



Alerts on Emerging Policy Challenges

TRADE AS AN ENGINE OF STABLE GROWTH IN AN INTEGRATED ASIA

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Asia-Pacific developing countries have a huge stake in ensuring that regional and global systems of trade and investments remain open. Market forces have driven the region's hallmark rapid economic growth, led by its two locomotives, China and India. Increases in foreign direct investments and multinational intra-industry trade played a prominent role, while a healthy appetite for imports in the US in particular, assured the region of final destination markets and kept Asia's locomotives churning. Most importantly, Asia's developing countries have shown the rest of the world how economic growth can be used to make inroads into poverty reduction. Since 1990, 300 million of its peoples (mostly from China and India), have escaped poverty.

Flux and crises in the global economy

This may all be changing: in April 2008, oil prices reached a record high of 120 USD, exhibiting unprecedented volatility, the US economy hurtled towards recession, the US dollar seemed to be in a freefall, the index for grain prices (wheat, corn, rice and soya beans) is forecast to surpass 200 in 2008 (from a base of 100 in 2005)¹ as the Philippines warned that 4 million people are sliding back into poverty. With food riots in many

parts of the World, something not seen in more than two decades, and export bans on rice exacerbating these pressures, the region is left wondering "what next?"

In recession, more openness to trade, rather than less, is crucial. As counter-intuitive as it may seem, history is replete with examples of how protectionism feeds a self propagating downward spiral of recession, bankruptcies, unemployment and more protectionism, that spreads wildfire-like across the globe. During the Asian Financial crisis in 1997, as policy makers came under increased pressure due to the liberalization policy reforms of the early 1990s, a retreat from the global economy behind protectionist walls became an all engrossing policy temptation. With foresight, however, Asian leaders were able to resist such pressures. This, combined with the willingness and need of developed countries to keep their own markets open, resulted in the region exporting its way out of crisis, within 3 years. Trade thus turned the potentially destructive economic meltdown around much quicker than was initially anticipated, and provided a much needed stabilizing impact.

Ten years later, the situation is not too different. As financial and food crises reappear, once again protectionist voices are on the rise. A 2008 closure of the WTO Doha Development Agenda

¹ Martin Wolf, *Food crisis is a chance to reform global agriculture*, Financial Times, April 29 2008.

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negotiations that would lock in further liberalization reforms over the next decade, is positively a crucial centerpiece of the policy responses needed from world leaders at this point in time. Since 1947, the multilateral trading system has been the driving force underpinning trade and economic growth that has provided a bulwark against countries backsliding into protectionism. Furthermore, it has so far proven to be the only system through which protectionist distortions in developed world agriculture may be removed. On 10 March 2008, United Nations Secretary-General Ban Ki Moon said that the crisis provided the international community with a "critical window of opportunity for improving access to markets and reducing subsidies for agriculture in rich countries", and that 2008 should be "the year of the bottom billion". At the opening of UNCTAD XII on 20 April, the SG warned that the problem of global food prices could mean "seven lost years [...] for the Millennium Development Goals". Actions taken by some countries to ban exports of rice and wheat or introduce incentives for food imports also threatened to distort international trade and aggravate shortages, and " If not handled properly, this crisis could result in a cascade of others [...] and become a multi-dimensional problem affecting economic growth, social progress and even political security around the world".

The Doha Round and the development impasse

The 2008 ESCAP Economic and Social Survey in analyzing the policy failures in agriculture, has called for a new market oriented revolution in agriculture that builds on and exploits the competitive strengths intrinsic to the ESCAP region. However, for a policy revolution to bring multiplier gains, it will be necessary for agriculture-protecting high income countries to muster the political resolve to dismantle their long history of agricultural protection. Attaining this goal lies at the core of the development agenda of the Doha Round. This region's lead trade negotiators have rightly kept this goal as the crux around which a Doha conclusion will be decided. More specifically, this would consist of a collapse of many existing tariff peaks and

provide new market access for developing country agricultural exports, eliminate all agriculture export subsidies, impose reduced ceilings on other trade distorting subsidies and devise much clearer criteria for justifying other domestic subsidies in agriculture. This should also include duty-and-quota-free access for exports from Least Developed Countries (LDCs), and special measures for net food importing developing countries.

