Economic and Social Commission for Asia and the Pacific

Third Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific

Bangkok and online, 28–30 September 2022

Item 2 (a) of the provisional agenda*

Building resilience to crises through regional economic cooperation and integration: strengthening resilience through trade and investment for sustainable development in times of crisis

Enabling trade and investment for sustainable development in times of crisis

Note by the secretariat

Summary

The present document addresses the importance of enhancing regional economic cooperation and integration in trade and investment for sustainable development in times of crisis. Through cooperation at regional and global levels, trade and investment can play an essential role in helping countries to navigate crises. In an open and coordinated environment, trade and investment can help countries to access the goods, services, capital and technology that are desperately needed to confront crises. Open trade, combined with government support, has enabled countries to meet the surge in demand for medical supplies, food and climate-friendly technology. Recent crises have exposed the downsides of market integration through trade and investment and existing gaps in international cooperation. The excessive concentration of production in selected products in certain geographic areas, restrictive trade and investment policies, supply chain disruptions, inadequate trade facilitation and regulatory divergences have limited opportunities to fully realize the potential of trade and investment for navigating crises and achieving sustainable development. Given this, the present document contains a summary of trade and investment challenges in the context of current crises and an outline of priority areas for regional cooperation and integration through trade and investment.

Members and associate members of the Economic and Social Commission for Asia and the Pacific may wish to consider the recommendations, actions and initiatives highlighted in the present document to advance inclusive and sustainable trade and investment, in particular by: (a) liberalizing trade in essential health products and climate-smart and other environmental goods and services, on a unilateral basis or as part of regional or multilateral initiatives; (b) having provisions in regional trade agreements to address crises in a coordinated manner and to keep markets open; (c) taking advantage of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific and the regional Paperless Trade Council to streamline trade procedures and enhance interoperability to help to reduce trade costs and expedite the cross-border flows of critical goods during a crisis.

* ESCAP/MCREI/2022/L.1.
crisis; (d) creating an enabling environment for a sustainable transition toward digitalization, which will require regional efforts to step up regulatory cooperation, while making informed policy decisions and clearly understanding the trade-off between different approaches to regulating digital trade; (e) encouraging private sector entities to pledge their commitment to the Asia-Pacific Green Deal for Business; (f) broadening the Asia-Pacific Foreign Direct Investment Network for Least Developed and Landlocked Developing Countries to become a regional investment cooperation platform to support the promotion and facilitation of sustainable foreign direct investment, which helps countries to achieve their Sustainable Development Goal priorities and address transboundary challenges; and (g) supporting low-income and the least developed countries to narrow gaps in their productive and negotiation capacities, reduce the regulatory divide and improve their readiness for digital transformation.

Members and associate members of the Commission may also wish to indicate the types of support they would like to receive, such as policy- and strategy-related services, capacity-building, research and analysis, and knowledge-sharing, in promoting inclusive and sustainable trade and investment through regional cooperation.

I. Introduction

1. Through cooperation at regional and global levels, trade and investment can play an essential role in helping countries to navigate crises. In an open and coordinated environment, trade and investment can help countries to access the goods, services, capital and technology that are desperately needed to confront crises. Open trade, combined with government support, has enabled countries to meet the surge in demand for medical supplies, food and climate-friendly technology.

2. However, recent crises have exposed the downsides of market integration through trade and investment and existing gaps in international cooperation.


II. Trade and investment in times of crisis

A. Trends in and impacts of crises on trade

1. Health crisis

4. Since 2020, the COVID-19 pandemic has posed significant challenges to trade. The Asia-Pacific region experienced a 3 to 6 per cent decline in merchandise trade value in 2020. Trade in services contracted more severely by more than 20 per cent in the same period (figure I), in particular, consumption abroad and cross-border movement of people (modes 2 and 4 in the World Trade Organization (WTO) definition of services trade and modes of supply). Several factors drove the sharp decline in trade in 2020, including falling global demand, cross-border restrictions, port closures and supply chain disruptions. Developing economies in South Asia, South-West Asia, and North and Central Asia suffered the largest export crunch in 2020, pressured by falling commodity and fuel prices. The Russian Federation (-20.6 per cent), Kazakhstan (-19.7 per cent), the Islamic Republic of Iran (-16.1 per cent),
Bangladesh (-16.2 per cent), Sri Lanka (-15.9 per cent) and Pakistan (-11.5 per cent) were among the countries with the lowest export growth.\(^1\) Although there was a rebound in merchandise trade in 2021, the recovery has proven fragile. In 2022, the high risk of a resurgence in the COVID-19 pandemic, the limited duration and capacity of fiscal stimulus packages and spillovers from the crisis in Ukraine have compounded the already significant downward pressure on trade.

