UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
GENERAL

TD/B(S-XIX)/5
29 April 2002

ENGLISH ONLY

TRADE AND DEVELOPMENT BOARD
Nineteenth special session
Bangkok, 29 April – 2 May 2002

MID-TERM REVIEW

TRADE AND INVESTMENT IN ASIA AND THE PACIFIC; recent trends and emerging issues

Note by the UNCTAD secretariat

The attached document is distributed as an official document of the Trade and Development Board, as part of the Mid-Term Review, at the request of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

April 2002

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

UNCTAD X Mid-term Review Meeting

29 April – 3 May 2002
Bangkok

TRADE AND INVESTMENT IN ASIA AND THE PACIFIC:
RECENT TRENDS AND EMERGING ISSUES*

Note by the ESCAP secretariat

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* This paper has been prepared by the International Trade and Industry Division, ESCAP, and has been issued without formal editing.

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Introduction

Since the UNCTAD X Meeting in 2000 in Bangkok, various developments have taken place in Asia and the Pacific which have profound implications for trade and investment in the region. At the global level, the collapse of the high-tech bubble in the United States in mid-2000 resulted in a recession in the United States and in the world at large with only a mild recovery predicted in the latter part of 2002. The recession, coupled with persistent recession in Japan, has particularly affected countries in Asia recovering from the devastating crisis that struck them in the course of 1997. Secondly, the terrorist attack in the United States on 11 September, 2001 further exacerbated the global recession and strongly affected sectors like the airline and tourism and related industries – industries of significant importance in most Asian and Pacific economies. Positive developments at the global level include the launch of a new multilateral round of trade negotiations in Doha in November 2001 and China's accession to the World Trade Organization (WTO).

There were also several developments at the regional level which can be interpreted as threats as well as opportunities. In the wake of the terrorist attacks on 11 September 2001, the world's involvement with Afghanistan has markedly grown leading to the change of regime. Developments in the country are likely to affect trade and investment patterns in the whole South and Central Asian region. Japan's ongoing and deepening recession, and China's accession to the WTO and the Bangkok Agreement will also have implications for trade and investment growth in most Asian and Pacific countries at least in the short run while in the long run these countries might actually benefit from these developments provided they adopt appropriate policies. Other significant developments include the agreement in principle at the 7th ASEAN summit in Brunei Darussalam in November 2001 to establish a Free Trade Area between the ASEAN Free Trade Area (AFTA) and China within 10 years time. The proposed Free Trade Area could even include Japan and the Republic of Korea also in due time. In South Asia, the South Asian Association for Regional Cooperation (SAARC) concluded its 11th summit in Nepal in January 2002 vowing to accelerate subregional cooperation in trade and investment, among others. And at the summits of the Asia Pacific Economic Cooperation (APEC) in Brunei Darussalam (November 2000) and Shanghai (October 2001) leaders of participating countries also vowed to step up regional economic cooperation across the board.

This brief paper gives an overview of the main trends, issues, implications and perspectives regarding trade and investment in Asia and the Pacific.

I. TRENDS IN TRADE AND INVESTMENT IN ASIA AND THE PACIFIC, 2000-2002

A. General overview

1. Trade

With an abrupt halt to the unprecedented expansion of the world economy as a result of sharply declining growth in the United States in the third and fourth quarters of 2001 brought about by sharply dropping equity prices, including the burst of the high-tech bubble, and rising oil prices, recovery of crisis-hit countries in East Asia slowed markedly in 2001. After what had been a remarkable rebound from the 1997 financial crisis, export-oriented economies of the ESCAP region, notably those of East and South-East Asia, experienced double digit contractions in exports and imports with most economies experiencing growth rates a little higher than zero per cent, thus narrowly averting recession. For instance, by August 2001 Philippine exports had declined significantly from one year earlier, but the Philippine economy was still growing, though weakly, at the end of 2001, led by private consumption and the agricultural sector. Farming accounts for 20 per cent of GDP and almost 40 per cent of jobs, providing the Philippines with a welcome buffer against minor demand for manufactured exports. As a result, the Philippines witnessed a 3 per cent growth rate in 2001, higher than that of other ASEAN countries, despite the fact that its export basket contained a large share of electronics destined for Japan and the United States. Buoyant domestic demand, spurred on by stimulatory policies also contributed to this outcome.[1]

Japan experienced its third recession in a decade and continued to struggle to contain the self-perpetuating cycle of recession and deflationary pressures. As in the United States, Japanese GDP grew until the second quarter of 2000 though at the more modest annual pace of 1.5 per cent. Japanese growth was driven by the fast pace of growth in the United States and by the still buoyant Asian economies and a surge of ICT expenditure by international corporations. However as the external stimulus faded, domestic corporate investment expenditure came to a halt and long standing structural problems of the Japanese economy again came into sharp relief, reinforcing the already weak business and consumer confidence once more. The result was that by mid-2001 the Japanese economy had slid into recession registering negative growth of 0.7 per cent in the second quarter on a year-on-year basis. Reflecting these negative developments, Japanese stock prices fell to their lowest level since 1984 in the second half of 2001.

While world demand for primary commodities has not weakened as much that for hi-tech products like semiconductors, countries with a heavy reliance on commodity exports did get hurt by falling prices. US Dollar prices for non-oil primary commodities are expected to fell by near 9 per cent overall in 2001, with significant price declines in many commodities such as rice, vegetable oils, rubber, lumber and copper produced by East-Asian countries. Many of the smaller economies of the region remain heavily dependent on commodity exports. Such exports comprise 70 per cent or more of the exports of Mongolia and Papua New Guinea, and about 45 per cent of Fiji's. Mongolia's growth was also hurt by natural disasters, while that in Papua New Guinea and Fiji was also affected by high levels of political volatility and uncertainty.

In contrast, China's imports grew at double digit rates while export growth was about 9 per cent in 2000 with economic growth estimated at about 7 per cent in 2001. China's buoyant domestic demand, coupled with the stability of its currency vis-à-vis the US dollar, and the relatively small share of office and telecom products in its merchandise trade all contributed to relatively high growth rate. However, Hong Kong, China, witnessed a sharp drop in economic growth in the fourth quarter 2001 and skyrocketing unemployment in the first three months of 2002.

Available data do not take into account the impact of the September 11 events so actual figures are believed to be even lower. However, while growth slowed in most Asian developing countries, it didn't turn negative. A return to the crisis years of 1997-1998 is not expected, at least in the short run, although the economic fundamentals of some countries still need strengthening. The strong performance of Asian developing countries in 2000 basically reflected the favourable external environment, expansive domestic macroeconomic policies and stimulus packages, competitive exchange rates, and, to some extent, progress with economic and corporate restructuring.[2]

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[1] The Economist, 15 December 2001.
[2] ADB, Asian Development Outlook, 2001.

Originally, Hong Kong, China; and Singapore boasted the highest economic growth rates as a result of sound economic fundamentals and a boom in global demand for information technology related products, which also boosted exports from countries like India, Malaysia, Republic of Korea and Thailand, while Indonesia benefited from rising oil prices. Export growth was also led by electronic products in Malaysia, Republic of Korea and Thailand. However, in the course of 2001 growth began to slow in all countries. In South Asia, economic growth was mainly driven by the agricultural sector. While impressive, growth rates in the crisis-hit countries of Indonesia, Malaysia, Republic of Korea, Philippines and Thailand remained below their potential due to incomplete domestic economic, financial and corporate restructuring along with political instability in some. Cambodia and Lao People's Democratic Republic witnessed sharp increases in export growth due to strong performance of their garments sector while Viet Nam benefited from rising exports in crude oil. However, these countries and least developed countries (LDCs) in general also witnessed rising imports leading to current account deficits in some.[3]

In the case of the Pacific islands, the total value of trade has also significantly risen over the 1990s, from US$ 3 billion in 1985 to US$ 7 billion in 1999. Selected Pacific island economies also witnessed economic slowdowns in 2000 and 2001 but they seemed to be more a result of internal political and social upheavals and continued reliance on a single or a few commodities rather than international developments.

