potential, the bank may use this experience to offer longer-term credits supporting business expansion.
- An EXIM bank's credit rating will typically have sovereign credit rating, because it is backed by the government. Such a rating may make it easier for the bank to access international credit markets as compared with domestic banks.
- An EXIM bank should focus on complementing the services offered by commercial banks, and provide credit to small and new exporters, including SMEs with export potential. It should also provide additional credit lines to large exporters who are unable to obtain the full credit they require from commercial banks.
- An EXIM bank can help regulate the cost of trade finance services offered by commercial banks, especially when there are few commercial banks offering international banking services.
- An EXIM bank, while not expected to finance a large share of exports and foreign investment under normal circumstances, can be an effective source of backup financing during major financial crises (EXIMT's activities doubled during the Asian crisis).
- An EXIM bank should be managed as a self-sustaining organization, with no subsidies of interest rate, but a modern and creative risk assessment and management programme to support small and new enterprises with export potential. Offering a wide array of products and services makes it easier for the bank to market its services, satisfy the needs of its clients and be profitable.

Source: <http://www.exim.go.th>; ESCAP, *Current Issues on Industry, Trade and Investment*, No. 2 (United Nations publication, Sales No. E.04.II.F.6, ST/ESCAP/2298), 2003; and interviews with EXIMT officials (April 2009).

puts traders at a relative disadvantage, particularly in times of crisis. The focus may be placed on establishing government-backed but self-sustainable organizations offering in particular risk assessment and management programmes to support and build the capacity of SMEs with export potential in this area. In addition, governments may focus on strengthening the quality and availability of credit information by supporting the development of domestic credit rating services.

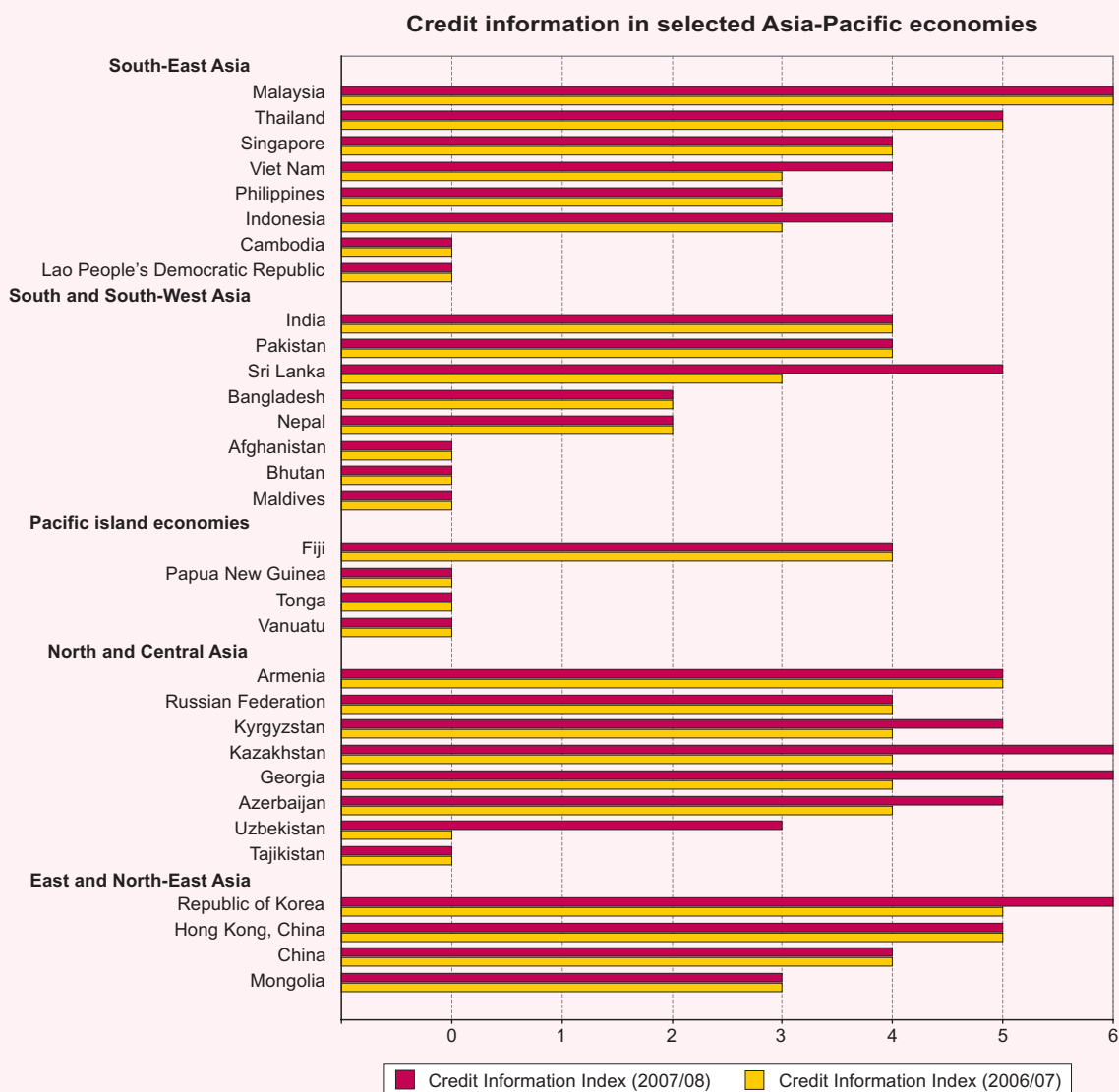
In the long term, as the bulk of trade finance is provided by commercial banks operating in the domestic market – often as part of short-term multi-purpose loans (non-trade specific working

capital) – a strong, credible and well-developed banking and insurance sector is the key to ensuring access to a full array of trade finance instruments. Good and stable macroeconomic fundamentals, prudential regulations, and a pragmatic approach to financial sector liberalization will be essential in achieving this goal. This is certainly a tall order in many developing countries – and one that goes beyond the responsibilities of ministries in charge of trade – but empirical studies have repeatedly confirmed the significant effect of financial sector regulations and development on trade. In addition, many of the trade finance facilitation schemes launched by regional and global development banks rely on domestic financial institutions to channel the

Box 4.6. Credit information availability in the Asia-Pacific region

Regulations related to getting credit are thought to be of particular importance for traders. An average international transaction – from the signature of the contract to delivery of goods and payment – takes time and short-term financing is often needed, particularly for small exporters from the region who most often sell their goods on an open account basis – i.e. payment is made after delivery of goods to buyers. Access to affordable domestic financial services is also essential for exporters conducting business in developing countries where buyers have little or no access to financing, and where risks are high.

The credit information index presented below measures the scope, accessibility and quality of credit information through either public or private bureaus in a country. The index ranges from 1 to 7, with a higher value indicating that more credit information is available to facilitate lending decisions.



As shown in the above figure, serious deficiencies in credit information are apparent in the Pacific island economies as well as in most least developed countries, regardless of the subregion. Interestingly, North and Central Asian countries, with the exception of Tajikistan and Uzbekistan, seem to be relatively well equipped in this area and credit information in that subregion improved significantly between 2006 and 2008.

funds to traders and SMEs, making it important to build the capacity of these institutions to perform this function efficiently.

Given the large gap in the availability of trade finance services between countries of the region, deepening cross-border cooperation on trade finance and pooling resources and expertise in this area may be an effective way to tackle current bottlenecks in trade financing. Options include: (1) strengthening cooperation and networking among and between export-import banks and development finance institutions; (2) expanding multilateral clearing arrangements and related international payment services – possibly based on those offered by the Asian Clearing Union;²⁴ (3) reviewing the effectiveness and possibly *further* strengthening the ADB trade finance facilitation

programme; and (4) establishing a multilateral export credit insurance company and/or a new regional capital market fund for South-South trade and investment finance.

Developing cooperation among banks and governments on the collection and sharing of credit information could also be explored as it would allow for more accurate cross-border transaction risk assessment and ultimately lower trade finance costs. Countries with established trade finance expertise and institutions may initially support the establishment of regional communities of practice on trade finance and credit rating, which would facilitate the transfer of expertise to countries in need of developing or upgrading their national trade finance infrastructure.

²⁴ The Asian Clearing Union (ACU) is the simplest form of payment arrangements whereby the members settle payments for intraregional transactions among the participating central banks on a multilateral basis. The main objectives of a clearing union are to facilitate payments among member countries for eligible transactions, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries. See <http://www.asianclearingunion.org/>.

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CHAPTER 5

BUSINESS SURVIVAL AND DEVELOPMENT

INTRODUCTION

Over the past decades, the majority of Asia-Pacific developing countries have focused on fostering their domestic business sectors as the engine of growth. They have typically followed export-led development strategies, while promoting foreign direct investment (FDI) inflows, mainly into the manufacturing sector. Combining supply-side capacity-building with utilizing natural resource endowments, low cost labour, stable demand and improved access to major export markets in the world, these strategies have accelerated the volume and value of export operations in the region. In addition, the region has become increasingly attractive to investors: capital inflows to Asia and the Pacific have rapidly increased since the late 1990s, mainly consisting of substantial inflows of FDI and, to a lesser extent, commercial loans, portfolio investment and official development assistance (ODA), which have fostered business sector development in the region. Overall, these factors have generally resulted in increased export competitiveness of Asian and Pacific developing countries, including those heavily hit by the Asian financial crisis during 1997 and 1998.

But business in the Asia-Pacific region, like the rest of the world, is facing one of the most complex challenges as the overall business environment has deteriorated rapidly in most countries. Since the business sector in many developing countries of the region mainly consists of small and medium-sized enterprises (SMEs), the roles of SMEs in the

national economy need to be reviewed and the focus of policymakers on business competitiveness needs to be revisited. Emphasis must be placed on enhancing policies and strategies to improve the competitiveness of businesses in Asia and the Pacific in the midst of the global economic downturn and to support their survival, recovery and further development as the global economy improves.

The business sector in the Asia-Pacific region has faced tremendous challenges in the global economic and financial crisis

This chapter elaborates on options for maintaining and enhancing business competitiveness in Asia and the Pacific in response to the current global economic crisis, with a special emphasis on SME development, and the role of global and regional value chains. It covers: (1) business competitiveness and its determinants (section A); (2) recent trends and issues in business sector development in Asia and the Pacific (section B); and (3) emerging challenges and opportunities for business in the present crisis (section C). Section C also includes a review of the importance of corporate social responsibility (CSR) for business competitiveness and an analysis of the impact of the crisis on various business sectors. The chapter concludes with a number of policy options and areas for further research to increase the capacity of the business sector in the region (section D).

A. DETERMINANTS OF BUSINESS COMPETITIVENESS

Business competitiveness can be defined as the ability of enterprises to compete for markets, resources and revenues as measured by indicators such as relative market shares, growth, profitability, or innovation levels. In particular, it reflects the ability of enterprises to sustain superior market positions and profitability relative to their domestic and international competitors by producing products and/or services of superior quality and functionality, at competitive prices and delivered in a timely manner (ESCAP, 2009a). In addition to competitors and customers, enterprises have to consider three other key market forces when developing a corporate competitive strategy: suppliers, potential entrants and substitute products, all of which shape the structure and the nature of competitive interaction within an industry (Porter, 2008). In this context, competitiveness can be referred to as the relative performance of firms in a particular product (or service) market at the national, regional or global level.

The development of business competitiveness involves a complex interaction between many factors which are either external or internal to an enterprise

According to the Global Competitiveness Report of 2008-2009, only 2 of the 10 most competitive countries are from the ESCAP region, compared with six from Europe and two from North America.¹ Many interacting factors influence the competitive performance of enterprises. Major determinants, classified as either external or internal to the firm, are presented in table 5.1. In addition to these factors, the competitive performance of enterprises is also affected by other general conditions, such as the natural resource endowment, macroeconomic conditions and microeconomic factors prevailing in the home and host countries of the enterprise. Growing public awareness and pressure with

¹ The Global Competitiveness Report is a yearly report published by the World Economic Forum. The 2008-2009 report covers 134 major and emerging economies.

Table 5.1. Determinants of business competitiveness

Determinants	Examples
External	
1. Market access	Domestic markets; penetration into export markets; GSP treatment; trade and investment liberalization (e.g. regional trade agreements (RTAs), bilateral trade agreements (BTAs), bilateral investment treaties (BITs); and the establishment of foreign operations
2. Access to resources	People; skills; capital; finance; physical assets; technologies; knowledge; and supplies
3. Regulatory framework which conditions business performance	The process of business registration and licensing; taxation; competition; bankruptcy; property and intellectual property rights; trade and investment policy; customs procedures; and export/import procedures
4. Supporting services provided by both public and private organizations	The quality of physical infrastructure and logistics systems; general and vocational education; training services; and professional services, such as accounting and legal advice; business development services
Internal	
5. Contestable market power	Branding; customer loyalty; and distribution channels
6. Capacity to respond effectively to competitors	Substitutes for products and services; diversified product and service lines; and low cost structure
7. Capability and flexibility to respond to changing circumstances	The availability of key resources; capacity for process and product innovation; and flexible supply chains
8. Capability to create new market niches	Marketing capability; culture of innovation; and customer (or market) orientation

Source: Modified from ESCAP, *Globalization of Production and Trends and Prospects for the Competitiveness of Small and Medium-sized Enterprises (SMEs) in Asia and the Pacific* (ST/ESCAP/2540), 2009, forthcoming.

regard to CSR-led business activities from civil society and consumers make CSR an increasingly crucial determinant for business survival and competitiveness.

These critical determinants of business competitiveness clearly point towards the important role to be played by governments in enhancing competitiveness by creating enabling environments, facilitating better market and resource access, and in providing pro-business regulatory frameworks and business support services. In addition, the government could support institutional capacity-building and developing human resources for new businesses through such policy actions as providing a high quality formal education system, technical and vocational training and education (TVTE) systems, business and innovation incubation facilities, and consulting services. These support programmes should all be geared to facilitating the activities of enterprises working to improve their market positions and their contribution to inclusive and sustainable development. They should have a special emphasis on SMEs which are typically in a disadvantaged position.

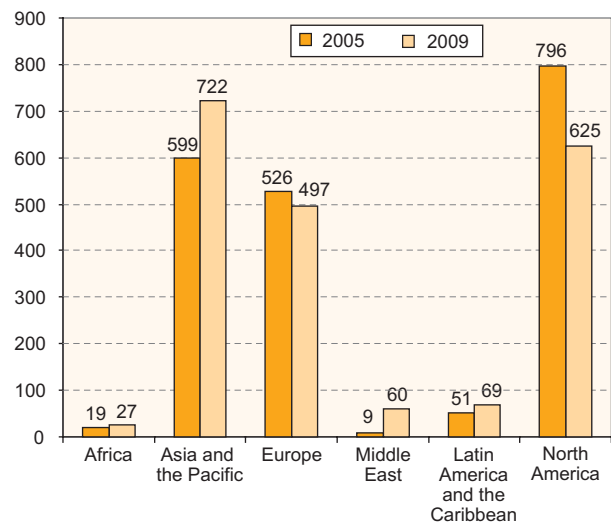
B. BUSINESS SECTOR DEVELOPMENT: TRENDS AND ISSUES

1. Increased presence of Asian and Pacific enterprises in global markets

Over the past decade, Asia-Pacific enterprises, especially from the region's developing countries, have made tremendous strides in global markets. Of the world's top 2,000 firms in 2009 ranked by Forbes Global 2000,² 722 were from the region (36.1%), a substantial increase from 2005 (599 enterprises). As Europe and North America experienced losing shares of 5.5% (from 526 to 497 enterprises) and 21.5% (from 796 to 625 enterprises) respectively since 2005, the Asian and Pacific region is now home to the largest number of

the world's top enterprises (see details in figure 5.1). These top Asia-Pacific enterprises were mainly from five business sectors: banking, finance, materials, transportation, and oil/gas operations. However, the region still has the lowest number of companies with strong consumer brands, except in a few sectors such as automobile, electronics and high-tech companies in East and North-East Asia.

Figure 5.1. The world's 2,000 top enterprises by region, 2005 and 2009



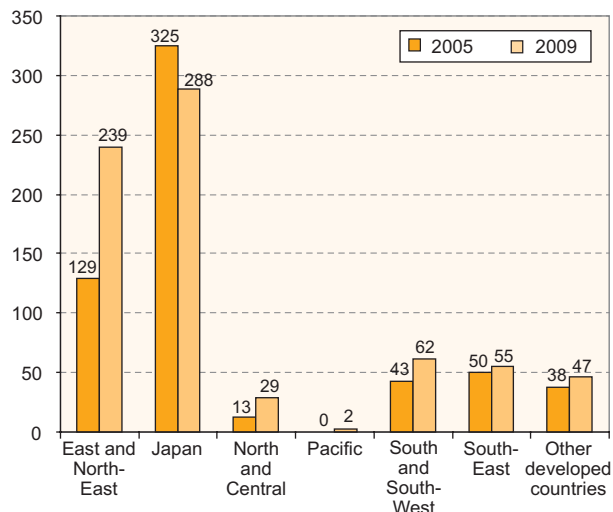
Source: Compiled by ESCAP based on data from Forbes, *the World's Biggest Companies*, 8 April 2009, available at http://www.forbes.com/2009/04/08/worlds-largest-companies-business-global-09-global_map.html, and *the Forbes Global 2000*, 31 March 2005, available at <http://www.forbes.com/2005/03/30/05f2000land.html>.

Among the Asia-Pacific enterprises ranked in 2009, 288 are from Japan, 239 from East and North-East Asia, 62 from South and South-West Asia, 55 from South-East Asia, 29 from North and Central Asia, 2 from Pacific economies and 47 from other developed countries in the region (i.e. Australia and New Zealand). The number of enterprises from the region's developing countries grew by an impressive 64.7% from 2005 to 2009 (from 235 to 387 enterprises), while Japan's share fell by 11.4% (from 325 to 288 enterprises). Among the subregions of Asia and the Pacific, East and North-East Asia grew by the highest rate of 85.3% (from 129 to 239 enterprises), with the majority in China. The number of enterprises from North and Central

² The Forbes Global 2000 is an annual ranking of the top 2,000 public companies in the world by Forbes. The ranking is based on a mix of four most recently available indexes, namely sales, profits, assets and current market value (Forbes, 2009).

Asia more than doubled from 13 in 2005 to 29 in 2009, while India increased its share by over 30% from 30 enterprises in 2005 to 40 enterprises in 2009. Two Pacific enterprises entered the ranking in 2009 for the first time (see figure 5.2).

Figure 5.2. Top Asia-Pacific enterprises by subregion, 2005 and 2009



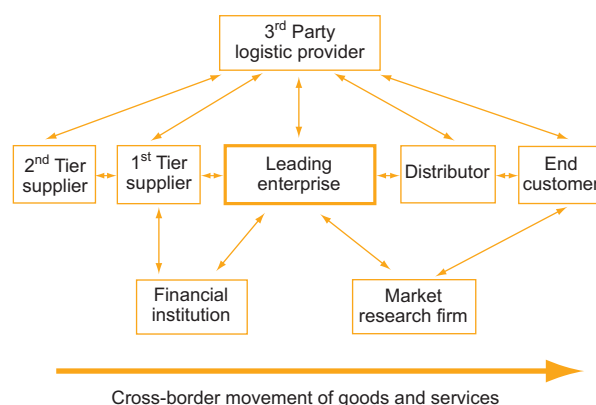
Source: Compiled by ESCAP based on data from Forbes, *the World's Biggest Companies*, 8 April 2009, available at http://www.forbes.com/2009/04/08/worlds-largest-companies-business-global-09-global_land.html, and *the Forbes Global 2000*, 31 March 2005, available at <http://www.forbes.com/2005/03/30/05f2000land.html>

2. The emergence of global and regional value chains

One significant development in the Asia-Pacific business sector has been the emergence of global and regional value chains. A global value chain (GVC) refers to the full range of cross-border value-added business activities which are required to bring a product or service from its conception, through design, sourcing raw materials and intermediate inputs, production, marketing, distribution and support to the final consumer (ESCAP, 2007). A number of enterprises, including SMEs, participate in a GVC and provide services based on their expertise, such as suppliers, distributors and business service providers (e.g. third-party logistic providers, financial institutions and market research firms). Value chains are

normally coordinated by a leading enterprise, typically a transnational corporation (TNC), which possesses power through control of business factors such as, brand recognition, indigenous knowledge and technology, production assets, distribution channels and control over critical inputs (see figure 5.3). Since the end of the 1980s, TNCs have invested in the region to set up value chains built on national export-oriented development strategies and matched with global demand.

Figure 5.3. A simplified global or regional value chain



Source: ESCAP, *Linking Greater Mekong Subregion Enterprises to International Markets: the Role of Global Value Chains, International Production Networks and Enterprises Clusters* (ST/ESCAP/2439), 2007.

GVCs have grown as a result of developments accompanying globalization since the 1980s. Such developments include trade and investment liberalization and the development of inexpensive and fast logistics systems and information and communication technology (ICT) applications which enable products and services to move across the world quickly and efficiently. In the Asia-Pacific region, GVCs have spread to the automotive, electronics, food and apparel/garment sectors (ESCAP, 2007). The development of GVCs is characterized by shifts in location of production, increased concentration of production and distribution, smaller numbers of tougher competitors and independent suppliers and the potential for taking advantage of complementary comparative advantages among enterprises or economies involved in the value chain.

The new competition is no longer taking place among individual enterprises, but rather among regional or global value chains

Many regional enterprises, including a number of SMEs, have participated in GVCs by providing products and services based on their specific competencies, often collaborating with foreign investors through joint ventures, strategic alliances and other partnerships. Indeed, GVCs have changed the traditional mode of competition among enterprises that was based on low costs and prices. The new competition is no longer taking place among individual enterprises, but rather among regional or global value chains based on the efficiency of their entire production and distribution networks. Competition now depends on a wider range of determinants in both export and domestic markets, such as brand power, the capacity to meet a variety of stringent global product and process standards, the level of flexibility and rate of innovation, the speed of design and extent of differentiation, the degree of reliability and level of timeliness, and the extent and quality of networks with both horizontally and vertically linked enterprises (ESCAP, 2007). CSR is a new opportunity for value creation and competitive advantage.

Few enterprises from developing Asia-Pacific have created globally recognizable brands and fully control their own value chains

Although many Asian and Pacific enterprises have participated in various GVCs, only a small number of them, mainly in East and North-East Asia, actually control the value chains as leading enterprises; the majority of participating enterprises, typically SMEs, are minor members within the value chains. The initial findings of an ongoing ESCAP review³ of the top 100 non-financial TNCs from

³ Covering the annual reports and websites of 77 Asian and Pacific enterprises, listed in the top 100 non-financial TNCs from developing countries in UNCTAD World Investment Report 2008.

developing countries in UNCTAD World Investment Report 2008 suggest that only a few enterprises have developed globally recognizable brands and fully control their own value chains (e.g. Acer, Hyundai, Lenovo, LG and Samsung).⁴ Many enterprises listed in the UNCTAD report have struggled to develop global brands, but have generally chosen to expand their roles in the GVCs through strategic business actions, such as vertical integration, diversification and mergers and acquisitions (M&A), including the acquisition of foreign brands.⁵ Another development in the 2000s is that certain Asian and Pacific enterprises, facing pressures from high commodity prices, have aggressively acquired foreign enterprises which control access to natural resources, such as oil, minerals, metals and other strategic commodities.

3. Issues in business sector development in Asia and the Pacific

Although enterprises from Asia-Pacific developing countries recently increased their presence in world markets, they still make up only a small part of the elite business community: only 54 enterprises from Asian and Pacific developing countries were listed on the Fortune Global 500⁶ in 2009 (10.8%). In addition to weak overall business environments in developing countries in the region, enterprises in Asia and the Pacific still face serious disadvantages compared with their counterparts in the traditional economic powerhouses in terms of size, governance, sector characteristics, level of control and level of technology. There are several reasons for this.

⁴ Global brands are defined as those with substantial market presence in at least two of three major export markets, namely Europe, Japan and North America.

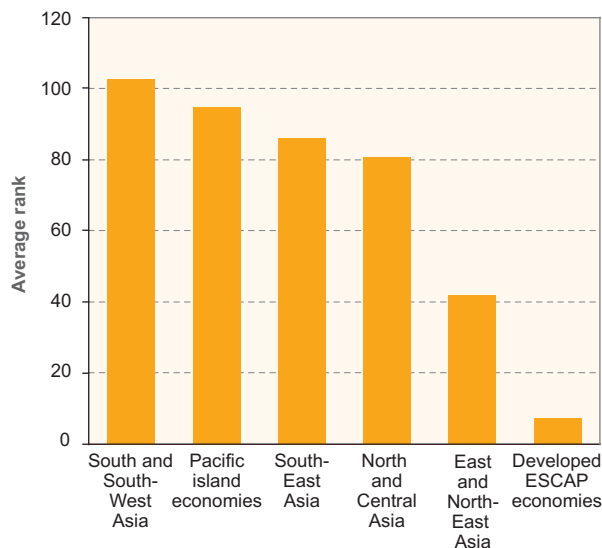
⁵ Examples include Lenovo's acquisition of IBM's personal computer department, and Tata Motor's acquisition of Jaguar and Land Rover. However, it has become apparent that Asian and Pacific manufacturers acquiring renowned global brands have faced difficulties both in enhancing the value of their own original brands and maintaining the value of the newly acquired foreign brands.

⁶ This is another annual global corporate ranking conducted by Fortune magazine. It is determined based on total revenues.

The regulatory environments of many countries in the region could become significantly more business-friendly

First, there remains scope for the regulatory environments of many countries in the region to become more business-friendly, both to maintain and improve business competitiveness as well as to attract foreign investment. Business-friendly regulatory reforms which could be considered include simplifying procedures for registering a business, enforcing contracts, paying taxes, getting credit, registering property and closing a business (ESCAP, 2009c; World Bank, 2008). As illustrated in figure 5.4 below, the World Bank 2009 Doing Business study shows that the four subregions in Asia and the Pacific (i.e. South and South-West Asia, Pacific, South-East Asia and North and Central Asia) are ranked below average, while developed countries in the region are on average ranked in the eighth place (the smaller the number, the easier it is to do business) and East and

Figure 5.4. Regional average of ease of doing business rank



Source: ESCAP, *Navigating Out of the Crisis: a Trade-led Recovery – a Practical Guide for Policymakers in Asia and the Pacific* (ST/ESCAP/2538) (Bangkok), 2009; calculated by ESCAP by the author based on World Bank, *Doing Business 2009*, 2008.

Note: The ease of doing business ranks are based on 181 countries.

North-East Asia are also ranked well over average. In particular, South and South-West Asia have an average ranking of over 100. The ranking provides an indication of how easy (or difficult) it is to conduct business, including – but not limited to – trading across the border, in each country (see also chapter 4).

Second, only a very few large Asia-Pacific enterprises, mainly Japanese, Chinese, Indian and Korean enterprises, operate globally, while most focus on their home and regional markets. This is partially due to the fact that many enterprises in Asia-Pacific developing countries are small in scale and young compared with renowned TNCs.

Third, many large enterprises in Asian and Pacific developing countries are state-owned or state-controlled and in sectors such as banking, finance, energy, materials, transportation and utilities. These are critical sectors, but they only play supporting roles within GVCs. Except for some East and North-East Asian countries, the scale of enterprises in consumer goods, electronics, food, high-technology and retailing is typically weak.

