

I. Role of trade in development and overview of Asia-Pacific LDCs' performance in trade and investment

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1. Introduction

Many argue that with continuous “gloom and doom” prospects of the global economy, the future for any country that relies on trade must be challenging. This challenge is particularly threatening for the LDCs as the commitments by the international community made towards promoting the integration of this group of countries into the global economy by giving them easy, smooth and predictable access to markets for their goods and services have not been yet met. Thus in addition to having to fight with enormous limitations in productive and institutional capacities of their own, LDCs still face traditional trade obstacles imposed by importers. This chapter recalls the important role of trade in growth and development. The reminder of the chapter then reviews performance of Asia-Pacific LDCs in trade, own border and behind-the-border barriers, and foreign trade investment mostly for a period starting in 2000. Since the focus of analysis is on Asia-Pacific LDCs, to simplify the presentation, unless otherwise specified, Asia-Pacific LDCs are referred to as the “LDCs”.

2. Trade and development

A vast literature exists providing both theoretical and empirical backing for a claim that no country has developed successfully by closing its door to international trade, and that very few countries have achieved high growth over long periods “without experiencing an increase in the share of foreign trade in their national product” (Rodrik, 2002, p.9). In other words, opening the country to international trade has been found to contribute strongly and positively to economic growth and development. Trade supports economic growth and development by providing access to much needed resources at affordable prices and in greater variety and quality combinations than otherwise available. Trade generates financial resources, brings technology and knowledge, energy and raw materials, and by extending the size of a domestic market, allows for specialization and reduction in the unit costs of production. For these effects of trade to transform into a higher employment, income and level of development, appropriate trade policies accompanied with institutional, regulatory and other reforms to open the domestic economy are necessary (see more in ESCAP, 2009).

On the other hand, literature also finds that just more trade or more open trade policies, will not necessarily and automatically bring about more development (Rodrik, 2001). Thus to assure that a more intensive trade will be transmitted into more jobs and higher income, a balanced mix of policies aiming at using all sources of growth, international and domestic, are the key. While there is no single recipe for this balanced mix as it would depend of characteristics of each individual country, it is possible to say what should not be part of it. For example, Hoekman (2011) explains

that when in the process of industrialization there is a need to support infant industries (mostly for possible spillovers from their knowledge creation), there is no longer a justification to do that by using trade policy, as has been practiced in a number of countries over different periods of time. In fact, using policies against imports to protect emerging industrial production at home weakens the positive impacts trade might have by bringing in capital goods-cum-technology, or inputs at better price and quality conditions, to local producers. In general, support to new (infant) industries is much more effective if done with a focus on removing obstacles to competitiveness of such activities (remove barriers to access to necessary public and infrastructural services, appropriate technology adoption, adaptation and development, efficient operation of markets, etc.).

Another policy which has lost support over time is an imposition of deliberately low prices for agricultural products/foods in order to keep industrial workers' wages down and the accumulation of capital/investment up. As experienced in countries which followed this prescription, it may lead to a disappearance of local agricultural production, excessive rural to urban migration, distorted relative price of arable land, and in a long run it may actually weaken the prospects for development. Moreover, because nowadays so many countries are members of the WTO, the policies traditionally used to promote industrialization and manufacturing export development (aiming at controlling prices of energy, raw materials or any other inputs) may invite actions under the WTO dispute settlement mechanism by other members believing that their commercial interest have been hurt. Thus such policies are less popular and infrequently used.

This is not to say that most of LDCs in Asia and the Pacific (except perhaps from small island states) would benefit from an increase in their level of industrialization. But instead of restricting trade and shielding domestic market from import competition, they would be better off if adopting policies to help them integrate into relevant layers of the regional production networks. The key policies enabling countries to create environments in which firms could create own advantages to then become part of these networks are those targeting non-tariff and behind the border barriers to trade and investment, introducing the mechanisms to improve competition in the market, transparency and stability of the regulatory regime (cf. Anukoonwattaka and Mikic, 2011).

Trade also has an important linkage to making benefits of growth more evenly redistributed and contributing to human development. More trade, especially trade in services, brings about a greater standard of living in connection to more and better education, better health care, better social services, etc. all resulting in enhanced human development. Some new empirical research shows that a more restrictive services trade policy environment is correlated with worse human development outcomes (Shepherd and Pasadilla, 2011). Furthermore, trade promotes education because communication, cross-cultural understanding, and global awareness are necessary for conducting business across countries. The cross-cultural fertilization that accompanies trade fosters improved human development simply by broadening people's outlooks and exposing the people to new products (Davies and Quinlivan, 2006).

Trade results not merely in an increase in the quantity of goods, but an increase in the variety of goods consumed. To a developing country, the new types of goods flowing into the country would include medicines, health-related equipment, and medical training which improve the health, nutrition, and longevity of the country's people. Wherever there is a potential for a local production of such products and services, efforts should be made to use policies to improve its survival but as mentioned above, not through trade policies which often do more harm than benefit (e.g. rent-seeking, distortive pricing, reduction in transparency, etc).

As stressed in IPoA, much of the future development in LDCs depends on their ability to improve the productive capacity relative to their trading partners. ESCAP (2011a) and subsequently UNCTAD (2011) provide a comprehensive empirical analysis on the status of productive capacity in Asia-Pacific and other LDCs and put forward, inter alia, regional (and South-South) trade as a tool of faster development of that productive capacity. While those reports recommend strategic diversification through the combined efforts of the State and the private sector, these need to be supported by measures aimed at increasing productivity.

International trade and technology transfer take on greater importance for productivity growth in developing countries. Trade can raise productivity, which also drives growth (UNCTAD, 2007). A great deal of technological progress in LDCs takes the form of moving local practice a little closer to best practice in advanced countries. Trade can also promote growth by putting resources into more productive employment (Kavoussi, 1985). According to Coe and Helpman (1995), Coe et al. (1997), Keller (2000) and Eaton and Kortum (1999), potential determinants of total factor productivity include measures of openness, trade orientation, and human capital. Higher trade openness benefits total factor productivity, in fact, there is evidence linking the growth of trade to the growth of labour productivity. Trade-induced productivity growth might be stimulated via various channels (Greenaway, Hine and Wright, 1999).

