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**Economic and Social Commission for Asia and the Pacific****Seventy-fourth session**

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Item 3 (b) of the provisional agenda\*\*

**Review of issues pertinent to the subsidiary structure of the Commission, including the work of the regional institutions: trade and investment****Trade and investment in Asia and the Pacific:  
policy challenges and secretariat response****Note by the secretariat***Summary*

Global and regional trade growth improved in 2017 but remain weak. At the same time, global foreign direct investment (FDI) dropped, though developing Asia regained its position as the largest FDI host region. However, with rising protectionism, the withdrawal of the United States of America from the Trans-Pacific Partnership and the limited progress under the multilateral trade negotiations led by the World Trade Organization, challenges remain for the region to promote its trade and investment. While trade and investment have been identified as means of implementation of the 2030 Agenda for Sustainable Development, large financing gaps remain to achieve the Sustainable Development Goals.

In the present document, a brief analysis of the situation of trade and investment in the region is provided and the main policy challenges are identified. The secretariat's main activities and initiatives since the seventy-third session of the Economic and Social Commission for Asia and the Pacific and planned activities are summarized, and the Commission is invited to identify the priorities and provide direction with respect to its future work in this area.

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## I. Trade and investment in Asia and the Pacific: situation analysis and main policy challenges for developing countries

### A. Situation analysis in trade and investment

1. Over the past three decades, trade has been a major driver of growth in the Asia-Pacific region. The region's dependence on trade (measured as trade as a proportion of gross domestic product (GDP)) grew consistently over this period, until the 2008–2009 global financial crisis. Until the crisis, trade accounted for more than 60 per cent of regional GDP. Since the crisis, however, dependence on trade has fallen to about 52 per cent of GDP as a result of the slowdown in global demand and repositioning of the growth strategy for many countries towards domestic consumption, bringing the region slightly below the global average.

2. Trade in the Asia-Pacific region improved in 2017, with merchandise exports expected to have grown by 4.5 per cent and imports by nearly 8 per cent according to *Asia-Pacific Trade and Investment Report 2017: Channelling Trade and Investment into Sustainable Development*,<sup>1</sup> published by the Economic and Social Commission for Asia and the Pacific (ESCAP). The *Report* also indicates that trade is concentrated on a handful of economies: 13 economies accounted for more than 90 per cent of regional trade, while East and North-East Asia accounted for more than 60 per cent of the region's total trade. At the same time, intraregional trade is more important for the region than trade with the rest of the world, accounting for close to 60 per cent. Particularly noteworthy is rising intraregional demand with the return to double-digit growth of imports in China. As a result, manufacturing trade continues to dominate, with nearly 75 per cent associated with sectors with strong global value chain linkages. However, apart from East and North-East Asia, other subregions are not integrated sufficiently into the global and regional trade and production networks.

3. Trade in commercial services in the region is also slowly rising, led by transport- and tourism-related services, though at the country level the services trade performance shows a very diverse picture. Commercial services trade has become essential to increase productivity for both the agricultural and manufacturing sectors. The region currently accounts for almost a third of world trade in commercial services.

4. According to the latest data of the United Nations Conference on Trade and Development (UNCTAD), global flows of foreign direct investment (FDI) declined by 16 per cent in 2017 to \$1.5 trillion, both greenfield FDI and mergers and acquisitions, with marked declines in FDI to developed countries. At the same time, FDI to developing Asia rose by 2 per cent to \$459 billion, helping the region reclaim its position as the leading FDI host region in the world, accounting for 30 per cent of the global total.<sup>2</sup> While least developed countries continue to see relatively low FDI inflows concentrated in either natural resources or labour-intensive industries or both, the picture for the region overall shows a trend towards increased FDI in services and technology-advanced sectors, including alternative and renewable energy. The region is also emerging as a leading outward investor in the world, led by China; Hong Kong, China;

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<sup>1</sup> United Nations publication, Sales No. E.17.II.F.22.

<sup>2</sup> UNCTAD, "Global FDI flows slipped further in 2017", *Investment Trends Monitor*, No. 28 (January 2018). Available from [http://unctad.org/en/PublicationsLibrary/diaecia2018d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/diaecia2018d1_en.pdf).

and Japan. These three together account for 85 per cent of total FDI outflows from the region. Such outflows have contributed to increasing intraregional FDI, which accounts for over 50 per cent of total FDI in the region. A review of national policies on investment and international investment agreements from the region shows that the region is continuing to pursue investment liberalization and promotion within the context of wider regional trade and economic integration initiatives.

5. In keeping with the global trend, average applied tariff rates in the majority of Asia-Pacific countries have decreased substantially over the past few decades. Tariff reductions have been achieved through a combination of: (a) unilateral liberalization, with countries adopting more open trade-oriented development strategies; (b) preferential trade agreements, allowing greater market access to partners; and (c) multilateral measures, through liberalization within the framework of the World Trade Organization (WTO). In general, tariff levels in the Asia-Pacific region are on a par with those of major developed economies. As tariff rates are decreasing worldwide, non-tariff measures are becoming relatively more important and will be further discussed below. Regulations remain prevalent and highly disruptive to trade and investment in some sectors and economies, while underdeveloped or missing in others.