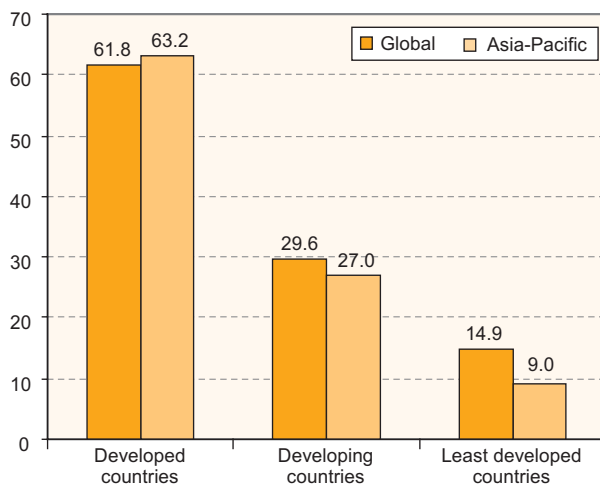
Fourth, few enterprises from developing Asia-Pacific countries have developed global brands. Even those enterprises which have managed to develop global brands, particularly in the high-technology sector, are struggling to maintain brand value under fierce competition (e.g. Acer and Lenovo).

Fifth, most product innovations (including ICT applications and hardware) still originate in developed countries. It is commonly perceived that enterprises in Asia-Pacific developing countries have a comparative advantage in industries utilizing natural resource endowments and exploiting low labour costs of their home countries rather than in higher value-added and knowledge- and technology-intensive industries.

Finally, the business sector itself is still underdeveloped in many countries in Asia and the Pacific. In particular, the SME sector remains relatively weak in Asia-Pacific developing countries, especially in the least developed countries, although the importance of SMEs in the national

economy is well recognized in terms of their substantial shares in the number of enterprises, and their contribution to employment and exports. Figure 5.5 shows that developed countries possessed a large number of SMEs, including micro-enterprises, with 63.2 enterprises per 1,000 people for developed countries in the Asia-Pacific region. In contrast, the Asia-Pacific region's developing countries had only 27 enterprises and its least developed countries nine enterprises per 1,000 people. In addition, many enterprises in the region are in the informal sector, which is neither taxed nor monitored by the government.

Figure 5.5. The number of microenterprises and SMEs per 1,000 people, 2001-2006



Source: Developed by ESCAP based on data from World Bank, *World Development Indicators*, 2009 (July).

C. BUSINESS COMPETITIVENESS: CHALLENGES AND OPPORTUNITIES

1. Emerging challenges for the business sector in the Asia-Pacific region

The present crisis has brought new challenges to enterprises, especially to SMEs, in Asia and the Pacific. Five major external shocks, among others, have particularly impacted business performance in the region.

(a) *Slumped exports.* The slump in exports has hit businesses hard, in particular SMEs which have

faced particular problems obtaining trade finance, orders and production inputs. Corporate bankruptcies have soared in both developed and developing countries in the region, and many jobs have been and are expected to be lost, further decreasing consumer demand. Increased under-employment and lower earnings are also expected. As the financial crisis causes contractions in the real economy in Asia and the Pacific, efforts will be required to address excess export production capacities through restructuring or seeking new markets for existing exports. In this process, suppliers and other members in value chains, which are typically SMEs, will also be affected, resulting in low profitability throughout the value chains in the region.

(b) *Credit crunch.* The credit crunch resulting from the global financial crisis has hampered the performance of Asia-Pacific enterprises. Financial institutions worldwide are seeking to reduce their exposure to credits and loans, even limiting financial services to low risk and historically profitable borrowers. This is the case for Asian and Pacific enterprises even though financial institutions in the region are generally healthier than their counterparts in Western developed countries, primarily due to conservative management practices. SMEs in developing countries are particularly vulnerable to a credit crunch due to heavy dependencies on credit and low profit margins (APO, 2002). As long as confidence in global financial markets remains weak, resources to support SMEs as they grow out of the financial crisis are likely to remain limited. The access to finance of SME sectors in general are often compounded by asymmetric access to financial information (compared with that of large enterprises) and distortions in credit markets that restrict SMEs' access to finance (ESCAP, 2009a). The issue of trade finance was comprehensively dealt with in chapter 4.

(c) *Foreign exchange volatility.* Foreign exchange volatility has been increasing during the 2000s, particularly since the outbreak of the present crisis (ESCAP, 2009b). Stable foreign exchange rates are critical for an enabling business environment, and unexpected or large shifts in foreign exchange

rates may threaten the viability of enterprises, in particular SMEs, which typically have a limited resource cushion. Under stable economic conditions, the depreciation of the region's currencies against the United States dollar could help Asia-Pacific developing countries increase their exports to major markets, though a competitive devaluation cycle as witnessed during the 1997 crisis should be avoided. However, due to the present lack of global demand, a positive outcome is not likely. The experience of Asia-Pacific economies with large exchange rate adjustments during the 2000s provides lessons for corporate management of international businesses, which may in particular require the adoption of additional currency hedging measures. In addition, the business sector in the region needs to assess the risk and impact of competitive devaluations which some countries might adopt to boost their exports.

(d) *Falling capital inflows.* Private capital inflows have facilitated capital formation in and technology transfer to the region and have contributed to the development of export-led industries and new jobs

(ESCAP, 2009a; UNCTAD, 2008a). Arguments have therefore been made in favour of a development model in the region based on a combination of business-friendly policies and FDI promotion.⁷ However, enterprises in the region, both large enterprises and SMEs, face strong pressures to cut operating and production costs to ensure their survival, resulting in low expenditure on FDI.

The global fall in FDI in 2008 resulted from companies' expenditure cuts as they faced negative

⁷ While adopting policies that promote export-oriented FDI, many developing countries in Asia and the Pacific have tried to protect their local markets from imports and market-seeking investments. These policies include the adoption of sector-specific negative lists, setting equity limits, restrictions on land ownership and employment of foreign staff, requirements on local staff participation at the management level, and excluding export-oriented investment from such restrictions while still providing fiscal incentives. Although such restrictions and requirements have been relaxed as a result of the WTO Agreement on Trade-Related Investment Measures (TRIMs), the signing of a number of bilateral investment treaties (BITs) and recent liberalization policies, the basic regulatory structure for market-seeking FDI remains in force in the region (ESCAP, 2009a).

Box 5.1. How should Asian and Pacific IPAs deal with the crisis?

As the global economic crisis leads to tougher competition for investment projects, IPAs around the Asia-Pacific region will need to carefully reassess their current activities and strategies in view of the new business context.

In general, IPAs might consider:

- (a) Continuing or strengthening investment promotion activities that yield proven results;
- (b) Scaling down or ceasing promotion efforts unlikely to yield results in the context of the global slowdown (but bearing in mind the importance of maintaining valuable relationships that may be useful in the future); and
- (c) Shifting promotion efforts towards countries and sectors less affected by the crisis (e.g. South-South investment and agriculture and food sector), or actively target investors that may need to reallocate operations due to the crisis.

However, a new direction for IPAs in countries and regions most affected by the crisis should be to make the most of existing investors by:

- (a) Strengthening investor aftercare activities to help financially troubled investment projects stay in business. These activities include both post-establishment facilitation services and development support activities, and enhance project implementation rates, reinvestment, retention, and development impacts of investment; and
- (b) Undertaking policy advocacy initiatives aimed at improving the investment climate to counter the effects of the economic downturn and prepare for the recovery. In addition, policy advocacy can improve business linkages and transfers of technology.

Source: UNCTAD, "Evaluating the role of IPAs in the new investment scenario", presentation to the WAIPA Investment Conference, Rio de Janeiro, 5 December 2008.

operating results and growing uncertainty about the future. The economic crisis poses several challenges to investment promotion agencies (IPAs). First and foremost, less FDI will lead to tougher competition between countries for investment projects. Second, governments seeking to save resources may review the funding of IPAs and perhaps even the rationale for such institutions. Box 5.1 discusses some indications as to how IPAs should respond to the crisis.

(e) *Bursting of the commodity bubble.* The bursting of the commodity bubble drastically reduced prices of key industrial inputs, leading to a reduction in operating and production costs for enterprises, especially manufacturers, in the region, while causing lower incomes in those countries which have undertaken natural endowment-driven development strategies. However, as the crisis comes to an end, commodity and, hence, input prices, are expected to rise again.

In order to address these challenges, Asian and Pacific developing countries should facilitate the growth of SMEs and enhance their role in socio-economic development; the development of regional value chains; and regional integration through South-South cooperation (see details in section D).

2. The impact of the crisis on different sectors

(a) *The automotive sector*

The automotive sector has local supply networks consisting of large numbers of domestic enterprises, including a sizeable number of SMEs, which are dynamic and well-established in the region. It is one of the sectors which has been hit the hardest by the crisis (*The Economist*, 2009).

(i) *Pre-crisis structural adjustments in the automotive sector*

Since the 1990s, several critical developments in the global automotive sector forced significant structural adjustments. These developments are

generally direct products and/or byproducts of globalization and include intensified competition, increased environmental concerns, and technological advancement.

First, automobile assemblers have aggressively developed their GVCs and production networks in order to alleviate trade disputes, to reduce foreign exchange risk, and to produce automobiles near their main markets. Second, although the global demand for automobiles increased steadily during the last two decades, the continuous over-capacity of production facilities has led to price competition and low profit margins among automobile assemblers. Third, assemblers have increased their presence in global automobile markets. Fourth, emerging Asian markets have begun to provide significant business opportunities to automobile assemblers. Fifth, as the outsourcing of component and module development to the automotive parts suppliers has steadily increased, assemblers increasingly tend to work with a limited number of preferred suppliers (Doran, 2003). Finally, competition for the development of environmentally-friendly and fuel-efficient vehicles and “green” cars could lead to important structural changes in the automobile industry.

(ii) *Excess capacity for export*

Roughly one in two new cars in the world was produced in the Asia-Pacific region in 2007. After the Asian financial crisis of 1997-1998, the region steadily increased the production of automobiles.

Recent production capacities and domestic sales in the automobile industry in the region indicate that excess export capacity had been developed.⁸ It is estimated that approximately one quarter of automobile production capacity was used for exports, most of which went to European and North American markets. Falling demand has weakened the GVCs hitting the weakest links, i.e. the SMEs, which are more vulnerable due to their low profit structure.

⁸ Based on data from OICA (2009) and EIU (2009).

(iii) Market potential for the automotive sector in Asia and the Pacific

There is potential for domestic demand in the region's automobile producing countries based on the national stock of automobiles and GDP per capita. Countries which have a lower national stock of automobiles per capita, such as China, India and Indonesia have a high domestic demand potential even though their GDP per capita is relatively low. China and Turkey have two of the lowest market penetration rates per \$1,000. These low automobile stocks and penetration rates coupled with the large population size of those countries strongly indicates substantial market opportunities for the automobile sector in the future.

(iv) Future direction of the automotive sector and policy implications

Three broad future directions of the automotive sector can be identified. First, the overcapacity of automobile production is likely to continue. The higher entry barriers as a result of the consolidation of the industry, as well as substantial research and development burdens will make it hard for developing countries' national brands to survive. Minor automobile assemblers, including national brands, may need to find niche markets to survive. Alternatively, they may need to seek alliances with other stronger assemblers and join in their GVCs in order to reduce research and development costs through technology transfer and sharing.

Second, a pentagonal auto industry will emerge with five main markets⁹ linked by a complex web of GVCs. Emerging Asian markets are expected to grow steadily to become major automobile markets and important production hubs. Automobile assemblers in China and India clearly aim to develop their national brands to be global brands. This may add further pressure to the overcapacity concern and possibly invite tensions between automobile producing countries as foreign assemblers try to increase their market shares in these markets as a response to the present economic slowdown.

⁹ Comprising three traditional markets (Europe, Japan and North America) and two emerging markets (China and India).

Third, the successful developers of environmentally-friendly and fuel-efficient cars (i.e. "green" cars) are expected to dominate the future global automobile markets, introducing further structural changes in the sector.

Based on this examination of the automotive industry, the following suggestions can be identified for policymakers in Asia and the Pacific: (1) develop global brands; (2) develop a local supplier base; (3) link with emerging Asian markets; and (4) develop niche markets: environmentally friendly and fuel-efficient vehicles.

(b) The apparel industry

The apparel industry, which is labour intensive, is a classic "starter" industry for export-oriented industrialization, and one that has played a key role in regional development. Its GVCs are dominated by three types of large buyers, namely retailers, brand marketers and branded manufacturers. These buyers focus more on marketing, design and branding and for apparel production increasingly rely on the linkages with global and local suppliers, including a substantial number of SMEs.

North America and Europe are the world's two main apparel markets. In 2007 the global apparel retail market grew by 2.6% to reach a value of \$862.3 billion, of which 43.2% was generated by the United States. Asian countries are the major producers of apparel, including ready-made garments, and many of them generated most of their export earnings from this sector, including Bangladesh, Cambodia, China, India, Indonesia, Pakistan, Sri Lanka and Viet Nam. For example, Cambodia earns approximately 50% of its foreign exchange income from the export of textiles and apparel to the United States. In Indonesia, more than a million people are employed in the apparel industry.

With the outbreak of the global economic crisis, the decline in consumer spending hit North American and European markets hard. Consumer spending has dropped sharply and people are more conscious about price than about brand. The United States took measures to protect domestic producers by regulating apparel imports and cutting

down import quotas in an attempt to save jobs at home. As a result, United States clothing demand contracted by 7.2% in 2008, the first drop since the late 1940s. In 2008, apparel exports from Indonesia, Republic of Korea, Thailand, Turkey and Viet Nam all fell at double digit rates. The Indonesian apparel industry laid off 100,000 workers. The exceptions were Bangladesh; China, the largest apparel exporter in the world; and India. Thanks to their low-cost strategy, the apparel exports of these three countries grew in 2008 by 16.2%, 6.5% and 6.8%, respectively.

For a safe exit from the present crisis, several policy options may be considered for the apparel industry in the region:

- (i) Export markets and products should be diversified. Excessive dependency on a limited range of markets and products is one of the major reasons for the severity of the blow to the Asian apparel industry.
- (ii) Productivity and quality should be improved with the help of enhanced logistics, and clusters of producers should be developed and supported by reliable public services (e.g. special economic zones and reasonable utility services).
- (iii) Globally recognizable brands should be developed with effective marketing channels to control GVCs and attain higher value added.
- (iv) Producers should improve negotiation capacity with foreign buyers to attain fair prices.
- (v) More commercial credit services should be provided, especially for SMEs. Banks lack expertise to fund SMEs properly in a time of economic crisis.

(c) *The electronics industry*

Since 2000, the electronics industry, which comprises such key market segments as consumer appliances, automotives, ICT, aerospace, defense and industry, has experienced steady expansion

that was both consumer-driven and infrastructure-driven, particularly in the ICT segment. The exponential growth of Internet use for business and personal data communications particularly fuelled such growth. ICT equipment accounted for roughly two thirds of global electronics production in 2008, increasing demand for core components such as semiconductors and printed circuit boards, while global electronic equipment production grew from approximately \$1 trillion in 2000 to nearly \$1.6 trillion in 2008.

Developing Asia, including China, India and ASEAN countries, expanded its production capacity as the supplier of components and manufacturing systems to major electronics TNCs, significantly increasing production facilities throughout the 2000s. Several notable developments can be observed:

- (i) Many Asian producers, mainly from North-East Asia, have made the transition from technology followers to technology leaders engaging locally in system design and component production, while maintaining the advantage of low labour costs by spreading their operations throughout the region.
- (ii) GVCs for electronics equipments in the Asia-Pacific region are well developed, especially among countries in North-East and South-East Asia, linking various levels of production inputs, such as materials, technology and labour, to assemble competitive final products for export.
- (iii) Consolidation occurred in the upstream supplies of the electronics industry value chains as leading materials and equipment companies moved to become major global suppliers and even developed a capacity for designing systems such as integrated modules, which enable short lead times and cost reduction (e.g. electronic manufacturing system (EMS) by Flextronics and Foxconn).
- (iv) “Green” manufacturing and products have emerged as a significant technological trend in the sector.

- (v) Emerging markets in the region (e.g. China, India and Russian Federation) have gained increasing importance in the global electronics market.

However, the present economic slowdown is predicted to cause a deep double-digit drop in global electronic equipment production in 2009, exacerbated by spending reductions in almost all market segments. The industry has faced a period of unprecedented uncertainty without any sign of early demand recovery. Many leading electronics producers announced massive job cuts, while excess export capacity throughout the region has further impacted domestic incomes in many developing countries. SMEs in particular have faced a slump in orders and a credit crunch and require urgent assistance from the government. A recovery in market demand will depend in part on the effectiveness of the various measures undertaken by governments to restore consumer confidence, improve liquidity and stimulate economic growth, but emphasis should be placed on progressive development of technology, productivity and brands in the region to enhance competitiveness in the sector, while regional value chains should be strengthened by promoting trade, investment and technology transfer through South-South cooperation.

3. The role of CSR in the sustainable development and competitiveness in Asia and the Pacific

The current crisis is presenting some new opportunities. Increasingly, the interest of business in CSR is shifting from mere protection of value by managing risk and maintaining reputation to viewing CSR as an opportunity to create new value and achieve competitive advantage.

The debate on the impact of investment on development has heated up over the last decade as the focus has shifted from economic growth only to consideration of sustainable and inclusive development. On the one hand, FDI has undoubtedly contributes to economic development through the transfer of financial resources, generation of

employment, payment of taxes, and the transfer of technology, knowledge and skills. On the other hand, FDI may have negative effects associated with long-term social and environmental costs.

This is where CSR comes in. Implementing voluntary CSR initiatives – codes of conduct, environmental management systems, safety standards, company reporting on social and environmental performance, participation in certification – can enhance the contribution of FDI to inclusive and sustainable development of the region. The challenge to policymakers is to develop a policy environment which encourages and facilitates FDI inflows and at the same time ensures that the benefits flowing from foreign investment are shared between the investor and the domestic economy in ways that are acceptable and to the mutual advantage of both parties.

Growing public awareness and pressure with regard to CSR-led business activities from civil society and consumers make CSR, in fact, an increasingly important determinant of business survival and competitiveness. Product features such as being labeled environmentally friendly and fair trade play an increasingly important role in global competition. Corporations pursuing growth in the global market inevitably encounter these new challenges which may take the form of non-tariff barriers, environmental restrictions, food and safety standards, and varying understandings of labour exploitation.

Large corporations and SMEs alike have to address such issues of socially responsible practices to remain competitive. While TNCs are looking to consolidate suppliers in their GVCs that are dedicated to responsible business conduct, SMEs can gain competitive advantage by incorporating social and environmental standards.¹⁰ The actions that corporations take today to incorporate CSR throughout their organizations represent a real point

¹⁰ Richard Welford, "Maximizing the benefits of corporate social responsibility for small and medium-sized enterprises participating in regional and global supply chains", paper presented at the Expert Group Meeting on SME's Participation in Global and Regional Supply Chains, 9 November 2005, Bangkok, ESCAP.

of differentiation and competitive market advantage on which future success can hinge.

Incorporating CSR standards in domestic business also has implications for governments and changes governments' roles in relation to promoting the social and environmental practices of business. Governments in the region have often adopted CSR – if at all – in a reactive way, for example, in response to requirements in export markets rather than in a more proactive way (see box 5.2 for the case of China). This might be due to the fact that CSR is seen as a voluntary approach taken by the private sector and as such, not enforceable by governments.

However, these initiatives, although voluntary, are affected and shaped by the broader environment – cultural, social, legal, economic and political. In other words, they are to a significant degree shaped by public policy. While business might see CSR as a cost that it cannot afford in times of crisis, incorporating CSR has become the only sustainable approach to ascertain long-term survival and competitiveness.

Therefore, governments should step in and enable markets that reward business practices which take into account social and environmental as well as

economic results. Governments should not only ensure effective governance – including freedom from corruption, effective tax administration, regulatory certainty, and an effective judicial system – but also provide mechanisms that position CSR as a benefit rather than a cost, for example, by making CSR a requirement in government procurement. The adoption of CSR initiatives at the corporate level can give a considerable boost to competitiveness at the national level. Conversely, the current economic crisis would not have been so severe if businesses had had more effective CSR strategies¹¹ in place. Consequently, governments should encourage voluntary social and environmental practices that go beyond companies' legal obligations, as a matter of public policy.

Until now, deliberate CSR initiatives have often been pursued outside national planning processes related to development strategy or poverty reduction and their design and implementation lack inputs from key development actors.¹² For CSR to

¹¹ BSR/Cone 2008 *Corporate Responsibility in a New World Survey*, http://www.bsr.org/files/BSR_Cone_2008_Survey.pdf, accessed on 20 May 2009.

¹² Peter Utting, "Promoting development through Corporate Social Responsibility – does it work?", *Global Future*, Third Quarter, 2003.

Box 5.2. Evolution of CSR in China

The beginning (1996-2000)

TNCs start to demand CSR-related standards from Chinese suppliers, especially with regard to labour issues. The Government of China, public, media and domestic enterprises still have limited awareness of CSR issues.

Reactive approach (2000-2004)

International organizations and NGOs are increasing pressure on compliance of Chinese suppliers with CSR requirements. The Government adopts a "wait-and-see" approach toward CSR activities.

Proactive engagement (2004 onwards)

CSR issues are commonly accepted across businesses from export-oriented companies to domestic and state-owned enterprises. The Chinese Government shifts from a reactive approach to proactive participation, such as creating Chinese-style CSR standards that take local peculiarities into account to maintain competitiveness in the global market. While some standards are sector-specific, others are applicable to all sectors, such as the China CSR Management System with guidelines on labour protection, credit, environment protection, social charity and product quality.

Source: Adapted from Weidong Zhou, "Will CSR work in China?", *Leading Perspectives* (Beijing, Business for Social Responsibility), Summer 2006, pp. 5-7.

make a more significant contribution to sustainable development and to the competitiveness of businesses, governments have to integrate CSR as part of their national strategy.

Given the importance of SMEs in many developing countries, the public sector should also seek to raise SMEs' awareness of CSR and the support required from them. Recognizing the potential for CSR to open new export opportunities and to avoid exclusion from existing markets, governments should engage in setting CSR standards and enable domestic businesses to meet them. Such activities raise familiarity with different kinds of ethical business tools that are specifically important for SMEs. It allows for national and cultural specificities to be incorporated in CSR standards taking into account the circumstances of developing countries.

Besides encouraging and enabling domestic business with regard to CSR strategies, putting CSR on the public policy agenda of Asia-Pacific countries can make them and the region more attractive to FDI. Promoting CSR might as such be seen as an investment promotion strategy.

D. POLICY RECOMMENDATIONS TO INCREASE THE COMPETITIVENESS OF ASIAN AND PACIFIC BUSINESSES

In the short term, the present global crisis and the slump in the world's major export markets is sure to reduce the effectiveness of export-driven development strategies in Asia and the Pacific. Large uncertainties in the business environment, including a credit crunch, foreign exchange volatility, unstable commodity prices, and soaring unemployment are the most immediate threats to policymakers. Countries which have relied heavily on natural resource endowments have also suffered from sudden and large drops in commodity prices. Many Asian and Pacific policymakers have sought new strategies to maintain their countries' growth momentum, including stimulus packages to increase domestic demand. However, stimulating domestic purchasing power requires continuous and long-term efforts, which may include redistribution of incomes, for instance through tax reforms.

How else should Asian and Pacific policymakers react to the challenges posed by the ongoing economic crisis? The final section of this chapter reviews specific policy recommendations on how business sector development in the region could be taken in new and potentially fruitful directions, with a special emphasis on supporting and promoting SMEs. Such policy recommendations will be presented in three major parts: (1) adoption of an SME-driven development strategy; (2) development of regional value chains; and (3) regional integration through South-South cooperation.

1. Adoption of an SME-driven development strategy

Asia-Pacific developing countries should facilitate the growth of SMEs and enhance their role in socio-economic development. SMEs, which typically account for over 95% of domestic companies and over 60% of employment in the region, have not fully realized their potential as the backbone of the business sector. They are often more flexible and innovative than large firms in making changes, which is needed in the current uncertain environment.

Therefore, an SME-driven development strategy with seven sub-strategies is presented: (a) pro-business regulatory reforms; (b) supply-side capacity-building; (c) enhanced access to finance; (d) reform of public procurement systems; (e) providing SME development services; (f) developing entrepreneurship and innovation; and (g) promoting good corporate governance.¹³

(a) *Pro-business regulatory reforms.* Countries should continue to undertake pro-business regulatory reforms by simplifying and streamlining bureaucratic procedures and regulations which hinder the expansion and export potential of SMEs (cf. World Bank, 2008). Such efforts should include easing entry and exit for enterprises and simplification of import-export policies and procedures. The costs and benefits of specific regulations, which sometimes place a dispro-

¹³ Some of the strategies and policy recommendations in this part are drawn from ESCAP's earlier studies (2007 and 2009a forthcoming).

portionate burden on SMEs, should be assessed as an element of such reform efforts.

(b) *Supply-side capacity-building.* Supply-side capacities of SMEs must be further improved in various sectors. Governments should improve productivity by promoting knowledge, governance, technology and innovation. Developing skills and knowledge is a crucial component of supply-side capacity-building efforts. Once domestic SMEs have improved their capabilities, governments could play an important matchmaking role in providing information to TNCs on SMEs' capabilities for entering the value chain. The Penang Skills Development Centre (PSDC) in Malaysia is a good example of an institution that plays this two-way brokerage role in the electronics and ICT industries, along with providing a comprehensive range of SME capacity-building activities.¹⁴ At the regional level the Asian and Pacific Centre for Transfer of

¹⁴ For a more detailed review of the PSDC, see ESCAP (2007) and <http://www.psdcc.com.my>.

Technology (APCTT) performs an important role in promoting regional cooperation in technology transfer (box 5.3).

(c) *Enhanced access to finance.* Access to finance for Asian and Pacific SMEs should be further enhanced through multiple channels of loans and credits including bank loans, trade finance (see chapter 4 for details) and public credit guarantee schemes for long-term and low interest financial services. Adequate access to financing has been frequently cited by SMEs in the region as a critical factor determining their viability and growth. Commercial banks have traditionally been more reluctant to finance SMEs than large enterprises and, when they do provide loans to SMEs, the interest rates and collateral requirements tend to be high due to higher perceived risks and transaction costs, incomplete accounting records, inadequate financial statements and weak business plans. Without public support, including financial assistance, SMEs tend to fail more easily than large enterprises when faced with large external shocks.

Box 5.3. Strengthening SMEs through technology transfer capacity-building

One of the objectives of ESCAP Asian and Pacific Centre for Transfer of Technology (APCTT), located in New Delhi, India, is to assist member countries of ESCAP to strengthen their capacity to effectively plan and manage the transfer of technologies relevant to the region with emphasis on SMEs. As part of this initiative, APCTT has developed a comprehensive web-based tool known as Technology4sme (<http://www.technology4sme.net>) that serves as an online technology market for SMEs and provides a free platform for technology buyers and seekers to interact with each other and explore possibilities of cooperation. This website, which has information on 905 technologies in 37 industrial sectors (580 technology offers, 294 technology requests and 31 joint venture and partnership requests) attracts an average of over 1.2 million hits per year. In addition, APCTT has designed the Asia-Pacific Technology Information Tracking and Unified Data Extraction (APTITUDE) Search Engine. APTITUDE searches a list of specified technology databases available in the public domain in addition to technology4sme. At present 11 technology databases, from a range of countries, are linked to APTITUDE and more will be added.

In addition to its web-based services, APCTT uses its technology transfer networks in the region to support and strengthen technology intermediaries in member countries that assist SMEs to build technology partnerships. For instance, in 2008, APCTT assisted Mind Branch Asia Pacific (MBAP), Republic of Korea to partner with the University of Manchester Intellectual Property Limited (UMIP), United Kingdom to gain access to useful technologies for SMEs. Another partnership was facilitated between the Vacuum Equipments Manufacturing Association of Japan and the Engineering Export Promotion Council of India to conduct joint technology exhibitions in Japan and India for the benefit of SMEs. APCTT has also been providing similar support that includes business-to-business (B2B) meetings with the Nanjing International Technology Transfer Center (NITTC), China, the Institute of Information Technology Advancement (IITA), Republic of Korea, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Foundation for MSME Clusters, India. At the firm level, APCTT has helped SMEs from China, India, Pakistan and Sri Lanka, among many others, to gain access to technologies from Romania, the Islamic Republic of Iran and India in areas such as the manufacture of soda ash, polymers, textiles, and animal feed.

