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TRADE AS NON-FINANCIAL MEANS OF IMPLEMENTING SUSTAINABLE DEVELOPMENT IN ASIA AND THE PACIFIC

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Contents

TRADE AS NON-FINANCIAL MEANS OF IMPLEMENTING SUSTAINABLE DEVELOPMENT IN ASIA AND THE PACIFIC I

I. CURRENT TRADE ENVIRONMENT 1
II. TRADE AS A SOURCE FOR FINANCING FOR DEVELOPMENT AND MONITORING ISSUES 2
III. REVIVING TRADE IN THE NEW ENVIRONMENT OF LOW GROWTH 3

I. CURRENT TRADE ENVIRONMENT

The Asia-Pacific is home to many countries which have benefited from export-led growth. However, the sluggish performance of the global economy, and in particular global trade, over the past 12–18 months is a cause for concern. A failure to return to strong and stable trade growth is particularly worrisome for low-income economies and may jeopardise their prospects of achieving both the Istanbul Programme of Action Goals and the Sustainable Development Goals. There may not be a return to the rapid growth in global, and especially regional, trade and production which was prevalent in the decade before the financial crisis. That period of growth was driven by the spread of global value chains at a pace which may not be recaptured.

While the European Union (EU) is still the leading destination for regional merchandise exports - capturing more than 16% of total exports from Asia and the Pacific. China has surpassed the United States to become the region's largest individual trading partner. China absorbed 13% of merchandise exports from the region as a whole in 2015. Thus stagnant or contracting demand in EU markets and weakening growth in China pose great challenges to the trade prospects of Asia-Pacific economies. Further, the weak global economy and slow growth in several major emerging economies in the region has lowered commodity and oil prices with particular effects on natural resource exporters in the region.

The regional trade performance in 2014 and 2015 was not strong, and forecasts for short-term trade growth at regional and global levels are bleak. Merchandise exports by developing Asia-Pacific region grew only 2.5% in 2014 while imports contracted by 1.2%.[1] The situation worsened further in 2015. Based on estimates from major trading countries that account together for more than 90% of total trade by the region, exports from developing Asia-Pacific region fell by 9% in 2015 while imports decreased by more than 14%. However, if China is excluded, trade performance of the region is much worse, with the contraction of exports by nearly 13%. Similarly, 2015 trade in services' performance of the main exporting countries is also discouraging with major exporters registering no growth.

Additional challenges for Asia-Pacific economies relate to the governance of trade, these include:

- A lack of progress in concluding the Doha Development Agenda negotiations under the WTO. While the 10th Ministerial Conference of the World Tarde Organization (WTO) ended with a positively directed outcome for the LDCs, the future of the negotiations is unclear. .
- The rise of discriminatory liberalization through trade agreements may impact on the margins of preference available to LDCs and low-income countries because these countries are in principle excluded from many (deep) agreements. Furthermore, to protect the discriminatory liberalization many of trade agreements lean on increasingly complex rules of origin which are frequently blamed for a low utilization of preferences (in reciprocal as well as in other schedules), especially by SMEs and producers with low value-added.
- Rising reliance on non-tariff measures which may in part be replacing falling (and more transparent) tariff rates.
- Inefficient trade procedures and high transport costs (due to poor soft and hard infrastructure) results in high trade costs especially for LDCs, LLDCs and SIDSs in Asia and the Pacific.

[1] ESCAP (2015). Asia-Pacific Trade and Investment report 2105: Supporting participation in value Chains. Bangkok: United Nations.

- Persistent internal regulatory barriers especially in sectors such as services which adversely impact trade and overall competitiveness.
- Unstable and inadequate Aid for Trade flows which fall short of existing demand for assistance to enhance productive capacity in LDCs and other low-income countries.

II. TRADE AS A SOURCE FOR FINANCING FOR DEVELOPMENT AND MONITORING ISSUES

In addition to addressing systemic issues, the AAAA recognises the role of international trade as an engine for growth and development based on a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system under the WTO (#79) and in particular:

- Calls for redoubling efforts to conclude the negotiations on the DDA, better manage increasing protectionism, and accelerate accession to the WTO (#83).
- Emphasizes the importance of policy coherence, and commits countries to craft trade and investment agreements with appropriate safeguards so as not to constrain domestic policies and regulation in the public interest (#87).
- Invites the General Council of WTO to consider how it can contribute to sustainable development. The Agenda gives special attention to WTO policies to encourage trade expansion by LDCs and other developing countries (#80, #82, #84-86) including through improved trade financing (#81).
- Commits to increase the proportion of Aid for Trade to LDCs, and to provide technical assistance to LLDCs to support their participation in trade negotiations (#90).
- Reaffirms the right of WTO members to take advantage of the flexibilities to protect public health that are available in the agreement on protecting intellectual property rights (#86).

