

ACHIEVING THE MDGs IN ASIA AND THE PACIFIC: WHERE DO WE STAND ON TRADE TARGETS?

In the United Nations Millennium Declaration, heads of State and Government resolved to “free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty” by 2015.¹ Eight Millennium Development Goals set the objectives of combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. In recognition of the fact that those objectives cannot be pursued unless a partnership is forged among all in the interdependent world economy, Goal 8 focuses on building a global cooperative environment for development on the basis of three pillars of cooperation: development assistance, debt sustainability and international trade. The role of trade has long been recognized in building international cooperation and the launch of the Doha Development Round raised expectations of rebalancing existing trade disciplines to better address the concerns of developing countries. Extending trade rules, and revising them as necessary, was to be based on the mutual accountability of all parties in the spirit of building a global partnership.

To monitor the implementation of the Millennium Declaration, a set of targets and indicators were defined and reports on their monitoring have been published on a regular basis (seven targets were set under Goal 8). Only four of those targets (12-15) are closely associated with international trade and financing, and again only two of them relate directly to cooperation in international trade. Yet the reports on monitoring very rarely contain any information on these targets. This policy brief fills that gap by reviewing the progress made in reaching these trade targets and stipulating future conditions for trade in products that are of importance to developing and least developed countries. It does so by tracking three market access indicators (38, 39 and 41) that are pertinent to the Asia-Pacific region.² On the basis of an assessment of the performance of these indicators, it is argued that progress in achieving the trade-related targets under Millennium Development Goal 8 cannot be made without placing more weight on the Millennium Development Goals in the current round of multilateral negotiations.

TRACKING THE PERFORMANCE OF TRADE TARGETS IN THE ASIA-PACIFIC REGION

The Asia-Pacific region is comprised of many trading nations, but some economies, in particular small developing countries and countries with economies in transition, have not yet mainstreamed trade into their development strategies. This requires changes in both the demand and supply of products of interest to developing countries. On the demand side, it is crucial to improve market access for developing country exports through the removal of tariffs and non-tariff barriers. On the supply side, developing countries need assistance to improve and/or build supply capacity in new products and services in order to integrate more efficiently into the global market. Progress on the demand side is to some degree reflected in Indicators 38 and 39 which measure the extent to which tariffs limit developing country exports to the markets of advanced economies, while Indicator 41 highlights the availability of aid earmarked to help developing countries adjust to a more open trading environment.

EXPORTS FROM ASIA AND THE PACIFIC STILL CONSTRAINED BY BARRIERS TO TRADE

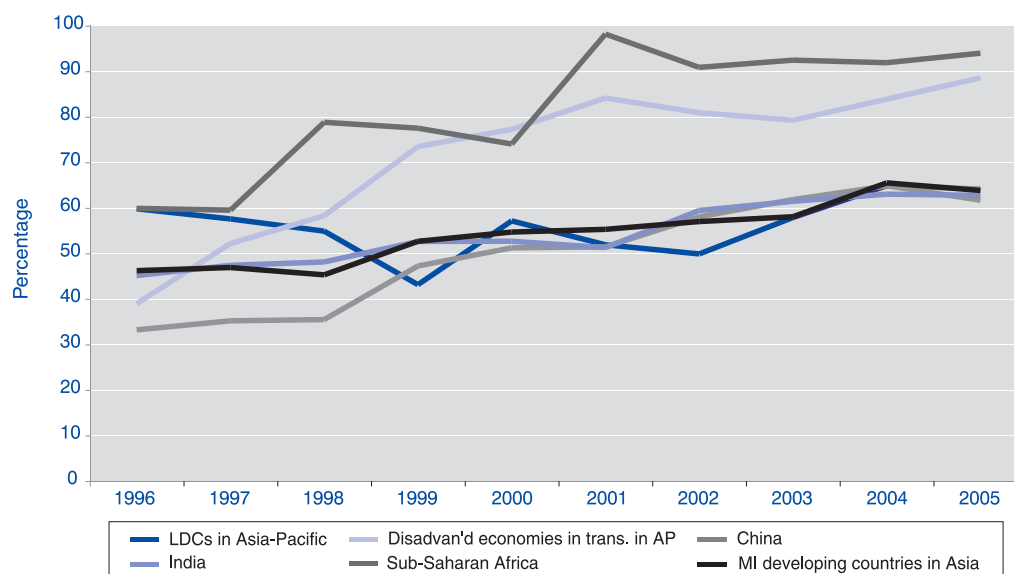
Indicator 38 measures the proportion of total imports to developed countries (by value, excluding arms) from developing countries and from Least Developed Countries (LDCs) which are admitted free of duty.