Note: MSME – micro and/or small and medium enterprises.

Governments could do much to make public procurement policies more transparent and inform the SME sector about the criteria and processes to become an approved government supplier

(d) *Reform of public procurement systems.* State agencies are often important customers and major sources of revenues for private enterprises. This is particularly true among Asia-Pacific developing countries, where business sectors are at a nascent stage of development, but SMEs often struggle to qualify as suppliers to these agencies. Governments and SME development agencies in particular, could do much to make public procurement policies more accessible by informing the SME sector about the criteria and processes to become an approved government supplier. State agencies should also streamline their procurement policies, a process which can yield efficiency and cost gains and serve as a check to corruption. Governments should also ensure that procurement policies do not discriminate against SMEs, a measure especially crucial under the current global economic downturn which has prompted many governments to increase their spending, through stimulus packages, to support their local enterprises.¹⁵

(e) *Providing SME development services.* An adequate range of SME development services provided by both public and private entities should be available throughout the region. SME development services refer to all types of business support services, including training in business-related skills; legal advice; accounting; counselling and consulting; technology development and transfer; information on markets, buyers and technology; business linkages and networking; and

financing. It is urgent to provide such services to enterprises facing the restructuring of their export operations in the present crisis; both governments and donors should facilitate the provision of SME development services by private sector players.

(f) *Developing entrepreneurship and innovation.* Government support for entrepreneurship would help enhance the role of SMEs in Asia-Pacific developing countries. Entrepreneurship for business innovation usually does not feature prominently in conventional SME development strategies in developing and, particularly, in the least developed countries. Initiatives that acknowledge and reward

Governments should stimulate entrepreneurial skills and promote a culture of creativity and a mentality of risk-taking by improving the conditions for entrepreneurship and business innovation

innovation and creativity among SMEs and entrepreneurs, typical in Europe and North America, could be a useful catalyst for promoting innovation and productivity in the region's SMEs. Governments should stimulate entrepreneurial skills and promote a culture of creativity and risk-taking through various interventions to improve the conditions for entrepreneurship and business innovation. These could include business and innovation incubation services, intellectual property rights protection, tax incentives, facilitating access to finance, human resources development, and institutional capacity-building.¹⁶ Special attention should be paid to developing youth entrepreneurship as youth unemployment rates in the region are typically twice as high as total unemployment rates (ILO, 2007). Moreover, youth workers are particularly vulnerable to economic downturns as was observed earlier

¹⁵ The Standards, Productivity and Innovation Board of Singapore, called SPRING, provides a good example of providing SME-support services, including its user-friendly guide to SMEs on public procurement. SPRING is the main agency for enterprise development and the national standards and conformance body under the Ministry of Trade and Industry of Singapore. It aims to enhance the competitiveness of enterprises through nurturing a pro-business environment and enhancing innovation and enterprise capabilities of SMEs.

¹⁶ Possibly a good starting point would be to support the inclusion of more Asian and Pacific developing countries in the Global Entrepreneurship Monitor (GEM) exercise, which is an evidence-based diagnostic platform for national level entrepreneur activities. Fourteen developing countries in the region have already participated in the exercise. Visit <http://www.gemconsortium.org> for more details. Box 5.4 also presents a range of relevant activities under APCTT that support the development of national innovation systems.

Box 5.4. Fostering national innovation systems for inclusive development

Technology capacity-building at the national level requires a robust national innovation system (NIS) that can foster inclusive innovation while enhancing technology transfer activities. To support member countries in designing versatile and dynamic national innovation systems, APCTT, over the past three years, has initiated several activities. Since 2005 a total of more than 1,150 senior officials from various government ministries, industry, academia and R&D institutions across the Asia-Pacific region have been trained on the concept of a NIS policy framework and its linkages with sectoral and subnational innovation systems. An Asia-Pacific Online NIS Resource Centre (<http://www.nis.apctt.org>) was developed and integrated into the APCTT website to share information and best practices of countries participating in the NIS programme. The Resource Centre now provides access to information on NIS best practices and web-based reference material on NIS policy measures and support mechanisms for the use of all member countries.

To supplement the NIS initiative, APCTT has also implemented a programme on scouting, documenting and disseminating grassroots innovation (GRI) to enable innovation and technology transfer to originate not only from the organized sector, but also from grassroots entities, so that inclusive social entrepreneurship, with an emphasis on gender equality, can be fostered. Four partner member countries, namely, China, Indonesia, Sri Lanka and the Philippines offered to put in place national infrastructure to scout, document and disseminate GRI and about 380 experts and senior officials, including about 140 women, from various government departments and ministries, R&D institutions and technology transfer intermediaries were trained by APCTT to develop and operate the infrastructure to scout, document and disseminate GRIs.

APCTT's bimonthly Asia-Pacific Tech Monitor provides information on emerging national and global technology related issues that can help member countries in improving and revitalizing their NIS and technology capacity-building initiatives. The bimonthly Value Added Technology Information Services (VATIS) Updates on Biotechnology, Food Processing, Non-Conventional Energy, Ozone Layer Protection and Waste Management annually disseminate information on more than 1,500 latest innovations, technological developments and events around the world. These publications are web-based and can be accessed, searched and downloaded free of cost by all member countries, and indeed globally, from <http://www.techmonitor.net>.

during Japan's prolonged recessions and the Asian financial crisis of the late 1990s. At the regional level, APCTT is also active in fostering national innovation systems for inclusive development (box 5.4)

(g) *Promoting good corporate governance.* The importance of good corporate governance has gained ground under the ongoing economic crisis, especially as inadequate accountability and corporate greed are blamed for many of the problems. While this is sometimes related to CSR, it has more often been driven by efforts to enhance the transparency and financial management of all players along the GVCs. SMEs in the region face increasing pressure from their customers, who need to cut operational and material costs for their own survival. To ensure that the current business slump and credit crunch are not used as an excuse for large enterprises to disregard the effects of their operations on disadvantaged business partners,

seminars and workshops could be held to enhance the understanding of the need for better governance throughout the value chain. These activities could involve sharing of good examples of cost-reduction measures and capacity-building of SMEs to improve transparency and openness in value chains.

(h) *Promoting CSR.* Governments could promote broadly accepted CSR principles on environmental sustainability, labour rights, human rights and good governance that enterprises can use to structure their own CSR policy.¹⁷ As discussed earlier in this chapter, governments could also integrate CSR in their national strategy to promote competitiveness with the overall purpose of inclusive and sustainable development.

¹⁷ The major initiatives of international organizations include the Global Compact, advocated by the United Nations, OECD Guidelines for Multinational Enterprises and ILO Tripartite Declaration on Multinational Enterprises and Social Policy.

2. Development of regional value chains

There is a tendency for policymakers to focus their SME support policies on overcoming the hurdles preventing initial market entry by SMEs (ESCAP, 2007 and 2009a). Linking domestic SMEs to global and regional buyers and suppliers, including those in emerging Asian markets (i.e. China and India), has been a basic objective of global and regional value chain development initiatives. However, an arguably more important long-term policy option for Asia-Pacific developing countries is to foster leading enterprises which supervise and control members of entire value chains, using their own specific assets, knowledge, technology, distribution channels and brands.

Few Asia-Pacific enterprises have established their own value chains, created widely recognized brands or assumed the role of leading enterprise

A number of Asia-Pacific enterprises have advanced their positions in global and regional markets, but few enterprises have established their own value chains in the region, developed widely-recognized brands or assumed the role of leading enterprise. By controlling value chains, leading enterprises can achieve economies of scale, lower costs, enjoy higher profits, and create more employment opportunities. To become the leading enterprise primarily requires initiatives by enterprises themselves, but governments do have a role to play in facilitating investment to foster product and process innovation and to promote the development of strong brands.

In this connection, government interventions in value chains should aim at achieving substantive results in a reasonable timeframe on the basis of specific strategies, which may include the following:

(a) *Promote agri-business value chains, based on the agricultural sector which plays a critical role in alleviating poverty and absorbing excess labour during an economic slump.*¹⁸ Government

¹⁸ In Cambodia for example, agriculture and agri-business is the only one of the four main pillars of economic growth that

interventions could aim particularly at enhancing the productivity of food-processing enterprises, improving their market access and promoting their brand development at the regional level so that these enterprises can gradually climb up the ladder of the GVCs.¹⁹ These interventions should include the wide range of technical and policy support discussed in the previous section. At the regional level, the Asian and Pacific Centre for Agricultural Engineering and Machinery (APCAEM), an ESCAP regional institution, provides important support in this area (box 5.5).

(b) *Foster stronger backward linkages with SMEs, encourage existing TNCs to develop such linkages and promote new FDI (in particular intraregional South-South investment) with the potential to forge such linkages.* Foreign investors with a strong domestic market orientation frequently have closer links with local enterprises and adapt their products and services to meet local consumers' tastes and requirements. In addition, since foreign enterprises usually produce goods and services in accordance with international standards, they can assist local enterprises in improving their own standards and become more competitive in global markets; this can greatly facilitate the integration of domestic SMEs into regional and GVCs. In this area, the effective intervention of IPAs through strategic relocation of resources would be necessary.

(c) *Facilitate SMEs' adoption of world standards and credible certifications of inputs, products, production and distribution processes.* While foreign investors can help in this area, as mentioned above, governments need to support the development of recognized certification systems and ensure that

continues to show potential in the face of the economic downturn – garments, tourism and construction have all entered into recession. Rural communities are already acting as major safety nets for workers laid off from the other sectors.

¹⁹ In the Lao People's Democratic Republic, the Swiss agency Helvitas has made progress in developing clean and organic agriculture in support of the Government's agriculture policies. A key element of Helvitas' programmes – in rice, fruits and vegetables, and in coffee and tea – has involved the building of associations of farmer small-holders to share the responsibilities of technical support, organic certification and marketing. See <http://www.laosorganic.com>.

Box 5.5. Promoting agro-technology transfer and agro-based enterprise development for sustainable agriculture through South-South cooperation

The Asian and Pacific Centre for Agricultural Engineering and Machinery (APCAEM), located in Beijing, China, is committed to enhancing environmentally sustainable agricultural and food production and applying “green” and modern agro-technology in member states through information exchange, knowledge sharing, policy advocacy, capacity-building and partnership building. Under its three thematic programmes (agricultural engineering, food chain management and agro-enterprises development and trade) APCAEM has undertaken various technical assistance activities to enhance the capacities of member states and contribute to their efforts to reduce poverty and achieve sustainable development.

Activities in agricultural engineering have covered practical applications of clean development mechanisms in the fields of bioenergy, agricultural conservation, biotechnology, “green” machinery and post-harvest technology. In the area of food chain management, the food process technology exhibition has become an annual event attracting worldwide participation. APCAEM has also held seminars and exhibitions on various key issues on rural agro-based enterprise development, including market access of agro-based SMEs, export competitiveness of Asian fruits, “green” enterprise development and ICT applications by developing practical manuals. Those activities have had extensive geographic coverage, attracting participants from most developing and least developed countries in the region.

To supplement its substantive programmes, APCAEM has worked to make its website a valuable source for researchers and rural entrepreneurs to obtain and exchange information. Starting from 2006, APCAEM has developed country webpages for 25 countries in the region, providing a quick guide to agriculture development in the countries. In response to emerging development issues, APCAEM has also issued articles and publications concerning sustainable agricultural development and poverty reduction, such as conservation agriculture, R&D for agricultural engineering and training manuals on mushroom cultivation, in addition to regular policy briefs on the latest agricultural developments.

APCAEM is poised to become a platform for regional South-South cooperation as a centre of excellence in agro-tech transfer, mobilizing resources to conduct more technical assistance activities that transfer successful agro-technologies to developing countries and promote “green” growth for poverty reduction in the region. As a pilot effort, hybrid rice technology has been chosen to help 12 member countries increase their capacity in food production.

they are accessible to SMEs at reasonable costs.²⁰ There is no doubt that meeting international standards and acquiring the necessary certifications are essential in strengthening the competitiveness of Asian and Pacific SMEs.

(d) Form alliances, groups or clusters among SMEs to reduce the transaction costs for global buyers and producers sourcing from small suppliers. It is costly, time-consuming, and even risky for global buyers to deal individually with many small suppliers, so they prefer to deal with a small

number of core suppliers. Further, the investment requirements of participation in GVCs coupled with the many constraints imposed by their small size make it difficult for individual SMEs to be competitive and to upgrade within production networks. Through collective action, SME clusters and other similar groupings can lower the transaction costs of collecting inputs and marketing outputs, while sharing required investments in process and product upgrading that would be beyond the technical or financial capabilities of individual SMEs.²¹

(e) Raise productivity through infrastructure development and improved logistics. Global and

²⁰ An example is the monitoring and inspection undertaken by the International Labour Organization (ILO) of Cambodian garment manufacturers, which has been a key factor in transforming Cambodian producers into successful suppliers in apparel global value chains. SPRING is another example. It developed a highly informative guide for SMEs about global standards, which could be duplicated in many countries in the region.

²¹ Successful examples of SME clustering include the Sialkot Surgical Instruments Manufacturers Association and Sialkot Chamber of Commerce (Pakistan), the Tirupur Exporters Association (India) and the Penang Skills Development Centre (Malaysia).

regional value chains require reliable and timely imports of inputs, components and sub-assemblies, as well as exports of intermediate products to the next level in the value chain. Therefore, domestic trade regimes and import/export systems and procedures must efficiently support such intra-industry trade. Competition within the framework of GVCs hinges on the effectiveness of logistics systems that link geographically distributed producers and buyers. Many Asia-Pacific developing countries need to concentrate at this stage on building critical basic infrastructure such as airports, highways, ports, and telecommunications and ICT systems.²²

(f) Improve the cross-border flow of goods. Costly and time consuming import and export procedures undermine the ability of local SMEs to participate effectively in GVC or to attract global buyers. Therefore, a key challenge involves the removal of obstacles related to tariff structures, administration and customs clearance procedures. This will likely include technical issues related to: the institutional, legal and regulatory environment of logistics services; the efficiency of multi-modal transport linkages; containerization; load and warehousing centres; hub and feeder networks; e-communications and e-commerce; and the linking of logistics services to improvements in trade facilitation procedures (see chapter 4 for a more detailed discussion of these points).²³

²² An interesting partnership which is underway in the Greater Mekong Subregion (GMS) between the GMS Business Forum (a grouping of GMS enterprises) and donor and development agencies, such as ADB and ESCAP, is focusing on strengthening the logistics and transportation infrastructure in the region. The GMS Business Forum, in particular, brings together an impressive range of GMS business leaders and supports a number of international logistics operations. See <http://www.gmsbizforum.com> for more information on the GMS Business Forum.

²³ Interestingly, the present activities of the GMS Business Forum, which mirror the recommendations in this section, are aimed at: (a) supporting the GMS Cross-Border Trade Agreement through setting up a GMS Freight Transport Association and promoting economic corridors; (b) encouraging SME suppliers through developing export financing facilities; and (c) strengthening advocacy around the GMS through strengthening provincial and local chambers of commerce, especially along the economic corridors.

3. Regional integration through South-South cooperation

Regional integration should be promoted as a key to increasing market access and trade and investment flows within Asia and the Pacific by creating an expanded and coherent market which can increase the region's business competitiveness. Regional integration requires bold and decisive South-South cooperation among all Asia-Pacific countries, especially the major emerging markets such as China and India. Ambitious initiatives may include measures to coordinate regulatory frameworks and physical infrastructure; to develop an integrated approach towards FTAs, RTAs and BITs; to strengthen regional financial and foreign exchange markets; and to enhance the movement of goods, capital, and human resources across borders.

To accelerate regional integration, Asia-Pacific countries must undertake a variety of South-South cooperative initiatives to overcome the following challenges: (a) lack of macroeconomic and trade policy coordination; (b) weak business regulatory frameworks; (c) inadequate access to finance for business, especially for SMEs; (d) large foreign exchange rate fluctuations; (e) poor trade facilitation measures, including access to trade finance and payment settlement systems; (f) inadequate physical integration of regional infrastructure (e.g. transport and communication links, power grid connections and shared water management systems); and (g) lack of agreements on treatment of migrant workers.

Specific recommended initiatives for South-South cooperation to promote regional integration include:

(a) further utilization of the Asia-Pacific Business Forum as a multi-stakeholder forum to review various policy coordination issues in the region;

(b) expanding membership of the Asia-Pacific Trade Agreement (APTA);

(c) concluding an Asia-Pacific agreement on the promotion, liberalization and protection of investment, with a special emphasis on the facilitation of South-South investment;

(d) developing benchmarks and identifying good practices for business regulatory reforms in the region, and disseminating such benchmarks and practices through convenient and effective communication channels, such as regional forums and working groups;

(e) creating or strengthening national SME development and financing agencies as well as the regional networking of such agencies to share and exchange knowledge and resources;

(f) launching a forum to discuss the establishment of a regional financial system that would promote robust financial systems as well as stable foreign exchange regimes;

(g) developing a regional agreement on cross-border trade and transport flows to facilitate the movements of goods and capital, including human resources;

(h) developing a regional master plan (or blueprint) on infrastructure development and its effective utilization for business facilitation;

(i) developing an integrated approach to improve the working conditions of migrant workers; and

(j) cooperating with relevant economic integration activities of subregional Asia-Pacific groupings and agencies such as the GMS, the Central Asia Regional Economic Cooperation Programme, and others.

4. A summary of policy recommendations to increase competitiveness of Asian and Pacific businesses (SMEs)

The policy recommendations proposed above for Asia-Pacific countries are summarized in table 5.2 below and divided into external and internal options. The first category requires mainly public interventions, while the second category could be indirectly handled, probably through public-private sector partnerships.

Table 5.2. Policy options in the framework of determinants of business competitiveness

Competitiveness determinants	Policy options
External aspects	
Market access	Open markets for trade and investment: avoid protectionism (e.g. limited public bail-outs of enterprises which are ineffective and inefficient; market mechanisms determine the future of enterprises)
	Regional integration to create a region-wide market (including development of regional regulatory frameworks and infrastructure)
	Strengthening, deepening, consolidation and integration of free trade and investment agreements, possibly on an Asia-Pacific wide basis
	Business matchmaking services between foreign investors, including regional firms, and local enterprises, in particular SMEs, with an emphasis on backward linkages in regional and global value chains
	More open and transparent government procurement practices
Access to resources	Enhanced access to finance through the development of a conducive financial services framework and capacity-building of financial institutions: <ul style="list-style-type: none"> • Public credit guarantee schemes • SME loans • Trade finance • Loans for restructuring and cost saving initiatives
	Entrepreneurship development <ul style="list-style-type: none"> • Improving the framework for entrepreneurship for business innovation • Training of youth entrepreneurs

Table 5.2. (continued)

Competitiveness determinants	Policy options
	Investment in productivity improvement (infrastructure, logistics and technology)
	Promotion of FDI (including intraregional South-South investment) which fosters backward linkages with SMEs
Regulatory framework which conditions business performance	Formulation and implementation of a strategic pro-SME development policy
	Pro-business regulatory reforms (e.g. registration, licensing, closure and bankruptcy) through a regional capacity-building programme which develops best practice manuals and tool kits
	South-South cooperation for coordinated regulatory frameworks, including regional monetary and financial systems to achieve steady and stable fund flows and more stable foreign exchange rates
	Productivity improvement through infrastructure development and enhanced logistical efficiency
	Promotion of CSR principles, also within value chains
Supporting services provided by both public and private organizations	Development of commercial and public business advisory services, such as accounting, engineering, legal advice and marketing
	Business advisory services to enterprises which require restructuring of their export operations due to the global financial and economic crisis
	Development of public business incubation programmes
Internal aspects	
Contestable market power	Fostering GVCs led by Asian and Pacific enterprises, and development of regionally and later globally recognized regional brands
	Fostering strong market orientation in the business sector to penetrate deeper in markets and increase market shares
Capacity to respond effectively to competitors	Investment in R&D to build regional brands (e.g. regional products/service development with low cost-plus application of CSR principles)
	Improved capacity for process and product innovation
Capability and flexibility to respond to changing circumstances	Strengthening of enterprises' capacities to meet GVC-related standards and certificates, including corporate governance and CSR requirements
	Fostering innovation and a culture of creativity
Capability to create new market niches	Intraregional trade promotion through business networking (e.g. cross-border partnerships among SMEs)

The above policy options may require further analytical work and technical assistance activities at both national and regional levels. This could include: (a) preparation of feasibility studies on the development of Asia-Pacific-led value chains; (b) implementing projects to foster and support the development of cross-border partnerships between enterprises; (c) raising awareness and knowledge

among Asian and Pacific SMEs of standards and certification as increasingly crucial prerequisites for entering GVCs; (d) developing national business environments that are more conducive to entrepreneurship and business innovation; and (e) promotion of sustainable business practices in SMEs, covering CSR principles, within the context of value chains.

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Annex on Trade Performance Indicators

Explanatory notes

A. Composition of geographical groupings

The economies that are regional members and associate members of the Economic and Social Commission for Asia and the Pacific are included. The composition of the subregional geographical groupings is as follows:

Subregion	Economy
East and North-East Asia	1. China*
	2. Democratic People's Republic of Korea
	3. Hong Kong, China*
	4. Japan*
	5. Macao, China*
	6. Mongolia*
	7. Republic of Korea*
South-East Asia	8. Brunei Darussalam *
	9. Cambodia *
	10. Indonesia*
	11. Lao People's Democratic Republic
	12. Malaysia*
	13. Myanmar *
	14. Philippines*
	15. Singapore*
	16. Thailand*
	17. Timor-Leste
	18. Viet Nam*
South and South-West Asia	19. Afghanistan
	20. Bangladesh*
	21. Bhutan
	22. India*
	23. Iran (Islamic Republic of)
	24. Maldives*
	25. Nepal *
	26. Pakistan*
	27. Sri Lanka*
	28. Turkey*
North and Central Asia	29. Armenia*
	30. Azerbaijan
	31. Georgia*
	32. Kazakhstan

Subregion	Economy
	33. Kyrgyzstan*
	34. Russian Federation
	35. Tajikistan
	36. Turkmenistan
	37. Uzbekistan
<i>Pacific island economies</i>	38. American Samoa
	39. Australia*
	40. Cook Islands
	41. Fiji*
	42. French Polynesia
	43. Guam
	44. Kiribati
	45. Marshall Islands
	46. Micronesia (Federated States of)
	47. Nauru
	48. New Caledonia
	49. New Zealand*
	50. Niue
	51. Northern Mariana Islands
	52. Palau
	53. Papua New Guinea*
	54. Samoa
	55. Solomon Islands*
	56. Tonga*
	57. Tuvalu
	58. Vanuatu

* WTO member.

Australia, Japan and New Zealand form the developed economies group, and the remaining economies in the above list make the developing economies group.

European Union includes its current 27 members for all years.

B. Data sources

Historical data (1998-2007 or 2008) on trade (exports and imports) were obtained from the United Nations Comtrade database (<http://comtrade.un.org>) based on SITC Rev. 3 classification of trade statistics. Data used in the preparation of the annex were downloaded on 20 August 2009.

Historical data (2000-2008) on commercial services trade are available from the United Nations Service Trade database (<http://unstats.un.org/unsd/ServiceTrade>) and were downloaded on 11 September 2009.

Historical GDP data (1998-2008) were obtained from the World Development Indicators online database (<http://publications.worldbank.org/WDI/>), World Bank, and the data from the World Trade Organization Trade Profiles 2008.

Historical data on inward and outward FDI flows and stocks were obtained from the UNCTAD World Investment Report 2009.

The source for tariff protection is the WTO Trade Profiles 2008.

All trade facilitation indicators were calculated using data from the Doing Business Reports 2006 and 2010, downloaded from the World Bank Doing Business database (DBD) at <http://www.doingbusiness.org>.

C. Methodology

“Intraregional” is defined at the level of Asia and the Pacific comprising only economies which are regional members and associate members of ESCAP.

Indicator values for the subregions were aggregated from the absolute values of trade for the subregion’s members unless otherwise indicated.

Formulae for the calculation of indicators are available from the APTIAD website (www.unescap.org/tid/aptiad).

Treatment of missing data. While the Comtrade database is the most comprehensive international database on merchandise trade, covering approximately 98% of worldwide trade, a number of countries in the region do not report their trade data in it. For countries without directly reported data, mirror data have been used: volume and destination of exports were derived from the imports declaration of all other countries, and similarly, missing imports data for non-reporting countries were derived from exports data from all other countries. Mirror data were used for the following economies: American Samoa, Guam, Democratic People’s Republic of Korea, Lao People’s Democratic Republic, Marshall Islands, Micronesia (Federated States of), Nauru, Niue, Northern Mariana Islands, Palau and Uzbekistan.

Sometimes Comtrade does not have data for all years of the period covered. In those cases, missing country values have been imputed in order to compute the regional aggregate values. However, no such imputed values are published at the country level. The following methodology has been applied for imputation: if values are available for both an earlier and a later year than the year for which the aggregate is calculated, the missing value has been imputed using linear interpolation. A missing country value for a year preceding the earliest year for which a value is available has been imputed using the value from the earliest year. Similarly, a missing country value for a year following the latest year for which a value is available has been imputed by using the value of the latest year. For countries with only one data point for the whole period, this value has been used for all missing years. No information is used from other countries for imputing the missing values.

A blank cell in the table indicates that data are not available or are not separately reported.

A minus sign (-) indicates deficit or decrease, except as indicated.

A full stop (.) is used to indicate decimals.

A slash (/) between years indicates a crop year or financial year, for example, 1990/91.

Use of a hyphen (-) between years, for example, 1990-1991, signifies the full period involved, including the beginning and end years.

D. Indicator definitions

Table 1.1 and 1.2 Merchandise exports and imports

The economy's exports and imports of merchandise to the world expressed as an annual percentage change and value in 2008 (millions of current United States dollars).

The annual percentage changes reflect the growth of exports and imports from the economy or subregion to and from the rest of the world.

Table 2.1 and 2.2 Commercial services exports and imports

The economy's exports and imports of commercial services to the world expressed as an annual percentage change and value in 2008 (millions of current United States dollars).

The annual percentage changes reflect the growth of exports and imports from the economy of subregion to and from the rest of the world.

Table 3a Leading exporters and importers from the Asia-Pacific region – merchandise in 2007

Ranks for the economies are extracted from the global ranking (WTO, International Trade Statistics 2008) based on their share of the world merchandise exports and imports in 2007.

Table 3b Leading exporters and importers from the Asia-Pacific region – commercial services in 2007

Ranks for the economies are extracted from the global ranking (WTO, International Trade Statistics 2008) based on their share of the world commercial services exports and imports in 2007.

Table 4.1 Intra regional export growth

Exports from the economy to the Asia-Pacific region expressed as annual percentage change and value in 2008 (millions of current United States dollars).

The annual percentage changes reflect the growth of intra regional exports.

Table 4.2 Intra regional import growth

Imports to the economy from the Asia-Pacific region expressed as an annual percentage change and value in 2008 (millions of current United States dollars).

The annual percentage changes reflect the growth of intra regional imports.

Table 4.3 Intra regional trade growth

The economy's trade (exports plus imports) with the Asia-Pacific region expressed as an annual percentage change and value in 2008 (millions of current United States dollars).

The annual percentage changes reflect the growth of intra regional trade.

Table 5.1 Intra regional export share

The proportion of merchandise exports destined to the Asia-Pacific region in the total merchandise exports (percentage).

The values of the index can range from 0 to 100%.

Table 5.2 Intraregional import share

The proportion of merchandise imports sourced from the Asia-Pacific region in total merchandise imports (percentage).

The values of the index can range from 0 to 100%.

Table 5.3 Intraregional trade share

The proportion of international trade done with the rest of the Asia-Pacific region in the economy's total international trade (percentage).