2.1. Trade dependence of Asia-Pacific LDCs

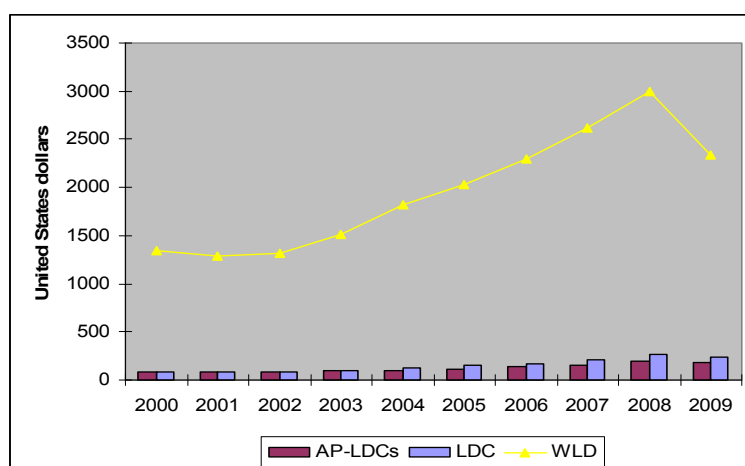
In general, smaller and low-income developing economies tend to be more trade dependent than large and more developed economies, *ceteris paribus*. Trade dependence is measured as a sum of exports and imports over GDP (or separately as exports or imports over GDP) and it shows how important international transactions are for the national economy. Table 1 presents the average values of export and import dependence for individual economies over the period 2000-2009. Exports and imports include both goods and services. Afghanistan, Kiribati and Tuvalu have very low level of exports and their trade mostly consists of imports indicated in high import dependence. On the other end of the spectrum, Maldives, Cambodia and Vanuatu have similar values of export and import dependence as found in the dynamic trading emerging economies in South-East Asia (e.g. Malaysia, Thailand or Viet Nam).

Table 1. Export and import dependence of Asia-Pacific LDCs

	Export/GDP	Import/GDP
Afghanistan	4.1	37.6
Bangladesh	16.7	26.6
Bhutan	33.3	44.3
Cambodia	58.8	67.2
Kiribati	6.3	59.9
Lao PDR	26.4	29.2
Maldives	77.4	104.4
Myanmar	33.4	26.6
Nepal	14.2	32.9
Samoa	19.4	52.5
Solomon Islands	33.5	53.9
Tuvalu	0.5	62.4
Vanuatu	36.8	53.0
Simple average LDCs	27.8	50.0
Weighted average Asia-Pacific LDCs	21.2	31.1
Weighted average all LDCs	27.2	34.2

Source: Averages calculated based on data from World Development Indicators online.

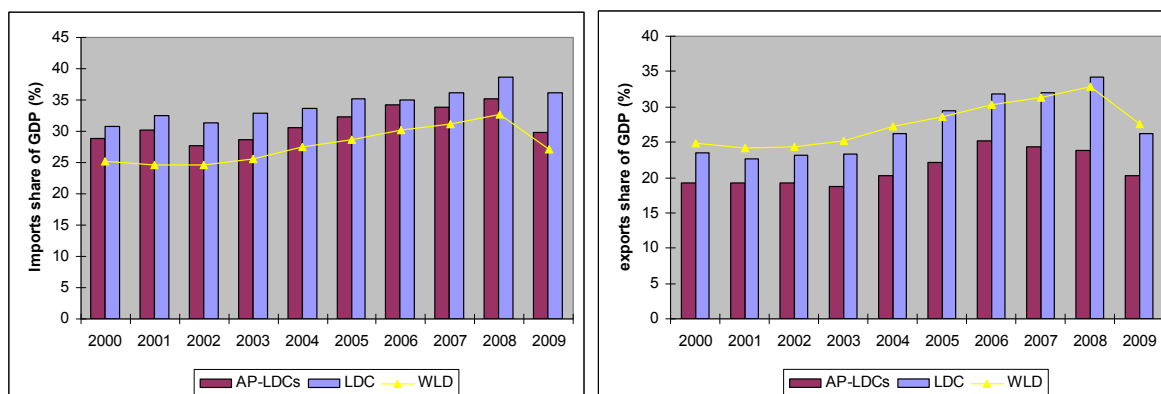
Another indicator used to reveal integration in and dependence on international trade is the level of imports per capita for these economies. This is done by the help of figure 1, where the imports per capita of Asia-Pacific LDCs are compared to those of all LDCs and the world.

Figure 1. Imports per capita of Asia-Pacific LDCs, all LDCs and the world

Source: Own calculations based on data downloaded from the World Development Indicators online

The large difference between world's and LDCs' imports per capita may mask the fact that LDCs spend relatively more on imports compared to their GDP than the world, which is shown in figure 2, where import and export propensities of Asia-Pacific LDCs are compared with all LDCs' and world's averages.

Figure 2. Asia-Pacific LDCs are relatively more import dependent



Source: Own calculations based on data from the World Development Indicators online

Figure 2 shows that, compared to the rest of the world, LDCs are more import dependent but that their propensity to export is relatively lower. This finding is not surprising but it needs to be taken with caveats due to some issues with measurement (e.g. no data for all LDCs for all years). It is also important to understand how the limitations in the supply capacity of these countries may affect their propensity to export and import.

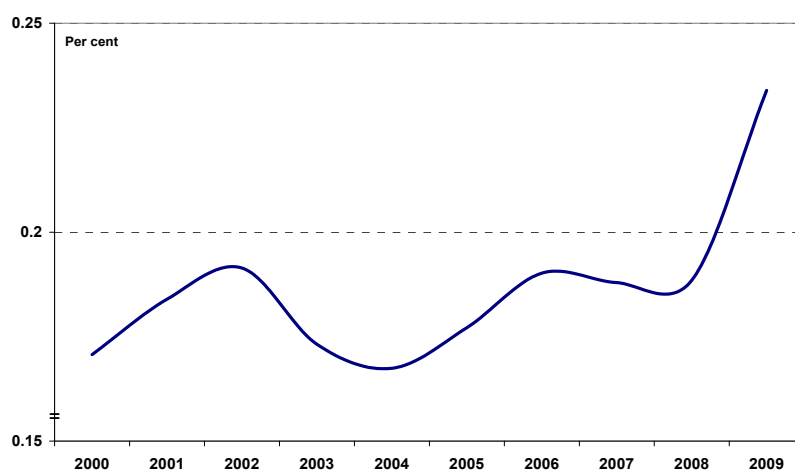
3. Trade and investment performance of Asia-Pacific LDCs

3.1. Merchandise trade

Since 2000 until the onset of global economic crisis in 2008, the LDCs were able to reach almost 1/5 of one percentage point of world exports. With the sharp collapse of world exports, they were able to cross this boundary because world exports first slowed down in 2008 and then dropped by 23% in 2009, while the LDCs' exports grew at 15% in 2008 and fell only by 3.8% in 2009 (all in nominal terms).⁵

⁵ 2010 and 2011 export and import data are available from the WTO Short term online indicators but only for Bangladesh whose exports and imports recovered strongly in 2010 and 2011 after experiencing smaller than world average fall over 2008-2009.