Despite continuing reliance on Europe, Japan and the United States as main trading partners for most Asian and Pacific economies, intraregional trade has also markedly grown showing the increasing interdependence of the region. In East Asia, intraregional trade grew from 25 per cent in 1985 to almost 40 per cent in 1999 of their total trade according to some measures. This figure would have been bigger if it were not for the Asian crisis. Because of the crisis and ongoing recession in Japan, East Asia declined in importance in overall Japanese trade, though trade intensity indices show that Japan remains a more important trading partner for most East Asian countries than the United States. In South Asia, intraregional trade has remained subdued and basically consists of bilateral trade between India and its smaller neighbours. It is worth noting though that the value of trade of the six South Asian countries has tripled from US$ 40 billion in 1985 to US$ 130 billion in 1999. And while trade among these six countries remains stagnant, mainly due to economic reasons, trade with East Asia has markedly increased. In the case of India, Asia (excluding Japan) increased its share of total trade from 9.2 per cent in 1985 to 23.5 per cent in 1999. The share of Japan in South Asian trade has declined from just over 10 per cent in 1985 to almost half that figure in 1999. Even in the case of the Pacific islands, one can witness an increase in importance of Asia in total trade of these countries while Japan as a trading partner has declined in importance.

2. Investment

Following the growth of trade, growth of foreign direct investment (FDI) has also been a salient characteristic of the Asian and Pacific region. Led by China and Hong Kong, China, the region attracted US$ 143 billion in 2000, a 44 per cent increase over 1999. The inflows in Hong Kong, China at over US$ 60 billion in 2000 were particularly high fuelled by the territory's recovery and economic restructuring, China's pending WTO membership, a spate of mergers and acquisitions (M&A) in the telecommunication sector and the rising importance of Hong Kong, China as a hub for regional business networks. However, FDI inflows to Hong Kong, China halved in 2001. FDI in South-East Asia remained below pre-crisis levels mainly due to divestments in Indonesia. China regained its position as no. 1 host country of FDI in

[3] Ibid.

2001 replacing Hong Kong, China with inflows of almost US$ 50 billion in 2000 and 2001. FDI in South Asia has not changed much and is mostly concentrated in India.[4]

Intraregional investment has also significantly grown in importance following the trend in intraregional trade. For instance, China has replaced the United States as the most important host country for FDI from the Republic of Korea. Surveys of Japanese TNCs conducted by the Japan Bank for International Cooperation and JETRO in July/August and October 2001 respectively, reveal that China is the most promising country for Japanese FDI. Intraregional FDI is particularly impressive in the Greater Mekong Subregion. Thailand and Malaysia are among the largest investors in Cambodia and Lao People's Democratic Republic while China, Taiwan Province of China, Republic of Korea are also among the top investors in Cambodia, Lao People's Democratic Republic and Viet Nam. Intraregional investment remains relatively small in South Asia with India being a significant investor in Nepal.[5]

In Central Asia, investment is concentrated in the oil and gas and mineral exploitation sectors. In particular, Kazakhstan has witnessed sustained investment inflows while investment to countries like Turkmenistan and Uzbekistan have stagnated as result of inadequate reforms.

Investment in the South Pacific has suffered from political instability in some countries and the high cost of doing business which has also kept tourism in the subregion below its full potential.

B. The impacts of the global slowdown and events on 11 September 2001

While the economic slowdown in the United States was expected to be limited, there was no recovery in 2001. In particular, export growth was negatively affected in most Asian and Pacific developing countries, a development partly offset by the growing importance of intraregional trade. However, the impact of the slowdown goes beyond a decline of direct exports to the United States. In fact, intraregional trade, mostly in electronics among subsidiaries of TNCs in the region, depends on global demand, in particular in the United States of end-products produced in the region. As a result, countries like Malaysia and the Philippines, heavily dependent on the exports of electronic components, are likely to be most affected. Indeed, exports of electronic goods and components have fallen significantly in 2001 in most Asian countries. Continued recession in Japan has also dried up exports to Japan and Japanese investment in the region. The Japanese economy is expected to have contracted by almost 1 per cent in 2001. However, as indicated above, Japan has diminished in importance as trade and investment partner in the region.

Whatever the outlook for the region was prior to 11 September 2001, the events on that day clearly changed the situation in Asia and the Pacific and altered all economic forecast scenarios. As the event is still rather recent, an assessment of most of the implications and impacts have to be qualitative. Originally, adjusted forecasts were from half a per cent to two per cent lower on GDP rates in East Asia while the prevailing and deepening uncertainty following the event would make sharper drops more likely. The predicted scenario included sharp decline in exports from East Asian countries with rising unemployment and rising debts. This would exacerbate the already precarious situation of the region’s banks plagued by bad debts already. This could lead to another round of speculative devaluations and a second major Asian crisis. In addition, the deep recessions that would follow would force governments to release economic stimulus packages overburdening budgets which were already in deficit. At least in the short term, consumer and business confidence would be badly shaken undermining

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[4] UNCTAD, World Investment Report, 2001.

[5] UNCTAD Press Release, 23 January 2002.

investments and a jumpstart for the economies in the region. The World Bank in its initial assessment predicted that economic growth in East Asia would be halved in 2001 from 2000 figures while China and Viet Nam would only witness marginal decreases. However, as the situation is currently, the international economy seems to be recovering rather quickly and in the end the impact of the events may not be as big as originally expected. In Thailand, for instance, economic growth forecasts for 2001 were revised upward again from just under 2 per cent to well over 3 per cent. While the impact was felt world-wide as a result of globalization, an expected backlash against globalization also did not materialize. In fact, the September 11 events forged new global alliances and prompted the launch of a new multilateral round of trade negotiations.

It is obvious, however, that the September 11 events had major impact on business costs as a result of rising insurance premiums and risk premiums on investment capital, delays due to heightened security at airports and security at company level including Internet-related security costs, and a general cost to the economy due to a diversion of investment capital away from the productive sectors towards security. The most affected sectors have of course been the airline and tourism industries. Already before the terrorist attacks on 11 September 2001, various regional airlines were barely making it. After the events, massive bailouts and debt reschedulings were necessary. Some airlines went bankrupt while other regional airlines are facing severe difficulties.

The automobile sector also took an immediate hit. Japanese and Korean carmakers, which had seen brisk growth, witnessed a 23 per cent drop in auto sales in the United States market in the first few weeks after the attacks. The drop in semiconductors and electronics goods was mentioned above. At least Asia has a financial cushion built up from booming exports in 1999 and 2000. Asian nations have slashed overseas borrowing and built up huge foreign exchange reserves. And because Asian companies have had limited funds to spend on new factories, they will not have to deal with the huge overcapacity they faced in 1997. A major negative factor which could prolong the recovery period would be the rise in oil prices following output cuts by the OPEC cartel in the course of 2001 and early 2002.

Government response to the attacks has also been quick. Central banks have been slashing interest rates and stimulus packages were issued and currencies devalued in various countries. However, in Japan there is little scope for further stimulus of the economy with virtual zero interest rates, and booming government budget deficits. Japan suffers from structural problems which require a major overhaul of the corporate and financial sector which, in turn, requires strong political will and leadership. Due to the problems at home, Japanese TNCs have continued their relocation to cheaper production bases in Asian countries during 2001, in particular China.