The values of the index can range from 0 to 100%.

Table 6.1 Relative dependence on exports to developed markets

The ratio of merchandise exports directed to three developed markets (European Union, Japan and the United States) to the merchandise exports directed to three regional emerging markets (ASEAN, China and India).

If the indicator value is 1, an economy shares its exports equally between the selected developed and Asian developing markets. If the value is >1 , its exports is more oriented to selected developed markets. Decreasing value of the indicator over time indicates reduced reliance on developed markets. The values can range from 0 to $+\infty$.

Table 6.2 Relative dependence on imports from developed markets

The ratio of merchandise imports sourced from three developed markets (European Union, Japan and the United States) to the national imports sourced from three regional emerging markets (ASEAN, China and India).

If the indicator value is 1, the economy shares its imports equally between the selected developed and Asian developing markets. If the value is >1 , its imports is more sourced from the selected developed markets. Decreasing value over time indicates reduced reliance on developed markets. The values can range from 0 to $+\infty$.

Table 6.3 Relative dependence on trade with developed markets

The ratio of merchandise trade with three developed markets (European Union, Japan and the United States) to the national trade with three regional emerging markets (ASEAN, China and India).

If the indicator value is 1, the economy shares its trade equally between the selected developed and Asian developing markets. If the value is >1 , its trade with developed markets is larger than trade with Asian developing markets. Decreasing value of the indicator over time indicates reduced reliance on developed markets. The values can range from 0 to $+\infty$.

Table 7 Normalized trade balance

Total exports less total imports (trade balance) as a fraction of total trade total exports plus total imports (total trade).

The indicator allows unbiased comparisons across time and across economies of different size. The indicator values can range from -1 to +1; zero value indicates that exports equal imports.

Table 8 Trade balance as a share of GDP

The ratio of trade balance (total exports minus total imports) to GDP, expressed in percentage terms. If trade is balanced (export value equals import value), the value of this indicator is zero. When export value is larger than import value, trade balance is positive and theoretically can be more than 100% of GDP (in countries that are very trade dependent), but in most cases trade balance as a share of GDP will be below 100%. This applies also in case when trade balance is negative (that is, when export value is smaller than import value).

Table 9.1 Sectoral composition of exports

The share of exports of individual sectors defined at the one digit SITC Rev. 3 level in total exports (percentage, 2005-2007 period average).

The indicators values range from 0 to 100%.

Table 9.2 Sectoral composition of imports

The share of imports of individual sector defined at the one digit SITC Rev. 3 level in total imports (percentage, 2005-2007 period average).

The indicators values range from 0 to 100%.

Table 10 Import penetration

The ratio of total imports to domestic demand (percentage). Domestic demand is defined as GDP less total exports and plus total imports.

The indicator shows how much of domestic demand of a reporter country is satisfied by imports.

The indicator values range from 0 (no imports) to 100% (all domestic demand is satisfied by imports). The index can exceed 100 if imported and then re-exported merchandise is not deducted.

Table 11 Tariff protection in 2007

According to the technical notes of the WTO Trade Profiles 2008, import duties collected as percentage of total imports (goods and commercial services) are estimated in general on the basis of data for the three latest years available.

For MFN bound tariffs, the average import duties refer to the simple average of *ad valorem* and calculable *ad valorem* equivalent of final bound HS 6-digit duties. For MFN applied tariffs, they refer to the simple average of *ad valorem* and calculable *ad valorem* equivalent of MFN applied HS 6-digit duties.

According to the WTO Agreement on Agriculture, agricultural goods refer to HS chapters 1 to 24 (excluding fish and fish products) and a number of manufactured agricultural products. This definition does not correspond to the definition of agricultural products that is normally used for a breakdown of merchandise trade by main commodity group (e.g. agricultural products, fuels and mining, and manufactures).

This indicator shows how much tariff protection is applied by an economy, on average. The indicators values range from 0 to prohibitive level of protection (where imports cease to exist).

Table 12 Inward and outward FDI flows

Foreign direct investment *inflows* comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise in the reporting economy. FDI *outflows* are capital received by a foreign direct investor from entities resident in the reporting economy. Ownership or control of less than 10% of a business is not considered to be foreign direct investment. FDI includes: (1) equity capital which is the foreign direct investor's purchase of shares of an enterprise in a country other than that of its residence; (2) reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested; and (3) intra-company loans or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

Table 13 Inward and outward FDI stock

Inward FDI stock is the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise, when the parent enterprise is resident in a different economy. *Outward FDI stock* refers to the value of capital and reserves in another economy attributable to a parent enterprise resident in the economy.

Table 14 Trade facilitation indicators

Time for completing trade procedures is calculated as the average of *time to export* and *time to import* (in days) found in the DBD. For exporting goods, procedures range from packing the goods at the warehouse to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the warehouse.

Cost of completing trade procedures is similarly calculated as the average of the *cost to export* and *cost to import* of the DBD, but adjusted for inflation using United States GDP Deflator from the World Bank World Development Indicators database – to allow for comparison over time. These costs refer to those associated with completing the above mentioned procedures for import or export for a standardized cargo of goods by ocean transport.

Import-export facilitation bias is calculated as the ratio of *time to import* to *time to export* (time basis) or as the ratio of *cost to import* to *cost to export* (cost basis). These ratios provide an indication of whether import or export procedures are more cumbersome. A ratio above one suggests that import procedures are more cumbersome than export procedures.

Table 1.1. Merchandise exports to the world

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing economies	-4.9	10.2	22.1	27.5	20.4	19.9	17.0	16.3	4 163 881
East and North-East Asia	-8.4	9.4	20.4	25.9	15.1	17.1	17.2	11.2	2 957 600
China	6.8	22.4	34.6	35.4	28.4	27.2	25.7	17.3	1 428 686
DPR Korea	-15.0	2.2	-4.7	32.5	12.3	27.3	-10.8	15.5	1 898
Hong Kong, China	-5.7	5.7	13.3	16.1	10.0	10.5	8.3	6.0	370 242
Japan	-15.8	3.3	13.3	19.9	5.2	8.7	10.5	9.4	781 412
Macao, China	-9.7	2.4	9.5	9.0	-12.0	3.3	-0.6	-21.4	1 998
Mongolia	-3.7	7.1	28.2	39.0	24.3	44.9	22.3		
Republic of Korea	-12.7	8.0	19.3	31.0	12.0	14.4	14.1		
South-East Asia	-9.6	4.9	16.6	21.0	14.6	17.2	11.9	12.3	959 583
Brunei Darussalam		1.6	16.2						
Cambodia	7.9	28.3	10.2	32.1					
Indonesia	-9.3	1.5	6.8	17.2	19.7	17.7	13.2	20.1	137 020
Lao PDR	-7.7	2.2	9.2	19.9	38.0	78.3	7.3	-8.2	1 067
Malaysia	-10.4	6.9	11.3	20.9	11.8	13.4	9.7	12.8	198 846
Myanmar									
Philippines	-15.6	9.5	2.9	9.5	4.0	14.9	6.4	-2.8	49 078
Singapore	-11.6	2.8	27.8	24.2	15.6	18.4	10.1	13.0	338 176
Thailand	-5.7	4.9	17.9	19.8	14.4	18.6	17.6	14.5	175 908
Timor-Leste					-58.9				
Viet Nam	3.8	11.2	20.6	31.4	22.5	22.7	21.9		
South and South-West Asia	-1.2	14.6	22.4	28.1	24.8	15.6	14.3	17.9	420 863
Afghanistan									580
Bangladesh	-1.9	0.5	18.2	29.1	12.9	25.3	12.4		
Bhutan									521
India	-2.1	18.4	20.1	26.7	29.5	22.0	15.7	24.6	181 861
Iran (Islamic Rep. of)	-15.7	17.9	19.9	32.1	34.5	5.4			
Maldives	0.6	18.3	24.5	50.3	-9.2	-12.0	-20.2	16.8	126
Nepal									
Pakistan	0.5	7.1	20.5	12.1	20.0	5.5	5.3	13.7	20 279
Sri Lanka		1.1	3.1	12.7	12.3				8 450
Turkey	14.0	14.1	32.1	33.6	16.4	16.4	25.4	23.1	132 002
North and Central Asia	-2.6	6.3	25.4	36.6	32.7	26.3	17.3	43.2	600 152
Armenia	14.2	57.0	27.2	7.8	29.6	7.1	11.7	-5.9	1 055
Azerbaijan	32.6	-6.3	19.6	39.5	20.2	46.6	-4.9	688.3	47 756
Georgia	-1.6	8.9	33.4	40.2	33.8	8.1	31.8	21.5	1 497
Kazakhstan	-2.0	12.1	33.9	54.1	39.8	37.3	24.9	49.0	71 172
Kyrgyzstan	-5.6	-3.3	26.4	23.5	-6.5	18.2	42.8		
Russian Federation	-3.1	6.8	25.3	35.9	33.0	24.9	16.8	32.9	467 994
Tajikistan									
Turkmenistan									
Uzbekistan	-11.7	-25.8	39.1	37.2	27.1	42.2	20.0	-2.0	6 345
Pacific island economies	-0.9	2.8	10.0	22.8	19.3	13.8	13.6	30.3	224 713
American Samoa	-34.2	854.4	-24.3	-24.0	3.2	502.6	-29.6	-6.6	67
Australia	-0.7	2.6	8.1	23.0	22.3	16.6	12.8	34.4	187 039
Cook Islands	-6.9	-27.0	71.1	-16.5	-26.4				
Fiji	-1.9	13.5	-3.7	8.2	29.0	-3.2	9.8		
French Polynesia	-24.6	-9.4	-9.2	22.4	13.5	-11.4	-10.3	23.7	207
Guam	-71.5	37.3	165.3	-26.7	258.5	17.1	53.1	-16.9	82
Kiribati									
Marshall Islands	360.6	40.4	-11.5	-21.6	401.9	12.4	-34.4	116.4	1 243
Micronesia (F.S.)	40.1	-28.0	17.3	-15.2	-26.3	-29.7	-36.2	15.8	28
Nauru	-54.6	7.5	72.3	-40.1	-75.3	120.3	138.6	66.0	39
New Caledonia	-32.9	2.5	66.7	38.5	10.4	1.9	45.1	-1.0	1 632
New Zealand	3.4	4.8	14.9	23.1	6.8	3.1	20.2	13.5	30 578
Niue	-32.2	79.2	-30.5	-30.4	-31.8	36.0	27.5	213.3	9
Northern Mariana Is.	-8.2	-13.6	28.9	42.7	-31.9	14.1	-1.6	0.3	13
Palau	-9.5	-5.3	-42.0	35.7	44.7	30.0	-23.1	-9.1	30
Papua New Guinea	-25.0	-10.0	39.1	20.4					
Samoa		14.0	21.9	-1.9	2.0	-25.3	49.6	-26.1	72
Solomon Islands			34.5	28.6	-17.8	72.7	30.3		
Tonga	-24.0	103.9	18.8	-4.1	-35.9	-4.9	-16.0		
Tuvalu			-29.2	37.0	-53.3				
Vanuatu							-18.5		
Developed economies	-13.6	3.3	12.6	20.4	7.4	9.7	11.1	13.5	999 030
All economies	-7.3	8.3	19.7	25.5	17.1	17.7	14.0	6.25	5 162 911

Table 1.2. Merchandise imports from the world

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing economies	-3.6	10.5	21.8	28.8	17.9	18.2	17.9	17.9	3 795 753
East and North-East Asia	-4.3	5.9	21.6	25.3	14.8	16.0	14.4	14.7	2 656 157
China	8.2	21.2	39.8	36.0	17.6	19.9	20.8	18.4	1 131 563
DPR Korea	73.5	-43.9	0.8	34.0	9.4	11.6	9.1	44.2	4 260
Hong Kong, China	-5.6	3.0	12.2	17.0	10.0	11.9	10.2	6.2	392 962
Japan	-8.0	-3.3	13.6	18.7	13.3	12.3	7.5	22.5	762 534
Macao, China	5.6	6.0	8.8	26.3	29.8	16.0	15.5	-2.7	5 880
Mongolia	2.5			27.5	15.8	25.6	42.5		
Republic of Korea	-12.1	7.8	17.6	25.5	16.4	18.4	15.3		
South-East Asia	-8.4	5.7	12.1	25.9	15.7	14.2	13.7	21.0	913 797
Brunei Darussalam		36.2	-17.0						
Cambodia	4.7	10.6	6.4	16.2					
Indonesia	-7.6	1.1	4.0	42.9	24.0	5.8	22.0	73.5	129 244
Lao PDR	6.1	-0.8	12.5	35.2	16.2	30.4	27.6	22.7	2 314
Malaysia	-10.1	7.7	4.8	27.6	8.7	14.7	12.0	6.3	156 203
Myanmar									
Philippines	-5.6	17.6	3.6	8.3	7.3	9.3	7.2	4.2	60 420
Singapore	-13.8	0.4	17.0	27.4	15.2	19.3	10.2	21.5	319 780
Thailand	0.1	4.3	17.3	24.5	25.2	8.8	11.8	24.2	178 613
Timor-Leste					-10.5				
Viet Nam	3.7	21.8	27.9	26.6	15.0	22.1	39.8		
South and South-West Asia	-6.7	18.9	26.2	35.9	26.8	19.7			
Afghanistan									2 514
Bangladesh	5.6	14.6	10.1	12.1	11.1	24.2	12.3		
Bhutan									543
India	1.0	17.7	26.3	40.2	38.3	23.8	17.9	44.4	315 712
Iran (Islamic Rep. of)	18.7	25.7	26.1	28.7	17.2	5.2			
Maldives	-0.2	1.0	20.2	36.3	16.1	24.4	18.3	26.6	1 388
Nepal									
Pakistan	-7.9	8.9	17.5	37.6	39.8	18.8	9.3	29.9	42 327
Sri Lanka		11.7	7.9	21.0	5.4				13 629
Turkey	-23.5	23.8	35.2	40.7	19.7	19.5	21.8	18.8	201 961
North and Central Asia	21.0	8.4	24.7	32.8	29.7	37.7	42.5	29.9	334 638
Armenia	-0.3	15.0	28.3	9.3	25.3	29.7	39.1	34.4	4 101
Azerbaijan	22.1	16.4	57.7	33.9	19.8	25.1	8.5	25.4	7 162
Georgia	6.2	5.6	43.4	61.7	34.9	47.6	41.9	16.1	6 056
Kazakhstan	27.9	2.2	27.7	50.2	37.4	36.4	38.4	15.4	37 815
Kyrgyzstan	-15.7	24.0	23.8	31.2	17.7	55.1	40.7		
Russian Federation	23.6	10.3	24.2	31.8	30.6	39.5	45.0	33.7	267 051
Tajikistan									
Turkmenistan									
Uzbekistan	8.7	-10.8	19.7	27.0	12.7	26.2	53.7	19.8	7 606
Pacific island economies	-11.6	14.1	21.8	20.2	16.8	9.4	17.7	19.5	241 405
American Samoa	674.3	62.2	-40.9	112.9	61.8	-1.4	51.5	-10.6	173
Australia	-14.9	14.1	22.0	22.8	14.6	11.5	17.3	23.0	191 526
Cook Islands		-1.2	52.5	-4.7	20.5				
Fiji	-2.4	5.0	36.7	15.4	28.2	12.2	-1.3		
French Polynesia	-0.6	18.9	23.7	-5.6	15.0	-9.1	3.3	40.0	2 237
Guam	89.7	-23.5	12.2	43.4	87.5	21.6	-10.9	-24.1	758
Kiribati					29.2				
Marshall Islands	32.8	45.9	14.4	-11.0	75.0	9.8	81.6	-21.5	4 269
Micronesia (F.S.)	-21.0	13.0	-27.3	8.5	34.0	1.1	-11.8	4.1	90
Nauru	-57.6	957.9	-89.8	-32.0	42.8	27.7	40.2	-7.0	43
New Caledonia	-4.0	10.1	43.2	6.2	8.4	12.6	21.5	34.7	3 269
New Zealand	-4.3	13.1	23.4	14.8	23.1	0.8	16.9	11.3	34 367
Niue	-55.3	79.9	-38.0	103.7	-9.6	1.0	3.6	92.9	30
Northern Mariana Is.	-10.7	69.0	3.0	2.9	-6.0	-11.1	-44.4	-31.1	117
Palau	4.1	-11.1	-23.9	27.6	-16.7	14.3	-15.1	54.8	59
Papua New Guinea	26.5	-9.4	9.8	20.3					
Samoa		-2.7	13.7	39.5	13.7	15.3	-3.5	8.4	288
Solomon Islands			36.0	29.4	14.3	67.3	22.7		
Tonga	4.6	22.5	4.5	12.6	14.9	-3.2	22.4		
Tuvalu		217.9			12.4	-1.5			26
Vanuatu							26.8		
Developed economies	-8.9	-0.3	15.3	19.3	13.9	11.7	9.6	22.2	988 427
All economies	-5.0	7.5	20.4	26.4	16.9	16.5	15.0	8.2	4 784 100

Table 2.1. Commercial services exports to the world

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing Economies	0.5	11.6	12.8	30.7	16.3	17.6	24.0	7.1	676 669
East and North-East Asia	-1.4	9.2	14.2	26.6	14.0	13.3	20.7	10.1	455 844
China	9.5	19.2	17.6	33.6	19.2	23.6	32.8	20.4	147 112
DPR Korea									
Hong Kong, China	1.7	8.4	4.4	18.5	15.5	14.2	16.4	7.7	91 213
Japan	-6.6	2.2	17.8	25.6	13.2	6.2	10.1	11.2	143 704
Macao, China			18.1	43.5	6.8	22.4	36.7		
Mongolia	46.5	62.5	12.7	62.7	22.5	17.2	18.1		
Republic of Korea	-4.8	-2.3	16.1	27.1	7.8	10.6	26.3	17.1	73 815
South-East Asia	-0.9	9.5	5.4	33.7	11.3	14.4	20.1	0.3	160 622
Brunei Darussalam	143.7	-11.5	2.3	24.6	13.4	20.7			
Cambodia	22.4	15.2	-9.3	46.9	38.9	15.9	19.3		
Indonesia	5.5	17.9	-22.3	138.9	7.3	-10.9	8.4	22.1	15 243
Lao PDR	-5.5	6.1	-27.7	40.3	14.3	9.4	24.4		
Malaysia	3.7	2.9	-11.8	30.4	14.6	11.3	35.0	0.2	29 543
Myanmar	-14.7	4.5	-41.5	2.3	1.7	7.9			
Philippines	-9.0	11.6	-1.1	19.3	11.9	42.4	51.6	4.4	10 194
Singapore	-2.6	7.7	22.9	28.8	13.2	15.4	14.3	3.0	71 935
Thailand	-5.9	18.4	2.5	20.4	6.0	23.3	22.3	10.9	33 709
Timor-Leste									
Viet Nam	4.0	4.9	13.3	18.9	7.4	19.6	26.7		
South and South-West Asia	-5.1	5.2	24.7	38.2	26.2	20.0	23.4	6.0	143 315
Afghanistan									
Bangladesh	-7.7	12.8	19.2	7.1	15.3	6.8	21.2	-51.3	787
Bhutan	-6.6	-18.2	24.2	49.8	35.2	-16.3	16.4		
India	6.5	12.4	22.8	60.0	37.5	35.2	29.2	12.3	103 171
Iran (Islamic Rep. of)	63.3	65.7	16.8	11.2	6.3	9.6	8.3		
Maldives	1.6	2.5	19.0	17.5	-36.4	70.9	17.6	2.6	666
Nepal	-18.3	-26.1	21.9	23.9	-17.5	1.4	32.6		
Pakistan	-2.3	41.8	45.9	-5.4	25.4	5.6	7.2	-38.5	2 313
Sri Lanka	42.2	-6.4	11.2	8.2	0.9	5.5	9.3	12.8	2 003
Turkey	-21.2	-12.6	28.3	27.4	16.1	-4.9	14.0	19.0	34 375
North and Central Asia	19.5	19.1	18.0	25.6	20.8	24.8	27.1	24.4	59 323
Armenia	36.2	-1.5	12.8	60.4	23.6	17.9	19.7	11.2	645
Azerbaijan	11.6	24.9	19.3	13.9	38.8	37.6	32.7	24.0	1 547
Georgia	46.6	30.1	12.1	21.1	28.9	23.8	23.6	15.2	1 260
Kazakhstan	19.7	22.2	11.2	17.3	10.9	26.5	26.1	23.3	4 383
Kyrgyzstan	29.8	74.9	8.8	37.4	21.7	46.6	82.7		
Russian Federation	19.6	19.0	19.2	26.9	21.2	24.6	26.7	30.2	51 306
Tajikistan	-0.6	10.9	28.3	38.8	19.1	-8.3	10.8	22.0	181
Turkmenistan									
Uzbekistan	3.5	2.7	12.9	6.8	15.2	17.2	24.4		
Pacific island economies	-8.6	15.2	21.8	18.5	8.4	4.7	19.8	5.0	55 686
American Samoa									
Australia	-8.8	8.5	20.9	19.9	9.1	6.7	21.9	13.1	45 641
Cook Islands									
Fiji	-54.9	24.1	22.5	11.1	23.5	-4.1	4.6	17.7	1 010
French Polynesia			24.8	7.7	4.0	4.3	13.0		
Guam									
Kiribati	-13.3	62.6	2.1	-20.5					
Marshall Islands	2.4	8.0	17.0	-2.7	-11.2	5.3			
Micronesia (F.S.)	-9.7	12.5	-1.6	-2.2	1.6				
Nauru									
New Caledonia			22.8	13.6	-21.8	24.4	14.8		
New Zealand	0.8	21.6	24.3	17.3	5.4	-2.9	14.3	-4.7	8 777
Niue									
Northern Mariana Is.									
Palau									
Papua New Guinea	17.5	-43.3	44.1	-12.7	48.7	-1.5	14.2		
Samoa	4.7	10.5	17.2	21.4	22.2	14.8	13.5		
Solomon Islands	-50.7	-30.4	25.4	50.8	15.1	130.6	29.3		
Tonga	20.8	24.9	16.5	3.1	37.4	-13.9	3.3	12.8	37
Tuvalu	-23.3	-14.7	18.9						
Vanuatu	-12.2	-17.2	18.2	9.8	13.6	4.4	28.7	18.2	221
Developed economies	-6.7	4.5	18.9	23.9	11.9	5.8	12.8	10.8	198 121
All economies	-1.6	9.6	14.4	28.8	15.1	14.5	21.3	8.0	874 790

Table 2.2. Commercial services imports from the world

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing Economies	3.7	10.4	12.6	25.1	15.6	15.3	27.2	3.9	664 574
East and North-East Asia	-2.5	6.3	7.4	23.9	7.7	10.2	18.9	12.5	461 278
China	9.0	18.5	18.9	30.4	16.2	20.3	29.0	22.1	158 924
DPR Korea									
Hong Kong, China	0.8	4.3	0.6	19.2	9.1	9.1	14.9	3.2	43 972
Japan	-7.0	-0.2	3.1	21.7	-0.9	1.0	10.9	10.0	165 592
Macao, China			10.0	15.8	15.5	19.5	45.1		
Mongolia	47.2	46.3	24.8	99.4	-7.7	4.4	10.9		
Republic of Korea	-1.4	11.1	10.4	23.6	17.7	17.1	21.4	11.0	92 790
South-East Asia	2.5	4.8	10.4	21.3	11.1	11.7	15.2	5.2	188 967
Brunei Darussalam	37.1	-16.8	17.8	4.2	3.3	9.2			
Cambodia	7.9	8.2	10.5	18.6	25.8	22.1	14.3		
Indonesia	1.6	3.2	2.3	24.4	5.7	-3.0	13.7	15.0	27 984
Lao PDR	-26.6	2.5	14.5	10.8	37.2	10.3	22.2		
Malaysia	-0.5	-1.2	4.2	12.3	15.0	7.1	21.3	1.7	29 285
Myanmar	10.1	-14.3	35.7	9.4	9.2	12.1			
Philippines	2.2	1.3	-1.4	8.7	0.8	7.5	19.2	16.5	8 756
Singapore	7.8	5.2	19.9	25.1	11.0	14.6	13.6	5.4	76 342
Thailand	-5.3	14.4	8.7	26.9	17.3	22.0	16.6	21.2	46 600
Timor-Leste									
Viet Nam	4.0	9.3	9.5	6.4	3.9	14.3	40.1		
South and South-West Asia	-5.8	8.0	18.0	33.9	24.5	18.4	58.1	-28.1	85 261
Afghanistan									
Bangladesh	-6.1	-7.6	21.7	12.9	14.3	6.1	23.2	25.3	3 614
Bhutan	-4.4	18.5	-6.6	46.6	11.6	2.8	-11.6		
India	-0.8	4.0	16.4	44.0	29.5	23.0	93.4	-31.3	53 289
Iran (Islamic Rep. of)	6.8	119.5	19.5	10.1	8.7	22.2	13.5		
Maldives	0.1	1.2	8.2	30.9	35.3	8.5	16.8	12.3	303
Nepal	7.4	10.3	12.4	44.6	12.9	13.4	46.6		
Pakistan	8.0	-5.1	22.6	46.0	66.9	27.4	4.0	2.4	8 979
Sri Lanka	7.8	-9.4	6.0	13.6	9.5	14.6	8.7	15.3	3 001
Turkey	-23.3	-11.1	21.9	35.5	11.8	1.1	30.4	7.3	16 074
North and Central Asia	27.8	18.7	16.0	25.6	19.2	15.2	31.5	21.2	93 910
Armenia	6.0	9.9	22.8	56.5	23.1	15.8	28.8	22.7	972
Azerbaijan	37.2	95.2	57.7	33.4	-2.8	7.9	18.0	15.1	3 889
Georgia	9.6	53.5	9.2	22.3	30.2	15.1	28.3	32.7	1 238
Kazakhstan	42.4	34.3	6.1	36.1	46.7	16.9	32.7	-5.4	10 999
Kyrgyzstan	-16.1	19.2	1.5	48.2	32.8	55.1	26.3		
Russian Federation	26.8	14.2	15.4	22.7	16.8	15.4	32.0	29.0	76 357
Tajikistan	22.1	50.6	15.9	74.9	18.3	-4.3	145.9	-23.1	456
Turkmenistan									
Uzbekistan	29.0	-11.0	5.2	40.1	0.5	-6.0	-3.1		
Pacific island economies	-7.6	10.7	19.6	25.9	10.8	4.3	18.7	6.5	55 717
American Samoa									
Australia	-8.3	6.1	19.0	27.5	9.2	5.7	20.1	17.2	45 354
Cook Islands									
Fiji	-11.4	-4.5	39.1	20.7	8.6	3.0	-0.1	15.2	599
French Polynesia			12.8	11.3	9.0	-0.3	12.9		
Guam									
Kiribati	-17.1	9.4	33.9	17.6					
Marshall Islands	11.9	14.8	-9.8	-2.9	8.2	-3.8			
Micronesia (F.S.)	-0.4	6.2	-0.5	1.5	2.2				
Nauru									
New Caledonia			28.9	11.3	40.5	32.9	17.3		
New Zealand	-3.6	10.5	20.2	25.6	14.2	-5.3	14.8	7.3	9 613
Niue									
Northern Mariana Is.									
Palau									
Papua New Guinea	-14.3	2.4	28.0	15.0	17.0	24.9	23.4		
Samoa	-10.3	10.3	8.4	35.8	33.9	1.0	2.7		
Solomon Islands	-5.0	-46.3	-12.3	60.5	31.4	6.4	78.2		
Tonga	-6.7	46.6	2.4	17.1	5.0	9.8	-20.9	16.8	56
Tuvalu	-0.4	-31.3	8.3						
Vanuatu	-0.7	-26.1	17.9	7.7	12.1	-3.5	6.3	26.4	95
Developed economies	-7.1	1.0	5.9	22.8	1.4	1.5	12.8	11.3	220 559
All economies	-0.4	7.1	10.4	24.4	11.2	11.4	23.5	5.6	885 134

Table 3a. Leading exporters and importers from the Asia-Pacific region – merchandise* in 2007

Regional rank	Global rank	Exporters	Value (\$ billion)	Share in world export	Regional rank	Global rank	Importers	Value (\$ billion)	Share in world import
1	2	China	1 218	11.8	1	3	China	956	9.0
2	4	Japan	713	6.9	2	4	Japan	621	5.8
3	6	Republic of Korea	371	3.6	3	6	Hong Kong, China	370	3.5
4	7	Russian Federation	355	3.4			retained imports	93	0.9
5	8	Hong Kong, China	349	3.4	4	7	Republic of Korea	357	3.4
		domestic exports	18	0.2	5	9	Singapore	263	2.5
		re-exports	331	3.2			retained imports	120	1.1
6	9	Singapore	299	2.9	6	10	Russian Federation ^a	223	2.1
		domestic exports	156	1.5	7	12	India	217	2.0
		re-exports	143	1.4	8	13	Turkey	170	1.6
7	13	Malaysia	176	1.7	9	14	Australia	165	1.6
8	17	Thailand	153	1.5	10	16	Malaysia	147	1.4
9	18	India	145	1.4	11	17	Thailand	141	1.3
10	19	Australia	141	1.4	12	20	Indonesia	92	0.9
11	21	Indonesia	118	1.1	13	24	Viet Nam	61	0.6
12	22	Turkey	107	1.0	14	27	Philippines ^{a, b}	58	0.5
13	23	Iran (Islamic Rep. of) ^b	86	0.8	15	30	Iran (Islamic Rep. of) ^b	46	0.4
14	32	Philippines	50	0.5	16	33	Kazakhstan	33	0.3
15	34	Viet Nam	48	0.5	17	34	Pakistan	33	0.3
16	35	Kazakhstan	48	0.5	18	37	New Zealand	31	0.3
17	42	New Zealand	27	0.3	19	47	Bangladesh	19	0.2
18	45	Pakistan	18	0.2					

* excluding intra-EU (27) trade.

