

# SUMMARY OF ACTIONS FOR TRADE-LED RECOVERY AND BEYOND

## A. OVERVIEW

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

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

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

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

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

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

**Table. A strategy for trade-led recovery and beyond**

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

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

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

## B. THE SETTING FOR TRADE POLICY FORMULATION

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

1. *Get trade back on its feet and avoid protectionism.* Trade has been the victim of the crisis, not its cause. Trade is the lifeblood of the majority of economies in the region. To get out of the crisis it is important to get trade flowing again. Trade increases interdependencies among countries. Such interdependencies may be seen as a threat to some but should rather be seen as opportunities to tackle problems common to all countries together and more effectively. However, protectionism and nationalism, while publicly disavowed, are threatening to disrupt trade and prolonging the crisis. Protectionism may offer short-term respite but is ultimately self-defeating and difficult to turn back. Other measures of a less trade-distorting nature could be considered instead to address crisis-related problems. The use of new and “murky” non-tariff measures (NTMs) in particular should be avoided.
2. *Balance exports with domestic demand.* As a result of the crisis, many governments want to reduce dependence on exports and boost domestic demand. However, while the role of domestic demand is recognized in generating economic growth, in many countries the domestic market is too small and shallow to fully replace exports. Development of domestic markets is a long-term process, not a short-term solution to the crisis. Therefore, both

exports and domestic demand need to be promoted in a balanced manner and in accordance with economic realities.

3. *Formulate trade policies which are inclusive, sustainable and pro-poor.* The main role of governments is to provide public goods and services and formulate national development plans and trade policies which contribute to inclusive and sustainable development. They should be pro-poor, have equal impact on men and women and benefit society at large or at least not disproportionately affect vulnerable groups. They should also promote environmentally sound practices in trade and production and contribute to sustainable development. Particular attention should be paid to promoting trade in agricultural products (and products produced in rural areas) and in services as part of the pro-poor agenda.
4. *Mainstream trade in development strategies and ensure coherent and consistent trade and development policies at the regional and national levels.* Given the many linkages between trade and other development issues, there is a strong case for mainstreaming trade in development strategies. At the same time, development objectives need to be mainstreamed into trade policies to ensure coherence and consistency of development policies. Governments also need to improve coordination and cooperation among all concerned government ministries and agencies, both at the central and subnational levels, and consult with all stakeholders in the formulation of such policies, in particular the business sector and civil society, especially

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

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

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

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

## C. MARKET ACCESS

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

### 1. Multilateral level

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

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

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

## 2. Regional level

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

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

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

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

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

### 3. National level

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

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

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

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

## D. SUPPLY-SIDE CAPACITY-BUILDING

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

### 1. Multilateral level (aid for trade)

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

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

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

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

### 2. Regional level

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

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

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

### 3. National level

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

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

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

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

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

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

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