Figure I

**Asia-Pacific nominal growth of exports and imports, 2018–2022**

(Percentage)

Sources: ESCAP calculations based on data from World Trade Organization (WTO) Stats, available at [https://stats.wto.org/](https://stats.wto.org/) (accessed on 1 July 2022); and the Economist Intelligence Unit.

Note: 2022 (p) is a prediction.

5. Between 2019 and 2020, the number of supply chain disruptions increased by 14 per cent.\(^2\) In August 2021, amid rising cases of COVID-19 in the region, the gap between ordering and delivering a semiconductor ballooned from eight days to 20 weeks, which caused disruptions in car and electronic industries that together capture approximately 40 per cent of total merchandise exports from the Asia-Pacific region. Similarly, supply chains were disrupted in the textile industry, which is an important export industry of lower-middle-income economies. For example, a lockdown in Viet Nam caused a halt in the global production of sportswear for months.\(^3\) Because of the logistic delays and backlogs, the global supply chain pressure index rose remarkably from an average of -0.04 in 2019 to 2.98 in 2021.\(^4\) The average over the first five months of 2022 remained high at 3.11, with uncertainties driven by the lockdown in manufacturing hub cities of China in April and May 2022.

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\(^3\) ESCAP, “Trade in goods outlook in Asia and the Pacific”.

\(^4\) ESCAP calculations based on Federal Reserve Bank of New York, Global Supply Chain Pressure Index. Available at [www.newyorkfed.org/research/policy/gscpi/#/interactive](http://www.newyorkfed.org/research/policy/gscpi/#/interactive) (accessed on 1 July 2022).
6. There have also been positive recent developments. New trade opportunities have emerged in services due to accelerated digitalization. The shift to remote working and increased digitalization during the COVID-19 pandemic has considerably boosted trade in information and communications technology (ICT) and financial services. WTO estimated that, globally, computer services export grew 34 per cent between 2019 and 2021. Selected segments of other services, such as education, recreation and professional services that can be delivered digitally, have experienced a considerable growth of 15 to 17 per cent. With higher digital competitiveness, advanced economies may significantly benefit from trade opportunities accelerated by digital transformation.

2. Crisis in Ukraine

7. The incipient global and regional trade recovery from the COVID-19 pandemic has lost momentum due to the spillover effects from the crisis in Ukraine. The expectation of WTO for trade growth in real terms for 2022 was lowered from 4.7 to 3 per cent. ESCAP has forecasted that countries in the Asia-Pacific region, with the exception of the Russian Federation, may see real trade growth of between 0 and 2 per cent.

8. Higher food and energy prices pose the most significant challenge. There have been substantial supply shortages in food, feed, fertilizers, fuel and raw materials, resulting in higher prices for these products. The Food and Agriculture Organization of the United Nations (FAO) anticipates that global food and feed prices will rise by 8 to 22 per cent above the 2022 baseline because of the crisis in Ukraine. Higher fuel and transport costs will also affect the production of manufacturing goods in global value chains, travel and transportation services.

9. Small emerging economies that are net commodity importers will suffer most from negative terms of trade shocks, food insecurity, and lower productivity and competitiveness in the export sector. The most vulnerable economies tend to be small countries in the Pacific, countries in North and Central Asia and least developed countries. At the macro level, net fuel exporters may benefit from positive terms of trade shocks. However, at the micro level, households and firms will experience a reduction in purchasing power and suppression of demand.

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5 WTO, “High shipping rates and digital services sustain services trade recovery in Q3 of 2021”, 1 February 2022.
6 WTO, “Russia-Ukraine conflict puts fragile global trade recovery at risk”, press release, 12 April 2022.
3. Climate crisis

10. There is growing concern that efforts to address climate change, a long-term crisis, will decline. Back-to-back shocks have constrained the fiscal space and heightened macroeconomic uncertainty. In addition to an enlarged financing gap caused by stressed balance of payments, the fear of fuel shortages could push countries to increase fuel subsidies and coal dependency despite commitments made at the twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change.

11. Asia and the Pacific is one of the regions most vulnerable to climate change. The adverse impacts are disproportionate. Small island developing States that depend on agricultural and fishery exports, including Kiribati, Maldives, Micronesia (Federated States of), Solomon Islands and Vanuatu, are among the most exposed to climate risks.