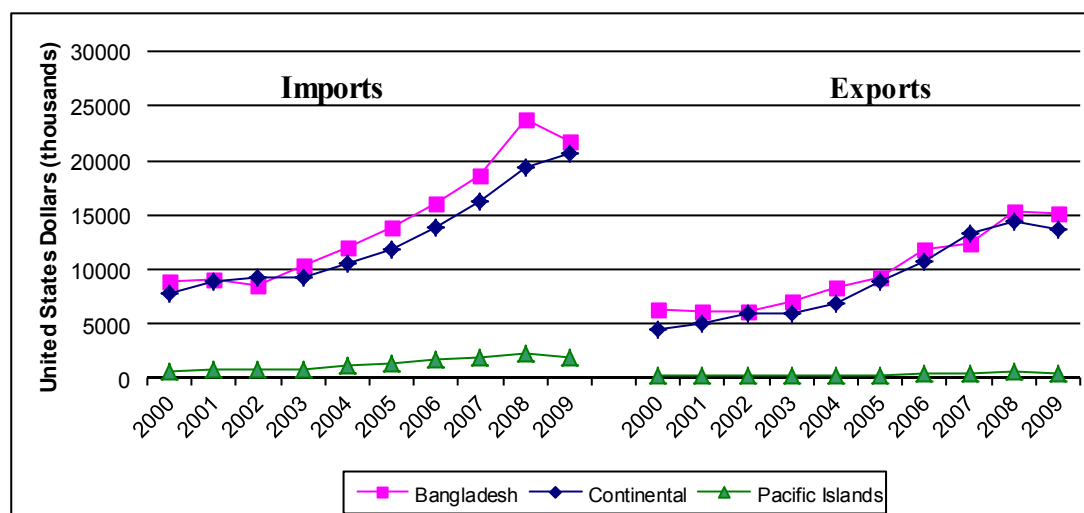
Figure 3. Share of Asia-Pacific LDCs' exports in world exports



Source: Own calculations based on the World development Indicators online

In analyzing the trends of exports and imports values, we separate out Bangladesh, since it contributes about 50% of trade of all Asia-Pacific LDCs. The rest of countries are grouped into “continental” (land-locked countries: Afghanistan, Bhutan, Lao PDR and Nepal plus Cambodia and Myanmar) and “island” countries (five Pacific islands plus Maldives).

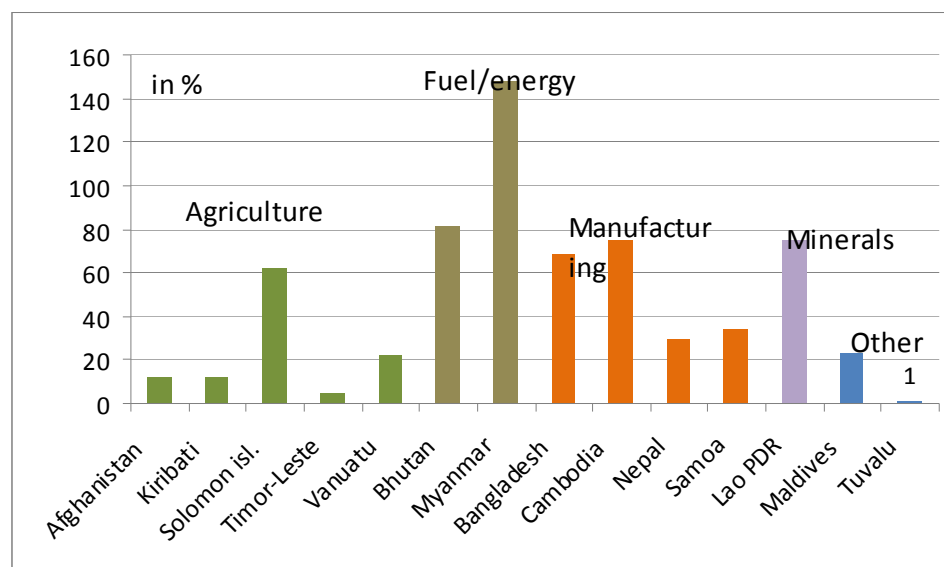
There are stark differences in volumes of trade between these countries. Bangladesh's exports and imports amount to at least as much as the aggregate exports and imports of the continental LDCs. On the other hand, island LDCs make up only about 3% and up to 10% of the continental LDCs' exports and imports (figure 4). Looking at the dynamics of trade of individual countries, Myanmar, Cambodia, Bangladesh, Maldives and Solomon Islands show sharp increase in value of exports at the time of world trade boom (between 2002 and 2004 until 2008-2009). On the import side, the growth is somewhat slower (and the difference between countries is smaller). Other LDCs were not able to join into this trade dynamism during mid 2000s. The countries with stagnant trade are landlocked and island economies confirming that due to their special geographic characteristics combined with challenges arising from low level of development, they have low capacity to benefit from global expansion, but suffer adverse effects during recessions and crises.

Figure 4. Exports and imports of merchandise — 2000-2009

Source: Own calculation based on data from the World Development Indicators

It is also symptomatic of their development level that all observed LDCs (except Myanmar) record trade deficits since year 2000. Bangladesh, of course, has the largest deficit which is congruent to its large trade flows compared to other individual LDCs. Its deficit grew more sharply towards the end of 2000s, hand-in-hand with an introduction of liberalizing policies in the country. Measuring deficits relative to GDP in 2009, other smaller LDCs come to the top of the list: Maldives 62.5%, Tuvalu 50.2%, and Timor-Leste 42.6%.

It is also interesting to see how commodity structure of trade might influence the capacity of a country to finance its imports by its exports. Figure 5 uses data from WTO (2011) to compare export to imports ratios for countries when grouped by their primary export item. Only in case of fuel and/or energy exporters this ratio reaches 80% (Bhutan) or higher (Myanmar). Countries which are labeled as agriculture exporters have the lowest import to export ratios, while in case of manufacturing producers and exporters, the picture is mixed. On one hand Bangladesh and Cambodia, both heavily dependent on textile and apparel are able to cover around 70% of their imports through own exports, while Nepal, which is more oriented towards carpets exports, manages to cover less than 30%. In case of services oriented economies (mostly tourism exporters), exports earnings are not high enough to cover high import bills (because of high import contents of exports).