The September 11 events and ensuing war in Afghanistan may lead to increased foreign aid to Central Asia and selected countries in South Asia, such as Pakistan. South Asian economies have been affected negatively with cancellations of orders for goods from the subregion and increase in risk premiums on loans and transportation costs. The downturn in export market growth in South Asia from 13 per cent in 2000 to an average of 3.3 per cent in 2001/2002, will be mirrored by falling import demand stemming from slower growth domestically. In addition, countries heavily dependent on revenue from tourism, like Nepal, have seen their tourist arrivals plummet. Some countries in the subregion are depreciating their currencies to promote exports and increase competitiveness, which should have a positive effect on the trade balance, although the situation in least developed countries like Bangladesh and Nepal remains precarious.

With regard to investment, UNCTAD estimates that FDI flows to developed countries declined by nearly half in 2001. However, the overall impact of the September 11 events on global and regional FDI seems to be limited. Major TNCs plan to continue their international expansion, according to an UNCTAD survey.[6] In fact, countries like China and India witnessed sharp rises in FDI flows during 2001. Mergers and acquisitions, on the decline over the last year, may receive a boost as various companies will be forced into bankruptcy. Declines in investment in other countries, such as Indonesia, seem to reflect domestic political and economic problems rather than global recession or security concerns.

On the positive side, the September 11 events have prompted governments to accelerate their structural reforms, especially those which are security-related, such as anti-money laundering legislation among others.

Overall, it appears that the September 11 attacks have had a limited and short-term impact on trade and investment in the region and that overall economic growth in Asia and the Pacific is dependent on structural reform and political stability at home rather than international recession or security concerns.

II. ISSUES AT THE GLOBAL LEVEL: THE DOHA DEVELOPMENT AGENDA

A. General implications

With a global recovery expected in 2002 and the economic costs of the September 2001 events slowly being factored into economic policy-making, Asian and Pacific countries are currently looking ahead. The major development at the global level which would have profound implications for them is the launch of a new round of multilateral trade negotiations in Doha in November 2001 within the framework of the WTO. Fearing a new cycle of protectionism and a repeat of the Seattle debacle, countries launched a new round despite strong reservations on the part of ministers and senior officials from developing countries on key issues. There was simply too much was at stake for them to allow the multilateral trading system to fail once again. Agreeing on a new round of trade negotiations came to be viewed as an important means of restarting trade momentum, boosting the faltering world economy and reasserting multilateral cooperation in trade as a building block for peaceful relations among countries.

After days of hard bargaining, members of the WTO finally came to agree on a broad and balanced work programme of future negotiations which bring to the fore a variety of issues with complex and deep implications for the multilateral trading system. At the forefront of the new round are the concerns of developing countries, including those in Asia and the Pacific, at various stages of development. The challenge over the next few years is how to give the Doha Development Agenda (DDA) concrete results for developing countries. In other words, how and what WTO rules should be devised that achieve, support and promote pro-development outcomes. Negotiations will need to go beyond the GATT-legalistic approach to encompass and make provision for differences in levels of development, economic structure and implementation capacities among the membership. The integral role played by Special and Differential (S & D) treatment was reaffirmed and future negotiations will focus on making these provisions more precise and operational. Developing countries are suggesting, *inter alia*, flexibility in extending Uruguay Round transition periods until certain income thresholds are reached so that technical assistance could be given more time to have an impact, incorporating

[6] Ibid.

additional exceptions for least developed countries, and making special and differential treatment more legally binding on countries.

The outcome of Doha reflects a marked improvement in the position of developing countries in multilateral trade negotiations. With more than 110 of the 144 members of WTO currently from developing countries together with the historic accession of China to the WTO, ESCAP and other developing countries have gained negotiating leverage. Consequently, they are currently better placed than before to play a more proactive agenda-setting role in negotiations. One result of this enhanced position is perhaps reflected in the adoption of the Declaration on Trade-related Aspects of Intellectual Property Rights (TRIPs) and public health. Even though the Declaration does not contain legally binding provisions and thus falls short of overriding patents rights held by pharmaceutical companies, it does clarify the flexibilities that exist in TRIPs. It sends a clear message that the devastating human toll that could be exacted by epidemics should take precedence over the rights of patent holders. This result would have been unthinkable just a couple of years ago. It is the product of a sustained and coordinated effort among an increasing number of developing countries.

Another hard won achievement negotiated primarily by agricultural exporting countries, many of which are ESCAP developing countries, is the commitment to phase out export subsidies, even though the Declaration contains a proviso that the outcome of negotiations should not be prejudged. In fact, developing countries should have realistic expectations with regard to the outcome of negotiations on agriculture in light of the highly sensitive and issue of agricultural subsidies in the European Union.

The increased attention given by the DDA to implementation issues also reflects the increasingly influential position of developing countries in the WTO. The separate Decision on implementation issues went some way in detailing solutions to implementation problems, while outstanding implementation issues (not specified in the Ministerial Decision) will continue to be negotiated under the respective committees. Nevertheless, many developing countries were disappointed at not having achieved resolution on more of these issues. Prior to Doha, developing countries had insisted that action on implementation issues was a prerequisite to their agreement to enter into a new round of multilateral trade negotiations because they were unresolved obstacles that undermined the spirit of Uruguay Round disciplines and the efficient functioning of the multilateral trading system.

B. Improved market access

By extending Uruguay Round mandated negotiations under a comprehensive round that includes “non-agricultural products”, tariff liberalization is expected to be more effective as countries find opportunities for trade-offs across a broader spectrum of sectors. Furthermore, since textile quotas are to be phased out after 2005, tariff reductions should imply enhanced market access for textile and clothing exports from the ESCAP region. Likewise tariff reductions coupled with tighter rules for subsidies in the fisheries sector would open up new export opportunities for developing countries while also promoting mutually supportive trade and environment objectives. In this regard, there is scope for major trading partners not already having done so, to provide bound duty- and quota-free access to all export products of LDCs.

Overall, enhanced market access for developing countries’ products represents an enormous opportunity to give the DDA a tangible development-relevant outcome that ultimately would in many aspects benefit not only developing countries but developed countries as well. However, at the same time it should be borne in mind that wide differences in views taken on market access in these traditional sectors, historically have made negotiations notoriously difficult. It comes as little surprise therefore that at Doha, as negotiations went down the wire, once again the make or break deal revolved around agriculture and textiles.

Potential abuse of anti-dumping and other trade contingency measures, and their concentration in specific sectors of export interest base (primarily metals sectors followed by plastics and textiles) to developing countries compromises the benefits from trade liberalization. Some argue that such trade defences are necessary to maintain support for free trade with home constituencies. However, the lack of clarity in the agreement on, *inter alia*, what constitutes less than "normal value" made anti-dumping measures liable to misuse for protectionist purposes. A review of this issue is therefore a positive development, overall. According to the WTO during the first semester of 2001 (the semester for which the latest data are available), the United States was the largest user of anti-dumping measures, initiating 39 investigations. Four Asian economies are at the top of the list of economies subject to anti-dumping investigations, with China having experienced the most investigations (22) on its exports.[7]

In the services sector, many studies have shown that there are enormous gains to be derived by developing countries from further services liberalization, particularly with respect to enhancing economy-wide competitiveness. However, services sectors differ widely as far as the impacts of liberalization are concerned. Difficult issues arise regarding, for example, the effects of liberalization on conditions of competition, and the relationship between liberalization and the need for regulations to achieve efficiency and equity objectives. The Asian financial crisis of 1997 clearly demonstrated the need for liberalization to be accompanied by effective regulatory policies in the financial services sector. Therefore, negotiations on General Agreement on Trade in Services (GATS) require careful sector-specific analytical studies. The DDA has reaffirmed the need of developing countries for flexibility in opening fewer sectors, progressively extending market access in line with their development situation and, attaching market access conditions to foreign suppliers of services so as to strengthen domestic supply capacities. Furthermore, the needs of small service suppliers of developing countries are also stressed.