12. While it is among the most vulnerable, the region is also home to the biggest contributors to global warming. The Asia-Pacific region accounts for approximately 60 per cent of greenhouse gas emissions. However, its emissions are driven more by production for exports than for domestic consumption (figure II).

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10 United Nations, “Rescuing Sustainable Development Goals more important than ever, Secretary-General tells Economic and Social Council, stressing “This is no time for complacency”, press release, 17 May 2022.

11 Is 1.5°C within Reach for the Asia-Pacific Region? Ambition and Potential of NDC Commitments of the Asia-Pacific Countries (ST/ESCAP/2979).

13. Meeting the target of limiting global warming to 1.5°C above pre-industrial levels and transitioning towards climate-smart trade and investment are challenging for Asia-Pacific economies, given their current trade patterns and climate actions. On average, Asia-Pacific economies have increased the share of carbon-intensive fossil fuels in their trade since 2015. Among other factors, fossil fuel subsidies contribute to the increasing trend.

14. Cumulative greenhouse gas emissions in the Asia-Pacific region are back on the rise following a brief stall in early 2020 and are set to surpass the regional record of 36.7 gigaton of carbon dioxide equivalent by the end of 2021. The temporary slowdown of greenhouse gas emissions was due to the reduction in shipping, travel and aviation. Early signals in 2022 show a rebound in global energy demand and greenhouse gas emissions after the partial resumption of travel and economic activities.

4. Trade policy in times of crisis

15. Governments in the region have used trade policies to alleviate shortages. In terms of import- and export-related measures taken in response to the COVID-19 pandemic (figure III), Governments have taken a two-pronged approach: they have restricted exports of critical goods (mostly medical) while liberalizing imports to facilitate access to essential goods. Trade restrictions have increased trade costs and risk premiums in the region. ESCAP has found that overall trade costs in the Asia-Pacific region rose during

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13 Ibid.
14 Is 1.5°C within Reach for the Asia-Pacific Region?
2020 by 7 per cent on average.\textsuperscript{15} According to the World Bank and WTO, restrictive trade measures increased trade costs by up to 60 per cent for medical goods.\textsuperscript{16} Similarly, temporary export control measures appeared in medical services. For example, the Philippines temporarily banned health professionals from travelling overseas.

Figure III
COVID-19 trade-related policies implemented by Asia-Pacific economies, by product targeted and implementation date


\textsuperscript{15} Beyond the Pandemic: Building Back Better from Crises in Asia and the Pacific (United Nations publication, 2021).

\textsuperscript{16} World Bank and WTO, Trade Therapy: Deepening Cooperation to Strengthen Pandemic Defenses (Washington, D.C., 2022).
16. Governments in the region and beyond have scrambled to secure food supplies by implementing import liberalizing and facilitation measures while restricting exports. Globally, the number of countries with active export restrictions on food increased from 3 in February 2022 to 23 in June 2022, including 11 Asia-Pacific economies.\(^{17}\) Examples so far include reductions on import duties (Pakistan) and value added tax (Bangladesh) on certain vegetable oils and an export ban on sunflower oil (Türkiye). Such policies are also being implemented outside the region, further stifling supply and increasing shortages. Notably, other related products have been affected: Indonesia, the world’s largest producer and exporter of palm oil, imposed a temporary export ban to address its spiralling inflation. Other products are also being affected by restrictive trade policies (e.g. meat, soy and fertilizers). It is important to consider the impacts on substitutes, such as a variety of consumable oils, wheat, animal feed and sources of fertilizing nutrients. Indeed, an export ban enacted in Malaysia on poultry was partly blamed for the increasing costs of grain-based birdfeed. The effects of the crisis in Ukraine are still emerging, given that new sanctions and responses are ongoing. Nevertheless, the effect on the prices and availability of food and energy will be far-reaching. Wheat prices, in particular, will be significantly affected, as Ukraine was the fifth-largest exporter in the world in 2020. The World Bank predicts global price increases of more than 40 per cent.\(^{18}\)

17. One recent welcome development was the decision to address the lack of disciplines for export controls that was taken at the Twelfth Ministerial Conference of WTO. In the Ministerial Declaration on the Emergency Response to Food Insecurity, ministers underscored the need for agricultural trade to flow and reaffirmed the importance of not imposing export restrictions or prohibitions inconsistent with relevant WTO provisions. The Ministerial Declaration, however, lacks binding rules.