Figure 5. Coverage ratios of imports by exports 2000-2010 (average)

Source: Extracted from WTO (2011, Annex Table 1)

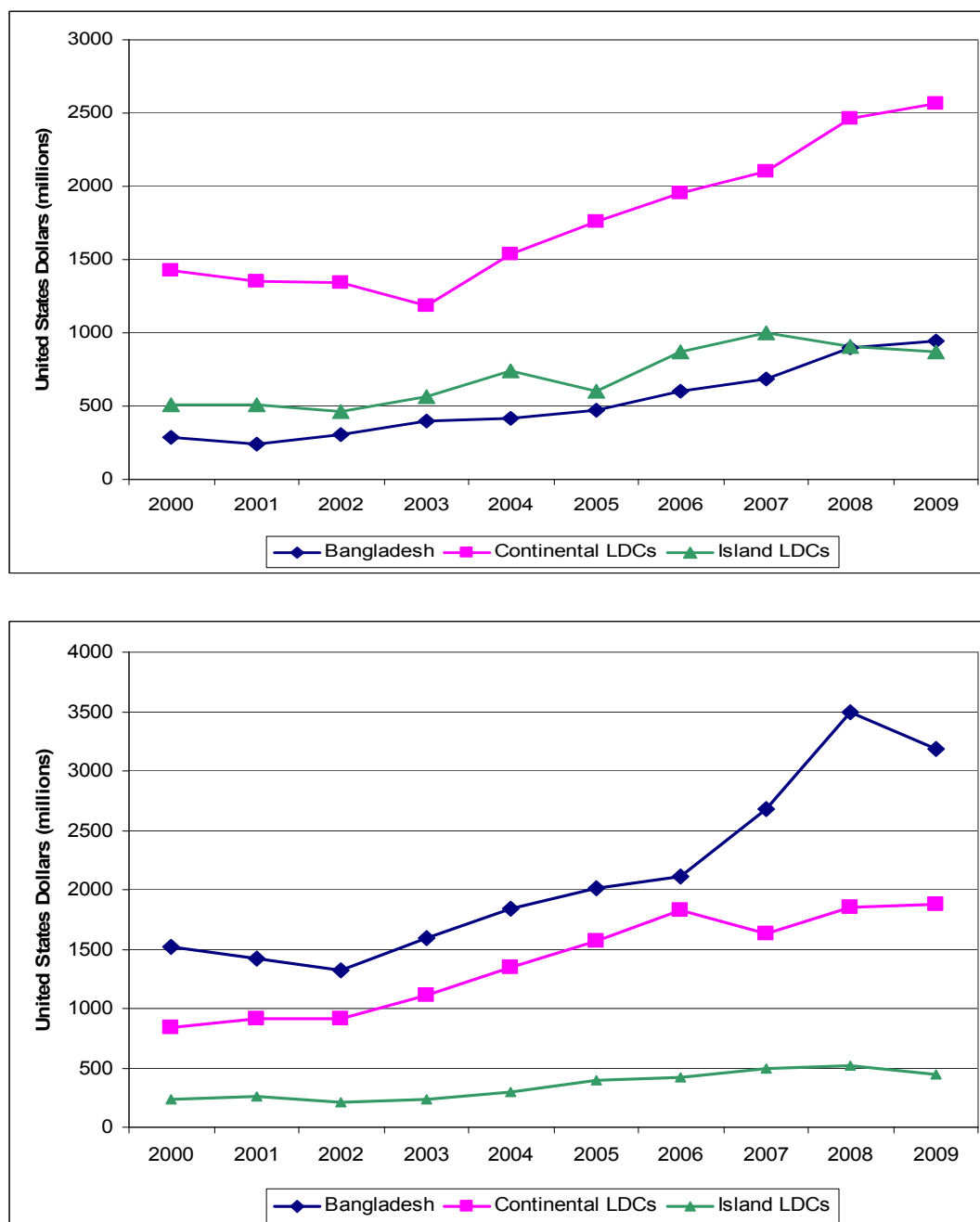
3.2. Services trade

It has been established that services are a key determinant of overall competitiveness and of particular significance for countries which do not have potential to develop in large and strong industrial producers. Services are already providing high contribution to GDP and employment (see UNCTAD 2011a) and often, availability and reliability of services determines the costs of the overall production and trade (Goswami, Mattoo and Saez, 2011). Factors determining national capacity to develop and export services include infrastructure, availability of factors of production and adequate institutions. Human capital and information technologies contribute most to the development of services like business and professional services (often related to outsourcing) and often to other components of openness like covering capital and labour movements. In this context, domestic regulatory systems affecting the business environment will play a large role. With an increasing share in GDP, employment and trade services are found to be a key factor in making development more inclusive, as well as, socially and environmentally sustainable, given that access to education, health and public utilities affect the extent to which different groups in society benefit from economic growth.

There are many definitional and data related problems in measuring and tracking properly services trade, even for high-income countries (see Sauve, Pasadilla and Mikic (eds), 2011). Figure 6 shows trends in commercial services exports and imports. Overall values of services trade are much smaller compared to merchandise trade. Furthermore, the position of Bangladesh is slightly different than in merchandise trade, and only on the imports side it maintains the largest share. The continental Asian LDCs generate largest exports and imports of services and this is for two reasons: first, Cambodia has experienced an increase in tourism services and contributes most to this trend in figure 6. Second, Nepal as a land-locked country has faced an increasing bill of services imports

due to higher transport costs. Among the island LDCs, it is Maldives that contributes the most on both export and import side of services trade for island LDCs.

Figure 6. Export and import of commercial services

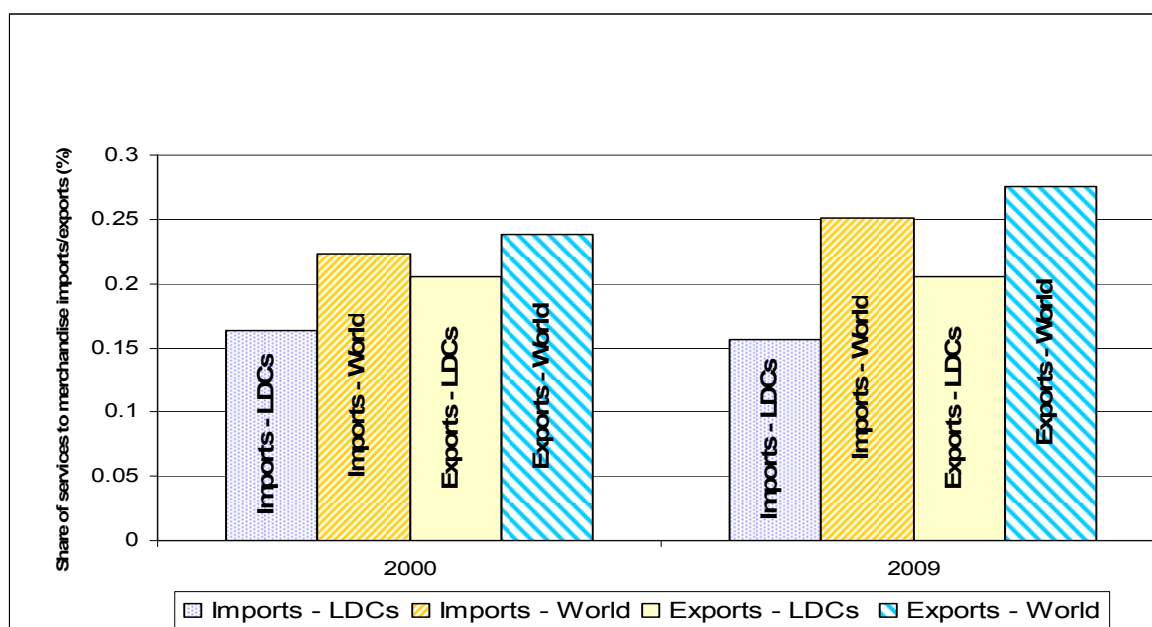


Source: Own calculation based on data from the World Development Indicators

Partially because of the incompleteness in measuring trade in services, ratios of export of commercial services to merchandise exports, globally and in Asia-Pacific region as a whole, have been traditionally around 25% and crossed that level only during the recent global economic crisis (mostly because of the sharp collapse in merchandise exports (see ESCAP 2011b). As shown in figure 7, the shares of services in merchandise