6. Governments in the Asia-Pacific region have tended to use preferential trade agreements proactively. While these agreements differ in terms of depth of liberalization and integration as well as sectoral coverage, the region is a major contributor to the worldwide build-up of agreements. Globally, of the 274 physical preferential trade agreements in force, 170 involve Asia-Pacific economies. On average, an Asia-Pacific economy is party to 7.6 trade agreements. In addition, the negotiation of so-called mega-regionals has continued, but is progressing slowly. Particularly noteworthy is the resurrection of the Trans-Pacific Partnership as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership between 11 of the 12 original Trans-Pacific Partnership signatories (due to be signed on 8 March 2018). However, negotiations towards a successful conclusion of the Regional Comprehensive Economic Partnership, now in their twenty-first round between 16 Asian countries, seem to be making limited progress.

## **B. Policy challenges in trade and investment**

### **1. Trade**

7. Despite some positive trends towards the end of 2017 in trade and investment, there are several factors that may affect the recovery in 2018 and need to be carefully considered by policymakers. China is going through a substantive structural transformation which is reshaping global and regional supply chains as the country moves towards industries with higher levels of technology and value added and lowers dependence on exports in favour of higher domestic demand. Hence, import demand in China for intermediate products is expected to fall. On the positive side, the country's Belt and Road Initiative may offer opportunities for selected developing countries in the region to access much needed investment capital, particularly in areas that foster regional connectivity, such as infrastructure, energy and capacity for information and communications technology.

8. Another risk is that of the protectionist rhetoric in some developed countries actually being followed up by rising tariffs and other trade barriers. Such action would carry the risk of triggering a global trade war which would leave every country worse off, in particular in trade-dependent Asia. An added concern in this regard is the limited progress made by WTO at its Eleventh

Ministerial Conference, which took place from 10 to 13 December 2017. The Conference ended with a number of ministerial decisions, including on fisheries subsidies and e-commerce duties, and a commitment to continue negotiations in all areas, but otherwise no progress was made on advancing the long-stalled negotiations under the Doha Development Agenda. The resulting uncertainties for the multilateral trading system, coupled with rising protectionism, could be a disincentive for long-term investment and trade and may hinder trade and investment growth in 2018.

9. It is therefore important for the region to strengthen its own regional integration process and continue to resist protectionism and liberalize trade and investment in a sustainable manner. In this regard, a few issues need to be highlighted.

10. First, while tariffs have come down substantially for most products, the incidence of non-tariff measures remains high, including prohibitively strict technical and sanitary and phytosanitary standards. Behind-the-border regulatory measures are also a major obstacle to promoting trade in services, which accounts for close to 50 per cent of global exports measured in value added terms.<sup>3</sup> Given that in many cases non-tariff measures and other regulatory measures address important social and environmental concerns, more work is needed to ensure that these measures are designed and implemented without unnecessarily restricting trade.

11. Second, the overlap between multiple trade agreements signed by countries in the region increases the complexity of the trade and investment environment. Complex preferential rules of origin often prevent effective utilization of bilateral and regional trade agreements, especially by small and medium-sized enterprises. The increasing density of the noodle bowl effect, combined with reduced tariff preference margins, has increased the possibility of scenarios in which the costs of complying with rules of origin exceed the savings associated with the tariff preference provided under an agreement. This clearly points to the need for harmonization or consolidation of trade agreements. The Regional Comprehensive Economic Partnership may open some opportunities in this direction for the region, but it is too early to tell before the conclusion of negotiations.

12. Third, inefficient trade procedures and limited transport infrastructure and services have kept trade costs high, especially for countries with special needs in the region. However, there is room for optimism. The results of the ESCAP-led Global Survey on Trade Facilitation and Paperless Trade Implementation of 2017 reveal that countries have made significant progress in implementing the Agreement on Trade Facilitation, the first multilateral deal under the auspices of WTO, which entered into force on 22 February 2017. In addition, countries in the region adopted the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific at the seventy-second session of the Commission. While the adoption of the Framework Agreement is a promising step and several countries are already engaged in the ratification and accession processes, fully implementing its provisions, to achieve regional trade cost cuts estimated at 25 per cent on average,<sup>4</sup> will take time and continuous commitment to regional cooperation.

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<sup>3</sup> *Services and Global Value Chains: the Asia-Pacific Reality* (United Nations publication, Sales No. E.18.II.F.11).

<sup>4</sup> *Digital Trade Facilitation in Asia and the Pacific*, Studies in Trade, Investment and Innovation 87 (ST/ESCAP/2811).

13. Lastly, a major policy challenge relates to promoting e-commerce or digital trade. While the region's potential for e-commerce is enormous and it is already home to some of the world's e-commerce powerhouses, such as Alibaba and Tencent, physical and institutional barriers to the application of e-commerce in developing countries must be overcome, including access to broadband and regulation to ensure cybersecurity. In this context, Governments, multilateral organizations and the private sector must cooperate in fostering an environment that is conducive to the implementation of e-commerce. Another challenge in this regard is the lack of statistics on e-commerce for mapping its uptake and measuring its impact.