C. Accelerated accession opportunities

About half of ESCAP's members are not members of the WTO. Furthermore, no LDC has acceded to the WTO in the post-Uruguay Round phase. Yet membership to the WTO is considered as a necessary (although by no means a sufficient) condition if the increasing marginalization of the poorest countries is to be reversed. In this regard, Ministers at Doha committed to accelerate the accession process for LDCs and to allow all acceding countries to participate in the new round of negotiations.

Recent research conducted for economies in transition in the ESCAP region revealed the following major obstacles to smooth accession to the WTO: (i) doubts of WTO member states of the market economy status of the acceding country; (ii) WTO-related organizational and bureaucratic problems; (iii) lack of national institutional capacity, skills and sustained economic reforms; (iv) excessive and stringent demands from WTO members; (v) conflicting commitments under RTAs and other international agreements**.** The accession process is complicated, long and demanding. Most countries in the process of accession today face the reality that they need the multilateral trading system more than system needs them. From the WTO side, legal and technical assistance is called for, while WTO member states should be less demanding in working party negotiations. Acceding countries, on their part, should make

[7] WTO Press/259, 27 November 2001.

active use of their observer status, do their homework and be prepared for a rigorous exercise, mobilizing adequate financial and human resources for the process. While the DDA has called for a "fast track" accession process, it is doubtful whether a "discriminatory process" in favour of acceding LDCs could be set up. In the end, each accession process is unique, follows its own dynamics, and it is up to the WTO member states to determine how quickly each accession process can be concluded.

There is widespread agreement that the accession process should be as LDC-friendly as possible, taking into account LDCs capacity to provide information and their trade reform status vis-à-vis other LDCs that are already members of WTO. However, views differ widely on how this can be done. Consequently, the Declaration does not contain any specifics and it remains to be seen how Doha commitments will be implemented in practice.

D. Emerging issues

Developing countries have consistently cautioned against overloading the WTO agenda with issues that are only remotely "trade-related". Most ESCAP developing countries wish to see these efforts continue in the future because by introducing issues that have weak trade linkages would play into the hands of protectionist forces. It would irreversibly change the open orientation of the multilateral trading system – an orientation that has served developing countries well – thus ultimately reducing the institution's core functions and its legitimacy among members. Many developing countries will insist therefore, that the multilateral trading system should be allowed to do that which it has been singularly successful at for more than 50 years, namely, enhancing market access through the reciprocal lowering of barriers to trade.

Perhaps the most critical challenge facing developing countries over the next two years is to decide on which elements of the future WTO work programme outlined in the Doha Declaration are best suited to binding commitments, and which issues are best addressed by other mechanisms. Giving a concrete outcome to the Doha Development Agenda will enable developing countries to identify and negotiate on those issues for which their development interests are best served by the WTO.

Another difficult task facing developing countries as post-Doha negotiations proceed is how best to promote trade liberalization and "ownership" of WTO reforms among different domestic interest groups, the poor and societies at large. As governments know too well trade reforms are perhaps the most difficult of reforms to implement. Typically, the costs of liberalization are immediate, sector-specific and severe, while the benefits accrue over time, they are dispersed across sectors and they are difficult to trace back to the initial trade reforms.

Before a country enters into WTO negotiations, national development objectives should have been clearly set out and there should have been broad agreement on the economy-wide policy measures that are required to achieve these objectives. Multilateral trade agreements can then be used as one of the means of inducing reforms and achieving these objectives. In other words, trade liberalization should not be seen in isolation, rather it should be an integral part of a country's development and poverty reduction strategies.

These linkages have assumed new importance in light of additional issues which the DDA is expected to take up such as trade and investment, trade and competition policy, trade facilitation, transparency in government procurement, and trade and environment. These issues, with the exception of trade and environment linkages, emerged first at the 1996 WTO Ministerial Conference in Singapore and are likely to be subject to negotiation in the DDA despite reluctance from the developing countries to broaden the agenda beyond pure trade issues.

However, these linkages are complex and strategies could often conflict with each other across sectors. Consequently, an important element in creating ownership of WTO (and for that matter other economic reforms that go beyond WTO rules) is to put in place mechanisms for dialogue, consultation and participation among all stakeholders – planners, trade officials, business interests, development practitioners, civil society advocacy groups – on WTO implementation problems. Similar consultative mechanisms should be set up for the formulation of country positions in future WTO negotiations. In this way liberalization becomes grounded in an integrated development process. Government support for measures to overcome adjustment costs associated with WTO reforms are more likely to be forthcoming while entire societies are more likely to agree with the reforms once they gain better understanding of the costs and benefits of liberalization. Using this approach, WTO liberalization could eventually be seen as a means of "locking-in" economic reform packages that are based, at least in part, and where possible, on bottom-up mechanisms. This would help enhance the image of WTO which up to currently has been generally viewed as a venue for negotiating trade agreements which are then imposed in a top-down manner. Countries may then find themselves unprepared for the adjustment costs that liberalization brings, and the ensuing backlashes may result in some governments abandoning reforms.

III. ISSUES AT THE REGIONAL LEVEL

A. Implications of China's accession to the WTO

With the accession of China and Taiwan Province of China to the WTO, 95 per cent of world trade has been brought under the rules and supervision of the WTO. China will add US$ 130 billion in real terms to world trade and by 2010 will account for 15.5 per cent of the world's gross domestic product.[8] Clearly, China's accession has profound implications for trade and investment in the region as the country has emerged as a formidable competitor in exporting labour-intensive products and attracting FDI to its huge market.

However, nowhere will the impact be as great as in China itself. The country will embark on its greatest "leap forward" ever including major overhauls of its legal and regulatory framework, dismantling of its trade barriers, and coping with hundreds of thousands unemployed expected from domestic bankruptcies of companies not able to compete with foreign investors or imports and accelerated privatizations of state enterprises. These negative impacts will be mostly short-term while the long-term impact will be much more favourable. In fact, China is opting for shock therapy ten years after some other countries with economies in transition adopted this method with often disastrous consequences. China, of course, has come a long way during those 10 years and is much better prepared than 10 years ago. Still, its WTO membership will be a major shock to the domestic economy and require skilful leadership to maintain political and social stability. There is always the risk that economic hardship will undermine the reform effort. In the long run, however, the country will benefit from a more efficient state sector and stronger, more competitive, private and financial sector. Currently, most state enterprises lose money and are riddled by debts while the financial sector, as a consequence, is grappling with more than 30 per cent of non-performing loans. The most vulnerable sector is the agricultural sector, however. However, the rural sector has not sufficiently benefited from China's remarkable economic development over the last 10 years and farmers' incomes have actually dropped. As a result of its accession to WTO, China will have to eliminate export subsidies, forgo state monopolization of international trade in grain,

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[8] Bangkok Post, 27 November 2001.

improve access to imports of such commodities as wheat, corn, rice and soybean, that previously had been produced locally under subsidy, and improve intellectual property rights.

While some industries like banking, insurance and heavy industries like steel and petrochemicals, are expected to sustain heavy shocks, other industries in China stand to benefit, in particular the textiles industry. The main reason is that quotas that have previously limited their access to the world markets will formally end in 2005, although restrictions under a "safeguard" system will be in place until 2008. According to some projections, as many as 5 million new jobs could be created in the textile and apparel sector because of the positive impact of WTO membership. This will of course negatively impact on the textiles, garments and footwear industries of other Asian countries, including those in South Asia. Other industries like footwear and electronics also stand to benefit.[9]

With regard to the impact on East and South-East Asia, the reviews are mixed. On the one hand, China has replaced South-East Asia as the most attractive FDI destination in Asia. FDI has long been the engine of growth in South-East Asia. On the other hand, surveys have indicated that present FDI in South-East Asia is not likely to relocate soon to China and that South-East Asia still has major advantages over China in terms of infrastructure, labour skills and discipline, and existence of competent supply and supporting industries, although supporting industries are rapidly rising in China. Both China and South-East Asia will continue to attract large inflows of FDI, but in different sectors and for different purposes. In South-East Asia, FDI will continue to focus on export-oriented sectors, while China will increasingly attract market-oriented FDI in view of its huge market with rapidly rising purchasing power. It is also expected that exports from Hong Kong, China, Singapore and the Republic of Korea to China will surge. In contrast, countries like Viet Nam and other non-WTO member countries in the region may see a major shift away of investor interest towards China. But even the other South-East Asian countries should not rest on their laurels and adopt policies and strategies which will make the subregion attractive for investors and attract them to higher value-added and high-technology sectors in which China is not yet able to compete. And this may be precisely the problem. Most countries have not done so as yet.