^a Imports are valued f.o.b.^b WTO secretariat estimates.**Table 3b. Leading exporters and importers from the Asia-Pacific region – commercial services* in 2007**

Regional rank	Global rank	Exporters	Value (\$ billion)	Share in world export	Regional rank	Global rank	Importers	Value (\$ billion)	Share in world import
1	3	Japan	127.1	5.3	1	3	Japan	148.7	6.6
2	4	China	121.7	5.1	2	4	China	129.3	5.7
3	5	India	89.7	3.7	3	5	Republic of Korea	82.5	3.6
4	6	Hong Kong, China	82.7	3.4	4	7	India	77.2	3.4
5	7	Singapore	67.3	2.8	5	8	Singapore	70.1	3.1
6	8	Republic of Korea	61.5	2.6	6	9	Russian Federation	57.8	2.5
7	12	Australia	39.7	1.6	7	10	Hong Kong, China	41.0	1.8
8	13	Russian Federation	39.1	1.6	8	12	Australia	38.2	1.7
9	15	Thailand	28.8	1.2	9	13	Thailand	38.0	1.7
10	16	Turkey	28.2	1.2	10	19	Malaysia	27.8	1.2
11	17	Malaysia	28.2	1.2	11	21	Indonesia ^a	23.3	1.0
12	22	Macao, China	14.5	0.6	12	24	Turkey	14.1	0.6
13	27	Indonesia ^a	12.0	0.5	13	27	Kazakhstan	11.3	0.5
14	30	New Zealand	9.2	0.4	14	32	Iran (Islamic Rep. of) ^a	9.9	0.4
15	34	Philippines	7.9	0.3	15	34	New Zealand	8.9	0.4
					16	35	Pakistan	8.4	0.4

* excluding intra-EU (27) trade.

^a WTO secretariat estimates.

Table 4.1. Intra-regional export growth

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing economies	-3.5	11.9	26.0	26.6	19.3	18.4	18.0	14.4	1 979 271
East and North-East Asia	-5.6	13.8	25.9	26.8	14.6	15.9	18.8	11.8	1 475 239
China	6.5	20.7	30.7	32.8	24.5	23.7	26.1	15.9	645 839
DPR Korea	10.9	20.3	1.6	33.1	-2.0	38.7	-24.1	11.2	934
Hong Kong, China	-1.6	11.0	19.3	20.1	10.7	12.7	12.0	7.2	244 191
Japan	-13.8	10.8	23.2	23.9	5.9	8.1	14.6	15.2	382 797
Macao, China	-2.9	17.9	5.7	14.6	1.0	7.1	10.8	-9.6	734
Mongolia	-8.9	4.2	32.4	17.0	31.4	75.7	34.9		
Republic of Korea	-12.4	10.9	31.6	28.9	14.8	14.7	15.1		
South-East Asia	-8.4	7.0	23.0	23.2	17.4	17.4	14.3	14.6	631 492
Brunei Darussalam		1.0	16.7						
Cambodia	-17.6	79.0	-14.4	59.6					
Indonesia	-10.6	3.0	11.3	18.2	24.7	18.3	14.9	20.7	93 707
Lao PDR	-23.0	6.8	29.1	3.6	135.2	158.7	43.3	-17.1	178
Malaysia	-10.0	8.6	13.5	22.2	12.8	12.2	13.9	19.2	129 713
Myanmar									
Philippines	-12.4	18.6	19.1	15.1	6.5	12.0	11.7	-3.2	29 019
Singapore	-8.1	5.1	36.8	25.9	18.1	20.9	12.2	14.3	239 943
Thailand	-4.9	8.7	24.5	22.8	18.0	17.4	20.4	16.0	106 014
Timor-Leste					-65.3				
Viet Nam	-4.0	3.6	16.3	34.2	27.8	17.2	18.5		
South and South-West Asia	1.9	18.0	30.3	26.0	37.4	13.6	13.0	21.2	112 206
Afghanistan									404
Bangladesh	-10.5	-0.5	10.6	46.3	33.4	80.2	1.2		
Bhutan									520
India	-0.2	31.7	27.6	28.8	27.7	19.7	15.1	25.7	62 118
Iran (Islamic Rep. of)	3.6	2.1	42.8	26.1	71.9	-3.6			
Maldives	14.4	37.7	34.1	32.6	2.8	11.0	-15.3	15.2	85
Nepal									
Pakistan	-6.8	1.0	25.0	11.0	37.5	3.4	1.1	30.3	5 777
Sri Lanka		11.4	15.3	20.4	14.7				1 956
Turkey	17.0	15.4	36.6	25.8	24.2	30.5	39.8	39.2	18 872
North and Central Asia	5.4	5.8	31.7	34.1	24.0	26.3	22.5	45.3	140 781
Armenia	11.8	8.1	20.0	16.6	18.1	7.7	63.8	0.2	340
Azerbaijan	-11.3	16.8	47.1	118.8	37.9	15.5	86.2	135.2	7 894
Georgia	6.6	2.1	33.4	55.1	14.5	-6.2	17.4	22.6	694
Kazakhstan	2.1	6.5	41.8	41.1	15.1	47.5	42.5	34.5	22 482
Kyrgyzstan	-22.8	10.7	3.4	42.1	9.3	42.8	51.1		
Russian Federation	7.8	7.6	31.9	32.7	26.9	24.7	17.5	49.0	103 968
Tajikistan									
Turkmenistan									
Uzbekistan	-4.3	-21.5	66.0	49.1	19.8	22.1	12.6	-22.6	2 610
Pacific island economies	-2.2	4.8	9.8	28.1	23.5	13.1	15.4	35.4	152 527
American Samoa	-34.0	3 183.4	-25.1	-34.8	4.3	677.3	-63.4	-42.2	21
Australia	-2.4	3.8	8.7	29.3	27.2	15.4	14.0	39.7	131 795
Cook Islands	-10.0	-26.1	31.3	1.9	-18.9				
Fiji	-10.2	51.8	-23.1	15.3	65.5	-31.2	45.3		
French Polynesia	-31.4	7.5	-15.5	17.6	17.2	-7.6	-3.3	7.3	133
Guam	-84.9	60.3	264.8	-34.6	298.1	19.3	59.0	-24.2	66
Kiribati									
Marshall Islands	11.7	55.2	273.8	76.4	234.2	-83.4	-42.7	119.5	45
Micronesia (F.S.)	-7.8	-24.7	4.6	-18.7	-45.9	49.5	-37.4	-44.7	4
Nauru	-62.4	-12.3	75.7	-76.4	-56.3	126.0	281.8	132.7	35
New Caledonia	-40.8	-4.0	88.6	59.1	5.1	-6.2	50.4	-24.1	538
New Zealand	0.8	3.6	16.7	23.6	6.1	4.0	24.2	16.8	18 382
Niue	-34.9	-9.8	44.1	-50.5	-58.5	141.5	-44.8	-29.8	1
Northern Mariana Is.	-39.8	33.2	24.4	35.2	-27.8	0.8	9.5	-10.1	5
Palau	-27.2	-10.5	21.0	52.3	39.5	32.1	-26.1	-10.7	27
Papua New Guinea	6.8	87.4	-14.6	15.3					
Samoa		27.4	29.0	11.7	3.7	-24.6	54.5	-25.1	70
Solomon Islands			52.2	36.2	12.4	50.8	34.6		
Tonga	-3.1	46.9	9.2	23.4	-39.8	-4.3	-25.3		
Tuvalu			-28.1	36.6	-53.1				
Vanuatu							-15.0		
Developed economies	-11.3	9.1	20.2	24.8	9.7	9.4	14.8	20.5	532 974
All economies	-5.6	11.2	24.6	26.1	17.0	16.4	17.3	15.6	2 512 245

Table 4.2. Intra-regional import growth

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing economies	-4.6	12.1	23.5	28.2	18.4	18.1	18.0	14.6	2 034 888
East and North-East Asia	-3.1	9.1	23.9	26.1	15.6	14.8	14.8	11.4	1 473 753
China	6.6	26.1	42.7	35.6	20.3	18.5	19.3	13.0	601 882
DPR Korea	79.3	-46.3	13.6	21.1	11.1	7.6	28.3	41.6	3 433
Hong Kong, China	-6.1	4.9	13.4	17.4	11.0	12.7	10.6	5.8	300 756
Japan	-4.8	-1.4	17.8	21.5	13.3	10.3	9.2	20.8	372 885
Macao, China	6.6	6.9	9.7	26.5	34.1	13.5	10.1	-8.2	4 091
Mongolia	4.5			26.9	17.6	31.4	42.0		
Republic of Korea	-9.9	12.4	18.5	28.4	15.1	16.4	18.8		
South-East Asia	-11.0	9.5	14.3	26.7	16.3	14.0	14.2	20.5	557 730
Brunei Darussalam		25.4	-6.6						
Cambodia	9.5	13.6	9.0	13.3					
Indonesia	-8.9	5.9	7.7	42.1	33.7	6.7	21.6	86.0	91 465
Lao PDR	6.2	-1.2	12.5	26.8	25.2	33.3	25.8	21.4	2 171
Malaysia	-13.2	12.5	6.4	28.7	9.6	12.3	15.4	4.9	97 865
Myanmar									
Philippines	-4.1	16.6	5.8	11.6	4.7	11.4	4.6	6.8	35 083
Singapore	-17.6	3.2	20.6	26.5	13.6	19.3	8.9	18.0	174 868
Thailand	-3.4	11.6	19.0	25.9	25.8	8.4	12.0	21.3	107 152
Timor-Leste					-8.1				
Viet Nam	1.1	20.2	24.2	30.7	17.6	24.5	38.9		
South and South-West Asia	0.1	12.1	38.6	31.9	31.1	31.8	22.4	26.3	237 675
Afghanistan									1 016
Bangladesh	11.4	0.7	21.4	15.6	2.1	21.4	13.2		
Bhutan									509
India	12.8	12.5	52.3	31.7	40.8	58.7	22.3	36.0	112 737
Iran (Islamic Rep. of)	6.7	10.4	38.5	15.6	17.7	-45.4			
Maldives	-4.2	0.9	22.2	27.6	6.9	26.7	21.2	15.9	844
Nepal									
Pakistan	-9.7	17.1	23.5	32.0	42.4	16.9	15.9	23.2	15 822
Sri Lanka		6.1	17.5	22.5	6.0				9 775
Turkey	-19.5	21.6	49.4	54.5	39.6	33.5	30.2	23.9	78 298
North and Central Asia	13.0	6.7	31.3	43.4	37.9	45.4	49.1	30.2	128 649
Armenia	7.4	17.9	-1.1	3.3	38.2	86.0	55.5	46.2	2 122
Azerbaijan	27.8	26.1	40.7	31.4	32.0	17.5	3.5	28.5	3 706
Georgia	-0.5	6.2	26.4	74.6	48.9	55.8	31.3	19.6	2 823
Kazakhstan	22.5	-6.5	35.0	48.9	39.4	42.0	40.3	14.7	22 523
Kyrgyzstan	-12.5	18.8	32.2	35.3	15.8	54.2	49.1		
Russian Federation	12.5	13.7	35.8	48.4	43.0	50.9	56.7	37.8	88 990
Tajikistan									
Turkmenistan									
Uzbekistan	13.1	-10.6	22.8	36.5	17.9	33.1	58.9	13.1	5 184
Pacific island economies	-7.3	14.9	25.1	23.6	20.7	13.0	17.9	18.5	138 024
American Samoa	700.6	59.4	-46.1	58.0	95.0	-12.4	45.1	-19.5	99
Australia	-12.0	14.7	25.8	27.4	17.6	15.5	16.9	24.7	107 143
Cook Islands		-0.7	51.6	-5.0	23.6				
Fiji	69.5	10.6	28.8	20.6	32.2	13.2	-0.6		
French Polynesia	7.6	-2.2	40.3	10.3	16.0	-1.6	7.6	38.1	930
Guam	81.3	-28.6	11.1	44.2	94.2	20.7	-11.2	-28.1	649
Kiribati					26.0				
Marshall Islands	30.6	51.3	28.7	-9.0	67.1	19.8	72.4	-41.1	2 458
Micronesia (F.S.)	-35.5	5.6	-18.3	18.8	59.9	-2.7	-31.3	-34.4	29
Nauru	-12.3	27.5	-4.8	-30.4	49.3	14.5	39.2	-33.7	24
New Caledonia	-6.5	13.2	19.5	23.1	32.3	11.9	33.5	34.2	1 633
New Zealand	-0.6	19.2	25.2	14.1	28.1	3.4	20.4	8.9	20 914
Niue	-59.0	74.3	-37.7	111.5	-23.7	-21.9	37.8	9.2	12
Northern Mariana Is.	-9.7	84.8	6.9	1.1	-1.6	-11.6	-44.0	-31.7	106
Palau	-24.7	3.9	-34.8	62.7	-21.2	38.9	-31.2	-7.7	16
Papua New Guinea	26.6	-14.7	12.6	21.3					
Samoa		-4.0	14.9	41.9	14.3	17.6	-3.8	5.3	240
Solomon Islands			23.0	17.1	43.0	68.6	29.0		
Tonga	3.7	21.3	6.6	14.4	14.3	-4.4	22.0		
Tuvalu		262.7			11.5	-2.4			23
Vanuatu							29.5		
Developed economies	-5.8	1.8	19.4	22.2	14.7	10.9	11.2	21.1	500 943
All economies	-4.9	9.6	22.6	26.9	17.6	16.6	16.7	15.8	2 535 831

Table 4.3. Intra-regional trade growth

	Annual % change								Value (\$ million)
	2001	2002	2003	2004	2005	2006	2007	2008	2008
Developing economies	-4.1	12.0	24.7	27.4	18.8	18.3	18.0	14.5	4 014 159
East and North-East Asia	-4.2	13.8	26.1	27.3	15.4	16.1	17.8	10.4	2 576 107
China	6.6	23.3	36.6	34.3	22.3	21.1	22.7	14.5	1 247 721
DPR Korea	60.6	-33.7	9.4	24.9	6.7	17.3	8.9	33.7	4 368
Hong Kong, China	-4.3	7.4	15.9	18.6	10.9	12.7	11.2	6.4	544 948
Japan	-13.8	10.8	23.2	23.9	5.9	8.1	14.6	15.2	382 797
Macao, China	4.5	9.2	8.8	23.9	27.4	12.4	10.2	-8.4	4 825
Mongolia	-0.9	9.3	18.5	23.0	22.8	49.2	38.6		
Republic of Korea	-11.2	11.7	25.0	28.6	14.9	15.5	16.9		
South-East Asia	-9.6	8.2	18.8	24.8	16.9	15.8	14.2	17.3	1 189 223
Brunei Darussalam	8.8	5.8	11.3	25.7	20.4	17.0			
Cambodia	2.5	27.3	2.2	24.7					
Indonesia	-10.0	4.0	10.0	26.3	28.1	13.7	17.4	46.0	185 172
Lao PDR	5.1	-0.9	13.0	26.0	28.3	39.7	27.5	17.3	2 349
Malaysia	-11.5	10.4	10.2	25.1	11.4	12.3	14.6	12.6	227 579
Myanmar									
Philippines	-7.7	17.4	11.4	13.2	5.5	11.6	7.9	2.0	64 102
Singapore	-12.8	4.2	29.3	26.2	16.1	20.2	10.8	15.8	414 811
Thailand	-4.2	10.2	21.6	24.4	22.0	12.6	16.2	18.6	213 166
Timor-Leste					-32.6				
Viet Nam	-1.2	13.1	21.1	32.0	21.5	21.6	31.0		
South and South-West Asia	0.8	14.4	35.3	29.7	33.5	24.9	19.1	24.6	349 880
Afghanistan									1 420
Bangladesh	9.3	0.6	20.6	17.8	4.8	28.1	11.3		
Bhutan	15.5	13.4	11.8	10.6	9.6	22.9	18.6	15.7	1 029
India	6.0	21.9	39.2	30.3	34.5	40.9	19.5	32.1	174 855
Iran (Islamic Rep. of)	4.9	5.8	40.8	21.3	48.4	-18.0			
Maldives	-2.6	4.6	23.7	28.3	6.3	24.4	16.6	15.9	929
Nepal	10.6	9.6	8.8						
Pakistan	-8.6	10.9	24.0	24.6	40.8	12.7	11.7	25.1	21 599
Sri Lanka	2.3	7.1	17.1	22.1	7.6	21.7	17.9	15.1	11 732
Turkey	-12.8	20.1	46.4	48.2	36.7	33.0	31.8	26.6	97 170
North and Central Asia	8.2	6.2	31.6	37.6	29.5	34.3	34.6	37.7	269 430
Armenia	8.5	15.3	4.1	7.1	32.0	64.3	57.0	37.5	2 462
Azerbaijan	13.7	23.5	42.4	55.4	34.3	16.7	36.0	85.9	11 600
Georgia	2.2	4.6	29.0	66.9	36.3	36.7	28.4	20.2	3 517
Kazakhstan	12.1	-0.5	38.4	45.0	27.4	44.4	41.3	23.8	45 006
Kyrgyzstan	-16.8	15.7	21.7	37.4	13.7	50.7	49.7		
Russian Federation	9.2	9.4	33.1	37.6	32.4	34.2	33.6	43.6	192 958
Tajikistan									
Turkmenistan									
Uzbekistan	4.3	-15.6	41.4	42.9	18.9	27.3	35.3	-2.0	7 794
Pacific island economies	-0.5	5.1	10.6	26.7	24.3	12.9	16.0	31.1	162 493
American Samoa	554.7	122.0	-39.9	23.7	77.3	66.5	-12.8	-24.6	119
Australia	-2.4	3.8	8.7	29.3	27.2	15.4	14.0	39.7	131 795
Cook Islands	-1.2	-3.6	49.8	-4.5	20.2	12.2	10.9		
Fiji	39.1	20.8	12.7	19.5	39.0	2.4	6.9		
French Polynesia	-5.0	0.1	26.3	11.5	16.2	-2.6	5.7	33.3	1 062
Guam	67.0	-27.9	15.5	39.8	99.5	20.6	-7.6	-27.8	715
Kiribati	5.0	4.7	4.5	4.3	23.4				
Marshall Islands	30.4	51.4	31.0	-6.7	75.6	9.9	70.7	-40.3	2 503
Micronesia (F.S.)	-28.1	-4.7	-12.1	6.7	34.0	2.5	-32.2	-35.7	33
Nauru	-42.1	12.1	19.5	-50.7	26.9	22.6	71.9	16.1	59
New Caledonia	-20.8	7.9	38.6	36.6	20.4	5.0	39.2	12.7	2 171
New Zealand	0.8	3.6	16.7	23.6	6.1	4.0	24.2	16.8	18 382
Niue	-54.0	49.6	-23.2	57.5	-27.3	-12.1	24.2	6.4	13
Northern Mariana Is.	-10.6	83.8	7.2	1.6	-2.2	-11.4	-43.1	-31.0	111
Palau	-25.7	-1.7	-14.9	57.5	8.6	34.6	-28.0	-9.6	43
Papua New Guinea	20.7	12.3	0.6	19.0					
Samoa		4.5	19.6	31.0	11.1	5.5	8.1	-3.5	310
Solomon Islands			32.3	24.1	30.6	62.4	30.8		
Tonga	3.1	23.6	6.9	15.4	8.1	-4.4	18.9		
Tuvalu	-42.7	251.4	0.5	1.2	10.7	-2.3	46.3	31.6	
Vanuatu	11.8	10.6	9.6	8.7	8.0	7.4	24.4		
Developed economies	-11.3	9.1	20.2	24.8	9.7	9.4	14.8	20.5	532 974
All economies	-5.2	11.6	24.1	27.0	17.6	17.2	17.6	15.2	4 547 133

Table 5.1. Intra-regional export share (in %)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	45.4	44.8	46.4	47.0	47.8	49.3	48.9	48.5	47.9	48.3	47.6
East and North-East Asia	40.9	42.0	44.0	45.4	47.2	49.3	49.7	49.5	48.9	49.6	49.9
China	52.2	51.2	51.6	51.4	50.8	49.3	48.3	46.9	45.6	45.8	45.2
DPR Korea	49.5	42.8	40.4	53.1	63.6	68.4	70.6	64.5	68.3	53.3	53.5
Hong Kong, China	49.9	50.0	51.4	53.7	56.3	59.3	61.4	61.8	63.0	65.2	66.0
Japan	31.5	33.4	36.3	37.2	39.8	43.3	44.8	45.1	44.8	46.5	49.0
Macao, China	17.1	18.8	19.2	20.6	23.7	22.9	24.1	27.7	28.7	31.9	36.7
Mongolia	78.3	76.2	71.5	67.7	65.8	68.0	57.2	60.4	73.3	80.8	
Republic of Korea	41.4	45.0	46.3	46.5	47.7	52.6	51.8	53.0	53.2	53.6	
South-East Asia	50.5	52.3	55.4	56.2	57.3	60.5	61.6	63.1	63.3	64.6	65.9
Brunei Darussalam	86.6			91.9	91.4	91.8			93.0		
Cambodia			27.6	21.1	29.4	22.8	27.6				
Indonesia	57.2	59.1	60.9	60.1	61.0	63.5	64.0	66.7	67.1	68.1	68.4
Lao PDR	43.5	66.6	57.1	53.0	51.9	51.4	48.6	63.0	75.4	77.1	74.2
Malaysia	51.8	52.4	56.7	56.9	57.8	59.0	59.6	60.1	59.5	61.8	65.2
Myanmar											
Philippines	35.7	38.7	41.5	43.1	46.6	54.0	56.7	58.1	56.6	59.4	59.1
Singapore	52.8	55.0	57.2	59.5	60.8	65.1	66.0	67.4	68.9	70.2	71.0
Thailand	46.3	47.5	50.4	50.8	52.6	55.5	56.9	58.7	58.1	59.5	60.3
Timor-Leste							75.6	63.8			
Viet Nam	41.1	54.0	61.7	57.1	53.2	51.3	52.4	54.7	52.2	50.7	
South and South-West Asia	19.4	18.0	21.8	22.5	23.2	24.7	24.2	26.7	26.2	25.9	26.7
Afghanistan											69.6
Bangladesh	10.2		9.8	8.9	8.8	8.2	9.3	11.1	15.9	14.3	
Bhutan	98.8	99.3						99.9			99.7
India	27.6	29.3	28.7	29.3	32.6	34.6	35.2	34.7	34.0	33.9	34.2
Iran (Islamic Rep. of)	9.2	6.0	22.6	27.8	24.0	28.6	27.3	34.9	31.9		
Maldives	51.9	44.3	35.8	40.6	47.3	50.9	45.0	50.9	64.2	68.2	67.3
Nepal	38.3	42.3	48.5			59.2					
Pakistan	25.7	25.6	25.7	23.8	22.5	23.3	23.0	26.4	25.9	24.8	28.5
Sri Lanka		16.2		17.2	18.9	21.2	22.6	23.1			23.2
Turkey	12.6	9.1	9.4	9.6	9.7	10.1	9.5	10.1	11.3	12.6	14.3
North and Central Asia	26.2	20.4	20.8	22.6	22.6	23.6	23.1	21.6	21.6	22.7	23.3
Armenia		37.7	32.7	32.1	22.1	20.8	22.5	20.5	20.6	30.2	32.2
Azerbaijan	65.7	30.1	19.5	13.0	16.2	20.0	31.3	35.9	28.3	55.4	16.5
Georgia	63.4	58.2	61.8	66.9	62.7	62.7	69.3	59.3	51.5	45.9	46.3
Kazakhstan	48.8	37.1	36.2	37.7	35.8	37.9	34.7	28.6	30.7	35.0	31.6
Kyrgyzstan	49.8	49.5	53.6	43.8	50.2	41.1	47.2	55.2	66.7	70.6	
Russian Federation	18.3	17.8	17.9	20.0	20.1	21.2	20.7	19.7	19.7	19.8	22.2
Tajikistan			53.5								
Turkmenistan	74.0	43.6	64.8								
Uzbekistan	54.4	59.1	59.7	52.6	58.6	67.8	74.8	71.8	63.4	61.8	50.8
Pacific island economies	50.5	53.9	59.8	59.1	60.2	60.0	62.5	64.9	64.6	65.5	68.2
American Samoa			54.5	89.1	88.3	86.6	81.6	75.9	95.1	50.0	31.9
Australia	50.7	54.9	62.1	61.0	61.7	62.1	65.2	67.8	67.1	67.8	70.5
Cook Islands			87.8	84.8	85.8	65.8	80.3	88.4			
Fiji			49.3	45.1	60.4	48.3	51.4	66.0	47.0	62.1	
French Polynesia	51.2	61.3	65.9	60.0	71.2	66.3	63.7	65.8	68.6	74.0	64.2
Guam			100.0	81.2	70.6	85.7	74.9	83.5	84.9	87.5	81.3
Kiribati	79.9	76.7						52.7			
Marshall Islands	10.3	63.2	64.7	27.2	34.7	33.4	55.5	31.3	5.3	8.8	6.2
Micronesia (F.S.)	69.0	77.6	79.1	77.1	76.6	80.0	78.4	94.0	94.2	69.3	76.4
Nauru	95.1	93.0	83.5	77.7	56.6	57.4	23.0	41.1	43.7	65.2	90.9
New Caledonia		41.9	44.2	39.0	36.5	41.3	47.4	45.2	41.5	43.1	33.0
New Zealand	55.7	56.3	57.4	56.0	55.4	56.2	56.5	56.1	56.6	58.5	60.1
Niue	26.8	33.8	89.4	85.9	43.2	90.6	63.7	38.9	71.6	30.1	7.1
Northern Mariana Is.	55.0	65.5	46.4	30.6	48.1	47.3	43.3	45.6	40.2	48.2	42.4
Palau	53.1	56.5	55.0	44.8	41.8	87.3	97.9	95.4	95.8	92.1	90.6
Papua New Guinea	20.7		16.4	23.4	48.6	29.9	28.6				
Samoa				67.3	75.2	79.6	90.8	92.1	92.9	95.9	97.3
Solomon Islands					58.4	66.0	70.0	95.6	83.5	86.3	
Tonga			72.0	91.9	66.2	60.9	78.4	73.5	74.0	65.9	
Tuvalu					98.4	100.0	99.7	100.0			
Vanuatu			72.5						50.6	52.8	
Developed economies	34.5	36.4	39.8	40.8	43.2	46.1	47.8	48.8	48.6	50.3	53.3
All economies	41.2	42.8	45.2	45.8	47.0	48.8	49.1	49.0	48.4	48.8	49.2