## 2. Investment

14. Given the strong links between trade and investment, the policy challenges in trade also have implications for FDI. FDI was recognized in both the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the 2030 Agenda for Sustainable Development as a major driver of productivity, economic growth and job creation.

15. It is important to recognize that FDI appears in various forms and types with different impact potential depending on the country that attracts it. For instance, in the past two decades, efficiency-seeking FDI into Asia-Pacific developing economies has played a fundamental role in expanding global and regional value chains, providing opportunities for growth of domestic small and medium-sized enterprises as suppliers of parts and components or relevant services. As a result, policies to attract FDI need to be tailor-made according to the type and form that suits the host country best.

16. While countries are eager to attract FDI – as it contributes, at least potentially, to employment, capital formation, technology transfer, skills development and access to foreign markets – in practice developing countries often find that the contribution of FDI to economic growth and other variables is below expectations and that FDI may even have an adverse effect on development. Countries therefore face challenges to attract the kinds and types of FDI that would support their development objectives and, at the same time, offer the right conditions to do so. To compensate for an often substandard investment environment, countries tend to compete for FDI on the basis of ever more generous incentive regimes that undermine the availability of public finance for development. However, there is increasing evidence that incentives usually play a minor role in investment attraction. As FDI is principally an external capital flow, the challenge is for developing countries to harness FDI as a net contribution to financing for development, rather than allowing FDI to become a drain on public resources.

17. Similarly to preferential trade agreements, the region is part of the complex universe of international investment agreements which are often imbalanced in favour of investor rights and may lead to overlapping or duplicated commitments for countries that are party to various international investment agreements covering the same countries. Of the 2,673 international investment agreements in force worldwide, ESCAP members and associate members are party to 1,120. As a result, some form of consolidation would also be highly desirable in this area, but perhaps even more challenging than in the area of trade in the absence of a global regime for FDI, similar to WTO for trade, that could form a reference for integration and consolidation.

18. As FDI is a cross-border phenomenon, it makes sense to forge international and regional cooperation frameworks to ensure smooth FDI flows. Apart from binding international investment agreements, there are other voluntary regional cooperation schemes that help promote and facilitate FDI at the regional level.<sup>5</sup> Often, such cooperation requires proper coordination and networking among national investment promotion agencies, harmonization of investment incentives, and exchange and harmonization of investment laws and regulations. Cooperation in organizing investment forums and establishing online databases of suppliers and technology providers are other examples.

19. With the adoption of the 2030 Agenda, the main policy challenge for most countries is perhaps to promote trade and investment as means of implementation of the 2030 Agenda. For that purpose, ESCAP introduced a framework for channelling trade and investment into sustainable development (see box). The framework demonstrates that trade and investment policies must be seen not in isolation, but as part of wider sustainable development policies and strategies, and hence need to be properly mainstreamed and integrated into wider sustainable development frameworks. The implementation of the framework will also necessitate enhanced cooperation and coordination among relevant government ministries and agencies, which in practice is often an additional challenge.

## **II. ESCAP initiatives and activities to help Asia-Pacific economies develop trade and investment policies for development**

### **A. Research and analysis: promoting knowledge**

20. The secretariat has continued to conduct and facilitate research and analysis on important issues related to trends, emerging issues and evidence-based policy options in the area of trade, investment, enterprise development and technology transfer in support of inclusive and sustainable development in the region, through various publications. In particular, the annual *Asia-Pacific Trade and Investment Report* provides an analysis of current trends and important developments in the trade and investment integration of the Asia-Pacific economies.

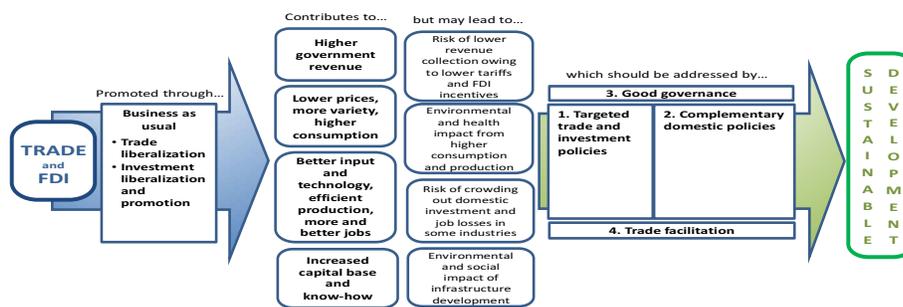
21. *Asia-Pacific Trade and Investment Report 2017: Channelling Trade and Investment into Sustainable Development*, mentioned above, was released in November 2017. This publication presented a framework for channelling trade and investment into sustainable development (see box).

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<sup>5</sup> The Association of Southeast Asian Nations (ASEAN) Comprehensive Investment Agreement is a good example, in which some of these voluntary schemes are outlined in relevant articles based on the schedules of the previous Framework Agreement on the ASEAN Investment Area.

### A framework for channelling trade and investment into sustainable development

As shown in the figure below, a business-as-usual model of market-driven trade and investment policies can contribute effectively to the overall economic growth of an economy. Lower trade and investment barriers ultimately lead to the reallocation of resources from low- to high-productivity firms and sectors, providing new opportunities for such growth. The increase in economic activity and growth resulting from trade can boost tax revenue for the Government, which may, in principle, be used to deal with social and environmental concerns. However, the liberalization of trade and investment also has some potential downsides related to the social and environmental dimensions of sustainable development.