Figure 1 illustrates trends for Indicator 38 for selected groups of countries from 1996 to 2005. These trends vary among groupings in the Asia-Pacific region. They also vary between countries and groups of countries in the Asia-Pacific region and other regions. For example, focusing on the LDCs in the Asia-Pacific region, it is striking to observe that while they started at the same level (about 60 per cent) of duty-free access as the sub-Saharan LDCs did in 1996, they experienced a decline in duty-free market share in the late 1990s and early 2000s. The market share of the LDCs in

¹ General Assembly resolution 55/2 of 8 September 2000.

² Indicator 40 is an agricultural support estimate for the Organization for Economic Co-operation and Development countries as a percentage of their gross domestic product.

Figure 1. Proportion of imports from developing countries entering developed markets duty-free



Source: ESCAP calculations using data at <www.mdg-trade.org>.

Notes: MI stands for the middle income developing countries in Asia (Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka, Thailand); Further information on how these groups are defined can be found on the following website: <www.mdg-trade.org>.

"Disadvantaged economies in trans. in AP" refers to disadvantaged economies in transition in the Asia-Pacific region.

Asia and Pacific dropped to just 50 per cent by 2002. Although their access has since improved, it is still 30 percentage points below the largest share captured by sub-Saharan LDCs. Middle-income developing countries in Asia and disadvantaged countries with economies in transition in the region all recorded a faster increase in their share of duty-free imports to developed countries than did the LDCs in the Asia-Pacific region.

Two large developing Asian countries – China and India – have been most successful in securing increasing duty-free access. While China started with a very low duty-free market share prior to its accession to the World Trade Organization, 64 per cent of its exports to developed countries were duty-free in 2005. The same trend can be seen in the case of India, albeit with more variations over time. Both countries are now set to surpass the duty-free access to developed country markets obtained by LDCs in the Asia-Pacific region.

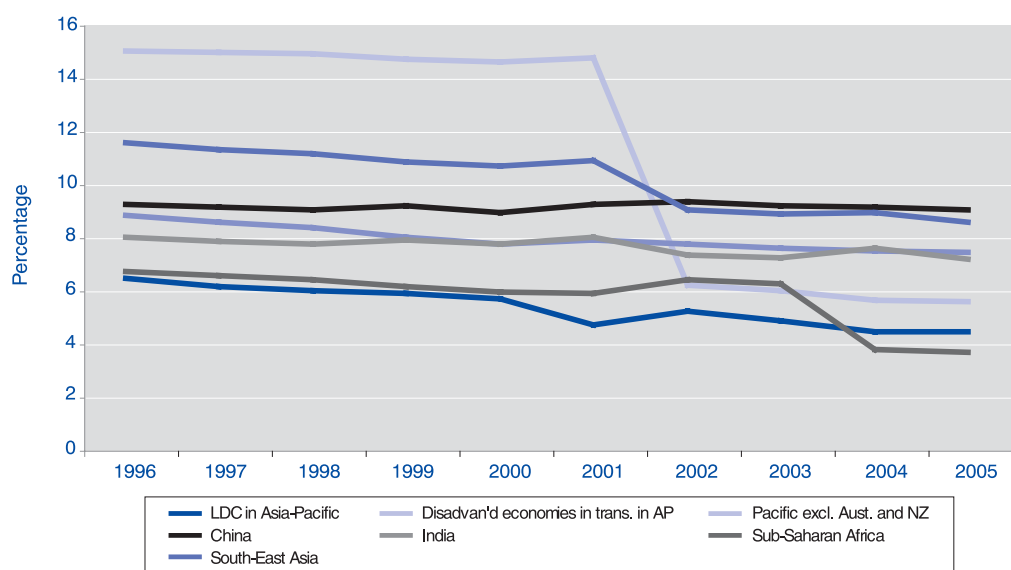
It should be emphasized that imports are considered to be duty-free when the statutory tariff rates on those goods are zero. This does not mean, however, that no duties actually have to be paid. For example, all preferential trading arrangements which in principle could offer duty-free access also include fairly stringent rules of origin. These rules deny preferential treatment for goods for which only a small part of the production process is linked to a beneficiary country. Moreover, obtaining these tariff preferences is often time-consuming and involves administrative costs. Hence, some traders may prefer to pay tariffs rather than apply for preferential treatment. Import tariffs are also now increasingly being replaced by non-tariff barriers and, in the case of China and India in particular, anti-dumping duties. For these reasons, the results of Indicator 38 should be seen as an upper limit to the share of actual duty-free imports.