18. There have been other positive developments in response to the various crises. Many countries in the Asia-Pacific region have expedited the transition from paper to electronic documents to reduce physical contact and increase trade efficiency.\(^{19}\) In addition, there have also been increased efforts to develop telehealth services in response to the health crisis, although with more focus on domestic as opposed to cross-border health services delivery. The vulnerabilities exposed by these recent crises have also made many countries more aware of the need for regionally coordinated actions to address cross-border challenges. For example, members of the Association of Southeast Asian Nations (ASEAN) have reaffirmed their commitment to ensuring the smooth flow and transfer of essential health products.\(^{20}\)

\(^{17}\) ESCAP calculations based on data from International Food Policy Research Institute, “Food and fertilizer export restrictions tracker”. Available at https://public.tableau.com/app/profile/laborde6680/viz/ExportRestrictionsTracker/FoodExportRestrictionsTracker (accessed on 1 July 2022).


\(^{19}\) Beyond the Pandemic: Building Back Better from Crises in Asia and the Pacific.

19. It is also encouraging that Asia-Pacific economies are leveraging regional integration initiatives to address immediate and longer-term crises. New regional trade agreements include provisions for taking emergency measures. For example, the Regional Comprehensive Economic Partnership Agreement, article 5.11, deals with emergency sanitary and phytosanitary measures and provides for a consultation mechanism. Such regional trade agreements are also increasingly providing a platform for strengthening regional cooperation to address climate change and other sustainable development objectives. The vast majority – 85 per cent – of the regional trade agreements signed after 2005 by at least one Government in the Asia-Pacific region contain one or more climate-related provisions.\(^{21}\)

20. However, in the case of a slower onset crisis, namely climate change, it appears that policymakers remain unconvinced about the need for urgent action. ESCAP findings show that trade policies hampering trade in environmental goods are more prevalent than those restricting trade in goods that are undesirable from the point of view of climate change, such as carbon-intensive fuels (coal). Tariffs on environmental goods are generally higher than on coal in the region (figure IV) and face more non-tariff barriers.\(^{22}\)


\(^{22}\) Ibid.
Figure IV
Average applied tariffs on environmental goods compared to carbon-intensive fossil fuels

Source: Asia-Pacific Trade and Investment Report 2021 (see figure II).

B. Trends in and impacts of crises on intraregional investment

21. Despite recent dips in global and regional flows of foreign direct investment (FDI) related to the COVID-19 pandemic and other macroeconomic and geopolitical developments, the Asia-Pacific region on the whole has seen steady and strong FDI growth since 2000. However, many direct and indirect obstacles still hinder growth in intraregional FDI and regional integration through investment flows. There is still a need to overcome challenges related to overlapping international investment agreements, poor business environments, lack of investment cooperation, barriers to trade and investment promotion challenges. Still, there have been advances in regional cooperation in investment through the conclusion of the Regional Comprehensive Economic Partnership Agreement, as well as increased focus on investment in existing regional forums such as ASEAN and Asia-Pacific Economic Cooperation forum.

22. Since 2009, intraregional greenfield investments have accounted for an average of 52 per cent of all greenfield investments in Asia and the Pacific. Members of ASEAN have been the major recipients of such flows while the East and North-East Asia subregion and South-East Asia subregion have been the largest sources of intraregional greenfield flows over the past decade,
accounting for 63 per cent and 22 per cent, respectively. Overall, this emerging pattern of intraregional FDI flows suggests that the Asia-Pacific region is increasing intraregional integration more than integration with other regions in the world (figure V).

Figure V
Destinations of intraregional greenfield foreign direct investment inflows and intraregional share of total greenfield foreign direct investment inflows to the Asia-Pacific region, 2009–2021

Source: ESCAP calculations based on data from fDi Intelligence. Available at www.fdiintelligence.com (accessed on 30 June 2022).

Note: Percentages on the right side of the figure indicate the intraregional share in total greenfield FDI inflows.

Abbreviation: FDI, foreign direct investment.

23. However, COVID-19 lockdown measures made greenfield investments the most vulnerable type of FDI globally during 2020 and 2021, resulting in a decline in greenfield FDI both to and from the region and a decline in interregional flows. For example, intraregional greenfield FDI decreased by 52 per cent in 2020, from $138 billion to $66 billion. This type of investment continued to decline, dipping by a further 35 per cent in 2021. The accelerated decline in FDI flows has been of particular concern to countries in special situations since the beginning of the COVID-19 pandemic.