For example, as specifically noted in the figure, lowering tariffs or extending too many FDI incentives in the form of tax breaks may adversely affect a Government’s revenue and its ability to provide social services. A number of sectors of activities may be disrupted as part of the process of reallocating resources, resulting in job losses in these sectors. New growth opportunities generated by trade and investment may also put pressure on the environment and increase health risks, such as through increased amounts of waste and polluting emissions.

In that context, the policy framework proposed in the 2017 *Asia-Pacific Trade and Investment Report* highlights four key elements that are needed to more effectively channel trade and FDI into sustainable development. The first is concerned with ensuring that general policies on trade and investment liberalization are accompanied by targeted trade and investment policies aimed at the specific Sustainable Development Goals.<sup>a</sup> For example, achieving quality education for all (Goal 4) may involve the liberalization of certain education services. The second, and possibly most important, element in this framework refers to complementary domestic policies that are not specifically related to trade or FDI. For example, domestic environmental regulations are essential, as they can help ensure that foreign investors do not see a country as a pollution haven in which they can manufacture products without regard for the environment. The third component is concerned with good domestic governance, to ensure that the aforementioned policies are actually implemented efficiently. This component is essential, for example, for effective revenue collection and its subsequent use towards sustainable development. The fourth element is concerned with simple and efficient trade procedures, which are key to ensuring that trade is inclusive, and that the transaction process itself creates as few environmental impacts as possible.

The 2017 *Asia-Pacific Trade and Investment Report* features a quantitative evaluation of alternative regional trade and investment liberalization scenarios in terms of impact on trade and growth, as well as on inequality and the environment. The exercise confirms the relevance of the framework, showing that the best outcome is yielded by an integrated approach to trade and investment liberalization that is grounded on the simplification of trade procedures and supplemented by the implementation of the Paris Agreement on climate change and national income redistribution policies. Such an integrated approach results in higher overall economic growth for the region compared to all other stand-alone trade or investment policies, while also mitigating the impact on inequality and the environment.

<sup>a</sup> Developed economies are already expected to accord preferential treatment and tariff exemptions to least developed countries (Sustainable Development Goal targets 10.a and 17.11) and to establish policies that promote FDI to these economies (target 17.5).

22. The thematic part of the 2017 *Asia-Pacific Trade and Investment Report* served as a background document for the fifth session of the Committee on Trade and Investment and activities during the fifth Asia-Pacific Trade and Investment Week, which was held in Bangkok from 30 October to 3 November 2017. The Asia-Pacific Trade and Investment Week is a platform for bringing together government officials and other stakeholders every two years for discussions on issues of importance to trade and investment policymaking in the region.

23. The secretariat also published the findings of research and analytical work through various types of publication. Comprehensive analyses of selected current issues are covered in non-recurrent publications, such as commentaries, working papers and monograph studies. The publications contain analyses of contemporary issues in the areas of trade, investment and innovation, offer examples of good practice in trade and investment policymaking, and help to disseminate key research findings of relevance to policymaking. They are freely accessible on the ESCAP website at [www.unescap.org/our-work/trade-investment-innovation](http://www.unescap.org/our-work/trade-investment-innovation). The three most recent publications in the ESCAP Studies in Trade, Investment and Innovation series were focused on digital trade facilitation in Asia and the Pacific, socially responsible business, and services and global value chains. The Asian Development Bank (ADB) and ESCAP also issued a number of joint reports on trade in 2017, including a joint study entitled *Trade Facilitation and Better Connectivity for an Inclusive Asia and the Pacific*.

24. A substantial amount of research related to trade and investment is being conducted through the Asia-Pacific Research and Training Network on Trade and the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific. The Asia-Pacific Research and Training Network on Trade is an open regional network composed of leading research institutions and think tanks working on trade, investment and related issues across the Asia-Pacific region. Since its establishment in 2004, it has continued its operations along all three dimensions of sustainable development. By expanding its membership sixfold, it has continued to serve researchers, policymakers and other stakeholders by providing opportunities for applied research, training and communication of research findings through various dissemination channels. Its policy briefs and working papers are available from <https://artnet.unescap.org>. The United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific is a regional community of knowledge and practice dedicated to trade facilitation through the development of single windows and other paperless trade systems. Policy briefs, trade process analysis studies and implementation guides developed by the community are available from <https://unnex.unescap.org/>.