It has also been observed that China's accession to the WTO actually helps boost the region's economic prospects and stability. Also, as a powerful developing country WTO member, it will take up many issues of concern to developing countries in the DDA. For instance, China is adamant that trade should not be coupled with labour and social issues. In true fact, the region would stand to lose more than to gain from economic collapse and instability in China. With Japan in chronic recession, China is poised to assume a leading economic role in the region. As such, China's growing prosperity will offer more opportunities than threats to other economies in the region, much in the way as Japan did several decades ago. Already, China imports twice as much from East Asia as it exports. In addition, its cultural links with South-East Asia have facilitated business and investment relations between China and South-East Asia, which are now expected to grow significantly.

B. ASEAN and ASEAN+3

AFTA was launched in 1992 to eliminate tariff barriers among Southeast Asian countries with a view to integrating the ASEAN economies into a single production base and regional market of half a billion people. Over 96 per cent of all ASEAN trade currently falls within the AFTA grouping. Following a 10-year tariff reduction schedule, AFTA was becoming a reality on 1 January 2002, when the original six members (Malaysia, Singapore,

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[9] Bangkok Post, 11 December 2001.

Indonesia, the Philippines, Thailand and Brunei Darussalam) were expected to comply, with some exceptions, with the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme, which requires that tariff rates on a wide range of products traded within the region be reduced to between 0 and 5 per cent. At present, only 1,683 items (3.8 per cent) out of 44,060 in the CEPT Inclusion List of the original six are not in compliance with this target. The original deadline for total regional free trade was 2008, but this target has been continually moved forward in light of rapid developments in the global economy. Viet Nam is expected to reach its tariff elimination target in 2006, Lao People's Democratic Republic and Myanmar in 2008 and Cambodia in 2010. They all joined ASEAN between 1995 and 1999.

The average tariff on intra-ASEAN trade is currently down to 3.2 per cent. The lowering of tariffs to minimal levels in ASEAN has been accompanied by a substantial expansion of intraregional trade – from US$44.2 billion in 1993 to US$ 97.8 billion in 2000, with the share of intra-ASEAN trade in total trade expanding from 21 per cent in 1993 to about 24 per cent in 2000.

A major development at the 7th ASEAN summit in Brunei Darussalam in 2001 included the proposal to create a ASEAN-China free trade area in 10 years time. If achieved, this would be the largest FTA in the world, with a market size of 1.8 billion people and a combined GDP of US$2 trillion and estimated annual gains of US$ 8 billion for both parties. An ASEAN-China joint experts group report indicates that an ASEAN-China FTA will increase ASEAN's exports to China by 48 per cent and China's exports to ASEAN by 55 per cent. The report also estimated an increase of ASEAN and China's GDP by 0.9 per cent and 0.3 per cent, respectively.

Other options to expand AFTA include linking up with the Australia New Zealand Closer Economic Relations Trade Agreement (CER), which is one of the most successful RTA in the Asian and Pacific region and may evolve into a common market.

Meanwhile, under the ASEAN Industrial Cooperation (AICO) scheme, products of cooperative production processes between companies operating in two or more ASEAN countries have received full AFTA treatment.[10] In addition, ASEAN is currently laying the conceptual framework and negotiating parameters for the start of the next round of negotiations on trade in services. In previous rounds, mutual commitments were made in the seven areas of air, transport, business services, construction, financial services, maritime transport, telecommunications and tourism. In the next round, all sectors and all modes of supply will be open to negotiation. Barriers to investments are also being brought down. Under the ASEAN Investment Area (AIA), for instance, ASEAN countries are committed to open their manufacturing sectors to ASEAN investors and extend national treatment to such investments. Exclusions are to be phased out by 2003. It is clear that ASEAN's leaders have made regional economic integration a primary component of the region's response to the economic troubles that have hit it. They realize that ASEAN needs investments for the recovery of its economies, and that a large integrated market can attract investments much more effectively than small, fragmented ones. The economies of scale made possible by larger markets make for more efficient production and marketing. Regional integration fosters

[10] The AICO Scheme became operational on 1 November 1996. It is cooperative arrangement to promote and facilitate joint manufacturing industrial activities among ASEAN-based companies to reap economies of scale by providing volume, lower cost of production and efficient utilization of production facilities. Under AICO, the products of a minimum of two participating companies from two different ASEAN countries enjoy a preferential tariff rate of 0 to 5 per cent. Other incentives include local content accreditation where appreciable and other non-tariff incentives are to be provided by the participating countries. With the implementation of AICO, ASEAN has ceased to process new applications for the Brand-to-Brand Complementation (BBC) and the ASEAN Joint Venture (AIJV) schemes.

competition within the region before regional industries and firms face the inevitable competition brought about by globalization.

In another development, Singapore signed a free-trade agreement with Japan in January 2002 that is being touted as a model for bilateral cooperation. The member countries of ASEAN has also been strengthening trade and other economic relationships with Australia, New Zealand and the Republic of Korea. In particular Singapore, impatient with the pace of subregional integration and heavily dependent on international trade signed bilateral trade agreements with New Zealand in 2001 and is negotiating similar agreements with Australia, Canada, Mexico, the European Free Trade Area (EFTA) and the United States. The United States and the European Union remain leading trade partners and investment sources for all ASEAN countries.

C. Developments in South Asia

The South Asian Association for Regional Cooperation (SAARC) has as its goal fostering economic cooperation in South Asia in a number of areas, including trade and investment. However, while SAARC has been successful in creating much-needed channels of goodwill in the region, it has not progressed much on the economic front in terms of regional trade and investment liberalization, though some preferential treatment on a limited number of products exists. The potential for economic cooperation under the South Asia Preferential Trading Arrangement (SAPTA) could be significant. While at an early stage, its goal is to increase intra-subregional trade through margins of preference that will increase gradually over time. Products that will likely make up SAPTA will not generally lead to much trade diversion that might be costly for the integrating economies.

Progress with tariff concessions has been modest. As a result, the deadlines for the establishment of an FTA were postponed from 2001-2005 to 2008 for India, Pakistan and Sri Lanka and 2010 for the other less developed members. The ultimate goal is the establishment of a Customs Union with common external tariffs by 2015 and an Economic Union which would include coordination in monetary and fiscal policy by 2020. However, given current political realities, bold strategies will have to be adopted to achieve these ambitious goals.

At the 11th SAARC Summit in January 2002 in Kathmandu, Governments agreed to accelerate cooperation in the core areas of trade, finance and investment to realize the goal of an integrated South Asian economy in a step-by-step manner. They expressed their determination to make full use of regional synergy to maximize the benefits of globalization and liberalization and to minimize their negative impacts on the region. While recognizing that trade and economic expansion is closely inter-linked, they made a commitment to widen and deepen the scope of regional networks of activities in trade and financial matters. They recognized the importance of achieving a free trade area and reaffirmed that the treaty regime for creating a free trade area must incorporate, *inter alia*, binding timeframes for freeing trade, measures to facilitate trade and provisions to ensure an equitable distribution of benefits of trade to all states, especially for small and least developed countries, including mechanisms for compensation of revenue loss.

Recently, Nepal and Sri Lanka have concluded bilateral trade agreements with India. However, these agreements only cover a small portion of the actual trade between those countries. Sustained integration within the context of SAARC suffers from internal civil strife in some countries and India-Pakistan political tensions as well as concerns of smaller countries about possible dominance of India.