Table 5.2. Intraregional import share (in %)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	48.6	50.3	51.3	51.3	52.0	53.8	52.8	53.4	53.5	53.6	52.0
East and North-East Asia	51.2	50.2	49.5	48.8	52.5	54.3	55.0	54.9	54.8	56.9	55.5
China	51.5	50.8	53.5	52.7	54.8	55.9	55.8	57.0	56.4	55.7	53.2
DPR Korea	63.2	64.9	70.8	73.1	69.9	78.8	71.2	72.4	69.8	82.1	80.6
Hong Kong, China	71.1	72.9	73.2	72.8	74.2	75.0	75.3	76.0	76.6	76.8	76.5
Japan	41.0	42.8	44.4	45.9	46.8	48.6	49.7	49.7	48.8	49.6	48.9
Macao, China	73.2	71.0	74.3	75.0	75.6	76.3	76.4	79.0	77.3	73.7	69.6
Mongolia	68.0	77.8	80.4	81.9		80.3	79.9	81.1	84.9	84.6	
Republic of Korea	42.8	46.9	48.0	49.2	51.3	51.7	52.9	52.3	51.4	52.9	
South-East Asia	59.9	62.5	64.0	64.0	64.8	71.1	69.5	70.6	72.6	72.9	69.1
Brunei Darussalam	66.8			72.3	66.5	74.9			76.6		
Cambodia			76.1	79.6	81.7	83.7	81.6				
Indonesia	52.2	52.8	57.3	56.6	59.3	61.4	61.0	65.7	66.2	66.0	70.8
Lao PDR	93.3	93.9	93.2	93.3	93.0	93.0	87.3	94.1	96.1	94.8	93.8
Malaysia	58.3	60.0	60.5	58.4	61.0	61.9	62.5	63.0	61.7	63.5	62.7
Myanmar											
Philippines	57.1	57.8	55.1	56.0	55.5	56.7	58.4	57.0	58.1	56.6	58.1
Singapore	53.6	55.4	57.5	55.0	56.5	58.2	57.8	57.0	57.0	56.3	54.7
Thailand	53.5	54.9	57.8	55.8	59.7	60.5	61.2	61.5	61.3	61.4	60.0
Timor-Leste							94.0	96.5			
Viet Nam	43.0	68.1	72.6	70.8	69.9	67.9	70.1	71.6	73.0	72.6	
South and South-West Asia	13.9	14.2	18.0	19.6	19.5	20.1	18.7	20.2	19.2	18.6	17.6
Afghanistan											57.6
Bangladesh	64.8		66.0	69.6	61.2	67.5	69.6	64.0	62.5	63.0	
Bhutan	89.0	96.4						90.9			93.8
India	30.6	29.4	23.2	25.9	24.7	29.8	28.0	28.5	36.6	37.9	35.7
Iran (Islamic Rep. of)	31.7	26.6	36.4	32.7	28.7	31.5	28.3	28.5	14.8		
Maldives	69.6	69.9	75.7	72.7	72.6	73.8	69.1	63.7	64.8	66.4	60.8
Nepal	75.1	82.3	72.3			86.2					
Pakistan	40.3	37.4	34.9	34.2	36.8	38.6	37.1	37.8	37.2	39.4	37.4
Sri Lanka		63.6		64.9	61.6	67.2	68.0	68.3			71.7
Turkey	19.3	19.7	21.3	22.4	22.0	24.3	26.7	31.1	34.8	37.2	38.8
North and Central Asia	16.3	40.7	52.7	46.1	45.5	47.7	47.9	45.9	42.1	36.3	41.3
Armenia		39.9	33.4	36.0	36.9	28.5	26.9	29.7	42.5	47.6	51.7
Azerbaijan	53.6	59.0	51.4	53.8	58.3	52.1	51.1	56.3	52.9	50.5	51.7
Georgia	39.5	47.8	46.9	43.9	44.1	38.9	42.0	46.3	48.9	45.3	46.6
Kazakhstan	55.7	52.7	61.0	58.4	53.4	56.5	56.0	56.8	59.1	59.9	59.6
Kyrgyzstan	67.5	60.7	69.8	72.3	69.3	74.0	76.3	75.1	74.7	79.2	
Russian Federation	18.4	18.6	21.9	19.9	20.5	22.4	25.3	27.7	29.9	32.3	33.3
Tajikistan			73.3								
Turkmenistan	46.1	48.9	51.2								
Uzbekistan	56.3	47.2	55.0	57.2	57.3	58.9	63.3	66.2	69.8	72.2	68.2
Pacific island economies	46.8	44.9	53.2	58.9	54.0	48.7	51.9	54.8	56.7	55.7	63.1
American Samoa			90.0	93.1	91.5	83.4	61.9	74.6	66.3	63.5	57.2
Australia	43.2	45.3	46.9	48.5	48.7	50.2	52.1	53.5	55.4	55.2	55.9
Cook Islands				96.0	96.4	95.8	95.5	98.0			97.0
Fiji			48.3	83.8	88.3	83.2	87.0	89.7	90.5	91.2	
French Polynesia	23.7	27.5	31.4	34.0	27.9	31.7	37.0	37.3	40.4	42.1	41.6
Guam			99.3	94.9	88.6	87.8	88.3	91.5	90.8	90.5	85.7
Kiribati	92.0	92.7					93.2	90.9			
Marshall Islands	33.0	87.1	66.0	65.0	67.4	75.8	77.6	74.1	80.9	76.8	57.6
Micronesia (F.S.)	54.9	57.0	61.2	50.0	46.7	52.5	57.5	68.6	66.0	51.4	32.4
Nauru	73.9	62.6	34.5	71.4	8.6	80.3	82.2	86.0	77.1	76.5	54.5
New Caledonia		36.2	38.9	37.9	38.9	32.5	37.7	45.9	45.6	50.1	50.0
New Zealand	49.6	53.6	51.1	53.1	56.0	56.9	56.5	58.8	60.3	62.2	60.9
Niue	46.8	58.5	89.7	82.2	79.6	80.0	83.0	70.1	54.2	72.0	40.8
Northern Mariana Is.	95.2	91.9	77.7	78.6	85.9	89.2	87.6	91.6	91.1	91.7	90.9
Palau	60.2	56.4	53.4	38.7	45.2	38.7	49.4	46.7	56.8	46.0	27.5
Papua New Guinea	84.8		89.7	89.8	84.6	86.7	87.4				
Samoa				82.8	81.6	82.5	83.9	84.3	86.0	85.7	83.3
Solomon Islands					89.3	80.8	73.0	91.3	92.0	96.8	
Tonga			88.3	87.5	86.7	88.4	89.8	89.4	88.3	88.0	
Tuvalu	94.4	94.8		85.5	97.6		96.5	95.7	94.9		87.9
Vanuatu			90.5						90.8	92.8	
Developed economies	44.6	45.3	47.6	46.4	50.8	52.9	55.3	53.3	52.2	54.7	53.9
All economies	48.9	49.3	50.6	50.6	51.8	53.0	53.2	53.6	53.5	53.9	52.7

Table 5.3. Intraregional trade share (in %)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	48.2	48.6	49.8	49.8	50.3	51.3	50.8	50.4	50.0	50.2	49.2
East and North-East Asia	45.6	46.6	48.1	49.1	50.5	51.9	52.0	51.8	51.0	51.4	50.9
China	51.8	51.0	51.0	50.3	50.3	49.5	48.6	47.7	46.3	46.2	45.1
DPR Korea	57.1	57.1	61.1	68.8	69.9	76.6	72.9	69.8	69.6	77.3	75.3
Hong Kong, China	60.8	61.7	62.6	63.5	65.4	67.3	68.4	69.0	69.9	71.2	71.4
Japan	35.5	37.4	39.9	41.2	43.0	45.7	47.0	47.2	46.7	48.0	48.9
Macao, China	43.8	43.9	45.0	48.3	50.6	50.5	53.0	52.6	53.3	54.0	55.4
Mongolia	71.5	76.3	75.6	75.8		74.8	69.3	71.2	78.9		82.6
Republic of Korea	42.0	45.9	47.1	47.8	49.4	52.2	52.3	52.7	52.3		53.3
South-East Asia	52.4	54.5	56.9	56.5	58.1	60.3	61.0	62.0	62.1	62.9	63.4
Brunei Darussalam	78.5			87.2	84.0	87.9			90.0		
Cambodia			52.2	50.4	53.7	50.5					
Indonesia	55.4	57.0	59.7	58.8	60.1	62.4	62.7	66.1	66.5	67.3	69.5
Lao PDR	81.0	84.5	80.0	79.9	79.4	79.5	75.3	83.5	87.5	88.3	87.7
Malaysia	54.7	55.7	58.4	57.6	59.3	60.3	60.5	61.0	60.5	62.1	64.1
Myanmar											
Philippines	46.7	47.9	48.2	49.8	51.4	55.4	57.6	57.5	57.4	57.9	58.5
Singapore	53.2	55.2	57.4	57.3	58.7	61.9	62.2	62.6	63.3	63.7	63.0
Thailand	49.5	50.9	53.3	52.4	55.3	57.2	58.5	59.6	59.1	60.4	59.5
Timor-Leste							82.7	86.6			
Viet Nam	41.2	61.0	67.4	64.2	62.2	60.5	62.1	63.7	63.3	63.0	
South and South-West Asia	26.3	25.3	25.9	27.2	26.6	28.9	28.3	30.1	31.5	32.5	32.8
Afghanistan											43.0
Bangladesh	41.9		42.2	44.8	41.3	43.0	42.8	41.4	42.5	41.8	
Bhutan	91.8	96.5						92.2			96.1
India	29.3	29.4	25.8	27.5	28.3	32.0	31.1	31.0	35.5	36.3	35.1
Iran (Islamic Rep. of)	20.8	14.0	27.1	29.7	26.0	29.9	27.8	32.4	22.9		
Maldives	64.3	61.7	63.5	60.8	61.5	65.8	62.8	60.7	62.5	60.3	56.0
Nepal	66.2	70.6	64.7			78.9					
Pakistan	33.3	32.1	30.7	29.2	30.0	31.3	31.1	33.3	33.1	34.2	34.5
Sri Lanka		42.0		42.7	42.8	47.4	49.3	49.0			53.1
Turkey	16.8	15.5	17.3	16.9	17.0	18.5	19.9	23.0	25.9	27.7	29.1
North and Central Asia	26.8	23.2	24.2	25.0	24.8	26.1	26.6	26.1	27.0	29.0	28.9
Armenia		38.1	33.2	34.9	31.3	25.7	25.3	26.4	35.7	42.5	47.7
Azerbaijan	57.6	43.0	32.3	28.5	34.3	36.1	41.1	45.8	39.4	52.9	21.1
Georgia	42.9	50.4	51.2	50.4	49.6	45.5	48.9	49.6	49.2	45.1	46.5
Kazakhstan	51.9	43.1	45.2	46.6	42.9	45.2	43.0	39.4	41.5	45.1	41.3
Kyrgyzstan	59.9	55.5	61.5	57.2	60.0	59.1	63.6	67.5	72.0	76.3	
Russian Federation	18.3	18.1	18.9	19.9	20.2	21.5	22.0	22.0	22.9	24.3	26.3
Tajikistan			63.0								
Turkmenistan	55.7	44.1	55.8								
Uzbekistan	55.3	52.8	57.5	54.6	57.3	63.3	69.2	69.2	66.0	67.0	60.4
Pacific island economies	47.7	50.5	53.7	54.9	55.4	55.9	57.6	59.7	60.5	61.0	62.2
American Samoa			71.7	92.5	89.5	84.9	69.4	77.4	79.9	67.2	60.7
Australia	46.8	49.7	54.1	54.9	55.0	55.6	57.9	60.0	60.8	60.9	62.9
Cook Islands				92.0	92.8	91.5	91.8	94.4			
Fiji			48.2	69.2	77.0	71.8	76.2	82.4	78.5	82.5	
French Polynesia	28.4	33.9	37.5	37.3	32.7	34.6	39.6	40.2	43.2	45.0	42.8
Guam			99.5	94.8	88.4	87.9	88.0	91.4	90.5	90.3	85.3
Kiribati	78.1	78.5						59.2			
Marshall Islands	23.1	86.2	67.1	64.0	64.6	76.8	76.7	65.1	66.5	71.4	46.5
Micronesia (F.S.)	61.0	67.1	70.9	63.2	58.4	71.4	69.7	80.1	75.4	57.5	42.8
Nauru	87.7	81.1	52.0	83.8	11.0	86.0	53.3	82.0	77.5	76.5	73.2
New Caledonia		37.3	40.6	37.0	37.3	34.2	40.4	45.3	43.8	47.0	44.0
New Zealand	52.7	54.8	54.2	54.5	55.7	56.5	56.5	57.4	58.4	60.3	60.4
Niue	45.2	88.1	90.1	86.2	81.1	80.9	83.8	75.6	58.7	67.8	33.6
Northern Mariana Is.	91.0	89.8	77.3	76.8	85.8	89.0	87.4	91.6	89.6	88.8	88.7
Palau	57.1	53.4	53.3	39.0	40.3	53.2	64.5	69.2	75.9	67.8	48.9
Papua New Guinea	43.5		38.4	51.3	63.7	50.5	50.0				
Samoa				75.1	76.2	77.2	83.5	82.6	81.8	86.6	78.0
Solomon Islands					74.8	70.8	64.9	91.6	86.1	90.2	
Tonga			84.1	86.1	79.4	82.4	84.0	85.7	79.6	84.1	
Tuvalu					87.5		79.9	64.9			
Vanuatu			85.0						82.9	87.0	
Developed economies	37.6	39.6	42.1	43.5	45.1	47.5	48.9	49.7	49.4	50.6	52.0
All economies	45.0	45.9	47.5	48.0	49.0	50.3	50.4	50.3	49.8	50.3	49.8

Table 6.1. Relative dependence on exports to developed markets

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	2.4	2.4	2.3	2.3	2.1	2.0	2.0	2.0	2.0	1.8	1.9
East and North-East Asia	2.4	2.4	2.2	2.1	2.0	1.8	1.8	1.8	1.8	1.7	1.6
China	8.0	7.9	7.1	7.1	6.5	6.7	6.3	6.1	5.7	4.9	4.5
DPR Korea	2.3	4.6	5.1	1.6	1.0	0.6	0.4	0.4	0.3	0.2	0.2
Hong Kong, China	1.1	1.1	1.1	1.0	0.9	0.8	0.7	0.7	0.6	0.6	0.5
Japan	2.8	2.6	2.2	2.2	1.9	1.6	1.5	1.4	1.4	1.2	1.1
Macao, China	9.4	7.1	6.6	5.7	4.3	4.8	4.7	4.0	4.0	3.5	3.4
Mongolia	0.4	0.5	0.5	0.7	0.7	0.6	0.8	0.6	0.2	0.1	
Republic of Korea	2.0	2.1	2.1	1.9	1.7	1.4	1.3	1.2	1.1	1.0	
South-East Asia	1.9	1.9	1.7	1.7	1.5	1.3	1.2	1.1	1.1	1.0	0.9
Brunei Darussalam	4.3			1.9	1.7	1.7			1.2		
Cambodia			9.8	13.0	13.0	14.5	20.1				
Indonesia	2.0	2.2	2.2	2.3	2.0	1.8	1.7	1.5	1.5	1.3	1.2
Lao PDR	1.7	0.5	0.8	0.9	0.9	1.0	1.1	0.6	0.3	0.3	0.3
Malaysia	1.7	1.7	1.5	1.5	1.3	1.3	1.2	1.2	1.1	1.0	0.9
Myanmar											
Philippines	4.9	3.9	3.6	3.5	2.9	2.2	2.3	1.9	2.0	1.7	1.9
Singapore	1.4	1.4	1.2	1.1	1.0	0.8	0.7	0.7	0.6	0.5	0.5
Thailand	2.5	2.4	2.2	2.1	1.9	1.6	1.5	1.4	1.3	1.2	1.1
Timor-Leste							8.2	10.6			
Viet Nam	1.8	1.7	1.5	1.7	2.1	2.2	1.9	1.7	2.1	2.1	
South and South-West Asia	11.9	10.8	10.5	9.1	7.5	7.0	6.2	6.2	5.4	5.4	4.7
Afghanistan											0.0
Bangladesh	26.7		25.8	32.7	36.9	34.1	23.5	16.2	7.3	10.2	
Bhutan	0.0	0.0						0.0			0.0
India	8.8	7.1	5.8	4.6	3.7	3.2	2.4	2.5	2.3	2.4	2.2
Iran (Islamic Rep. of)	2.2	2.7	24.0	17.8	15.5	17.8	18.0	21.6	12.3		
Maldives	3.5	2.9	6.4	4.9	3.5	2.3	1.7	1.6	1.3	0.8	0.7
Nepal	1.8	1.5	1.1			0.7					
Pakistan	7.9	8.6	7.6	7.7	8.5	8.4	9.1	7.5	7.6	6.6	5.5
Sri Lanka		19.7		17.4	11.0	9.8	7.2	5.5			6.6
Turkey	49.7	46.2	50.3	41.0	33.9	28.4	46.5	42.3	34.6	29.7	19.7
North and Central Asia	9.6	7.4	8.3	7.7	5.9	5.7	6.8	8.0	8.6	7.6	8.2
Armenia		1 348.7	154.6	827.6	55.1	45.3	14.7	44.5	168.0	42.8	68.9
Azerbaijan	99.2	177.7	93.6	456.4	314.6	88.2	11.8	10.2	49.3	3.5	7.4
Georgia	51.4	44.2	37.4	12.3	22.9	11.1	10.7	26.1	14.9	22.2	22.5
Kazakhstan	4.8	2.9	3.1	3.4	2.1	1.5	3.6	4.8	4.9	3.5	4.0
Kyrgyzstan	14.6	6.5	4.3	6.5	1.4	1.7	0.9	0.9	1.0	1.3	
Russian Federation	9.8	7.7	8.6	7.7	6.1	6.1	7.3	8.5	9.2	8.8	9.4
Tajikistan											
Turkmenistan	6.8	14.5	47.6								
Uzbekistan	13.4	8.3	13.5	15.8	9.7	2.5	1.6	1.8	2.7	4.7	2.7
Pacific island economies	2.7	2.3	2.2	2.2	2.1	2.0	1.7	1.5	1.5	1.3	1.3
American Samoa			0.0	0.1	0.0	0.1	0.2	0.8	0.0	0.9	3.7
Australia	2.4	2.1	2.0	2.0	1.9	1.8	1.5	1.4	1.3	1.2	1.2
Cook Islands			40.0	234.2	127.6	25.7	3.5	1.2			
Fiji			94.5	100.3	24.0	41.0	31.5	1.7	27.5	1.8	
French Polynesia	155.4	194.6	116.2	75.0	50.1	6.3	8.1	10.4	18.1	16.0	12.5
Guam			0.0	0.3	0.5	0.4	0.5	4.0	10.4	7.3	1.2
Kiribati								0.0			
Marshall Islands	13.4	0.6	0.3	2.8	2.1	2.9	3.8	2.5	29.8	13.9	19.0
Micronesia (F.S.)	3.5	1.0	1.0	0.8	0.8	0.6	0.6	0.1	0.2	1.0	0.5
Nauru	0.1	0.2	0.4	0.2	2.0	3.2	3.7	5.8	4.7	3.1	0.1
New Caledonia		64.2	50.3	60.6	41.4	20.9	8.4	7.5	4.9	4.9	11.2
New Zealand	4.3	4.1	3.6	3.1	3.3	3.2	3.0	3.0	2.6	2.1	1.7
Niue	1.1	1.5	0.4	23.2	2.5	3.0		42.2	3.8	16.0	145.7
Northern Mariana Is.	86.6	66.2	93.7	139.9	21.1	9.7	68.8	41.6	22.9	10.1	5.0
Palau	3.2	10.3	495.3	168.4	9.7	26.5	5.0	28.9	157.5	25.6	86.0
Papua New Guinea	1.0		0.9	0.9	5.0	2.8	1.7				
Samoa				78.1		792.8	69.9	29.8	37.2	28.9	13.7
Solomon Islands					0.1	0.1	0.2	0.2	0.3	0.3	
Tonga			97.7	9 742.8	597.2	305.3	163.9	667.3	210.9	27.3	
Tuvalu											
Vanuatu			7.2						1.2	1.1	
Developed economies	2.8	2.5	2.2	2.2	1.9	1.6	1.5	1.4	1.4	1.2	1.1
All economies	2.5	2.4	2.3	2.3	2.1	1.9	1.8	1.9	1.8	1.7	1.7

Table 6.2. Relative dependence on imports from developed markets

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	1.9	1.7	1.6	1.5	1.4	1.4	1.3	1.2	1.1	1.1	1.1
East and North-East Asia	1.4	1.3	1.2	1.2	1.1	1.1	1.0	0.9	0.9	0.9	0.9
China	4.9	5.0	3.1	3.1	2.5	2.1	1.9	1.6	1.5	1.5	1.6
DPR Korea	1.0	0.6	0.4	1.3	0.5	0.3	0.3	0.2	0.1	0.0	0.1
Hong Kong, China	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Japan	1.4	1.2	1.0	1.0	0.9	0.8	0.7	0.7	0.6	0.6	0.6
Macao, China	0.6	0.6	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.6	0.7
Mongolia	2.5	2.5	1.4	1.1		1.0	0.9	0.7	0.6	0.5	
Republic of Korea	3.1	2.8	2.4	2.1	2.0	2.0	1.8	1.6	1.4	1.3	
South-East Asia	2.0	1.7	1.6	1.5	1.3	1.2	1.1	1.0	0.9	0.8	0.8
Brunei Darussalam	0.7			0.6	1.0	0.6			0.6		
Cambodia			0.3	0.2	0.2	0.2	0.2				
Indonesia	2.4	1.5	1.4	1.5	1.1	0.9	0.9	0.7	0.6	0.6	0.6
Lao PDR	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.0	0.1	0.1
Malaysia	1.9	1.8	1.7	1.7	1.5	1.3	1.2	1.0	1.0	0.9	0.9
Myanmar											
Philippines	2.6	2.7	2.5	2.5	2.5	2.2	1.7	1.7	1.4	1.1	1.0
Singapore	1.7	1.6	1.4	1.3	1.1	1.0	0.9	0.9	0.8	0.8	0.9
Thailand	2.5	2.3	1.9	1.9	1.6	1.6	1.5	1.3	1.1	1.2	1.1
Timor-Leste							0.1	0.2			
Viet Nam	2.5	0.8	0.7	0.7	0.7	0.7	0.6	0.5	0.4	0.4	
South and South-West Asia	3.8	3.2	3.4	2.8	2.8	2.6	2.7	2.4	1.7		
Afghanistan											0.8
Bangladesh	0.6		0.5	0.5	0.5	0.4	0.6	0.5	0.5	0.4	
Bhutan	0.2	0.1						0.1			0.1
India	3.1	2.7	2.7	2.5	2.4	2.0	1.8	1.8	1.3	1.1	1.3
Iran (Islamic Rep. of)	5.8	4.4	3.8	4.3	4.5	3.3	3.7	3.7	1.1		
Maldives	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.3
Nepal	0.2	0.1	0.2			0.1					
Pakistan	1.7	1.8	1.6	1.5	1.5	1.4	1.5	1.4	1.3	1.0	0.9
Sri Lanka		1.0		0.8	0.7	0.8	0.6	0.5			0.4
Turkey	16.7	14.8	12.6	11.9	10.4	8.6	7.2	5.6	4.7	4.0	3.9
North and Central Asia		9.2	9.3	8.5	6.9	6.2	6.0	5.1	4.4	3.5	3.3
Armenia		38.5	53.1	41.5	18.0	35.3	22.9	16.3	4.8	4.5	2.9
Azerbaijan	21.4	5.8	7.9	9.4	5.0	4.3	4.4	2.3	6.7	5.7	3.7
Georgia	95.9	35.6	30.9	37.5	23.1	16.6	19.0	14.7	9.7	6.4	5.3
Kazakhstan	14.8	12.5	7.6	9.5	6.3	4.6	4.9	4.2	3.6	2.8	2.3
Kyrgyzstan	3.3	4.4	3.2	1.8	2.2	1.9	2.0	1.8	1.3	0.9	
Russian Federation	10.7	8.6	9.1	8.1	6.9	6.5	6.2	5.4	4.5	3.6	3.5
Tajikistan											
Turkmenistan	18.6	15.3	13.9								
Uzbekistan	13.3	22.8	12.7	10.9	5.4	4.8	4.3	3.1	2.0	1.4	1.1
Pacific island economies	3.3	2.8	2.5	2.3	2.2	2.0	1.8	1.5	1.3	1.2	1.1
American Samoa				0.3	0.1	0.2	1.0	0.8	0.5	1.2	0.3
Australia	3.2	2.7	2.4	2.2	2.1	1.9	1.7	1.5	1.3	1.2	1.1
Cook Islands				1.5	1.2	2.7	1.6	0.9		0.3	
Fiji			0.9	0.9	0.7	1.0	0.5	0.3	0.2	0.2	
French Polynesia	15.2	11.6	8.9	8.5	10.7	8.7	4.7	3.0	2.4	2.3	2.2
Guam				0.1	0.2	0.2	0.2	0.4	0.4	0.5	0.5
Kiribati	1.6	2.5					0.8	2.9			
Marshall Islands	3.2	11.8	3.6	4.3	4.5	1.4	2.0	1.5	0.6	1.4	1.7
Micronesia (F.S.)	37.5	6.4	1.1	2.5	2.1	3.8	2.7	0.8	1.0	3.5	6.8
Nauru	4.0	1.0	2.4	2.6	1.9	1.1	2.4	18.1	11.5	10.9	59.2
New Caledonia		7.3	5.4	5.6	4.0	4.7	3.4	2.3	2.2	1.8	1.7
New Zealand	4.0	3.7	3.3	2.8	2.6	2.4	2.3	1.8	1.4	1.3	1.1
Niue	4.2	1.3	0.3	7.9	19.0	5.0	41.2	217.8	27.0	150.0	4.5
Northern Mariana Is.	7.6	11.8	1.3	1.0	0.8	1.0	0.9	0.5	0.3	0.3	0.2
Palau	2.2	3.7	2.3	5.5	3.1	6.1	4.1	2.5	1.9	2.6	3.0
Papua New Guinea	1.5		1.3	1.1	1.4	0.8	0.9				
Samoa				6.8	4.9	2.5	1.6	1.7	1.4	0.9	0.9
Solomon Islands					0.4	0.3	0.5	0.5	0.5	0.2	
Tonga			3.5	5.3	3.4	2.6	1.0	1.3	1.4	0.4	
Tuvalu	1.7	1.7		1.4	1.5		0.6	0.3	0.1		1.9
Vanuatu			1.8						0.7	0.4	
Developed economies	1.6	1.4	1.2	1.1	1.1	1.0	0.9	0.8	0.8	0.8	0.7
All economies	1.8	1.6	1.5	1.4	1.3	1.3	1.2	1.1	1.0	1.0	1.0