Compared to mergers and acquisitions, for example, greenfield FDI has been the most vulnerable because it refers to investments in new productive assets, such as manufacturing facilities. During the pandemic, lockdown measures, including the physical closure of businesses, manufacturing plants and construction sites, were responsible for delayed and cancelled greenfield investment projects. Developing countries in the region have been disproportionately affected because sectors that have been severely affected by the pandemic, including the primary and manufacturing sectors, account for a larger share of their FDI than developed economies.
24. Over the past decade, FDI inflows to countries in special situations have generally been low and volatile. They have averaged $33 billion annually and have been unevenly distributed across countries in special situations. FDI peaked at $40 billion in 2018 and has been on a steady decline since then. The pandemic caused FDI to reach its lowest level in more than 12 years, with inflows bottoming out at $18 billion in 2020, and they have yet to recover. Overall, announced greenfield FDI dropped 53 per cent in 2020 compared to 2019, from $25 billion to $12 billion. Among countries in special situations, inflows of greenfield investment declined from 2019 to 2020 by 42 per cent for least developed countries, by 62 per cent for landlocked developing countries and by 59 per cent for small island developing States. In terms of overall spread, the greatest absolute declines were recorded in Bangladesh and Kazakhstan (both of which experienced declines worth $5 billion) while Bhutan and Cambodia were the only countries in special situations to see FDI increases of $78 million and $700 million, respectively. Greenfield FDI flows continued to slide in 2021, dropping to $2.4 billion by August 2021, a 76 per cent drop compared to the same period in 2020. Among countries in special situations, inflows of greenfield investments to least developed countries from January to August 2021 declined by 94 per cent compared to the same period in 2020 and inflows to landlocked developing countries declined by 53 per cent.

25. Building and maintaining a favourable investment climate through improved investment promotion, sustained investment facilitation and other measures that improve the ease of doing business are key to helping to improve the investment prospects of countries in special situations. For instance, measures to improve transparency and predictability in the investment environment and efforts to streamline investment procedures would help to encourage more investment. Beyond this, investment agencies in countries in special situations, with the support of international organizations, should focus on developing local value propositions and FDI strategies that enable them to actively attract investors. In addition, regional economic cooperation and integration on investment issues and among the region’s investment promotion agencies could help to more effectively channel intraregional investment flows towards countries in special situations. For instance, cooperation and partnerships between the region’s investment promotion agencies to share best practices, match investors with sustainable development investment projects, jointly develop investment projects and conduct joint business missions or feasibility studies could significantly boost both intraregional FDI flows and flows specifically to countries in special situations. Such cooperation and partnerships could be facilitated by a regional investment cooperation platform that convenes both inward and outward investment promotion agencies to discuss and carry out such initiatives. It is imperative, however, that promoting and facilitating sustainable FDI flows is at the core of any such initiative.

24 For instance, ESCAP, in 2022, supports the investment authority of Bhutan in developing an FDI strategy to actively attract and target intraregional investments in green technology sectors.
The role of international investment agreements in supporting intraregional foreign direct investment flows

26. Despite the declines in intraregional investment flows since 2020, as noted above, such flows have been on the rise in the region as a whole over the past decade. This has been supported by the signing of numerous international investment agreements in the region, which have taken the form of bilateral investment treaties or treaties with investment provisions. Along with the proliferation of international investment agreements in the region in recent years, there are more than 1,000 bilateral investment treaties in Asia. On a positive note, the Regional Comprehensive Economic Partnership Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership were signed and have entered into force, each of which contains important provisions on investment that can help to ensure that FDI can support signatory countries in responding to and better preparing for crises.

27. The Regional Comprehensive Economic Partnership Agreement has a comprehensive chapter on investment, including the most-favoured-nation clause, national treatment provisions, security provisions granting legal and administrative proceedings, the prohibition of performance requirements, “shall” clauses for fair and equitable treatment, and transparency and disclosure requirements.\(^{25}\) The Agreement has already boosted investor confidence and, now that it is in effect, it is expected to significantly bolster investments among signatories and within the region. Several other chapters in the Agreement have an influence on investment, such as those on trade in goods, trade in services, e-commerce, other rules and disciplines, and economic cooperation. The Agreement represents an important step forward because it will ease processes for investors to enter and operate in member countries.