exports and imports are even lower for Asia-Pacific LDCs and also slightly less in 2009 than in 2000. As discussed in ESCAP (2011b), this is mostly because an adverse effect of the crisis on tourism exports of the Pacific island LDCs in 2009.

Figure 7. Ratio of commercial services export to merchandise export for Asia-Pacific LDCs and the world, 2000 and 2009



Source: Own calculation based on data from the World Development Indicators

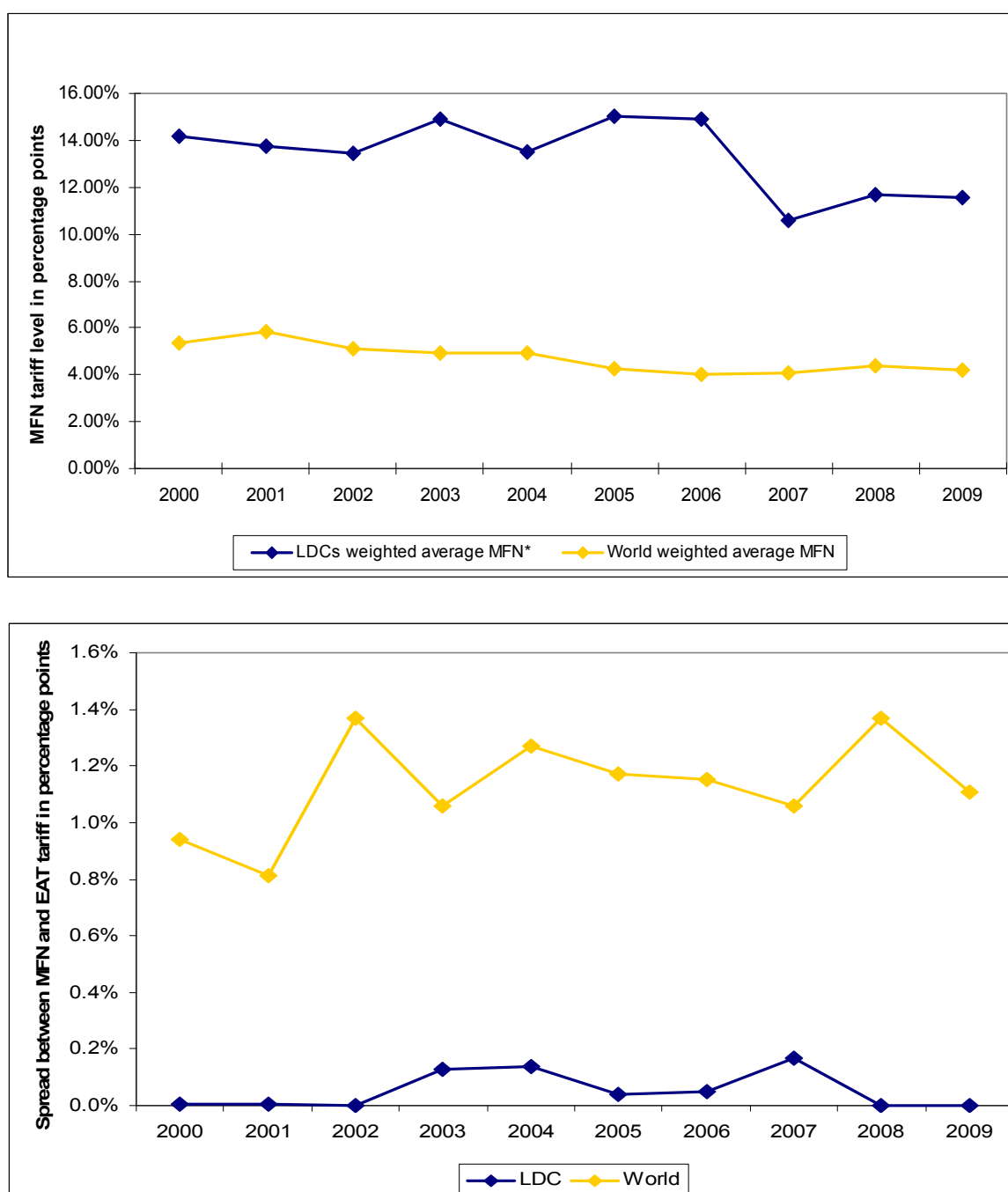
3.3. Border barriers

This study is of course more concerned with the barriers restricting entry of LDCs' exports in the regional and global markets and these are discussed in a greater detail in Chapters II and III. Here for the completeness of information relevant to trade performance, we provide a snapshot of the level of border protection prevalent in Asia-Pacific LDCs.

As expected, because no progress has been made in the Doha Development Round negotiations, the only changes in the MFN applied rates of countries come from their autonomous liberalizations. Such liberalization measures have not made big dent in the world average of import tariffs (the average fell by 1 percentage point since 2000). However, for the Asia-Pacific LDCs, while the spread between their average protection and the world is still large, the reduction in the average MFN tariff started in 2007 had not been reversed despite the crisis and the new challenges. Since the LDCs are on a receiving end of preferential tariffs, we are not expecting to see much difference between their MFN applied and effectively applied tariffs and that has been confirmed by the data pictured at the bottom of Figure 8, where the spread between these tariff rates is very thin. As effectively applied rates should be accounting for the reciprocally negotiated reduction in tariffs and since LDCs are members of 16 bilateral and regional agreements, including the global GSTP, this slight difference could be reflecting that. With respect to the world as an aggregate, it is somewhat surprising

that the spread between MFN and preferential rates is so small given that there are over 300 various preferential trade agreements in force globally and that many countries also provide preferential tariffs to developing and all LDCs, including Asian LDCs. More discussion on this issue is in Chapters II and IV.

