



# A WAY FORWARD

Trade and investment have been major drivers of growth and prosperity in the Asia-Pacific region. The region's dependence on trade increased consistently from the 1970s until the global financial crisis in 2008-2009. Developing countries within the Asia-Pacific region – Asian tigers, dragons and lions – have been most successful in leveraging trade and investment and creating economic growth. This is in large part due to their more liberal trade and foreign direct investment (FDI) policies enabling their early integration into global value chains.

The analyses presented here confirms that openness to trade and investment remains a necessary condition for sustainable development in Asia and the Pacific. Trade and FDI are typically complementary. They provide much needed sources of growth and financing for development, enable the productive allocation of resources and enhance access to new technologies and markets. Consequently, it is important to avoid resorting to protectionism. The review of policy trends in Part 1 of this report confirms that most countries, especially in this region, have continued to follow this recommendation so far.

That said, the report also acknowledges that trade and investment may have undesirable impacts such as increased inequality, short-term unemployment or drop in wages, and environmental degradation. These issues need to be fully considered and addressed in future policymaking.

National-level policy recommendations for channelling trade and investment into sustainable development include crafting **targeted trade and FDI policies** that help generate economic and social benefits for everyone while also protecting the environment. Such policies may include:

- Tariff cuts on environmental goods and other goods and services expected to have a strong positive impact on sustainable growth.
- Non-tariff measures based on accepted sustainability standards and international labour or environmental conventions.
- Prioritization of Sustainable Development Goal (SDG)-related sectors in attracting FDI, and careful assessment of the environmental and social impact of foreign investment projects.

The report also pointed out that the efficacy of these targeted trade and FDI policies for sustainable development would crucially depend on **complementary domestic policies, good governance and reduction of trade costs**. Key national-level policy recommendations in that context include:

- Developing or strengthening environmental policies, including regulations to encourage more sustainable consumption and production (e.g. taxes or caps on CO<sub>2</sub> emissions).
- Providing social safety nets for those adversely affected by the cross-sectoral reallocation of resources associated with trade and investment expansion, while also removing unnecessary rigidities in the labour market. Additional trade adjustment assistance programmes may also be considered to help displaced workers find new employment.
- Ensuring competition and anti-trust policies are in place as essential elements of a well-functioning market mechanism.
- Enhancing education, in particular continuous learning opportunities, to make the work force more mobile and able to meet the demands associated with higher value-added and sustainable FDI (e.g. health services).
- Diversifying the sources of tax revenue away from import tariffs, so that tariff rates can be used as a tool for channelling trade into sustainable development.
- Improving governance to ensure that the more complex set of policies associated with balancing the three pillars of sustainable development are implemented in an effective and coherent manner.
- Reducing trade costs, including by implementing trade facilitation and paperless trade measures, developing trade-related infrastructure and services (i.e. transport, logistic and financial) and promoting e-commerce.

The relevance of each recommendation and the design of the policies at the national level is likely to vary significantly from country to country. There cannot be a one-size-fits-all policy when balancing economic, social and environmental needs. For example, compared to an upper middle-income economy, a least developed country with high rates of poverty may need to prioritize economic growth relatively more than environmental protection.

Strengthening regional cooperation and integration should continue as this promotes peace and stability in Asia and the Pacific (SDG 16). Moreover, it helps spread the benefits of trade and investment and reduces the development gap between countries in the region (SDG 10). Enhancing regional integration also furthers SDG 17, which calls for international partnerships for development. Lastly, it is particularly important for enabling small and medium-sized enterprises in more countries to participate and grow through regional production networks (SDG 8).

Regional trade agreements are important tools in enabling further and more inclusive regional trade, in particular if they enable as many countries as possible to interact based on harmonized rules building upon those already agreed at WTO. Although progress has been slow, the ongoing Regional Comprehensive Economic Partnership negotiations between 16 countries in Asia and the Pacific, including all ASEAN countries as well as Australia, China, India, Japan, New Zealand the Republic of Korea, are promising in this regard. It is hoped that the provisions of these new mega and wide-scope trade agreements will address labour and environmental issues.

Voluntary arrangements and initiatives can also support regional integration and enhance the ability of more countries to participate. The Belt and Road Initiative (BRI) of China is noteworthy, aiming at facilitating regional (and global) connectivity by leveraging the country's experience in large scale infrastructure development. Importantly, projects supported under BRI and similar regional initiatives need to be assessed and effectively monitored based on sustainability criteria reflecting economic, social and environmental considerations.

In this context, the following actions should be considered at the regional level going forward:

- Facilitating the adoption of investment promotion regimes for least developed countries in the Asia-Pacific region, identifying specific actions and criteria that may be used by more developed regional economies to encourage FDI investment into least developed countries. This may be supported through the existing Asia-Pacific Foreign Direct Investment Network.
- Identifying environmentally friendly products for tariff reductions by Asia-Pacific countries. Creating lists of products and services whose liberalization would greatly contribute to the achievement of sustainable development may be extended to the various sectoral Sustainable Development Goals, such as health (Goal 3) or education (Goal 4).
- Promoting harmonization and the use of international standards in setting sanitary and phytosanitary measures and product standards. Such non-tariff measures play important functions in efforts to protect human and animal health, safety and the environment. Harmonizing them among the Asia-Pacific countries will reduce compliance costs and their effects as barriers to trade, while preserving their social and environmental benefits.
- Building capacity for negotiation of preferential trade agreements with sustainable development provisions. Preferential trade agreements – including economic partnership agreements – increasingly include environmental and social (labour) provisions. While this is important for channelling trade and investment into sustainable development, capacity of developing economies in negotiating these complementary provisions is often lacking.
- Developing guidelines and model preferential trade agreement provisions on how to mitigate and share trade adjustment costs between the beneficiaries and those adversely affected, both within and between trading economies. Evaluating the socioeconomic costs involved in new trade and investment agreements from the beginning and incorporating compensatory measures in agreements would lower overall costs and boost public trust in the benefits of trade and investment.
- Sharing good practices and lessons learned in streamlining and automating regulatory procedures related to import, export and transit. These should include those envisaged in the WTO Trade Facilitation Agreement and the implementation roadmap of the ESCAP Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific. This could be done as part of the existing Asia-Pacific Trade Facilitation Forum and with the support of the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific.

In addition to these recommendations, there is a need for regional collaboration on the collection of more and better trade- and investment-related data as well as the corresponding socioeconomic and environmental data, including data on technology utilization – this may be facilitated through the Asia-Pacific Research and Training Network on Trade. Such data will be essential to deepening the understanding of the complex trade-offs and complementarities between trade, FDI and the three dimensions of sustainable development.