28. Compared to the Regional Comprehensive Economic Partnership Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership aims for stricter common standards on labour rights, environmental protections and investment dispute resolution. The inclusion of the investor-State dispute mechanism in the investment chapter of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership is the most noteworthy difference between it and the Regional Comprehensive Economic Partnership Agreement. Furthermore, the inclusion of environmental protection signals a positive development in terms of how investment agreements can enable FDI to respond to the climate crisis.

29. At the global level, more than 110 Governments have been involved in negotiating an agreement on investment facilitation for development at WTO. Driven by the Governments of developing countries, negotiations began in 2020 and have focused on procedural issues that aim to improve the transparency and predictability of investment regimes, streamline administrative procedures for investment and enhance cooperation between stakeholders.

30. Looking ahead, while overall FDI flows to the Asia-Pacific region are expected to register modest, positive growth in 2022, flows will remain below pre-crisis levels. Greenfield FDI flows, in particular, are expected to remain vulnerable and well below pre-crisis levels. Deepening regional cooperation

\(^{25}\) Note that the investment chapter of the Regional Comprehensive Economic Partnership Agreement does not include any provisions on investment protection or non-discrimination.
on investment for sustainable development can ensure that FDI remains resilient and leveraged for the 2030 Agenda for Sustainable Development.\textsuperscript{26}

31. The hard and gradual road to recovery from the COVID-19 pandemic and the other ongoing geopolitical tensions that the global economy is grappling with will require a significant influx of resources. FDI will be an especially important resource as public financing will be tight.\textsuperscript{27} Despite hampering investment, the pandemic has provided Governments a unique opportunity to improve their investment regimes and enhance regional cooperation on investment. As a part of these efforts, it is essential that attention be paid to overcoming several obstacles that have held back deeper and more effective regional cooperation. These issues are addressed in further detail in the following section.

III. Making regional trade and investment inclusive and sustainable in times of crisis

32. At this critical juncture, strengthening regional integration is more important than ever to ensure that trade and investment will continue serving as effective means for achieving the Sustainable Development Goals. Integration in the Asia-Pacific region has benefited from significant improvement in infrastructure networks. However, regional integration through trade and investment, value chains and financial markets has not improved much in terms of sustainable development metrics, such as environmental goods, employment and economic volatility (figure VI).

33. The crises have revealed that a weaker ability to implement fiscal and monetary measures, a concentrated export basket with heavy dependence on commodities exports and travel and tourism services and limited digital trade readiness have exposed economies to shocks and less sustained recovery.

\textsuperscript{26} Sustainable FDI should promote sustainable economic growth, it should be socially inclusive and environmentally sustainable, it should follow responsible business conduct and contribute to sustainable development. A distinction should be made between sustainable FDI and FDI for sustainable development, and there are three categories of sustainable FDI, as follows: (a) sustainable investments (projects) such as investment in solar energy, renewables, waste management and green investments in general; (b) investments that take place in a sustainable way or emphasize sustainability (i.e. investments that lead to spillover effects and create sustainable jobs); and (c) investments that help countries to achieve the Sustainable Development Goals. For more information on sustainable FDI, its definition and how to promote and facilitate it. See Handbook on Policies, Promotion, and the Facilitation of Foreign Direct Investment for Sustainable Development in Asia and the Pacific (ST/ESCAP/2999).

\textsuperscript{27} It is still unclear whether developing countries in the region have enough fiscal space to invest in key sustainable development sectors in the recovery period. Furthermore, the packages that Governments have put together, be they small or large, will considerably increase government debt burdens in the medium term and thereby further limit the resources available for development purposes, underscoring the significance of FDI for these purposes in the recovery period. See ESCAP, “An assessment of fiscal space for COVID-19 response and recovery in Asia-Pacific developing countries”, MPFD Policy Briefs, No. 116 (November 2020).
34. Against this backdrop, the following recommendations are provided for strengthening regional integration through trade and investment. The recommendations are not exhaustive, but each is important for avoiding uncoordinated trade and investment policy responses that can jeopardize the achievement of the Sustainable Development Goals in the region.

Figure VI
Change in Asia-Pacific integration based on conventional and sustainable measurements, 2010–2019

Source: ESCAP calculation based on ESCAP Digital and Sustainable Regional Integration Index (DigiSRII) 2.0 database. Available at riva.negotiatetrade.org (accessed on 1 July 2022).