Figure 8. Differences in MFN applied and effectively applied tariffs for the Asia-Pacific LDCs and world



Source: Downloaded from TRAINS dataset using WITS (December 2011)

Table 2 provides additional indicators on the extent of border protection in LDCs based on the World Bank Trade Indicators Database. Unfortunately only few of the LDCs from the region are covered in the database. The most complete information is available on the levels, dispersion and coverage of MFN tariffs. Here, the impact of the structure of tariffs as a tool in development of domestic industrial and manufacturing base is touched upon. Tariff escalation is an accepted way of providing a tailored protection if needed at the higher end of value addition in domestic production by setting higher tariff on final goods than on the raw materials and intermediate products used in the production (and assembly) of those final goods. This approach to tariff structure is one of the steadfast components, not only in the infant industry protection (mostly used by developing economies), but also in the sunset industry protection used in European Union and some other developed economies (mostly in an effort to extend the market life of labor-intensive production in face of strong competition from emerging economies, including some LDCs). The infant industry protection tool is used to influence the costs structure of the final goods producers by allowing them access to primary goods and intermediaries at low(er) cost (in short, by giving them higher effective protection than to the suppliers of inputs). While there are numerous problems with effectiveness of this policy, tariff escalation is still used also by the LDCs, as demonstrated in Table 2. The highest value of the average MFN applied to final and primary goods is found in Cambodia (7.5%), Kiribati (5.1%) and Nepal (4.3%). Bhutan and Lao PDR both appear not to be interested in using tariff escalation for the protection of final producers as they feature negative difference between these two MFN rates (-11.8% in case of Bhutan and -2.6% in case of Lao PDR). As both are very rich in energy and other raw materials and minerals, this is not surprising.

Table 2. Various indicators of level and impact of tariff protection in Asia-Pacific LDCs

Country	MFN Applied tariff escalation (diff, finished-raw) - All Goods (%)		TTRI (MFN applied tariff) - All Goods		Customs and Other Import Duties (as a percent of tax revenues)		Export taxes (as a percent of tax revenues)	
	VALUES	RANKING	VALUES	RANKING	VALUES	RANKING	VALUES	RANKING
Year: 2006-09 Latest								
Afghanistan	1.78	112	..	..	51.27	87	0.01	6
Bangladesh	1.68	110	11.33	97	35.63	84	0.00	1
Bhutan	-11.84	2	..	..	..	..	..	..
Cambodia	7.46	172	9.10	92	25.24	78	4.78	28
Kiribati	5.09	159	..	..	..	..	..	..
Lao PDR	-2.62	21	..	..	13.84	65	0.63	24
Maldives	2.89	127	..	..	73.20	90	..	..
Myanmar	1.39	101	..	..	..	..	..	..
Nepal	4.25	154	16.40	121	24.12	76	0.51	22
Solomon Islands	1.50	106	..	..	..	..	..	..
Vanuatu	0.84	56	..	..	..	..	..	..

Source: World Trade Indicators online, The World Bank

Other indicators are available only for a subset of LDCs. The Tariff Trade Restrictiveness Index (TTRI) which calculates the equivalent uniform tariff of a country's tariff schedule that would keep domestic import levels constant is found for Bangladesh, Cambodia and Nepal, all three economies relatively more involved with manufacturing than other LDCs. It can be easily appreciated that with the values of TTRI ranging between 9% and 16%, they are ranked relatively low.

The last two indicators look at the impact of import and export taxes on tax revenue. One of the indicators of the level of development is the inability of a country to raise the necessary tax revenue through indirect taxation domestically, and thus, trade taxes (tariff and export taxes) are often used. These are perceived as distortive policies if used for tax revenue purposes only, as they change relative prices of tradable versus non-tradable goods. The first indicator is called Customs and Other Import Duties and is expressed as a percent share of tax revenues.⁶ It is calculated as customs and other import duties divided by total tax revenues by the central government in a country, evaluated in local national currency and expressed as a percentage of tax revenues. It appears that LDCs use customs duties heavily as a tax revenue source, in Maldives almost $\frac{3}{4}$ of tax revenue comes from customs duties. This definitely has a bearing on the prospects of further tariff reduction of these countries at the multilateral or regional/bilateral level, as some LDCs might be reluctant in pursuing further opening. In addition to addressing this problem by broadening tax base where possible, assistance to reduce the impact of lost revenue should be provided. For example, the South-Asian Free Trade Area (SAFTA) has designed a special mechanism in an attempt to support their LDC member states to accept deeper liberalization commitments.⁷

The last indicator in Table 2 shows Exports Taxes (as a percent of Tax Revenues) which measures the value of export tax revenues as a share of total tax government revenues. From the five countries which report data it appears that only Cambodia collects some noticeable tax revenue by imposing export taxes. According to Piermartini (2004, p.20), in normal situations "the use of an export tax is unlikely to be a first-best policy" since they "encourage inefficient production and consumption patterns as well as inefficient resource allocation".

3.4. Beyond-the-border barriers

Behind-the-border components of trade restrictions are increasingly becoming more influential for trade flows and competitiveness than actual tariffs and other direct trade restrictions, such as quantitative trade restrictions. ESCAP 2009 and 2011b

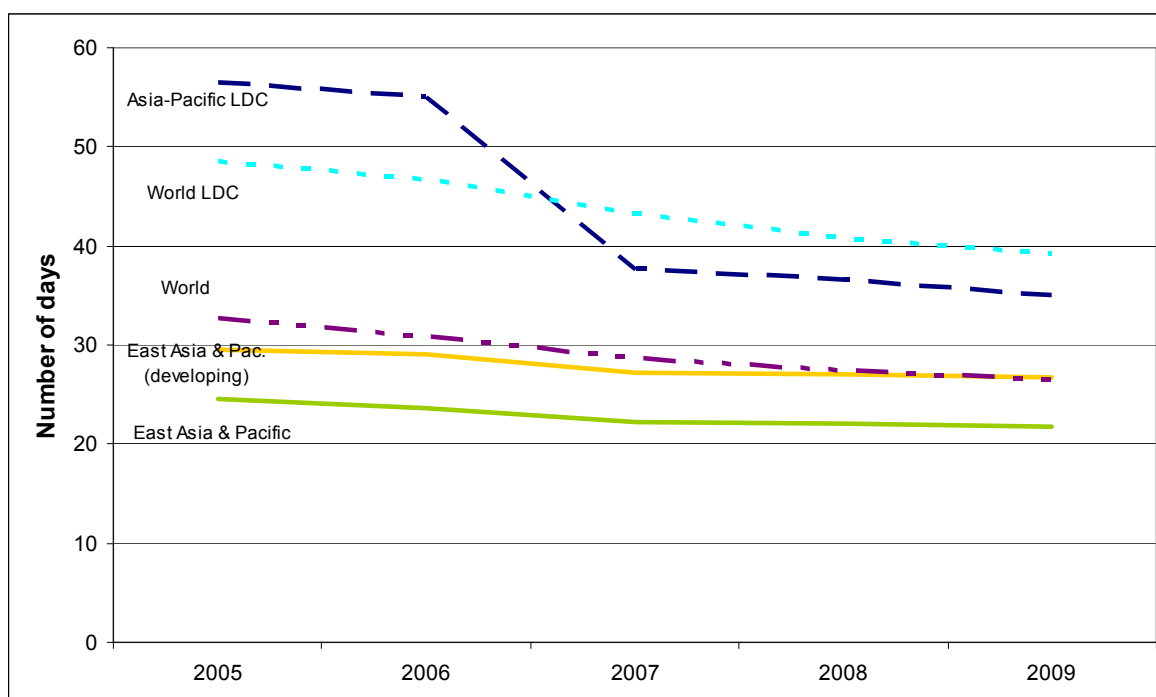
⁶ Customs and Other Import Duties can also be presented as a share in goods imports, thus calculated as customs and other import duties divided by goods imports of a country evaluated in US dollars. Since the collected duties or revenues are based on import customs, the ratio represents the implicit ad valorem tariff of a country, except excluding certain exemptions in many developing countries.