D. Bangkok Agreement

The Bangkok Agreement (BA) is the oldest preferential trading arrangements (PTAs) in Asia and the Pacific. From its inception, the Agreement has had great potential to substantially boost trade between members and to eventually become a pan-Asian regionwide trading arrangement.

The BA was established in 1975. Its objectives, as stated in the text of the Agreement, are “to promote economic development through a continuous process of trade expansion among the developing member countries of ESCAP and to further international economic cooperation through the adoption of mutually beneficial trade liberalization measures consistent with their respective present and future development and trade needs, and taking into account the trading interests of third countries, particularly those of other developing countries”.

The Agreement has been notified to the WTO under the Enabling Clause, which is the legal basis in the multilateral trading system for PTAs among developing countries. Currently, there are six participating countries in the BA: Bangladesh, China, India, Lao People’s Democratic Republic, Republic of Korea, and Sri Lanka. The first country to join the BA as a new member since the Agreement’s inception was China, which acceded in 2000 and ratified the Agreement in 2001. A number of other countries have shown interest in joining the Agreement. As it stands, membership to the Bangkok Agreement is open to all developing member countries of ESCAP.

The Bangkok Agreement has admittedly not boosted trade among its members significantly during its 25-year history. It remains nonetheless true that the Agreement has great potential to further the development of Asian and Pacific countries through trade. The BA is the only truly ‘regional’ trading arrangement in Asia and the Pacific, as it is the only PTA in the region with representation from different subregions. The BA is therefore the only PTA in Asia-Pacific that already has the geographical coverage necessary to eventually become a pan-Asian regionwide trading arrangement. What is needed is action to increase membership to the Agreement, which in turn entails making the Agreement attractive to potential members.

Part of the reason for the small amount of intra-member trade that has been generated under the BA is the relatively limited number of concessions that have historically been offered. At the end of 2001, the total number of items benefiting from implemented concessions under the BA stood at 826 for general concession and 94 for special concession to LDCs.

China’s recent accession to the BA has provided a much-needed boost to the Agreement. China is a major player in world trade, and its recent WTO membership will allow it to carry significant weight in international trade issues. China began implementation of its BA concessions on 1 January 2002, where general concessions are offered on 739 items, with an additional 18 items on offer for special concession to LDCs.

The total number of conceded items under the Agreement is currently 1,571 for general concession and 112 for special concession to LDCs. In view of the important increase in concessions available under the BA subsequent to China’s accession, as well as the general confidence that China’s accession will bring to the Agreement, it can be expected that trade between BA member countries will increase significantly. Further, China’s accession will in itself make the Agreement more attractive to prospective members, as members currently have preferential access to the huge Chinese market as well as the markets of other major countries in the region such as India and Republic of Korea.

China's accession to the BA is an important step forward for the Agreement, but it is still just the beginning relative to what the BA can achieve with appropriate efforts. Many aspects of the Agreement need to be revitalized and modernized, a process that has already begun under the direction of ESCAP. A third round of tariff negotiations was agreed on in 2001 and is expected to start in 2002.

E. Other regional cooperation frameworks

1. APEC

While ASEAN and AFTA are as yet confined to the member states of ASEAN, trade and investment liberalization in a wider context is provided by the Asia Pacific Economic Cooperation (APEC) grouping. APEC was established in 1989 in response to the growing interdependence among Asian and Pacific economies. Begun as an informal dialogue group, APEC has since become an interregional vehicle for promoting open trade and practical economic cooperation.

APEC, since 1989, has built steadily on the efforts of the past though progress has lost some momentum. The initial years of APEC were focused largely on exchanges of views and project-based initiatives. The concerns were simply to advance the process of Asian and Pacific economic cooperation and to promote a positive conclusion to the Uruguay Round of GATT negotiations. Today, APEC has evolved with the needs of its members to be a forum of greater substance and higher purpose – it aims to build the Asia-Pacific community through achieving economic growth and equitable development through trade and economic cooperation.

In 1994 in Bogor, Indonesia the vision of an open trading system became the very ambitious goal of free and open trade and investment in Asia and the Pacific by 2010 for developed member economies and 2020 for developing ones. To accomplish this, the economies would implement trade and investment liberalisation and facilitation measures (TILF – Trade and Investment Liberalisation and Facilitation), and projects for economic and technical cooperation (ECOTECH).

Within the context of APEC attempts were made to accelerate trade liberalization on a sectoral basis through the Early Sectoral Voluntary Liberalization (EVSL) which signalled a shift away from the voluntary, consensus-based approach towards a negotiated approach, much closer in style to the reciprocal negotiations conducted in the WTO. However, the ESVL has not been very successful and the ESVL package has been referred to the WTO under the name of Accelerated Tariff Liberalization Initiative (ATLA), which involves efforts to seek support from other WTO members.[11]

Despite criticisms from the business sector of the slow progress made by APEC, APEC leaders reconfirmed their commitment to free trade and investment at the recent APEC summit in Shanghai in 2001. The summit in 2002 will be held in Mexico.

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[11] ESCAP, "Development through Globalization and Partnership in the Twenty-first Century: An Asia-Pacific Perspective for Integrating Developing Countries and Economies in Transition into the International Trading System on a Fair and Equitable Basis", United Nations, New York, 2000; theme study for the 56th Commission session.

2. BIMST-EC

Some additional accords have been reached in the region which include various configurations of countries in the region and bordering it. For example, the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC) was created in June 1997 at a ministerial meeting in Bangkok with the goal of fostering socio-economic progress through the facilitation of cooperation in eight priority sectors, including: trade, investment and industry; technology, infrastructure and transportation, tourism and energy, agriculture, and human resources development. ESCAP has played a key role in providing substantive assistance to the BIMST-EC secretariat and its working group in Bangkok. BIMST-EC is a first step towards comprehensive inter-subregional cooperation in trade and investment, expanding the scope of both ASEAN and SAARC. In addition, there is the so-called Mekong-Ganga initiative for economic cooperation between South Asia and the countries in the Greater Mekong Subregion. This initiative, however, does not include trade and investment as focus areas and is mainly an affair between India and the GMS as trade and investment linkages between India and South-East Asia have indeed strengthened considerably in recent years.

3. Greater Mekong Subregion

The Greater Mekong Subregion (GMS) comprises Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province of China. In 1992, with the assistance of ADB, the six countries entered into a programme of subregional economic cooperation, designed to enhance economic relations among the countries. The programme has contributed to the development of infrastructure to enable the development and sharing of the resource base, and promote the freer flow of goods and people in the subregion. It has also led to the international recognition of the subregion as a growth area.

The GMS Programme has resulted in various inter-agency initiatives and cooperation modalities between ADB and ESCAP, including the operation of the Trade Facilitation Working Group and ESCAP participation in the Subregional Investment Working Group. At the 10th GMS Ministerial Conference in Yangon on 29 November 2001, Cambodia became the latest signatory to the Agreement for Facilitating the Cross-Border Movement of Goods and People (Cross Border Agreement) that was originally signed by Lao People’s Democratic Republic, Thailand and Viet Nam on 26 November 1999 in Vientiane. ADB and ESCAP also formally launched the GMS Business Forum in 2000 as a major vehicle for private sector cooperation in GMS countries.

Another major element of the GMS is the economic corridor concept. The concept of the economic corridor, with its focus on combining economic activities with geographic space, is a key means of facilitating regional cooperation in the GMS. The concept was first discussed at the Eighth GMS Ministerial Meeting held in Manila in late 1998, during which the assembled ministers chose the East-West Economic Corridor as the initial one to implement. The Preinvestment Study for the GMS East-West Economic Corridor, which was initiated in early 2000 and completed in early 2001, provides the framework for cooperation on an East-West Economic Corridor land route that stretches for nearly a thousand miles across Myanmar, Thailand, Lao People’s Democratic Republic and Viet Nam, between Mawlamyine on the Andaman Sea in Myanmar to Da Nang on the South China Sea in Viet Nam.