35. **Keep trade and investment open and rule-based.** More regional cooperation to improve openness, enhance business certainty and reduce trade friction is vital for improving the availability and accessibility of needed products and minimizing disruptions to global supply chains. Regionally coordinated actions can reduce harmful effects on domestic and other economies, notably emerging economies. A collective reaffirmation of WTO disciplines lies at the heart of regional integration efforts. More transparency in using export restrictions during a crisis and enhancing the coordination of public procurement policies for essential goods and services are among the top priorities.

36. **Simplify and digitalize trade procedures.** Enhancing the resilience of supply chains in times of crisis and facilitating digital trade requires attention to simplifying and digitalizing international trade procedures. In this regard, the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific provides a set of key principles to simplify and digitalize trade procedures, which could be mainstreamed in national policies and other multilateral agreements. The Agreement entered into force in February 2021. Its implementation will help to address the lack of common international standards and harmonize the legal frameworks for paperless trade facilitation.
It will build trust between countries so that relevant stakeholders can effectively exchange data across borders in a reliable and safe environment.\textsuperscript{28}

37. **Enable inclusive and sustainable cross-border e-commerce.** Advancing regional integration through cross-border digital trade and supporting micro-, small and medium-sized enterprises and women’s economic empowerment can make trade more inclusive and diversified and thus more resilient. While a global approach to digital trade rules is currently under discussion at WTO in the context of the joint statement initiatives, increasingly, economies are turning to regional trade agreements or other types of agreements to develop new rules on digital trade. Boosting the negotiating and policymaking capacity of smaller countries vis-à-vis larger ones is necessary to create a level playing field. At the same time, open dialogues for sharing experiences can help Governments in the region to better understand and promote the alignment of their general objectives, where possible, in the long run. Strengthened regional cooperation requires addressing the regional divergence in the interpretation and enforcement of rules, including rules on mutual recognition. This will require a wide range of governmental and non-governmental actors to be engaged in the policy process to ensure policy coherence. ESCAP and its partner agencies can support capacity-building among policymakers and enable evidence-based digital-trade policy decisions.

38. **Support climate-smart trade and investment.** As discussed in the *Asia-Pacific Trade and Investment Report 2021*, the relationship between trade and climate change is complex and goes beyond transport-related emissions. The most pivotal role of international trade in climate action is to spread technologies to attain green economies and reduce emissions. However, many environmental goods currently face high tariffs and non-tariff barriers. Most regional trade agreements set commitments beyond WTO agreements, making them a helpful vehicle for dealing with environmental issues, including climate change, and providing opportunities for learning through experience. However, to enhance effectiveness, the agreements should specify more precise, measurable and binding commitments and incorporate credible enforcement mechanisms. Priorities would be to incorporate commitments to reduce tariff and non-tariff barriers to trade on environmental goods and services, as well as eliminate environmentally harmful subsidies, in particular for fossil fuels (as well as those affecting fisheries and agriculture), and to support the transition to renewable energy as well as policies for comprehensive emissions reduction.\textsuperscript{29} Additionally, it is essential that the private sector make commitments to climate-smart trade and investment (box).

\textsuperscript{28} Several countries have already completed national readiness assessments and developed initial action plans and ongoing studies. See “E-learning courses on trade policy, negotiation and facilitation”. Available at www.unescap.org/kp/2021/e-learning-courses-trade-policy-negotiation-and-facilitation (accessed on 1 July 2022).

\textsuperscript{29} Sustainable Development Goal target 12.c: Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities.
Supporting climate-smart trade and investment through the ESCAP Sustainable Business Network

The ESCAP Sustainable Business Network was set up to engage the private sector in the Asia-Pacific region to work towards the achievement of the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals. The Network is made up of business leaders, representatives from small and medium-sized enterprises and heads of sustainability from businesses across the region.

In 2020, members of the ESCAP Sustainable Business Network put forward the concept of a “green deal” for business with the aim of advocating business action and innovation in the transition to low-carbon, sustainable and climate-resilient pathways. Recognizing that sustainable development will require action by Governments, businesses and society, the Asia-Pacific Green Deal for Business calls upon the private sector in the region to commit itself to business innovation and the transition to a green economy. It proposes the following five pillars: (a) advancing a zero-carbon, affordable and resilient energy system; (b) building smart, low-carbon, water-secure and climate-resilient cities, infrastructure and mobility; (c) mobilizing public and private finance for green transformation; (d) accelerating and scaling up innovations for sustainable development; and (e) changing towards a more circular economy.

Through its members and five task forces, the ESCAP Sustainable Business Network will engage the private sector and Governments in rolling out the Asia-Pacific Green Deal for Business by launching projects across the five pillars in support of sustainable development.