Table 6.3. Relative dependence on trade with developed markets

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	2.1	2.1	1.9	1.9	1.8	1.7	1.6	1.6	1.5	1.4	1.5
East and North-East Asia	1.8	1.8	1.6	1.6	1.5	1.4	1.4	1.3	1.3	1.2	1.2
China	6.4	6.4	4.6	4.6	3.9	3.6	3.3	3.0	2.9	2.7	2.7
DPR Korea	1.4	1.1	0.8	1.4	0.6	0.4	0.4	0.3	0.2	0.1	0.1
Hong Kong, China	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Japan	2.0	1.9	1.6	1.5	1.4	1.2	1.1	1.0	1.0	0.9	0.8
Macao, China	2.3	2.1	1.8	1.6	1.4	1.5	1.3	1.1	1.0	1.0	1.0
Mongolia	1.0	1.1	0.8	0.8		0.8	0.9	0.6	0.3	0.2	
Republic of Korea	2.4	2.4	2.2	2.0	1.8	1.6	1.5	1.3	1.2	1.1	
South-East Asia	1.9	1.8	1.6	1.6	1.4	1.2	1.1	1.0	1.0	0.9	0.9
Brunei Darussalam	1.8			1.4	1.4	1.3			1.0		
Cambodia			1.5	1.6	1.7	1.7	1.8				
Indonesia	2.2	2.0	1.9	2.0	1.6	1.4	1.3	1.1	1.1	1.0	0.9
Lao PDR	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.2
Malaysia	1.8	1.8	1.6	1.6	1.4	1.3	1.2	1.1	1.1	1.0	0.9
Myanmar											
Philippines	3.5	3.3	3.0	2.9	2.7	2.2	2.0	1.8	1.7	1.4	1.3
Singapore	1.6	1.5	1.3	1.2	1.1	0.9	0.8	0.7	0.7	0.7	0.7
Thailand	2.5	2.3	2.1	2.0	1.8	1.6	1.5	1.3	1.2	1.2	1.1
Timor-Leste							0.6	0.4			
Viet Nam	2.1	1.2	1.0	1.1	1.2	1.2	1.0	0.9	0.9	0.9	
South and South-West Asia	5.4	4.9	5.1	4.4	4.2	3.9	3.7	3.5	2.7		
Afghanistan											0.7
Bangladesh	2.0		2.0	1.8	1.7	1.6	1.9	1.8	1.5	1.5	
Bhutan	0.1	0.0						0.1			0.1
India	4.7	4.0	4.0	3.3	3.0	2.5	2.1	2.1	1.7	1.6	1.6
Iran (Islamic Rep. of)	4.9	4.1	8.1	7.4	6.8	5.7	6.3	7.8	4.9		
Maldives	0.6	0.5	0.5	0.5	0.6	0.5	0.4	0.4	0.4	0.3	0.4
Nepal	0.5	0.4	0.4			0.2					
Pakistan	3.2	3.4	3.1	3.1	3.0	2.8	2.8	2.4	2.2	1.8	1.5
Sri Lanka		2.8		2.5	2.1	2.0	1.5	1.4			1.0
Turkey	21.9	20.4	17.2	17.8	15.0	12.4	11.4	9.1	7.6	6.5	5.9
North and Central Asia		7.9	8.5	7.9	6.2	5.9	6.5	6.9	6.7	5.3	5.6
Armenia		50.9	63.8	57.4	24.5	38.4	19.0	22.3	7.8	6.4	4.0
Azerbaijan	29.9	13.0	24.1	33.1	18.3	10.6	6.9	4.3	15.3	4.4	6.9
Georgia	87.4	37.0	32.2	27.5	23.1	15.4	16.8	16.3	10.4	7.4	6.1
Kazakhstan	6.9	4.6	4.1	4.9	3.2	2.4	4.0	4.6	4.4	3.2	3.3
Kyrgyzstan	5.8	5.3	3.8	3.1	1.9	1.8	1.7	1.6	1.2	1.0	
Russian Federation	10.1	7.9	8.7	7.8	6.3	6.2	6.9	7.4	7.1	5.8	6.0
Tajikistan											
Turkmenistan	13.6	15.1	22.2								
Uzbekistan	13.3	13.8	13.1	13.0	7.0	3.4	2.4	2.3	2.4	2.5	1.5
Pacific island economies	3.0	2.6	2.4	2.2	2.2	2.0	1.7	1.5	1.3	1.3	1.2
American Samoa				0.2	0.1	0.2	0.8	0.8	0.1	1.1	0.9
Australia	2.9	2.4	2.2	2.1	2.0	1.9	1.6	1.4	1.3	1.2	1.2
Cook Islands				3.4	2.4	4.8	2.2	1.0			
Fiji			3.2	2.9	2.2	2.4	1.4	0.6	0.5	0.4	
French Polynesia	18.3	14.4	10.7	9.7	11.6	8.4	4.9	3.2	2.6	2.5	2.3
Guam				0.1	0.2	0.2	0.2	0.4	0.5	0.6	0.5
Kiribati								2.9			
Marshall Islands	5.8	4.9	2.8	3.7	3.7	1.7	2.2	1.8	1.4	1.8	2.4
Micronesia (F.S.)	8.1	2.0	1.1	1.1	1.2	1.0	1.1	0.4	0.6	2.5	2.8
Nauru	0.4	0.4	1.1	1.0	1.9	2.3	3.2	10.8	7.3	6.0	1.0
New Caledonia		9.7	8.6	7.9	5.4	6.1	4.3	3.1	2.8	2.5	2.6
New Zealand	4.1	3.9	3.4	2.9	2.9	2.7	2.6	2.2	1.8	1.6	1.3
Niue	4.0	1.3	0.3	8.7	12.1	4.6		150.2	14.0	46.9	6.4
Northern Mariana Is.	9.6	13.9	1.4	1.1	0.8	1.1	1.1	0.5	0.4	0.4	0.4
Palau	2.6	5.9	5.0	10.0	4.7	8.7	4.5	5.8	5.4	5.4	6.5
Papua New Guinea	1.2		1.1	1.0	1.8	1.6	1.3				
Samoa				10.0		4.0	1.8	1.9	1.5	1.0	1.0
Solomon Islands					0.2	0.2	0.3	0.3	0.4	0.3	
Tonga			5.4	7.1	5.7	5.6	1.9	2.0	1.9	0.5	
Tuvalu											
Vanuatu			2.6						0.7	0.5	
Developed economies	2.2	2.0	1.7	1.6	1.5	1.3	1.2	1.1	1.1	1.0	0.9
All economies	2.1	2.0	1.9	1.8	1.7	1.6	1.5	1.5	1.4	1.3	1.3

Table 7. Normalized trade balance

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing economies	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
East and North-East Asia	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
China	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
DPR Korea	0.0	-0.1	-0.2	-0.5	-0.2	-0.3	-0.3	-0.3	-0.2	-0.3	-0.4
Hong Kong, China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Macao, China	0.0	0.0	0.1	0.0	0.0	0.0	-0.1	-0.3	-0.3	-0.4	-0.5
Mongolia	-0.2	-0.2	-0.1	-0.2		-0.1	-0.1	-0.1	0.0	-0.1	
Republic of Korea	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	
South-East Asia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Brunei Darussalam	0.2			0.5	0.4	0.5			0.6		
Cambodia			0.0	0.0	0.1	0.1	0.2				
Indonesia	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.0
Lao PDR	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.2	-0.2	-0.4
Malaysia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Myanmar											
Philippines	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Singapore	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Thailand	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Timor-Leste							0.0	-0.4			
Viet Nam	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
South and South-West Asia	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	
Afghanistan											-0.6
Bangladesh	-0.2		-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	
Bhutan	-0.1	-0.2						-0.2			0.0
India	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3
Iran (Islamic Rep. of)	0.0	0.2	0.4	0.2	0.2	0.1	0.1	0.2	0.2		
Maldives	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8
Nepal	-0.5	-0.4	-0.4			-0.5					
Pakistan	0.0	-0.1	-0.1	0.0	-0.1	0.0	-0.1	-0.2	-0.3	-0.3	-0.4
Sri Lanka		-0.1		-0.1	-0.1	-0.1	-0.2	-0.1			-0.2
Turkey	-0.3	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
North and Central Asia		0.3	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.2	0.3
Armenia		-0.6	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6
Azerbaijan	-0.3	-0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.1	0.0	0.7
Georgia	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.6
Kazakhstan	0.1	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Kyrgyzstan	-0.2	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.4	-0.4	
Russian Federation	-0.2	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Tajikistan			0.0								
Turkmenistan	-0.3	-0.1	0.2								
Uzbekistan	-0.1	-0.1	0.1	0.0	-0.1	0.0	0.0	0.1	0.1	0.0	-0.1
Pacific island economies	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
American Samoa			-0.1	-0.9	-0.4	-0.3	-0.7	-0.8	-0.1	-0.5	-0.4
Australia	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0	-0.1	0.0
Cook Islands				-0.7	-0.8	-0.8	-0.8	-0.9			
Fiji			-0.2	-0.2	-0.2	-0.4	-0.4	-0.4	-0.5	-0.4	
French Polynesia	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Guam			-0.8	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8
Kiribati	-0.7	-0.7						-0.9			
Marshall Islands	0.0	-0.8	-0.9	-0.7	-0.7	-0.8	-0.8	-0.6	-0.5	-0.8	-0.5
Micronesia (F.S.)	-0.2	0.0	-0.2	0.1	-0.1	0.1	0.0	-0.3	-0.4	-0.6	-0.5
Nauru	0.3	0.2	-0.2	-0.2	-0.9	0.1	0.0	-0.7	-0.5	-0.3	-0.1
New Caledonia		-0.4	-0.2	-0.4	-0.4	-0.4	-0.2	-0.2	-0.3	-0.2	-0.3
New Zealand	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Niue	-0.2	-0.7	-0.6	-0.4	-0.4	-0.4	-0.7	-0.8	-0.7	-0.7	-0.5
Northern Mariana Is.	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8
Palau	-0.1	0.1	-0.2	-0.3	-0.3	-0.4	-0.3	-0.1	0.0	-0.1	-0.3
Papua New Guinea	0.3		0.4	0.2	0.2	0.3	0.3				
Samoa				-0.4	-0.3	-0.3	-0.4	-0.5	-0.6	-0.5	-0.6
Solomon Islands					-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	
Tonga			-0.8	-0.8	-0.7	-0.7	-0.7	-0.8	-0.8	-0.9	
Tuvalu					-1.0		-1.0	-1.0			
Vanuatu			-0.6						-0.6	-0.7	
Developed economies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
All economies	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.0

Table 8. Trade balance as a share of GDP (in %)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Developing economies	1.3	1.9	2.2	1.3	0.8	0.3	-0.2	0.1	0.3	0.1
East and North-East Asia	1.1	0.6	0.4	0.3	0.5	0.3	0.3	0.8	1.0	1.1
China	4.2	2.7	2.0	1.7	2.1	1.5	1.7	4.4	6.4	7.7
DPR Korea	-0.9	-2.3	-4.8	-17.5	-5.7	-6.2	-8.3	-7.5	-6.3	-8.9
Hong Kong, China	-7.1	-3.9	-6.7	-6.6	-3.7	-2.9	-4.4	-4.5	-6.9	-10.0
Japan	2.8	2.5	2.1	1.3	2.0	2.1	2.4	1.7	1.5	2.1
Macao, China	3.0	2.7	4.7	-1.4	-2.6	-2.2	-6.4	-17.6	-18.6	-18.3
Mongolia	-12.9	-14.6	-13.6	-15.5		-12.8	-9.1	-5.1	1.8	-5.9
Republic of Korea	11.3	5.4	2.3	1.9	1.9	2.5	4.3	2.9	1.8	1.5
South-East Asia	8.7	7.6	6.7	5.5	3.2	2.4	1.5	1.3	1.8	0.6
Brunei Darussalam	18.3			43.0	35.4	44.2			51.6	
Cambodia			-1.3	-0.2	6.0	7.4	13.8			
Indonesia	20.5	16.0	17.3	15.8	13.2	12.1	9.8	9.8	10.9	9.2
Lao PDR	-39.1	-20.3	-14.6	-18.1	-16.7	-16.7	-21.3	-18.3	-11.3	-17.4
Malaysia	20.7	23.8	18.1	16.1	15.3	20.2	17.2	19.8	18.9	15.7
Myanmar										
Philippines	-3.1	3.2	1.4	-3.9	-7.7	-8.0	-7.4	-8.3	-5.7	-5.2
Singapore	9.9	4.4	3.5	6.7	9.9	25.4	22.9	24.7	24.2	22.4
Thailand	10.0	6.6	5.6	2.6	2.7	3.2	1.1	-4.6	1.0	4.0
Timor-Leste							-2.3	-16.6		
Viet Nam	-8.3	-0.7	-3.7	-3.6	-8.7	-12.9	-12.0	-8.2	-8.3	-20.0
South and South-West Asia	-4.7	-4.9	-3.0	-3.6	-4.1	-4.1	-5.2	-5.7	-6.0	-5.0
Afghanistan										
Bangladesh	-4.6		-4.7	-5.8	-8.0	-7.2	-5.6	-5.7	-6.6	-6.6
Bhutan	-7.1	-16.2						-15.4		
India	-2.2	-2.9	-1.3	-1.6	-1.7	-2.4	-4.1	-5.7	-6.5	-6.4
Iran (Islamic Rep. of)	-1.0	6.8	14.3	7.0	5.8	6.0	7.1	11.1	10.1	
Maldives	-51.7	-57.4	-50.0	-49.8	-47.0	-51.7	-60.8	-78.7	-87.2	-93.6
Nepal	-17.0	-14.1	-13.7			-16.3				
Pakistan	-1.0	-2.3	-2.4	-1.3	-1.5	-1.1	-4.1	-7.1	-8.9	-9.0
Sri Lanka		-5.4		-4.6	-7.7	-8.7	-11.6	-8.8		
Turkey	-9.5	-7.6	-13.4	-6.9	-8.4	-9.2	-11.4	-11.9	-13.4	-12.9
North and Central Asia	-4.2	12.7	14.0	8.4	6.6	5.4	4.1	3.3	2.3	1.1
Armenia		-31.4	-28.6	-23.7	-18.3	-20.1	-17.5	-15.4	-18.6	-21.0
Azerbaijan	-10.6	-2.3	10.9	15.5	8.0	-0.5	1.1	1.0	5.3	1.1
Georgia	-19.0	-13.0	-12.6	-13.5	-13.2	-17.0	-23.4	-25.3	-35.4	-39.1
Kazakhstan	4.1	13.2	20.5	9.8	12.5	14.7	16.9	18.4	18.0	14.4
Kyrgyzstan	-20.1	-11.7	-3.6	0.6	-7.4	-7.0	-10.0	-17.7	-32.6	-34.3
Russian Federation	-6.3	21.7	26.6	18.9	17.5	17.7	17.9	18.7	16.6	11.8
Tajikistan			5.6							
Turkmenistan	-14.5	-7.6	17.3							
Uzbekistan	-3.0	-1.4	3.0	-0.3	-3.5	-1.1	0.7	3.8	7.4	0.6
Pacific island economies	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0
American Samoa										
Australia	-1.3	-2.6	-1.9	0.7	-1.0	-2.6	-2.6	-1.8	-1.2	-1.7
Cook Islands				-46.4	-40.6	-43.6	-35.2	-41.4		
Fiji			-18.2	-17.9	-14.8	-25.3	-26.0	-30.2	-36.2	-30.7
French Polynesia	-24.3	-19.2	-25.5	-27.3	-30.9	-31.9	-25.8	-28.5	-24.9	-23.2
Guam										
Kiribati	-56.4	-62.0						-115.1		
Marshall Islands	7.7	-350.2	-702.9	-806.1	-1 096.5	-1 255.4	-1 073.4	-1 416.0	-1 471.6	-3 258.5
Micronesia (F.S.)	-14.0	-2.8	-14.1	9.1	-8.5	8.5	0.1	-18.3	-24.7	-24.7
Nauru	78.5	80.7	-123.0	-48.5	-1 235.2	14.2	-0.3	-83.0	-84.2	-102.6
New Caledonia		-16.8	-11.2	-16.7	-17.1	-16.6	-10.7	-10.6	-12.7	-9.8
New Zealand	1.4	-3.2	-1.2	0.8	-1.1	-2.5	-1.0	-4.1	-3.7	-3.0
Niue										
Northern Mariana Is.										
Palau	-5.8	4.0	-15.3	-19.0	-16.2	-16.3	-18.0	-4.2	-1.1	-2.9
Papua New Guinea	29.2		39.2	16.1	14.7	27.2	29.4			
Samoa				-30.5	-23.2	-19.8	-33.0	-35.6	-46.7	-32.7
Solomon Islands					-7.1	-9.4	-10.7	-18.3	-26.1	-26.1
Tonga			-39.1	-48.5	-50.6	-44.9	-45.1	-50.7	-45.3	-54.3
Tuvalu					-75.3		-49.7	-51.3		
Vanuatu			-25.9						-31.4	-38.1
Developed economies	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
All economies	0.6	0.8	0.9	0.6	0.4	0.2	-0.1	0.1	0.2	0.1

Table 9.1. Sectoral composition of exports (in %, average 2006-2008)

	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9
	Food & live animals	Beverages and tobacco	Crude mater.ex food/fuel	Mineral fuel/lubricants	Animal/veg oil/fat	Chemicals/products	Manu-factured goods	Machinery/transport equipment	Misc. manuf arts	Com-modities
Developing economies	3.2	0.3	2.4	15.5	0.7	6.1	15.0	39.2	15.5	2.2
East and North-East Asia	1.4	0.1	1.0	2.2	0.0	6.8	15.0	54.0	17.7	1.8
China	2.5	0.1	0.8	1.9	0.0	5.0	18.1	47.2	24.1	0.2
DPR Korea										
Hong Kong, China	0.8	0.3	0.8	0.3	0.0	4.8	11.4	54.3	25.5	1.9
Japan	0.4	0.1	1.3	1.5	0.0	9.0	11.9	63.0	7.5	5.3
Macao, China	0.5	1.7	0.4	6.9	0.0	1.4	11.0	10.7	67.3	0.0
Mongolia	1.6	0.0	67.8	6.8	0.0	0.1	4.0	1.0	3.7	15.0
Republic of Korea	0.7	0.2	1.1	6.5	0.0	9.9	14.2	58.7	8.4	0.2
South-East Asia	4.9	0.4	3.9	15.4	2.8	7.3	8.7	42.8	9.9	3.8
Brunei Darussalam	0.1	0.0	0.1	96.3	0.0	0.0	0.2	1.2	1.8	0.1
Cambodia										
Indonesia	5.3	0.4	12.3	27.3	8.9	5.3	16.2	13.3	10.4	0.6
Lao PDR										
Malaysia	2.3	0.4	2.8	15.4	6.6	5.8	8.5	44.9	8.3	5.1
Myanmar										
Philippines	4.2	0.4	2.4	2.8	1.7	2.0	7.7	68.9	9.1	0.8
Singapore	1.0	0.6	0.6	15.1	0.1	10.7	4.5	54.4	6.4	6.5
Thailand	11.5	0.3	5.5	5.3	0.3	7.9	12.9	43.9	10.7	1.8
Timor-Leste										
Viet Nam	18.9	0.3	4.6	22.5	0.1	2.1	7.7	11.0	32.2	0.6
South and South-West Asia	7.7	0.4	4.1	23.4	0.4	6.7	24.9	14.7	16.2	1.5
Afghanistan	3.1		1.6				41.5			53.9
Bangladesh	6.0	0.2	2.7	1.2	0.0	1.3	13.2	2.1	73.3	0.0
Bhutan	48.3	0.0	1.3	48.9	0.0	0.0	1.3	0.0	0.1	0.0
India	8.2	0.4	7.2	16.4	0.3	11.3	29.1	12.0	13.9	1.3
Iran (Islamic Rep. of)	4.0	0.1	1.2	83.3	0.2	3.2	5.8	1.2	1.0	0.1
Maldives	89.5		1.4	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Nepal										
Pakistan	12.9	0.1	2.2	5.5	0.7	2.9	45.8	3.1	26.7	0.1
Sri Lanka	23.1	0.9	4.4	0.0	0.6	1.1	15.3	7.2	44.7	2.7
Turkey	7.3	0.8	2.2	4.9	0.4	4.2	28.9	30.8	17.9	2.6
North and Central Asia	1.8	0.2	4.1	64.5	0.1	3.9	14.0	3.5	0.6	7.1
Armenia	3.6	11.7	14.6	1.2	0.1	1.1	53.5	3.3	8.2	2.6
Azerbaijan	3.7	0.4	1.7	87.7	0.7	1.4	2.4	1.6	0.2	0.2
Georgia	10.4	11.2	22.4	3.3	0.1	9.5	20.6	14.0	2.6	6.0
Kazakhstan	3.6	0.1	6.1	67.8	0.0	2.7	16.8	1.8	0.1	0.9
Kyrgyzstan	11.3	1.5	8.3	21.7	0.0	1.4	12.2	9.6	9.6	24.3
Russian Federation	1.5	0.2	3.8	63.3	0.2	4.3	14.0	3.7	0.7	8.3
Tajikistan										
Turkmenistan										
Uzbekistan										
Pacific island economies	16.1	1.8	22.3	22.6	0.4	4.2	10.4	8.0	3.0	11.2
American Samoa										
Australia	10.8	1.7	24.2	26.2	0.2	4.2	9.9	7.7	2.8	12.2
Cook Islands										
Fiji	36.4	9.6	5.1	24.3	0.6	2.2	5.3	3.7	9.9	2.9
French Polynesia	8.5	1.0	3.0	0.0	2.3	1.8	59.2	11.9	12.3	0.0
Guam										
Kiribati										
Marshall Islands										
Micronesia (F.S.)										
Nauru										
New Caledonia	2.0	0.0	40.1	0.2	0.0	0.2	55.3	1.6	0.5	0.1
New Zealand	46.7	2.5	10.6	4.2	0.4	5.1	11.4	10.5	4.4	4.3
Niue										
Northern Mariana Is.										
Palau										
Papua New Guinea										
Samoa	13.4	2.4	0.5	0.4	1.4	0.1	1.9	77.7	0.6	1.5
Solomon Islands	16.5	0.1	70.9	0.0	5.5	0.0	0.1	0.7	0.0	6.2
Tonga	45.7	0.3	3.4			3.8	1.1	0.1	1.2	44.5
Tuvalu										
Vanuatu	31.4	0.0	17.3	0.2	10.6	1.1	1.6	2.1	3.3	32.3
Developed economies	3.5	0.4	5.4	5.8	0.1	8.1	11.5	52.2	6.6	6.4
All economies	3.2	0.3	3.0	13.5	0.6	6.5	14.3	41.8	13.8	3.1

Table 9.2. Sectoral composition of imports (in %, average 2006-2008)

	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9
	Food & live animals	Beverages and tobacco	Crude mater.ex food/fuel	Mineral fuel/lubricants	Animal/veg oil/fat	Chemicals/products	Manu-factured goods	Machinery/transport equipment	Misc. manuf arts	Com-modities nes
Developing economies	3.3	0.4	6.3	15.7	0.6	9.5	12.7	39.6	8.4	3.5
East and North-East Asia	3.5	0.4	8.4	18.2	0.4	8.8	11.2	36.8	11.5	0.8
China	1.2	0.1	12.5	12.4	0.7	10.9	10.4	42.4	8.9	0.3
DPR Korea										
Hong Kong, China	2.6	0.4	0.9	3.2	0.1	5.8	13.4	53.3	19.5	0.8
Japan	7.3	0.9	7.5	30.3	0.2	7.2	9.3	23.2	12.5	1.7
Macao, China	5.9	4.7	0.6	10.6	0.2	4.5	17.4	23.7	32.5	0.0
Mongolia	9.4	1.9	0.6	28.1	0.6	5.7	15.2	28.9	9.6	0.0
Republic of Korea	3.7	0.2	6.6	27.5	0.2	9.0	14.1	30.1	8.2	0.4
South-East Asia	4.0	0.5	2.6	18.8	0.3	8.7	13.1	43.5	5.6	2.8
Brunei Darussalam	14.1	2.5	0.9	1.6	0.4	10.5	24.2	35.1	10.3	0.5
Cambodia										
Indonesia	7.7	0.4	5.9	28.1	0.1	13.4	13.7	28.0	2.7	0.0
Lao PDR										
Malaysia	4.7	0.4	3.2	9.5	0.7	8.3	12.4	50.1	5.3	5.4
Myanmar										
Philippines	7.3	0.5	2.1	17.9	0.3	7.7	8.3	52.3	3.1	0.4
Singapore	1.9	0.6	0.7	22.0	0.2	5.7	7.5	51.2	7.0	3.1
Thailand	3.5	0.2	3.3	19.6	0.1	10.6	19.3	34.5	6.3	2.6
Timor-Leste										
Viet Nam	5.1	0.3	4.4	14.4	0.7	13.7	27.0	26.2	4.7	3.5
South and South-West Asia	2.5	0.1	6.1	22.5	1.3	10.1	14.1	24.3	4.0	15.0
Afghanistan	7.0	0.2		7.6		2.6	8.3	0.4	1.0	72.9
Bangladesh	11.1	0.2	10.0	11.6	7.5	11.4	18.1	25.2	4.2	0.8
Bhutan	10.6	1.4	8.1	17.4	4.1	5.6	20.1	27.8	4.6	0.2
India	1.6	0.1	5.9	34.5	1.2	9.8	12.6	21.6	3.3	9.3
Iran (Islamic Rep. of)	1.4	0.0	1.0	4.0	0.3	2.7	4.8	8.1	0.9	76.8
Maldives	13.7	2.0	5.9	20.3	0.4	5.4	15.7	26.8	9.8	0.0
Nepal										
Pakistan	5.3	0.1	7.7	28.2	3.8	14.2	10.2	26.3	2.9	1.3
Sri Lanka	12.0	0.4	1.7	23.0	1.3	12.2	27.4	17.2	3.9	1.0
Turkey	1.8	0.2	7.3	15.0	0.7	12.8	18.2	28.5	5.6	9.9
North and Central Asia	10.0	1.6	2.7	3.8	0.6	10.5	13.8	44.3	8.1	4.5
Armenia	12.0	3.6	2.0	15.8	1.1	9.1	22.7	20.8	7.4	5.5
Azerbaijan	10.2	2.9	2.8	5.2	0.8	7.3	17.6	46.5	5.9	0.8
Georgia	12.9	1.9	1.5	18.3	0.8	8.9	14.6	28.6	9.6	2.8
Kazakhstan	5.6	1.1	1.7	12.8	0.4	8.5	21.5	41.6	6.3	0.7
Kyrgyzstan	11.2	2.8	2.9	29.9	0.8	10.5	14.3	22.0	5.3	0.3
Russian Federation	10.6	1.6	3.0	1.4	0.6	11.0	12.3	45.7	8.5	5.3
Tajikistan										
Turkmenistan										
Uzbekistan										
Pacific island economies	4.7	0.8	1.4	14.5	0.3	10.5	11.5	39.9	12.7	3.7
American Samoa										
Australia	3.7	0.7	1.3	13.9	0.3	10.5	11.2	41.2	12.8	4.3
Cook Islands	11.4	3.6	1.4	18.8	0.1	1.6	6.4	10.7	5.4	40.6
Fiji	13.3	0.7	0.7	33.0	0.7	7.5	14.7	20.0	8.0	1.4
French Polynesia	17.8	2.0	1.5	13.1	0.4	9.4	13.1	29.5	13.1	0.0
Guam										
Kiribati										
Marshall Islands										
Micronesia (F.S.)										
Nauru										
New Caledonia	9.1	2.1	0.9	16.0	0.3	7.6	12.2	34.9	10.4	6.6
New Zealand	6.9	1.2	2.4	15.6	0.5	10.9	12.6	36.3	12.9	0.7
Niue										
Northern Mariana Is.										
Palau										
Papua New Guinea										
Samoa	21.8	1.1	2.2	19.3	0.5	5.0	13.0	10.9	6.9	19.3
Solomon Islands	19.0	2.2	0.8	18.3	0.5	6.5	13.4	30.3	8.8	0.2
Tonga	18.0	3.9	0.2	25.3	0.1	1.1	6.0	9.2	2.6	33.5
Tuvalu	19.8	3.3	4.2	18.1	0.3	1.5	4.1	7.5	5.2	36.0
Vanuatu	17.7	3.1	1.4	15.0	0.5	8.2	16.0	25.2	10.8	2.3
Developed economies	6.6	0.9	6.1	26.7	0.2	7.9	9.8	27.1	12.6	2.2
All economies	3.9	0.5	6.3	18.0	0.5	9.2	12.1	37.0	9.3	3.3