Other developments in the subregion include the initiative among Cambodia, Lao People's Democratic Republic and Viet Nam to establish a Development Triangle which would include trade and investment harmonization and cooperation. Finally, the ratification of the bilateral trade agreement between Viet Nam and the United States by the two countries’ legislatures in 2001 will prepare Viet Nam for WTO membership and boost investor confidence in the country.

4. Central Asian and Caucasian economies

In Central Asia, there are various regional trading blocs which are largely ineffective. The Commonwealth of Independent States (CIS) Customs Union (comprising Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and the Russian Federation) was renamed the Eurasian Economic Community (EEC) in June 2001, with the aim to forge a more formal economic bloc. There used to be a Central Asian Economic Community (CAEC), consisting of Kazakhstan, Kyrgyzstan, Tajkikistan and Uzbekistan, but this Community was not functioning very well. The countries in the subregion are facing severe problems associated with the transition to a market economy which makes sustained subregional cooperation difficult. Recently, the CAEC members decided to upgrade the Community to a so-called "Central Asian Cooperation" organization.

In addition, the Economic Cooperation Organization (ECO), consisting of Afghanistan, Azerbaijan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan has a protocol providing for tariff preferences to be established among its members. So far, these have covered a very limited range of products and subregional cooperation under ECO is still in the early stages. The Caucasian economies of Armenia, Azerbaijan and Georgia are members of the Black Sea Economic Cooperation (BSEC) Pact, a regional cooperation organization established in 1999. Economic and trade cooperation are part of its terms of reference.

The United Nations Economic Commission for Europe (ECE) and ESCAP are jointly operating the Special Programme for the Economies of Central Asia (SPECA). SPECA was developed at the initiative of the Secretary-General of the United Nations. It was officially launched at the meeting of the Presidents of Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and the Executive Secretaries of ESCAP and ECE on 26 March 1998 in Tashkent, Uzbekistan. Various project working groups (PWGs) operate under SPECA, including the PWG on International Economic Conference on Tajikistan in the Regional Context of Central Asia – Tajikistan, PWG on Rational and Efficient Use of Energy and Water Resources – Kyrgyzstan, and PWG on Transport Infrastructure and Border Crossing Facilitation – Kazakhstan. The PWG on tourism – Uzbekistan, has yet to have its first meeting.

All countries in Central Asia and the Caucasus are in the process of accession to WTO, except Turkmenistan, while Georgia and Kyrgyzstan are already members.

5. South Pacific

Regional cooperation in the South Pacific takes place mainly through the former South Pacific Forum (SPF), which was recently renamed as Pacific Islands Forum. This platform provides an ideal mechanism to further subregional trade and investment liberalization and provide linkages with similar mechanisms in other subregions. At the recent annual political summit in Nauru in August 2001, the Pacific islands free-trade zone, which was due to emerge in January 2001, was formally endorsed. Signed by 11 of the forum's 16 members, the Pacific Island Countries Trade Agreement (PICTA) allows for the evolution of a free trade area over 10 to12 years. Some countries, principally Fiji, will benefit from an FTA far more than others, because they have a comparatively broad spread of exporting industries. Since PICTA creates a single market of more than 6 million people, its members hope to attract investment from manufactures not interested in markets of only a few thousand people. Large island countries will cut tariffs on imports to zero by 2010, smaller ones have until 2012, except in the case of products that qualify for protection as start-up industries until 2016.[12]

Other regional arrangements in the South Pacific include the earlier mentioned CER, the Melanesian Spearhead Group (MSG) trade agreement and non-reciprocal preferences various Pacific island economies enjoy with Australia and New Zealand under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).

In other developments in the subregion, an agreement was signed by African, Caribbean and Pacific (ACP) economies with the European Commission, known as the ACP-EC Partnership Agreement in June 2000 in Cotonou, Benin. The Agreement replaced the expired Lomé Convention and did away with the unilateral trade preferences the EC had granted the ACP countries. Instead, among others, regional economic partnership agreements will be developed, to be signed by 2008. The signatories in the South Pacific are Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands,Tonga, Tuvalu and Vanuatu.

IV. MANAGING GLOBALIZATION: CHALLENGES AND OPPORTUNITIES FOR ASIA AND THE PACIFIC

A. General

While the global recession and security concerns have somewhat slowed the process of globalization, it is not expected that a reversal will take place. This has been demonstrated by the launch of a new round of multilateral trade negotiations. It is therefore pertinent that countries at all development levels take drastic action to reform their economies to conform to the realities of globalization and not repeat the mistakes that led to the fateful crisis of 1997-1998.

After several decades of unprecedented economic and industrial growth in selected East and South-East Asian economies, a phenomenon often called the "East Asia economic miracle", the miracle was halted in mid-1997 with the collapse of the Thai currency, the baht. The consequent contagion effects throughout the region, and in fact even in other parts of the world, has prompted academics and policy makers to review the elements and factors traditionally believed to have contributed to this "miracle". First of all, it should be pointed out that rather than one typical model, various approaches to economic development have been adopted in selected East Asian economies that all have their merits but have failed to adjust in line with progressive economic development to the demands imposed by ongoing and irrefutable globalization and global deregulation and liberalization of trade, investment and capital flows. Secondly, the crisis has revealed basic structural weaknesses in all economies which need urgent addressing and in the absence of appropriate policies aimed not only at short term crisis management but rather at realizing long-term structural change in the economic and social fundamentals on a sustainable basis, there is reason to fear a recurrence of a more severe crisis.

While Asian economies have rebounded from the crisis, much of the recent economic growth is the result of depreciated currencies and massive spending packages governments have implemented to boost their economies but the effects of these stimulus measures are short-term and have little impact on long-term competitiveness while building an unsustainable public sector debt which, in turn, threatens to crowd out private investment, badly needed to revamp the economy. Moreover, export recovery in Asia has been sustained by an unusually strong United States economy which has currently turned into a slowdown. Much of the

[12] Far Eastern Economic Review, Asia Yearbook 2002.

restructuring undertaken in Asia has been a facelift with outstanding painful restructuring measures postponed and even cancelled in the wake of the economic rebound. As a result, much of the financial sector in Indonesia and Thailand is still facing significant difficulties. The ratio of non-performing loans is still high in some countries, at over 40 per cent in Thailand where there is little incentive for businesses to pay back the loans even if they are able to do so and where banks as a result are reluctant to extend new credit even to creditworthy enterprises. Most recently at the UNCTAD X Conference in Bangkok in February 2000 a pessimistic note was struck with regard to rebounding corruption in Asia while the state of global financial markets was rather fragile despite strong showings.

Globalization allows countries to reap the benefits through the adoption and implementation of sound policies based on solid government and corporate governance. Open economies which operate on the basis of market economic principles and the rule of law (and enforcement of such laws) are still the best means of achieving prosperity. Emphasis on skills development across the board and effective application and utilization of information and communication technologies will continue to figure prominently in countries' policies to full reap the benefits from the New Economy. In fact, most of Asia's "economic miracle" was achieved on the basis of such strategies. The crisis did not prove this strategy wrong, but added new perspectives to the collaboration networks among concerned actors at national level which had evolved from consensus building to collusion in some cases, which in turn facilitated corruption.