25. The secretariat also provides knowledge products through a series of databases and online tools for applied trade, investment and innovation analyses. The Asia-Pacific Trade and Investment Agreements Database is an interactive online database providing useful tools for ESCAP and external stakeholders (Governments, researchers and policy analysts) to monitor and analyse the development of preferential trade agreements. A new interactive database on the implementation of trade facilitation and paperless trade measures was also developed in 2017, based on the results of the Global Survey on Trade Facilitation and Paperless Trade Implementation that was implemented jointly with the other United Nations regional commissions.<sup>6</sup> Another important database is the joint ESCAP-World Bank Trade Cost Database, which provides a unique set of consistent bilateral trade cost data that is now used by policy research institutions and international organizations around the world to examine the impact of trade agreements or measures, and is updated annually. Most recently, ESCAP has developed the Asia-Pacific Trade Indicators Portal as part of a United Nations Development Account project on enhancing the contribution of preferential trade agreements to inclusive and equitable trade. The portal enables examination of the relationship between various trade and sustainable development indicators, including participation in regional trade agreements.<sup>7</sup>

26. In the area of FDI, the secretariat published the *Handbook on Policies, Promotion and Facilitation of Foreign Direct Investment for Sustainable Development in Asia and the Pacific*.<sup>8</sup> In this publication, the secretariat seeks to take stock of findings, experiences and best practices with respect to inward FDI and summarize them in a convenient package that helps policymakers to formulate better FDI policies and investment promotion agencies to better promote and facilitate FDI for sustainable development.

## **B. Capacity-building**

27. In 2017, ESCAP continued its cooperation with key partners, including other United Nations entities, in order to strengthen the capacities of ESCAP members and associate members in trade and investment policymaking as essential means of implementation of the 2030 Agenda. Overall, the secretariat built the capacity of nearly 1,000 developing country officials and other stakeholders on various aspects of trade and investment for sustainable development in 2017. A large majority of sponsored workshop participants and project beneficiaries were from countries with special needs. On average, nearly 90 per cent of participants at the events agreed or strongly agreed that attendance had been useful in building their own capacity as well as that of their organizations.

28. The secretariat has enhanced its efforts to develop e-learning and online training courses to reach a wider audience more effectively. For example, in collaboration with the Asia-Pacific Research and Training Network on Trade, ESCAP released online courses focusing on trade and the Sustainable Development Goals, and on the negotiation of preferential trade agreements. Access to the courses is free to the public and the content has been chosen to provide accessible learning. For example, the course on trade and the Sustainable Development Goals covers the transition from the Millennium Development

<sup>6</sup> United Nations, “Trade facilitation and paperless trade implementation: global report 2017”. Available from [www.unescap.org/resources/trade-facilitation-and-paperless-trade-implementation-global-reports-2017](http://www.unescap.org/resources/trade-facilitation-and-paperless-trade-implementation-global-reports-2017) (accessed 19 February 2018).

<sup>7</sup> See <https://artnet.unescap.org/trade/da9-project>.

<sup>8</sup> ST/ESCAP/2786. Available from [www.unescap.org/resources/handbook-policies-promotion-and-facilitation-foreign-direct-investment-sustainable-0](http://www.unescap.org/resources/handbook-policies-promotion-and-facilitation-foreign-direct-investment-sustainable-0).

Goals to the Sustainable Development Goals and the process and rationale behind opting for universal goals, and introduces the main linkages between trade and the Sustainable Development Goals. The three modules now form a basic-level course and will be followed by more advanced and tailored courses to respond to capacity-building needs in this substantive area. A course on negotiating goods liberalization through preferential trade agreements covers preparation for the negotiation, implementation and evaluation of the impact of preferential trade agreements. Another example is the ESCAP e-learning course on business process analysis for trade facilitation, which has now been made available through the dedicated WTO Trade Facilitation Agreement Facility website.

29. The secretariat has made special efforts to reach out to and include a wider range of stakeholders in its capacity-building activities. For example, as part of the fifth Asia-Pacific Trade and Investment Week, an event entitled “Youth and the digital economy: realizing the growth potential of young entrepreneurs for sustainable development” was organized in Bangkok in collaboration with the ESCAP Sustainable Business Network (Task Force on Youth and Women Entrepreneurship). Research institutions and think tanks from developing countries are also regularly involved in ESCAP activities through the Asia-Pacific Research and Training Network on Trade.

30. The secretariat also facilitates regional coordination among the many actors involved in building capacity in trade and investment in the region whenever possible. For example, the secretariat has facilitated regular consultations between stakeholders working to promote the development of small and medium-sized enterprises in the Greater Mekong Subregion. It also supports the Regional Organizations Cooperation Mechanism for Trade Facilitation in collaboration with ADB, to maximize synergies between the trade facilitation programmes of the various international and regional organizations.<sup>9</sup>

31. In the area of trade policy and negotiations, a number of regional- and national-level tailored capacity-building programmes were organized in 2017. These events were generally delivered in close collaboration with partner institutions and agencies such as the German Agency for International Cooperation, the International Institute for Trade and Development, the Indian Institute for Foreign Trade and WTO. Most were targeted at least developed countries including Afghanistan, Bhutan, Cambodia, the Lao People’s Democratic Republic and Myanmar. Training took place in various areas such as negotiating environmental goods and services, analysing non-tariff measures, enabling effective participation in the multilateral trading system and enhancing the contribution of preferential trade agreements to inclusive and equitable growth.