⁷ Mechanism for Compensation of Revenue Loss for LDC Member States is available in Annex III of the text of the Agreement.

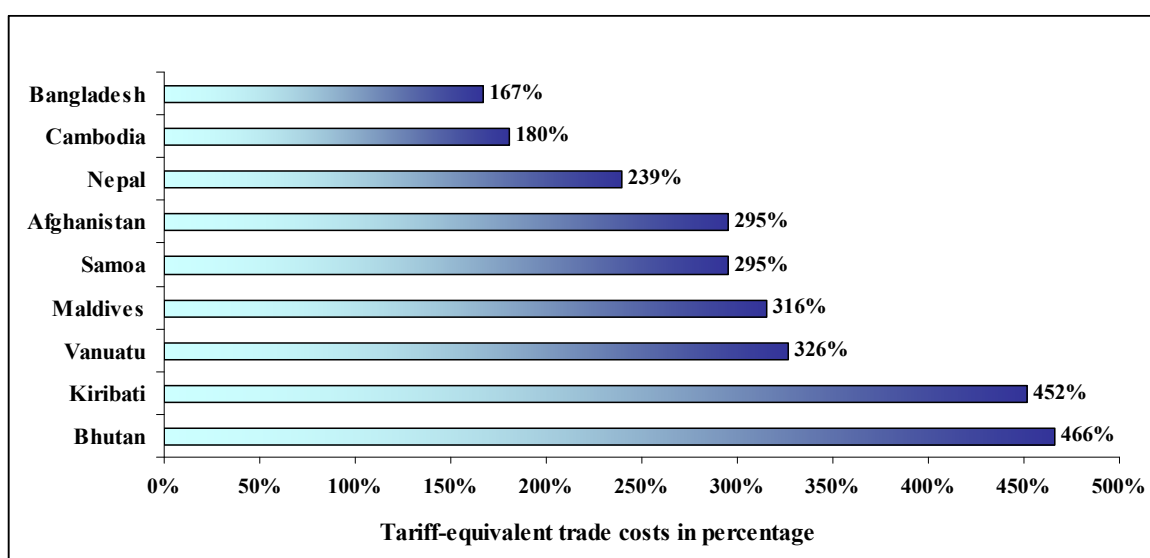
provide a comprehensive analysis of the type and extent of these barriers including the estimate of cost from using these barriers. The barriers briefly reviewed here are still those present in merchandise trade, but is it also important to understand the impact of the barriers used in services trade and investment. Given that integration in the regional and global economy proceeds faster through the production networks, where these latter barriers play significant role, it would be important to get better information and assessment on those barriers too.

The number of days needed to import and export is used now as one of the most common measures of efficiency in trade. Singapore has been ranked as number one for several consecutive years with a number of days equal to 5 (average of import and export), and provides the benchmark to all other countries within and outside the region. Obviously the LDCs are far from reaching that benchmark, but they have made a tremendous progress as shown in figure 9 by reducing the average number of days to clear import procedure from more than 55 to less than 40 in two years. Now, they are actually performing better than the world average, but still lag behind the Asia-Pacific developing countries. Cambodia for example has cut the number of days in half (down to 24), however Lao PDR still needs 49 days to complete the trade procedure. This also reflects the difference between the land-locked and other LDCs.

While the number of days to import and export has been reduced in most LDCs quite significantly, the overall cost to trade is still high. ESCAP has developed a comprehensive trade cost database (available from www.artnetontrade.org) accounting for a wide range of cost components. The calculated cost (expressed in percentage as tariff equivalents) for LDCs in trade with China is provided in figure 10 with the benchmark of the developed country (United States and Japan) average costs for export to the same destination. The challenge that LDCs face in international trade is pretty much summarized by these costs. They incur in multiple of developed (as well as other Asian developing countries) cost when exporting to China, which is the region's most dynamic market, as they mean to complement the lack of demand growth in the traditional markets for Asian exporters. Obviously the Asia-Pacific LDCs will have serious problems in reaching the Chinese market at competitive terms and their export might be then more driven by their absolute advantage in some of the raw materials and energy (e.g. Bhutan) or fisheries (most Pacific islands).

Figure 9. Number of days required to import

Source: Ease of Doing Business 2012, World Bank

Figure 10. Comprehensive trade costs in exporting to China – 2007-2009⁸

Source: ESCAP Comprehensive trade costs database, www.artnetontrade.org

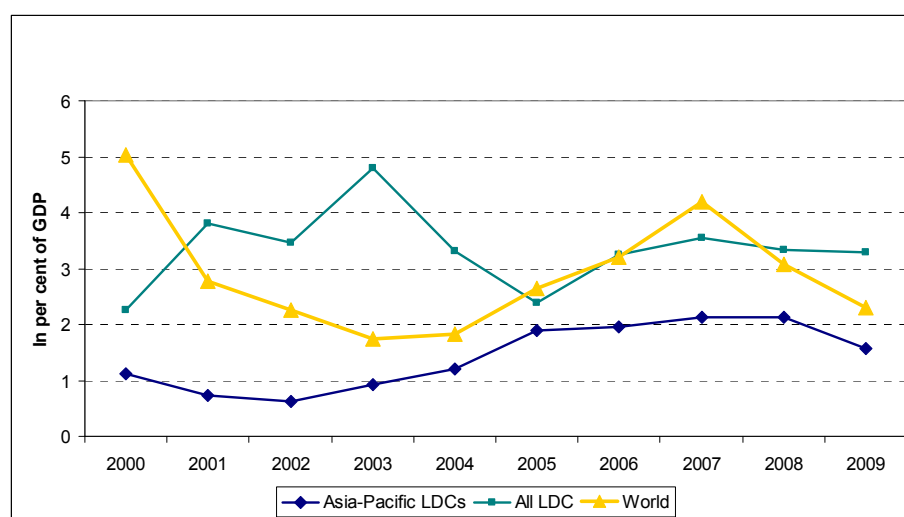
⁸ Latest Kiribati data is in 2005

3.5. Trends in Foreign Direct Investment

Foreign direct investment (FDI) is one of the most important sources of development financing in Asia-Pacific, although more so for developing countries than the LDCs.⁹ If the share of LDCs in Asia-Pacific trade flows was a reason for concern, their ability to attract FDI is even more so. The share of LDCs in total FDI inflows to Asia-Pacific improved in the aftermath of crisis from 0.67% in 2009 to 1% (or \$3.6 billion) in 2010.¹⁰ However, the FDI outflows remained minimal at the level of 0.01% of Asia-Pacific outflows. The countries attracting most of FDI are Bangladesh, Cambodia and Myanmar (they captured 67% of all FDI inflows to LDCs in 2010).