Active participation in the WTO and DDA with full awareness of the issues and implications of commitments made will no doubt benefit countries across the region. For those not yet member of WTO, WTO membership should be a clear priority. All countries would have to continue their trade and investment liberalization but at the same time adopt sound laws and regulations to ensure sustainability. The same applies to liberalization of the financial and telecommunications sector. While export growth and competitiveness will remain an essential ingredient for economic growth, more attention should be paid to the importance of domestic demand. Attraction of FDI as a vehicle for capital, technology and skills transfer is also a top priority in most countries. However, such attraction should not proceed on the basis of generous incentive schemes but rather on the basis of the provision of an enabling competitive environment. Furthermore, attention should be paid to the post-approval stage of investment in order to boost investment realization rates, while linkages should be forged between the domestic private sector, in particular small and medium enterprises and Transnational Corporations (TNCs). However, as the reliance on FDI will be more difficult in the era of globalization, the development of indigenous capabilities in product development and marketing, including R & D and brand name development will assume increased importance.

In this context, the importance of subregional and regional cooperation cannot be overstated. The argument that countries cannot cooperate due to competing rather than complementary economic and industrial structures is not valid, witness the success of integration of European countries with more or less similar economic systems. Most trade today is in the form of intra-industry and intra-firm trade where trade proceeds on the basis of brand names rather than product type. At the same time, while recognizing the potential benefit of regional trading arrangements, care should be taken not to engage in too many RTAs as this may lead to conflicting commitments and incapacity at the national level to manage those commitments. As such, RTAs could easily turn into stumbleblocks rather than building blocs to the multilateral trading framework.

However, regional cooperation goes beyond RTAs and but encompasses various modalities. For instance in the area of finance following the experiences of the recent crisis, the 2001 Chiang Mai Initiative taken by ASEAN+3 provides for currency swap arrangements among selected Asian countries in the event of an emerging crisis. Ideas for the establishment of an Asian Monetary Fund have also been floated. Discussion of the case for a common basket peg for Asian countries could resolve the dilemma between the choice of pegged or floating exchange rates by agreeing to a collective peg and supporting one another in its maintenance.[13]

Whatever the modalities, there are strong arguments in favour of regional cooperation and South-South cooperation in particular. In an era of globalization, no country can afford to go it alone. In particular with the new round of multilateral trade negotiations looming, developing countries need to consolidate their positions and avoid internal division.

It goes outside the scope of this paper to provide a full framework of recommendations for policies which would further the economic development of Asian and Pacific developing countries with focus on trade and investment. In fact, most of these recommendations would apply to all countries in the world and are not new. [14]

B. ESCAP's programme on managing globalization (trade and investment)

ESCAP has a rich experience assisting countries in the region in the area of trade policy and trade policy issues. Over the past decade it has assisted countries and promoted regional cooperation in areas like: promoting export competitiveness and raising export revenues, facilitating and promoting trade and investment liberalization, accession to WTO, accession to and studying implications of regional and inter-regional trading arrangements, investment promotion and implementation. The theme topic of the 56th session of the Commission in 2000 was: Development through Globalization and Partnership in the Twenty-First Century: an Asia Pacific Perspective for Integrating Developing Countries and Economies in Transition into the International Trading System on a Fair and Equitable Basis.

ESCAP, as the largest regionwide organization in Asia and the Pacific, is undergoing a revitalization effort which so far has resulted in the adoption of three main focus areas: (i) poverty reduction; (ii) managing globalization; and (iii) emerging social issues. Under the focus area of "managing globalization", technical assistance in the area of trade and investment policy and facilitation figures prominently. In fact, ESCAP has provided technical assistance in the area of trade and investment for a long time. Under a memorandum of understanding with the WTO, various trade policy courses on WTO and the multilateral trading system for developing countries have been conducted, the most recent in March and April 2002, the latter also in cooperation with the ASEAN secretariat. Additional courses are scheduled for 2002. In addition, various seminars with WTO and UNCTAD have been conducted on accession to WTO and WTO dispute settlement issues for selected Asian and Pacific developing countries. Prior to the Fourth WTO Ministerial Meeting in Doha, ESCAP organized a "WTO Week" to prepare countries for the issues which would be discussed at the Meeting and forge an Asian and Pacific perspective.

ESCAP has been particularly active in the GMS where it has implemented activities in trade facilitation and investment promotion and realization in close collaboration with the ADB and other concerned agencies. As mentioned earlier, the launch of the GMS Business Forum was another achievement. Various Business Management Courses were also organized in GMS

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[13] See ADB, Asian Development Outlook, 2001.
[14] Op. cit.; Part III: Asia's Globalization Challenge.

countries. The 13th Meeting of the ESCAP Steering Group of the Committee on Regional Economic Cooperation was held in Hanoi in November 2001 and focused on trade and investment issues. A similar concept is expected to be used at the 14th Steering Group Meeting in 2002 which will focus on trade and investment in South Asia.

Over the years, ESCAP has actively supported and encouraged Asia's oldest and only region-wide RTA, the Bangkok Agreement. In 2001, China became its latest member. At the 17th session of the Standing Committee of the Bangkok Agreement in October 2001, member states agreed to launch a third round of tariff concessions.

ESCAP has currently started the implementation of a project on "Capacity Building for Managing Globalization in ESCAP Member Countries" in collaboration with UNCTAD and other concerned agencies with focus on trade and investment in economies in transition, in particular those in Central Asia and the Caucasus region.

Apart from country studies, ESCAP publishes various *studies on trade and investment*. So far, 48 studies in this popular series have been published.

The future work of ESCAP in trade and investment is expected to consist of technical assistance in the following areas: (i) accession to the WTO: procedures, strategies and policies, implications and impact assessments; (ii) implementation of the Uruguay Round Agreements: GATT, TRIPs and TRIMs, trade in services (including GATS), Textiles and Garments, etc.; (iii) the Doha Development Round and other future rounds: emerging issues in trade negotiations and understanding linkages: investment, competitiveness, government procurement, labour and environment; (iv) regional trading arrangements: costs and benefits, implications and impact assessments; support subregional economic cooperation mechanisms like BIMST-EC and SPECA (Special Programme for Economies in Central Asia, jointly administered with the Economic Commission for Europe); (v) strengthening and backstopping the Bangkok Agreement; (vi) improving investment implementation and realization rates and design effective investment promotion strategies at national, subnational and subregional levels; (vii) building export competitiveness: policies and strategies; (viii) research and publication of research and issue papers on the above-mentioned issues

In providing assistance in these areas, ESCAP will focus on the following cross-cutting issues, including private sector participation and involvement, institutional capacity building, human resources development and studying best practices

V. CONCLUSIONS

The last two years have seen sweeping changes in the global and regional economy which are posing formidable challenges to both developing and developed countries in the Asian and Pacific region. The challenges basically consist of adapting national policies to increasing patterns of globalization and accelerate efforts towards subregional and regional cooperation. At the global level, cooperation within the framework of the WTO remains the primary modality for ensuring sustained trade liberalization on a multilateral basis. New and emerging issues will force developing countries to make policy choices which are not necessarily popular but are expected to render long-term benefits. As such, while the challenges are enormous, so are the opportunities to boost economic and social development conditioned by principles of good governance and an open, free and most of all fair, multilateral trading system.

The DDA will allow developing countries to make their voice heard more prominently than ever. They will be able to demand clarity on the interpretation and implementation of S &

D provisions, use of anti-dumping measures and other issues of concern to them. In particular, they need to stand together to force the developed world to follow through on their commitments to accelerate liberalization of imports of goods and services which are main export items of developing countries, in particular agricultural products. In this respect, developing countries should strive not only at the further reduction of production and export subsidies for agricultural products, but also on the elimination of tariff escalation and tariff peaks which prevent developing countries to diversify and add value to their export sector.

The negotiations under the DDA will be long and difficult at a time that many developing countries are still struggling with implementing their Uruguay Round commitments. In this respect, continued technical and financial assistance is called for. Indeed, additional financial aid was pledged at the recent United Nations Conference on Financing for Development in Monterrey. In its capacity as a non-funding regional technical assistance agency, ESCAP also stands ready to assist all countries in the Asian and Pacific region in close collaboration with its regional and global partners.

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