32. Through the Asia-Pacific Research and Training Network on Trade, the secretariat also supported capacity-building for developing-country think tanks, including on gravity and other modelling techniques for assessing the impact of trade policy and facilitation. In the period 2016–2017, ESCAP conducted 39 technical assistance and capacity-building activities on trade policy and analysis through the WTO/ESCAP Programme of Technical Assistance for Asia and the Pacific and the Asia-Pacific Research and Training Network on Trade. More than 1,132 officials, researchers and other stakeholders involved in trade policymaking participated in the capacity-building activities, with 46 per cent of participants from least developed countries and 14 per cent from landlocked developing countries. Between July and December 2017, the average number of users on the Network website was 409 per month.

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<sup>9</sup> See [www.unescap.org/our-work/trade-investment-innovation/trade-facilitation/roc-tf](http://www.unescap.org/our-work/trade-investment-innovation/trade-facilitation/roc-tf).

33. In the area of trade facilitation, the secretariat organized national and regional workshops to support the implementation of paperless trade and digital trade facilitation, including in cooperation with ADB, the Economic Commission for Europe, the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific and the World Customs Organization, among others. The secretariat continued to deliver capacity-building activities on cross-border paperless trade, in particular in conjunction with the meetings of the Interim Intergovernmental Steering Group on Cross-border Paperless Trade Facilitation. Capacity-building and pilot projects in this area have been supported by an increasing number of bilateral development partners, including China, the Republic of Korea and the Russian Federation. Recent projects have included capacity-building for single-window interoperability among members of the Eurasian Economic Commission, and a pilot exchange of electronic trade data between China, Mongolia, the Republic of Korea and the Russian Federation.

34. ESCAP also deepened collaboration with ADB on trade facilitation in 2017. The eighth Asia-Pacific Trade Facilitation Forum was co-hosted by ADB and ESCAP with the Government of Indonesia in September 2017, along with 10 capacity-building and related events to support trade facilitation innovation for sustainable development. ESCAP and ADB also released baseline studies for the establishment of monitoring mechanisms for trade and transport facilitation in Bangladesh, Bhutan and Nepal. This work, initiated in 2015, formed the basis for a global recommendation on establishing the monitoring mechanisms, adopted as a recommendation of the United Nations Centre for Trade Facilitation and Electronic Business in 2017.

35. In the area of investment, national-level training workshops were organized in Myanmar and Uzbekistan in 2017. The seventh meeting of the Asia-Pacific Foreign Direct Investment Network for Least Developed and Landlocked Developing Countries was also organized and attended by government representatives from 16 countries, with a focus on recent developments and challenges in international investment agreements and the management of State dispute settlement and other related issues. The secretariat organized several meetings to promote responsible business practices in such areas as business and human rights (with the United Nations Development Programme, the ASEAN Corporate Social Responsibility Network and the ASEAN Intergovernmental Commission on Human Rights), sustainable agrifood business and sustainable water management on resort islands.

36. In the area of the development of small and medium-sized enterprises, the secretariat co-organized a workshop on international trade finance and the development of global value chains, with the International Chamber of Commerce, in Bangkok in December 2017. Under a project supported by the Republic of Korea and the ESCAP Sustainable Business Network, the secretariat supported the development of a regional platform website for linking small and medium-sized enterprises to regional and global partners. Following the soft launch of the platform ([www.smehive.com/about.html](http://www.smehive.com/about.html)), future outreach activities will be planned in consultation with participating Governments and the ESCAP Sustainable Business Network (Task Force Youth and Women Entrepreneurship). At the time of preparing present document, preparations were in full swing for the Asia-Pacific Business Forum that is scheduled to be held in Hong Kong, China, in April 2018 in collaboration with Cyberport. The Forum will address issues related to technology and innovative finance in the context of achieving the 2030 Agenda.

37. In the area of technology and innovation, the secretariat organized activities to help small and medium-sized enterprises use technology in support of trade, in particular e-commerce and other digital trading solutions such as

online payment systems. The secretariat and the World Intellectual Property Organization co-organized a workshop on building the innovation and technological capacities of least developed countries in Asia and the Pacific in Bangkok in November 2017, which offered a good opportunity to present the work of ESCAP in this area (including the work of the Asian and Pacific Centre for Transfer of Technology) to participants from the departments of intellectual property, ministries of science and technology and the private sector from Bhutan, Cambodia, the Lao People's Democratic Republic, Myanmar and Nepal. Other events included an Asia-Pacific forum on science and technology parks in Hefei City, China, in November 2017 and a high-level seminar on the "Creative economy and copyright as pathways to sustainable development" in Bangkok in December 2017. ESCAP and the British Council also jointly organized a policy dialogue on social enterprise and social impact investment in Christchurch, New Zealand, in September 2017, in conjunction with the Social Enterprise World Forum.

38. Though it is not always easy to assess the impact and results of the reported activities, in particular with respect to attribution, evaluation questionnaires of capacity-building activities routinely reveal a high appreciation rate. In the area of trade facilitation alone, in 2017 more than 600 people trained noted high appreciation for the training and indicated that their capacity in the area had increased. With regard to knowledge products and publications in the area of trade and investment, during the biennium 2016–2017 there were more than 2,582 content downloads and more than 60 citations of these publications. In trade facilitation alone, the number of downloads of relevant publications published in the period 2016–2017 was 753.