Source: See www.unescap.org/esbn.

39. **Address regional investment governance issues.** The proliferation of international investment agreements in recent years in the region has led to inconsistencies, legal interpretation problems and an increase in investor-State disputes. For instance, although a subregional-level investment agreement exists in South-East Asia, individual countries continue to maintain national investment laws and bilateral agreements with each other and external partners, resulting in a complex network of international obligations and rules to be followed by investors. Regional investment cooperation must therefore enhance regional investment governance by consolidating and streamlining bilateral investment treaties and international investment agreements to improve transparency and clarity of international investment rules while simultaneously improving their orientation towards sustainable development by incorporating sustainable development provisions into the agreements. Addressing regional governance issues to make international investment agreements more coherent and more oriented towards sustainable development is a formidable challenge that requires significant political will. The signing of the Regional Comprehensive Economic Partnership Agreement along with the growing interest in including sustainable development provisions in international investment agreements are promising signs. However, much work still needs to be done on both fronts and the intergovernmental platform of the Commission is well placed to bring together policymakers and stakeholders in the region to further address these issues.

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40. **Enhance regional cooperation on investment facilitation.** Achieving a broader and more intricate sustainable development policy agenda in the Asia-Pacific region must include building and maintaining a favourable investment climate through sustained investment facilitation and other measures that improve the ease of doing business. This includes ensuring both openess and clarity of rules regarding foreign investment and establishing a business climate that is conducive to investment in sustainability-related sectors. To this end, reinvigorating multilateral and regional cooperation on investment facilitation for development is key to enabling recovery and preparing for future crises. The Governments of Asia-Pacific developing countries have been driving investment facilitation for the development agenda at the bilateral, regional and multilateral levels. Further regional cooperation on investment facilitation can spark reforms in national investment environments that would make them more attractive to cross-border investments. Recognizing this, ESCAP has supported member States by providing regional capacity-building seminars to share experiences and knowledge on investment facilitation for development.

41. **Support the development of an investment cooperation platform.** Regional cooperation, along with political commitment to keep countries open to investment, is critical to helping economies and businesses to build back better in the recovery period and harness the potential of FDI linked to regional value chains. Such cooperation can boost FDI, attract investments to address transboundary challenges, make national and international investment governance more coherent and more oriented to sustainable development, and enable countries to tap into intraregional investment flows more effectively. This cooperation could be realized through a regional investment cooperation platform. The Asia-Pacific Foreign Direct Investment Network for Least Developed and Landlocked Developing Countries could provide a platform to bring together the investment promotion agency of one country with the outward FDI agency of another country to better harness intraregional investment flows, creating a win-win situation for FDI source and destination countries.

**IV. Issues for consideration**

42. In the present document, the challenges for trade and investment in Asia and the Pacific arising from multifaceted crises have been highlighted and several priority areas have been identified for promoting regional cooperation in support of more inclusive and sustainable trade and investment. Specifically, members and associate members of the Commission may wish to consider the recommendations, actions and initiatives highlighted in the present document to advance inclusive and sustainable trade and investment, in particular by:

   (a) Liberalizing trade in essential health products and climate-smart and other environmental goods and services, on a unilateral basis or as part of regional or multilateral initiatives;

   (b) Having provisions in regional trade agreements to address crises in a coordinated manner and to keep markets open;

   (c) Taking advantage of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific and the regional Paperless Trade Council to streamline trade procedures and enhance interoperability to help to reduce trade costs and expedite the cross-border flows of critical goods during a crisis;
(d) Creating an enabling environment for a sustainable transition toward digitalization, which will require regional efforts to step up regulatory cooperation, while making informed policy decisions and clearly understanding the trade-off between different approaches to regulating digital trade;

(e) Encouraging private sector entities to pledge their commitment to the Asia-Pacific Green Deal for Business;

(f) Broadening the Asia-Pacific Foreign Direct Investment Network to become a regional investment cooperation platform to support the promotion and facilitation of sustainable FDI, which helps countries to achieve their Sustainable Development Goal priorities and address transboundary challenges;

(g) Supporting low-income and the least developed countries to narrow gaps in productive and negotiation capacities, reduce the regulatory divide and improve their readiness for digital transformation.

43. Members and associate members may also wish to indicate the types of support they would like to receive, such as policy and strategy-related services, capacity-building, research and analysis, and knowledge-sharing, in promoting inclusive and sustainable trade and investment through regional cooperation.