Furthermore, changes over time in Indicator 38 do not reveal the underlying causes of these changes, which are of crucial importance in choosing the correct policy response to the change in market access. For example, some countries in the ESCAP region faced a significant decline in the proportion of duty-free exports in the period observed (for example, Mongolia's share dropped from 70 to 23 per cent from 1996 to 2004, and then jumped to almost 60 per cent in 2005), even though there was no increase in tariffs in the developed countries to which Mongolia was exporting during that period. It appears that there was a change in Mongolia's export structure, reflecting domestic trade and development strategy, and this change was the main driver of the country's variable duty-free access.

Indicator 39 measures the average tariffs imposed by developed countries on agricultural products, textiles and clothing from developing countries - three sectors of particular interest to developing countries. Average tariffs are computed by using a fixed weighting coefficient, which implies that changes in average tariffs over time are solely attributed to policy changes. This is in contrast to Indicator 38, for which changes over time reflect changes in policy, as well as changes in export composition. Figure 2 illustrates trends only in preferential average tariffs which are lower than the most favoured nation tariff levels.

Of all the groupings in the ESCAP region, China and South-East Asian developing economies consistently faced the highest average tariffs on products from these three sectors, presumably because of the high levels of competitiveness in textiles and clothing. These tariffs have remained relatively high and have not shown much tendency to fall. India faced somewhat lower average tariffs throughout the period but against the downward movement was not very remarkable.

Figure 2. Average preferential tariffs in developed markets on agricultural, textile and clothing (combined) exports from developing countries



Source: Adapted from data available at <www.mgd-trade.org>.

Notes: "Disadvant'd economies in trans. in AP" refers to disadvantaged economies in transition in the Asia-Pacific region. "Pacific, excl. Aust. and NZ" refers to Pacific countries, excluding Australia and New Zealand.

More progress has been made on reducing the tariffs of developed countries on agricultural, textile and clothing exports from less developed South-East Asian economies. These tariffs have fallen from about 7 per cent in 1996 to 4.4 per cent in 2005.

While tariff reductions on agricultural, textile and clothing exports from developing countries in the ESCAP region have been modest, part of the explanation for this may be that trade in textiles and clothing was covered by the Agreement on Textiles and Clothing (ATC) that expired on 1 January 2005. Under this agreement, and the Multifibre Arrangement before it, a system of quotas restricted global trade in textiles and clothing. The complications associated with the Agreement may therefore mean that Indicator 39, which does not account for quotas, provides an incomplete description of the nature of trade restrictions facing countries in the region.

TRADE-RELATED ASSISTANCE TO THE ASIA-PACIFIC REGION GROWING, BUT REMAINS LIMITED

Indicator 41 measures the proportion of official development assistance provided by developed countries to developing countries and LDCs to help them open their economies and build trade capacity. At the global level, Indicator 41 can be easily tracked and monitored by analysing trade-related assistance flows from donors to developing countries and LDCs. Total trade-related assistance levels increased significantly from \$30.94 million in 1992 to \$154.3 million in 2004, having peaked at \$433.06 million in 2002. This rapid growth is in line with the commitments formulated under Goal 8 and the Monterrey Consensus of the International Conference on Financing for Development.