### **C. Regional cooperation**

39. The secretariat regularly organizes intergovernmental and multi-stakeholder conferences and forums which, in addition to capacity-building, are important mechanisms for regional cooperation in the areas of trade, investment and innovation. Aside from the annual Asia-Pacific Business Forum, meeting of the Asia-Pacific Foreign Direct Investment Network for Least Developed and Landlocked Developing Countries and Asia-Pacific Trade Facilitation Forum and other regional events mentioned above, the biennial Asia-Pacific Trade and Investment Week provides an important platform for regional cooperation on trade and investment issues. Drawing on the presence of senior policymakers from across the Asia-Pacific region attending the biennial sessions of the Committee on Trade and Investment, the Week comprises a number of engaging events related to trade and investment policymaking. The fifth Asia-Pacific Trade and Investment Week was held in Bangkok from 30 October to 3 November 2017.

40. As mandated by Commission resolutions 68/3 and 72/4, the secretariat continued to support regional cooperation on trade facilitation and paperless trade. Following adoption of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific in 2016, signing ceremonies were held in Bangkok on 29 August 2017 and during the session of the General Assembly in New York in September 2017. Armenia, Bangladesh, Cambodia, China and the Islamic Republic of Iran have signed the Framework Agreement and other countries are preparing to join through direct accession. The fourth meeting of the Interim Intergovernmental Steering Group on Cross-border Paperless Trade Facilitation will be held on 22 and 23 March 2018 to review and guide the work of its Legal and Technical Working Groups on the development of tools to facilitate the implementation of the substantive provisions of the Framework Agreement.

41. As the secretariat of the Asia-Pacific Trade Agreement, the oldest preferential trade agreement in operation for the Asia-Pacific region, ESCAP has continued to provide its dedicated services to this unique trade agreement open to all the developing member States of ESCAP. In 2017, the secretariat organized the fourth session of the Ministerial Council of the Asia-Pacific Trade Agreement, at which the Ministerial Council formally adopted the results of the fourth round of negotiations, on preferential tariff reductions. Various standing committees were organized while negotiations on revising the rules of origin started. In March 2018, the working groups on investment, trade facilitation and trade in services were scheduled to start their work on the implementation of the framework agreements in these areas. Capacity-building events were organized on electronic certificate of origin and harmonization of documents for the issuance of certificate of origin under the Asia-Pacific Trade Agreement and on how to utilize opportunities from its membership in Mongolia.

42. The secretariat also plays an important role in forging regional cooperation among multiple stakeholders in Asia and the Pacific beyond Governments. For instance, with regard to the networking of research institutions in trade, the Asia-Pacific Research and Training Network on Trade received increased recognition and continued to grow in 2017. As of December 2017, it comprised 69 member institutions from 23 countries, as well as 11 associate partners, 6 core partners and 9 collaborators (details available from <https://artnet.unescap.org/>). Its network of researchers and experts continues to grow and has now reached more than 1,600 individuals.

43. Regional cooperation with a focus on business engagement is taking place through the ESCAP Sustainable Business Network, which integrated the ESCAP Business Advisory Council as its Executive Council in a much reduced form at its meeting on 30 October 2017. The ESCAP Sustainable Business Network is also the driving force behind the Asia-Pacific Business Forum. The secretariat has continued to backstop and support events organized by the Network, including national and regional events, campaigns, workshops and the development of web materials and guidebooks. The Network currently consists of seven task forces, working in the following areas: (a) green business; (b) disaster and climate risk reduction; (c) banking and finance; (d) digital economy; (e) innovation and competitiveness; (f) youth and women entrepreneurship; and (g) agriculture and food. The Network is scheduled to meet on 9 April 2018 in Hong Kong, China, prior to the Asia-Pacific Business Forum, to discuss the further rationalization of its task forces in line with ESCAP work areas and the 2030 Agenda, and the membership and terms of reference of its Executive Council.

44. In the area of technology and innovation, the secretariat convened panels at the Fourth Asia-Pacific Forum on Sustainable Development, held in Bangkok in March 2017, which included regional members of the High-level Panel on Technology Bank for Least Developed Countries and the 10-Member Group that supports the Technology Facilitation Mechanism.

### **III. Way forward and issues for consideration by the Commission**

45. The future work of the secretariat in trade and investment is inherently linked to the wider ESCAP and United Nations strategies, action plans and initiatives towards achieving the 2030 Agenda and associated Sustainable Development Goals with a focus on assisting the countries with special needs. The future work will also be shaped by ongoing United Nations reforms spearheaded by the Secretary-General, which include plans to evolve

the regional commissions as think tanks with an enhanced focus on research and analysis.

46. The regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific, adopted by ESCAP members in 2017, specifies a number of priority areas.<sup>10</sup> Means of implementation prioritized include technology, policy coherence and North-South, South-South, international and regional partnerships. Thematic issues prioritized include leaving no one behind, the management of natural resources and connectivity for the 2030 Agenda. Under this last thematic issue, a specific trade-related regional cooperation opportunity identified in the road map is to enable paperless trade and e-commerce and review the current approaches towards regional integration to improve their efficacy, in particular to simplify and harmonize trade and supporting regulations and procedures to make the benefits of trade accessible for all. Accordingly, the secretariat will continue supporting and deepening work in these areas, including through the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific, the Regional Organizations Cooperation Mechanism for Trade Facilitation and the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, as well as several related projects on trade facilitation research and capacity-building. Increasing emphasis will be placed on research on digital trade issues to support policymaking in this area and enable e-commerce.