The *ESCAP Survey* estimates that 5 million people living on less than \$1 a day could be immediately taken out of poverty through Doha-led agricultural reforms, increasing possibly to 7 million in the long run, while interestingly agriculture-protecting, developed countries would themselves be the greatest beneficiaries from such liberalization reforms. Furthermore, comprehensive pro-agriculture reforms going beyond Doha could take 48 to 51 million people out of poverty. Despite the clear gains that emerge, the enigma of why agriculture remains such a bone of contention in trade negotiations remains perplexing to many economists in developing and developed countries alike.

What if the current Doha impasse continues? What if the recession in the US and the rest of the developed world deepens?

In an interdependent world there is no doubt that trade, investments and economic growth in developing countries of this region, will be hurt, and several countries are likely to backslide in their fight against poverty. At present, the region is scrambling to find a response strategy. For developing countries of this region, many of whom are champions of trade liberalization, an increasingly attractive option has been to engage more intensively in comprehensive economic arrangements among themselves. India's trade policy has long been directed at deepening economic integration among developing countries. In fact, it is the founding member of the first preferential trade agreement in the region, the Bangkok Agreement, now renamed to the Asia-Pacific Trade Agreement, in line with the accelerating transformations in the regional governance of trade and investment

relations underway in Asia.

A greater Asia on the rise

Unmistakably, the dynamics of Asian integration are changing. The rise of its two subcontinental economies, China and India, has brought about huge new opportunities. Both economies are also being eyed as competitive threats. On the one hand, trade and investment liberalization across national boundaries complement each other in facilitating the restructuring of industries along more efficient lines of organization. This draws in all countries of the continent onto higher growth planes. On the other hand, there is concern that openness will lead to a flood of cheap imports that will crowd-out domestic suppliers. The result is a rising foray into treaty-driven forms of bilateral trade and investment liberalization that seek both to liberalize, but also to safeguard social order and phase economic adjustments through rules and regulations. The region is no longer content with market driven approaches only.

While much of this treaty-based economic cooperation has taken place through bilateral agreements, the well documented “noodle bowl” effect arising from the disparate entanglement of

these deals will require more integrative institutional processes, a broader Asian integration process that will become a building block for multilateralism. Dr. Manmohan Singh, Prime Minister of India, has been one of the leaders at the forefront of articulating a vision of an Asian Economic Community, in which India, by using growing synergies within an “arc of advantage” will become an anchor for harmony, peace and prosperity in Asia. This vision is shared by other Asia-Pacific countries (including, Japan, China and the Republic of Korea), who have all started to attach far greater importance to deepening economic, social and political ties between South, South-east and East Asia.

Conclusion

The Asia-Pacific region is distinguished by its growing intra-regional links in production and trade. To date these economic relationships have been driven by market economics and business interests. As the prospects of a long term structural recession in the United States increases, trade in Asia and the Pacific will be affected. Research is needed to assist policymakers and stakeholders identify ways to harness these powerful processes in the service of a more stable and inclusive development as stabilizers of the region.

The purpose of ARTNeT Alerts is to provide a channel for policymakers and other informed stakeholders to alert the trade and investment research community to emerging policy challenges. Some of these challenges may appear suddenly and confront policy makers unexpectedly. Other challenges may be long term or recurrent issues that suffer from policy “fatigue” or benign neglect, at best. Analysis and reliable statistics may be lagging behind, or it may not be available at all. In all cases, this series hopes to generate a forward looking discussion among policymakers and researchers that will strengthen the policy relevance of ARTNeT trade and investment research programmes. Contributions to the series are invited from all stakeholders, particularly policymakers, civil society and the private sector, to highlight trade and investment policy issues they think deserve attention by policy researchers in the region. Contact: artnetontrade@un.org