At the regional and national level, however, the amount of trade-related assistance received in the Asia-Pacific region is generally small, in both absolute and relative terms. For example, in the four-year period since the Millennium Declaration, that is from 2001 to 2004, the 14 LDCs in the Asia-Pacific region received a total of just \$24 million, amounting to just over \$6 million annually; yet this amount represents a stark increase over the annual inflow of about \$2.4 million during the previous nine years (the average annual inflows for other regions are given in table 1).

REVIVING THE SPIRIT OF THE TRADE TARGETS OF THE MILLENNIUM DEVELOPMENT GOALS

Based on the given indicators, therefore, international efforts to secure and deliver an open and development-friendly trading environment have produced some positive results for Asia-Pacific developing countries; however, more progress would have been achieved by removing trade barriers for products which can easily and competitively be produced by these countries, and in terms of directing more trade-related aid to those countries.

A successful accomplishment of the trade-related targets as contained in Millennium Development Goal 8 involves coordinated and mutually supportive actions by both developed and developing economies. This process was first put to the test with the Doha round. Expectations that this round would succeed in delivering the means to close development gaps were dashed as momentum was lost in a series of missed deadlines, leading to the erosion of faith in the multilateral trading system. Most countries, including those in the Asia-Pacific region, turned to preferential trade agreements (PTAs), as reflected in the 23 PTAs that were signed by countries in the Asia-Pacific region between 2005 and

Table 1. Trade-related official development assistance by selected groupings in the Asia-Pacific region (annual average, in millions of United States Dollars)

	1992-2000	2001-2004
Least Developed Countries in the Asia-Pacific region	2.38	6.02
Disadvantaged economies in transition in the Asia-Pacific region	3.97	17.02
South Asia, excluding India	2.83	10.68
Pacific, excluding Australia and New Zealand	1.13	1.86
China	3.41	5.77
India	2.65	6.82
Sub-Saharan countries	14.26	150.06

Source: ESCAP calculations based on OECD data, available at <www1.oecd.org/scripts/cde/viewbase.asp?dbname=cde_dac>, accessed on 27 June 2006.

2006. However, there is little doubt that a successful conclusion to this round is a precondition for meeting the trade targets contained in the Goal 8. The reason for this is that the reciprocal bilateral and regional trade liberalization paths most often take out all the sectors in which developing countries reveal their true comparative advantage (for example agriculture, textiles and clothing, footwear and similar products). While non-reciprocal preferential schemes based on the Generalized System of Preferences cover these sectors, they are subject to extensions on a non-contractual basis, are often associated with unreasonable rules of origin, and do not align well with the principle of partnership-building.

In all of the discussions held to prepare modalities for liberalization, there was no direct link between the modalities proposed (for example, in agriculture or industrial products in Non-Agricultural Market Access) and the effect on meeting trade targets through indicators 38 and 39. Efforts to strengthen the "Aid for Trade" dimension of the Doha Development Agenda are to some degree already linked to the monitoring of Indicator 41, although better data would improve transparency and lead to a better understanding of the problems.

Actions that should be taken to improve the achievement of trade targets of Millennium Development Goal 8 require a medium- to long-term approach, as well as immediate actions. Without being exhaustive, a list below includes actions that are desirable, feasible and in the spirit of building global partnership.

Developing countries should:

- review existing national trade policies, with the aim of revising and integrating them into practical strategies designed to meet nationally defined Millennium Development Goals and targets. These strategies should be based on a realistic evaluation of available domestic and external resources and the institutional capacity required to meet these targets.
- undertake assessments to identify any obstacles that may hinder progress and should include financing strategies, in particular cost-benefit analysis of the alternative paths to trade liberalization (unilateral, bilateral and multilateral).

Developed and middle- to high-income developing countries should:

- position their commitments to the Millennium Development Goals at the core of the continuing negotiations under the Doha round. This involves replacing a strict quid pro quo approach with more forward-looking partnership-building, which would result in granting true and unconditional free or low-tariff access to markets.
- contribute by earmarking more aid for trade-related use and by providing additional assistance in sharing good practices in the effective use of resources to build sustainable trade capacity.

After all, one should not forget that trade always flows in two directions – exports and imports – and that neither can grow in the long term on its own.

This issue of the Socio-Economic Policy Brief has been prepared with substantive contribution from Ms. Mia Mikic and Ms. Ying Qiu,³ Trade and Investment Division, ESCAP.

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