47. Based on policy challenges identified earlier, the secretariat will continue supporting integrated research, capacity-building and regional cooperation efforts with respect to trade policy and facilitation. Specifically, forthcoming work will focus on reducing the impact of non-tariff measures as barriers to trade, while enhancing their impact on sustainable development. An impact assessment methodology, as well as regional workshops and online training in this area, will be developed in collaboration with UNCTAD in 2018–2019, building upon joint data collection efforts in several countries of the region. The secretariat will also deepen its work on understanding the impact of preferential trade agreements on sustainable development. As discussed by the Committee on Trade and Investment, this is expected to include the development of tools to build the capacity of developing economies to negotiate preferential trade agreements for sustainable development. Guidelines on how to mitigate and share trade adjustment costs between beneficiaries and those adversely affected by trade agreements, as well as on model social and environmental provisions in preferential trade agreements, may also be developed.

48. The secretariat will continue to maintain knowledge products such as the ESCAP-World Bank Trade Cost Database, the database of the Global Survey on Trade Facilitation and Paperless Trade Implementation and the Asia-Pacific Trade and Investment Agreements Database to track and monitor the impact of trade-related policies and the performance of preferential trade agreements. It will continue to conduct research to assess the impact of new trade agreements involving countries of the region, including the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and pending modalities for a fifth round of tariff negotiations under the Asia-Pacific Trade Agreement. It will continue its search for appropriate platforms for consolidating preferential trade agreements, in particular rules of origin, while mapping such agreements on their contribution to sustainable development. Research will also increasingly focus on the role of trade in services and e-commerce in the region and its impact on sustainable development.

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<sup>10</sup> See Commission resolution 73/9.

49. With particular reference to FDI and private sector development, research will be ongoing to identify sustainability indicators for the international investment agreements and best practices in making FDI work for sustainable development. The secretariat plans to update and expand the *Handbook on Policies, Promotion and Facilitation of Foreign Direct Investment for Sustainable Development in Asia and the Pacific* and the *Policy Guidebook for SME Development in Asia and the Pacific*,<sup>11</sup> under the eleventh tranche Development Account project on fostering inclusive and sustainable development through increased participation of small and medium-sized enterprises in global value chains in Asian least developed and landlocked developing countries. In particular, the secretariat will undertake research on how linkages between transnational corporations and small and medium-sized enterprises can be strengthened within the context of regional and global value chains, identifying success factors and seeking to find indicators that assess the strength and sustainability of existing value chains. The secretariat will also continue to undertake policy advocacy for the adoption of responsible business practices and of enabling policies for that purpose.

50. With reference to capacity-building, the secretariat intends to continue its technical assistance under frameworks such as the WTO-ESCAP Programme of Technical Assistance for Asia and the Pacific, the Asia-Pacific Research and Training Network on Trade and the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific. In particular with reference to trade facilitation, capacity-building of relevant policymakers will take place on the implementation of the provisions of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific. Based on the *Handbook* and training modules on FDI for sustainable development, capacity-building will be conducted upon request from individual countries, in particular countries with special needs, to help them promote, attract and facilitate FDI through mechanisms such as special economic zones, as requested by the Committee on Trade and Investment.

51. Regional cooperation will also continue within the context of the Asia-Pacific Research and Training Network on Trade, the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific, the Asia-Pacific Foreign Direct Investment Network for Least Developed and Landlocked Developing Countries and the Asia-Pacific Business Forum. The secretariat will continue to backstop the Asia-Pacific Trade Agreement to the extent that its internal resources allow, but intends to maintain the Agreement's principally country-driven nature.

52. With reference to the implementation of the regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific, engagement of business will be strengthened, in particular through a reformed and revitalized ESCAP Sustainable Business Network and its task forces and the Asia-Pacific Business Forum, though additional modalities will also be explored.

53. In this context, the Commission is invited to review, comment and provide suggestions and input in the following areas, in particular, of the secretariat's work:

(a) Enhanced focus on research and analysis complementing capacity-building and regional cooperation for policymakers in trade, investment and

<sup>11</sup> *Policy Guidebook for SME Development in Asia and the Pacific* (United Nations publication, Sales No. E.12.II.F.2).

innovation within the context of the wider reforms of the United Nations as proposed by the Secretary-General;

(b) Priority areas for future research and analysis as identified above, and proposals for additional forward-looking topics and areas;

(c) The issue as to whether trade and investment should be prioritized as means of implementation in future updates to the regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific;

(d) The question as to how to deepen and strengthen the engagement of the business sector in efforts to achieve the 2030 Agenda, with particular reference to the roles of the ESCAP Sustainable Business Network and the Asia-Pacific Business Forum as established mechanisms for that purpose.

54. In addition, in view of a possible rebalancing of capacity-building and advocacy activities under trade, investment and innovation, the Commission may wish to guide the secretariat by identifying priorities for these activities.

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