During the pre-crisis period, net FDI inflow relative to GDP started to improve and reached 2% in 2008, compared to 3.3% attained by all LDCs and 3% globally (figure 11). In principle, all medium size and smaller developing countries in the region which enjoyed sustained high economic growth also displayed higher dependence on FDI (and even more so some resource-rich countries). Furthermore, looking at FDI inward stock as a share in GDP, region's LDCs also lag behind Asia-Pacific as a whole. However, there is a stark difference between those continental LDCs and the island ones: the continental LDCs' FDI inwards stock never crossed 13% during the decade 2001-2010, but in the case of the island LDCs in the Pacific, the share rarely fell below 110% during the same period (compared to around 25% for LDCs globally).¹¹ FDI inflows were equivalent to just one tenth of the gross fixed capital formation for the LDCs in the region in 2008 (afterwards back to more normal 6%), while for the LDCs' globally, FDI inflows averaged 25% of the GFCF during 2001-2010.

Figure 11. Comparisons of FDI net inflows as a share in GDP for LDCs globally, in Asia and the Pacific and the world



Source: own calculations based on data from the World Development Indicators online

⁹ Other sources of development include overseas development assistance, external debt and workers' remittances.

¹⁰ Data is sourced from ESCAP (2011c) and UNCTAD (2011).

¹¹ Data from UNCTAD (2011b).

Traditionally, FDI inflows driven by MNCs from developed countries have been taken as a contributing factor to enhanced productive capacity and growth as they were linked with transfer of know-how, technology, and other skills and resources. As more of FDI inflows to the LDCs start arriving from MNCs from other developing countries, there could be concerns on the capacity of such FDI to raise the productive capacity of the destination countries. Some of these FDI might be looking for a quick income gains through exploitation of the LDCs' preferential market access in the developed country markets, or be in search for natural resources, rather than aiming to develop new and high(er) value adding activities. The largest FDI inflows into LDC from developing countries, according to UNCTAD (2011b) come from China, India and Malaysia. For example, in 2008, 65% of the China's FDI outflows to LDCs went to four Asian LDCs: Myanmar (\$232.5 million), Cambodia (\$204.6 million), Afghanistan (\$113.9 million) and Lao PDR (\$87 million).¹² However, most of India's FDI in 2005 (last year available) went to Sudan.

The Pacific island LCDs, apart from Kiribati and Tuvalu, have also been able to increase their FDI inflows in 2010. Minerals rich Solomon Islands and tourism-oriented Samoa top the list with growth rates of 99% and 94% which amount to \$238 million and \$2 million, respectively. Samoa also undertook significant liberalization in telecommunications in the region, which has attracted new FDIs. In terms of intraregional FDI flows, the Pacific islands are mostly dependant on the developed countries in the Asia-Pacific region, i.e. Australia, New Zealand and Japan.

FDI outflows from the LDCs remain at low levels, with several countries posting no outward investments in 2010. Bangladesh and Cambodia accounted for over 77% of all outward FDI flows from the LDCs in 2010, though both countries experienced declines in flows compared to 2009. FDI outflows from Bangladesh decreased by 47% to \$15 million, whereas outflows from Cambodia decreased only by 3% to \$17 million. According to the IMF (2011) most FDI from Bangladesh is directed to India (39%), and smaller shares go to Sri Lanka and Pakistan. Cambodia maintains close ties with ASEAN. According to IMF (2011), Thailand and Singapore have reported receiving FDI flows from Cambodia in 2010. In addition, China has been a major recipient in 2010.

4. Conclusion

This chapter aimed to 'set the scene' for the study. The purpose of a brief description of the linkages between trade, trade policies, economic growth and development at the opening of the chapter, was to allow the reader to get acquainted with some of the long-standing propositions of the economics discipline related to the role of trade in a country's development. Because readers are able to get access to some excellent literature survey on this topic (such as Edwards, 1993; Krueger, 1997; or Rodriguez and Rodrik, 1999) the chapter does not provide one, and instead uses descriptive statistics to tease out several stylized facts and issues for Asia-Pacific LDCs related to trade.

¹² According to data in UNCTAD (2011b), the FDI from China in these four countries constituted the major source of FDI: 38% in Afghanistan and Lao PDR, 25% in Cambodia, and even 82% in Myanmar.

Globally, LDCs succeeded in contributing just over 1% to world exports in 2010. Asia-Pacific LDCs accounted for 1/5 of that, but the crisis showed that their exports were more resilient because they grew at a higher rate than the world's, thus improving Asia-Pacific LDCs' share. However, their exports are still lower than the world average when they are compared relative to their GDP, exposing their productive capacity problem. Also, they are more dependent on merchandise import than the world average, which leads to two issues: high import dependency of exports, and a chronic and increasing trade deficit. Since trade surplus is taken as one of the major sources of finance for development (FfD) - as fast-growing developing economies have experienced- this means that Asia-Pacific LDCs must rely more on other sources, like FDI or remittances, in order to sustain growth.

Asia-Pacific LDCs are not performing very well in services export despite the region hosts countries which are among the leaders in the provision of various services (BOP in India and the Philippines, medical tourism in Thailand, port services in Singapore, etc). Even tourism cannot be taken as a reliable source of foreign exchange as it is affected by external shocks. Underdevelopment of services also plays a role in keeping overall trade costs high (and preventing LDCs from taking part in IPNs due to high service link costs).

When it comes to instrument of border protection, this chapter just looks into the measures imposed by LDCs, since the matter of barriers faced by them is central to the study and thus is covered by 2 chapters, chapter II looking at historical developments of market access and providing explanations on the schemes in places to improve on market access, and chapter III exploring contemporary changes in protection against LDCs. In chapter IV, trade under preferential trade agreements is discussed, and chapter V covers the issue of Aid for Trade as a tool to assist the LDCs to tap their trade potential by improving their productive capacity and export performance.

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