Table 10. Import penetration (in %)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Developing economies	28.2	28.7	32.3	30.4	30.3	33.1	36.0	36.3	36.4	35.0
East and North-East Asia	13.2	13.0	15.0	15.5	16.5	18.4	20.8	22.7	25.1	26.5
China	14.0	15.5	19.3	18.8	20.7	25.4	29.5	30.0	30.5	30.5
DPR Korea	10.5	11.0	15.2	22.6	14.3	14.1	18.4	17.3	18.5	18.4
Hong Kong, China	104.4	106.6	118.6	113.8	122.5	143.0	157.5	161.5	165.5	162.7
Japan	7.5	7.3	8.3	8.6	8.8	9.3	10.1	11.5	13.4	14.5
Macao, China	32.5	35.4	38.9	38.1	36.2	34.0	31.6	33.1	30.6	26.7
Mongolia	38.7	42.7	49.6	46.7		49.0	51.6	48.8	47.4	51.4
Republic of Korea	30.4	28.4	32.1	29.9	28.4	30.1	34.5	34.0	35.5	37.9
South-East Asia	65.1	59.4	66.9	63.3	59.8	64.8	71.2	74.5	71.9	66.9
Brunei Darussalam	47.3			34.5	39.7	34.0			29.9	
Cambodia			38.7	37.7	41.3	41.1	44.8			
Indonesia	32.8	18.6	24.6	22.9	18.4	15.8	20.1	22.4	18.8	18.9
Lao PDR	42.2	41.6	30.7	31.2	30.0	29.0	32.0	33.4	38.1	38.6
Malaysia	97.2	103.7	105.8	93.9	92.1	93.8	101.8	103.3	103.4	93.3
Myanmar										
Philippines	46.9	44.2	49.4	47.2	49.7	49.5	49.4	46.3	43.5	38.2
Singapore	137.1	140.6	150.4	145.3	146.4	196.2	206.4	221.8	230.7	210.2
Thailand	42.1	43.9	53.5	55.0	52.4	54.9	59.2	64.1	62.8	61.0
Timor-Leste							32.8	24.9		
Viet Nam	39.5	40.7	48.4	47.9	51.8	56.6	62.4	64.3	68.1	73.5
South and South-West Asia	13.8	13.9	15.3	15.1	16.0	17.2	19.6	21.2	22.3	20.9
Afghanistan										
Bangladesh	15.7		16.0	16.7	18.1	18.3	19.3	20.7	24.4	24.4
Bhutan	34.2	38.3						40.1		
India	9.8	10.7	10.8	10.6	11.9	12.7	15.1	17.5	19.1	18.0
Iran (Islamic Rep. of)	13.5	12.4	15.4	15.8	15.9	20.0	21.8	22.7	20.3	
Maldives	43.2	43.4	41.5	41.4	41.6	44.8	51.4	55.5	54.6	53.6
Nepal	21.1	20.2	22.1			22.0				
Pakistan	11.6	12.8	13.8	14.0	13.4	13.2	15.5	18.4	19.0	18.3
Sri Lanka		31.4		32.2	32.8	31.8	34.2	31.4		
Turkey	20.9	20.4	24.0	26.6	25.7	26.5	29.0	28.8	30.5	30.9
North and Central Asia	16.3	20.3	19.6	18.9	18.0	18.2	17.8	18.1	18.8	19.5
Armenia		33.4	34.2	32.0	34.2	36.6	32.1	29.9	29.0	27.5
Azerbaijan	21.9	22.1	24.9	29.7	29.0	35.9	41.0	32.1	26.5	18.5
Georgia	20.5	19.1	20.6	20.6	20.7	24.4	29.2	31.0	35.0	36.8
Kazakhstan	20.2	24.9	34.6	32.2	30.5	32.0	35.2	37.2	35.6	36.7
Kyrgyzstan	42.8	43.0	39.0	30.8	33.6	34.9	38.7	38.3	45.7	48.1
Russian Federation	15.2	19.8	17.8	16.8	16.2	16.1	15.6	15.9	16.8	17.6
Tajikistan			79.3							
Turkmenistan	30.8	35.6	52.0							
Uzbekistan	17.1	12.3	14.8	22.9	18.7	22.3	24.3	24.7	26.1	33.2
Pacific island economies	16.9	16.9	19.0	17.7	17.6	16.5	16.6	17.1	17.9	17.3
American Samoa										
Australia	15.7	15.3	17.5	16.1	16.1	15.1	15.3	15.8	16.6	16.2
Cook Islands				37.1	32.3	34.5	29.1	31.3		
Fiji			39.0	38.7	37.6	37.6	36.5	41.2	42.6	40.4
French Polynesia	25.3	22.0	26.3	26.0	27.2	26.8	23.5	25.3	22.7	21.0
Guam										
Kiribati	43.5	48.1						56.2		
Marshall Islands	80.8	88.5	91.5	104.9	107.3	104.4	101.6	130.7	132.4	108.5
Micronesia (F.S.)	32.0	30.0	41.6	40.6	38.1	32.9	32.3	34.6	32.2	27.4
Nauru	472.6	873.3	143.2	95.5	99.1	128.9	64.4	54.8	65.0	102.2
New Caledonia		23.7	26.8	25.4	24.7	26.9	25.2	25.7	26.1	27.7
New Zealand	20.8	23.9	26.1	25.6	24.6	22.3	21.3	22.8	23.7	23.0
Niue										
Northern Mariana Is.										
Palau	31.1	32.2	37.7	36.6	34.8	25.7	29.7	25.9	28.0	21.6
Papua New Guinea	51.1		48.7	50.9	46.4	50.7	56.5			
Samoa				43.3	41.0	39.3	41.8	41.4	41.7	38.9
Solomon Islands						23.5	29.7	32.8	31.4	43.4
Tonga			32.2	36.0	39.8	37.6	36.6	36.7	34.0	37.3
Tuvalu					43.5		33.6	34.1		
Vanuatu			28.1						31.1	32.4
Developed economies	8.4	8.2	9.2	9.5	9.7	10.1	11.0	12.3	14.1	15.0
All economies	16.9	16.7	19.0	19.0	19.8	21.6	23.9	25.6	27.5	27.8

Table 11. Tariff protection in 2007

	Tariff rate (%)			Tariff rate (%)			Import duties collected as % of total imports	MFN duty free imports (%) 2006	
	Simple average MFN applied			Final bound				In agricultural	In non-agricultural
	Total	Agricultural	Non-agricultural	Total	Agricultural	Non-agricultural			
Developing economies									
East and North-East Asia									
China ^f	9.9	15.8	9.0	10.0	15.8	9.1	2.0	7.8	44.2
DPR Korea									
Hong Kong, China ^e	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0
Japan ^e	5.1	21.8	2.6	5.1	22.7	2.4	1.5	44.5	80.8
Macao, China ^{ff}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0
Mongolia ^b	5.0	5.1	5.0	17.6	18.9	17.3	2.4	0.1	2.7
Republic of Korea ^e	12.2	49.0	6.6	17.0	59.3	10.2	2.3	5.6	35.7
South-East Asia									
Brunei Darussalam	3.6	7.9	3.0	25.3	30.7	24.5		91.7	67.6
Cambodia ^{ff}	14.2	18.1	13.6	19.0	28.1	17.7	2.9	0.3	6.0
Indonesia ^{*c}	6.9	8.6	6.7	37.1	47.0	35.6	2.0	42.7	63.4
Lao PDR	9.7	19.5	8.2	-	-	-			
Malaysia ^c	8.4	11.7	7.9	24.5	76.0	14.9	1.0	75.6	79.4
Myanmar	5.6	8.7	5.1	83.0	102.2	21.1			
Philippines ^f	6.3	9.6	5.8	25.6	34.6	23.4	5.2	0.1	36.1
Singapore ^e	0.0	0.1	0.0	12.1	36.5	6.3	0.0	98.7	100.0
Thailand ^f	10.0	22.0	8.2	28.1	40.2	25.5	2.0	15.0	56.0
Timor-Leste									
Viet Nam [*]	16.8	24.2	15.7	11.4	18.5	10.4		31.6	33.9
South and South-West Asia									
Afghanistan	5.7	5.5	5.7	-	-	-			
Bangladesh ^d	14.6	16.9	14.2	169.2	192.0	34.4	14.8		
Bhutan ^d	21.9	41.4	18.9	-	-	-	0.9		
India ^f	14.5	34.4	11.5	50.2	114.2	36.2	8.1	6.9	9.7
Iran (Islamic Rep. of) ^f	26.2	28.9	25.8	-	-	-	7.9	0.0	0.0
Maldives ^d	20.2	18.4	20.5	36.9	48.0	35.1	12.1	9.5	0.0
Nepal ^h	12.6	14.0	12.4	26.0	41.4	23.7	7.0		
Pakistan ^e	14.1	15.8	13.8	59.9	95.6	54.6	7.1	0.0	0.0
Sri Lanka ^{ff}	11.0	23.1	9.1	30.3	50.0	19.7	4.4	1.5	46.2
Turkey	10.0	46.7	4.8	28.3	60.1	16.9		19.3	34.9
North and Central Asia									
Armenia ^f	2.9	6.9	2.3	8.5	14.7	7.5	1.5	28.1	78.0
Azerbaijan	9.2	14.2	8.4	-	-	-		27.1	14.4
Georgia ^f	1.4	8.8	0.3	7.5	13.9	6.5	2.2	49.7	98.2
Kazakhstan ^f	7.8	12.5	7.1	-	-	-	1.1	19.3	38.5
Kyrgyzstan	4.8	8.0	4.3	7.5	13.1	6.7		21.8	51.7
Russian Federation ^d	11.0	14.6	10.5	-	-	-	5.2	5.9	22.5
Tajikistan ^a	7.9	114.0	7.4	-	-	-	1.8		
Turkmenistan				-	-	-			
Uzbekistan	15.6	18.6	15.1	-	-	-			
Pacific island economies									
American Samoa									
Australia ^f	3.5	1.3	3.8	9.9	3.3	11.0	2.7	49.2	50.0
Cook Islands									
Fiji ^f	9.6	22.3	7.6	41.9	47.5	40.0	6.2	24.4	9.6
French Polynesia									
Guam									
Kiribati									
Marshall Islands									
Micronesia (F.S.)									
Nauru									
New Caledonia									
New Zealand ^f	3.0	1.7	3.2	9.9	5.7	10.6	2.0	55.1	67.0
Niue									
Northern Mariana Is.									
Palau									
Papua New Guinea [‡]	5.3	16.6	3.6	32.4	47.1	30.1		85.6	94.1
Samoa				-	-	-			
Solomon Islands	10.3	17.1	9.2	79.1	75.7	79.6			
Tonga	15.6	14.1	15.8	17.6	19.2	17.3			
Tuvalu									
Vanuatu	16.6	34.6	13.9	-	-	-			
Developed economies									
All economies									

* MFN duty free imports (%) 2005.

^a Import duties collected, data during 2000-2001.^b Import duties collected, data during 2000-2002.^c Import duties collected, data during 2001-2003.^d Import duties collected, data during 2002-2004.[‡] MFN duty free imports (%) 2004.^e Import duties collected, data during 2003-2005.^f Import duties collected, data during 2004-2005.^g Import duties collected, data during 2004-2006.^h Import duties collected, data during 2005-2007.

Table 12. Inward and outward FDI flows

	FDI net inflows					FDI outflows				
	\$ million	% per annum				\$ million	% per annum			
	2008	90-95	95-00	00-05	05-08	2008	90-95	95-00	00-05	05-08
Developing economies	401 138	30.0	12.4	6.2	26.8	235 612	45.2	12.7	0.6	43.1
East and North-East Asia	205 975	37.4	21.6	-0.5	20.6	253 883	0.3	12.7	-1.5	41.5
China	108 312	60.8	1.6	12.2	14.4	52 150	19.2	-14.5	68.0	62.0
DPR Korea	44	-82.5		71.2	-4.5	-	80.4	-24.8	-100.0	
Hong Kong, China	63 003	13.7	58.4	-11.5	23.3	59 920	59.2	18.9	-14.4	30.1
Japan	24 426	-52.7	188.7	-19.7	106.4	128 020	-14.0	6.9	7.7	40.9
Macao, China	1 905	35.5			15.4	998				155.0
Mongolia	683		40.5	28.1	54.4	-				
Republic of Korea	7 603	10.8	47.9	-4.8	2.5	12 795	27.6	7.1	-3.0	43.8
South-East Asia	59 923	17.1	-3.5	10.9	14.8	32 117	37.9	-6.7	17.0	21.1
Brunei Darussalam	239	142.1	-1.2	-12.1	-6.1	34		-14.1	18.4	-10.1
Cambodia	815		-0.3	20.7	28.8	24			-6.9	28.6
Indonesia	7 919	32.3			-1.7	5 900		-35.3	82.8	24.4
Lao PDR	228	71.3	-17.4	-4.0	101.8	-	95.3	-3.1	-100.0	
Malaysia	8 053	17.4	-8.2	1.4	25.6	14 059	80.7	-4.0	8.0	67.9
Myanmar	283	7.1	-8.1	2.5	6.3	-				
Philippines	1 520	21.5	9.0	-3.7	-6.4	237	34.8	5.0	8.6	7.8
Singapore	22 725	15.7	7.4	-2.7	16.5	8 928	27.3	-2.7	13.7	-7.3
Thailand	10 091	-4.3	10.1	19.2	7.8	2 835	41.9			77.9
Timor-Leste	0		-100.0		78.7	-				
Viet Nam	8 050	58.1	-6.3	9.4	58.5	100				15.4
South and South-West Asia	68 867	32.8	9.5	33.1	41.3	20 767		42.3	26.5	65.5
Afghanistan	300			337.0	3.4	-				
Bangladesh	1 086	95.4	44.4	7.9	8.7	9	27.7	3.3	10.5	41.2
Bhutan	30	-50.0	-66.1	734.4	48.9	-				
India	41 554	55.5	10.8	16.2	76.1	17 685	81.8	33.7	42.4	81.1
Iran (Islamic Rep. of)	1 492		85.7	74.5	-21.9	380	50.6	42.3	83.4	-5.6
Maldives	15	5.2	12.4	-6.1	17.5	-				
Nepal	1	-100.0			-25.8	-				
Pakistan	5 438	12.1	-8.9	48.1	35.2	46	-78.1	543.1	32.0	1.5
Sri Lanka	752	8.4	21.6	9.5	40.4	62	46.8	-18.6	80.2	17.5
Turkey	18 198	5.3	2.1	59.2	22.0	2 585		50.4	4.1	34.4
North and Central Asia	89 917		4.9	31.8	71.5	56 809		39.4	34.0	60.4
Armenia	1 132	45.4	32.7	18.1	67.9	10				14.9
Azerbaijan	11		-28.0	123.7	-81.3	556			314.3	-23.1
Georgia	1 564		85.3	28.1	51.2	41			186.2	
Kazakhstan	14 543		5.9	9.0	94.7	3 812		70.8		
Kyrgyzstan	233				76.1	0			-70.5	201.6
Russian Federation	70 320		5.6	36.6	76.0	52 390		39.3	32.1	60.1
Tajikistan	376		18.7	18.3	90.3	-				
Turkmenistan	820		-10.9	26.1	25.2	-				
Uzbekistan	918			3.3	118.7	-				
Pacific island economies	49 634	8.1	0.0			36 093	8.5	-5.7		
American Samoa										
Australia	46 774	8.1	3.1			35 938	27.0	-0.8		
Cook Islands	1	-46.0			32.5	0		-52.6	-12.6	100.0
Fiji	274	-7.4	-43.0	115.7	19.7	6	35.7	-28.2	35.6	-18.5
French Polynesia	32	-37.7	-0.8	31.3	60.3	13		-100.0		-5.7
Guam										
Kiribati	2			-46.7	36.8	-				
Marshall Islands	6			-44.7	-5.4	-			91.5	-100.0
Micronesia (F.S.)	6				424.5	-				
Nauru	0		14.9	93.0	-22.6	-				
New Caledonia	467	-53.1		-30.2		23			77.5	-9.5
New Zealand	1 979	11.1	-13.9	1.8	10.4	100	-5.5	-19.3		
Niue	-			162.2	-100.0	-			-25.6	-100.0
Northern Mariana Is.	-	-54.1	36.3	-100.0		-				
Palau	2			-43.3	25.5	-			17.0	-100.0
Papua New Guinea	-30	8.4	-30.1	-19.5		0			38.4	-94.6
Samoa	6	-12.2		18.8		0				
Solomon Islands	76	-27.9	-7.8	68.8	59.6	12			24.0	310.0
Tonga	6	38.7	36.1	28.5	-30.2	2	-100.0			-29.1
Tuvalu	2			-53.5		-				
Vanuatu	34	18.8	-8.2	-8.0	36.0	-1				
Developed economies	73 178	5.2	9.7			164 058	-11.6	5.0	-29.4	198.3
All economies		23.5	12.0	-0.1	41.1		4.0	9.9	-5.3	66.5

Table 13. Inward and outward FDI stocks

	FDI inward stock					FDI outward stock				
	\$ million	% per annum				\$ million	% per annum			
	2008	90-95	95-00	00-05	05-08	2008	90-95	95-00	00-05	05-08
Developing economies	2 544 449	11.2	14.6	9.8	14.6	1 617 707	40.5	27.8	10.2	21.4
East and North-East Asia	1 521 042	9.3	14.6	6.3	14.7	1 702 659	9.4	15.9	5.8	21.3
China	378 083	37.3	13.8	7.1	11.6	147 949	31.9	9.3	15.6	37.3
DPR Korea	1 435	4.6	7.8	6.5	0.1					
Hong Kong, China	835 764	2.4	14.9	2.8	16.9	775 920	45.9	37.6	3.9	18.1
Japan	203 372	27.8	8.5	14.9	26.3	680 331	3.4	3.1	6.8	20.7
Macao, China	9 749	0.0	0.0	13.0	23.6	2 920				86.9
Mongolia	1 946	206.1	37.0	31.4	39.8					
Republic of Korea	90 693	12.9	32.0	22.4	-4.7	95 540	34.8	21.3	7.6	35.2
South-East Asia	663 210	18.8	11.9	8.7	17.9	301 635	39.6	11.0	14.4	22.2
Brunei Darussalam	10 361	81.0	43.2	19.5	3.2	732		6.4	7.6	4.4
Cambodia	4 637	56.6	34.7	9.4	23.3	308		6.8	6.7	4.9
Indonesia	67 044	18.8	4.0	10.4	17.6	27 233	132.9	3.3	15.0	25.0
Lao PDR	1 408	75.8	21.4	3.8	28.1	20		23.2	-0.8	0.0
Malaysia	73 262	22.7	12.9	-3.4	18.1	67 580	46.7	25.4	6.7	45.5
Myanmar	5 546	33.9	26.2	4.7	4.5					
Philippines	21 470	17.5	12.3	-3.8	12.8	5 810	26.4	9.3	-0.2	42.0
Singapore	326 142	16.6	11.0	12.0	18.8	189 094	35.0	10.1	16.4	15.9
Thailand	104 850	16.5	11.1	15.1	20.2	10 857	40.4	-0.7	18.1	28.9
Timor-Leste	166	182.2	0.0	18.1	0.2					
Viet Nam	48 325	34.1	23.6	8.6	15.8					
South and South-West Asia	255 976	11.0	10.6	24.3	19.8	79 162	7.3	24.5	24.6	57.5
Afghanistan	1 365	0.0	7.9	102.4	32.7					
Bangladesh	4 817	4.7	29.2	10.4	10.8	81	1.1	7.8	6.3	-4.8
Bhutan	131	5.7	10.6	37.2	82.5					
India	123 288	27.8	25.4	20.5	40.5	61 765	31.9	30.3	40.1	83.3
Iran (Islamic Rep. of)	20 811	2.3	2.6	43.9	9.1	1 853			6.6	33.1
Maldives	225	19.5	14.2	8.8	7.6					
Nepal	127	3.6	39.1	12.1	0.1					
Pakistan	31 059	23.4	5.0	8.1	44.9	1 284	1.7	12.9	12.2	13.9
Sri Lanka	4 283	13.8	4.3	8.9	20.5	314	33.8	19.6	14.4	23.0
Turkey	69 871	6.0	5.1	30.0	-0.7	13 865	4.3	20.8	17.8	18.6
North and Central Asia	298 739		38.8	35.4	9.8	214 083		43.4	49.1	12.7
Armenia	3 521	50.1	54.6	18.5	37.3	24			69.0	33.6
Azerbaijan	6 612		62.5	26.1	-17.9	5 232			275.7	12.4
Georgia	6 919		88.5	25.6	42.7	130			-25.5	83.0
Kazakhstan	58 284		28.3	20.5	31.5	5 842		120.2		
Kyrgyzstan	1 015		24.5	3.7	25.2	18			34.8	-50.2
Russian Federation	213 734		41.9	41.1	5.8	202 837		43.2	48.8	11.4
Tajikistan	862		27.8	17.6	41.3					
Turkmenistan	4 748		18.0	20.3	25.7					
Uzbekistan	3 043		45.8	11.3	36.7	-				
Pacific island economies	334 452	9.6	1.0	14.1	7.2	208 311	11.7	9.1	14.8	3.6
American Samoa										
Australia	272 174	7.2	1.3	14.0	8.4	194 721	11.7	10.0	15.5	3.5
Cook Islands	39	0.4	19.1	0.3	3.8					
Fiji	1 759	15.5	-7.8	14.7	31.6	82	12.0	-4.3	13.8	7.1
French Polynesia	324	8.4	6.0	7.9	16.9	82				22.3
Guam										
Kiribati	141	17.9	138.9	14.3	1.6					
Marshall Islands										
Micronesia (F.S.)										
Nauru										
New Caledonia	2 239	6.0	-6.6	40.5	82.9					
New Zealand	53 424	26.5	-0.7	16.0	0.8	13 093	11.7	2.0	6.4	4.2
Niue	7			226.1	0.0					
Northern Mariana Is.	0	15.7	4.0	0.0	-100.0					
Palau	124			4.1	1.7					
Papua New Guinea	2 312	1.0	3.8	2.3	0.9	276	52.4	4.4	0.2	1.1
Samoa	74	25.8	13.2	0.1	11.2					
Solomon Islands	700	3.5	1.3	0.5	21.4					
Tonga	84	57.5	11.5	22.5	28.0					
Tuvalu	32				8.0					
Vanuatu	1 019	11.0	6.1	4.8	20.8	58				3.9
Developed economies		12.3	2.7	14.5	13.0	888 144	4.8	4.5	9.0	15.7
All economies		11.5	12.2	10.5	14.3		11.7	14.9	9.8	19.3

Table 14. Trade facilitation indicators

	Time for completing trade procedures (days)			Cost of completing trade procedures (2000 constant United States dollars)			Import-export facilitation bias 2009	
	2005	2009	% Change	2005	2009	% Change	Time basis	Cost basis
Developing economies	36	31	-14.2	1 151	1 158	0.6	1.1	1.1
East and North-East Asia	23	19	-20.5	956	848	-11.3	1.0	1.0
China	21	23	7.1	326	435	33.7	1.1	1.1
DPR Korea								
Hong Kong, China	15	6	-63.3	390	503	29.1	0.8	0.9
Japan	11	11	0.0	934	848	-9.2	1.1	1.1
Macao, China								
Mongolia	59	47	-20.5	2 295	1 835	-20.0	1.0	1.1
Republic of Korea	12	8	-33.3	835	618	-25.9	1.0	1.0
South-East Asia	29	22	-23.3	739	699	-5.5	1.0	1.1
Brunei Darussalam		24			558		0.7	1.1
Cambodia	49	26	-46.9	712	668	-6.1	1.4	1.2
Indonesia	28	24	-12.7	560	568	1.5	1.3	0.9
Lao PDR	72	50	-30.6	1 427	1 625	13.9	1.0	1.1
Malaysia	16	16	0.0	375	375	0.1	0.8	1.0
Myanmar								
Philippines	18	16	-8.6	734	681	-7.2	1.0	1.0
Singapore	4	4	0.0	359	373	3.8	0.6	1.0
Thailand	23	14	-41.3	867	592	-31.8	0.9	1.3
Timor-Leste	26	26	0.0	911	844	-7.3	1.0	1.0
Viet Nam	24	22	-8.5	711	707	-0.6	1.0	1.2
South and South-West Asia	38	30	-20.0	1 101	1 159	5.3	1.1	1.2
Afghanistan	82	76	-7.4	2 110	2 646	25.4	1.0	0.9
Bangladesh	46	27	-41.3	1 004	977	-2.7	1.2	1.4
Bhutan	38	38	0.0	1 482	1 396	-5.8	1.0	1.8
India	40	19	-53.2	967	794	-17.9	1.2	1.0
Iran (Islamic Rep. of)	33	32	-3.1	1 005	1 153	14.8	1.5	1.6
Maldives	21	21	0.0	1 101	1 123	2.0	1.0	1.0
Nepal	39	38	-2.6	1 525	1 495	-2.0	0.9	1.0
Pakistan	35	20	-42.9	602	538	-10.7	0.8	1.1
Sri Lanka	26	21	-19.6	639	608	-4.8	1.0	1.0
Turkey	23	15	-35.6	572	855	49.4	1.1	1.1
North and Central Asia	61	54	-11.8	2 126	2 303	8.3	1.1	1.2
Armenia	36	19	-47.9	1 596	1 595	-0.1	1.2	1.2
Azerbaijan	56	48	-14.3	2 596	2 692	3.7	1.1	1.2
Georgia	53	12	-78.3	1 257	1 050	-16.5	1.3	1.0
Kazakhstan	83	83	0.0	2 528	2 525	-0.1	0.9	1.0
Kyrgyzstan	70	68	-2.9	2 271	2 604	14.7	1.1	1.1
Russian Federation	36	36	0.0	1 606	1 542	-4.0	1.0	1.0
Tajikistan		83			3 208		1.0	1.4
Turkmenistan								
Uzbekistan	92	82	-11.4	3 028	3 208	6.0	1.3	1.5
Pacific island economies	23	23	0.7	910	823	-9.5	1.1	1.0
American Samoa								
Australia	12	9	-29.2	798	908	13.8	0.9	1.1
Cook Islands								
Fiji	24	24	0.0	524	535	2.0	1.0	1.0
French Polynesia								
Guam								
Kiribati	21	21	0.0	1 422	892	-37.3	1.0	1.0
Marshall Islands	27	27	0.0	702	788	12.2	1.6	1.0
Micronesia (F.S.)		30			1 079		1.0	1.0
Nauru								
New Caledonia								
New Zealand	10	10	0.0	700	716	2.3	0.9	1.0
Niue								
Northern Mariana Is.								
Palau	32	31	-3.1	1 041	968	-7.1	1.1	1.0
Papua New Guinea	28	28	0.0	562	578	2.7	1.1	1.1
Samoa	29	29	0.0	816	695	-14.8	1.1	1.0
Solomon Islands	23	23	0.0	1 052	942	-10.5	0.9	1.2
Tonga	22	22	-2.3	534	573	7.2	1.3	1.1
Tuvalu								
Vanuatu	28	28	0.0	1 853	1 204	-35.0	1.2	0.9
Developed economies	11	10	-10.9	811	824	1.7	1.0	1.0
All economies	34	29	-13.8	1 127	1 136	0.8	1.0	1.1