The above commitments are just the major ones from the AAAA.[2] For international agencies as well as member States the major task ahead is to design a monitoring framework to "assess progress, identify obstacles and challenges to implementation, promote the sharing of lessons learned, address new and emerging topics of relevance, and provide policy recommendations for action by the international community" (#132) in the years to come. This task is not only dealing with designing the process of review (who, what and when) but also with remaining problems associated with many of the commitments/targets and proposed indicators in SDGs regarding their measurability. From the current reports on the status of data and statistics, on the surface it would appear that trade is not as problematic as some other areas. However, such a conclusion would be premature. As discussed at the 47th Session of the UN Statistical Commission (11 March 2016) all SDG (230 unique) indicators are to be classified in one of three tiers by their methodological development and data availability (and quality). In that classification, a number of indicators related to trade are classified as Tier 1. The problem, however, arises with concordance between AAAA commitments and SDG targets: it appears that out of all trade commitments only seven are also phrased as SDG indicators while the remaining five are not even covered by SDG targets and would require new indicators to be defined and added to the list. Furthermore, there are also some substantive policy issues referring to trade as means of development which are not adequately or at all covered in AAAA commitments or SDG indicators (see section C below).

[2] Mapping of all AAAA commitments and linkages to SDG indicators is available in various documents issued by Inter-agency Task Force (IATF) and available from http://www.un.org/esa/ffd/wp-content/uploads/2016/03/2016-IATF-Appendix.pdf.

ESCAP is well situated to work with the member States on supporting their needs assessments and options for monitoring trade MoI and commitments under AAAA. This will also include capacity building for data availability improvements (for example in services trade, labour mobility or investment flows at country-to-country and sectoral levels) and work with data.

However, despite monitoring issues being complex as well as urgent, there is another set of concerns requesting attention. These concerns relate to the need to revive or stimulate trade growth as a key means of achieving sustainable development. The remainder of this short brief is providing some options for Asia-Pacific economies.

III. REVIVING TRADE IN THE NEW ENVIRONMENT OF LOW GROWTH

While weak global growth, and slower development of global value chains pose different challenges to each of the region's economies, the correct policy response is not to turn away from economic openness but rather continue to support trade. Trade policy reforms can help spur growth, boost productivity and lift competitiveness. Actions are particularly needed in the following areas:

(i) Reducing trade costs and improving trade facilitation. Higher trade costs are a significant barrier to the expansion of trade in developing countries and their integration into global supply chains. These challenges are particularly pronounced in regional LLDCs which suffer from long distance to sea ports, dependency on the infrastructure and regulatory regimes of transit countries, remoteness from consumers and suppliers in other markets, and low levels of physical infrastructure for connectivity. Distance and weak trade and transport infrastructure affect SIDSs too. Despite their fundamental importance, the proposed SDGs indicators do not include any measure of trade costs. While implementation of the WTO trade facilitation agreement will help remove impediments to trade (and will provide significant resources for capacity building and technical assistance), developing economies themselves can take steps to streamline domestic regulations and further remove unnecessary barriers. Moving towards paperless trade, including via the ESCAP Agreement of on cross-border paperless trade (agreed on 24 March 2016), can be a significant cost and time saver in this regard. Region-wide implementation of cross-border paperless trade could lead to export gains of US$257 billion annually.

(ii) Improving market access for LDCs and enhancing their competitiveness. The ability of LDCs to expand exports depends on meaningful market access. However, if there is no demand growth in export markets, the removal of market access barriers alone will not ensure the expansion and diversification of LDCs' exports[3] in product areas where LDCs have or might gain comparative advantage. Alongside LDCs' domestic reform efforts, the global community can play a role in several dimensions: (i) fully implementing the WTO commitments to Duty-Free Quota-Free access given by developed economies and encouraging developing countries to expand or introduce schemes where possible; (ii) tackling restrictive rules of origin or other non-tariff barriers so that LDCs can better utilize the preferences which have been granted; (iii) delivering commercially meaningful preferences in services markets. In contrast to the situation for merchandise trade, until recently LDCs were not granted any preferential market access in services trade. This has now changed, and progress is being made in the implementation of a 2011 WTO mechanism (the ‘Services Waiver') that provides a route for countries to offer

[3] For details see Heal, A. et. (2016). Double Trouble? Meeting the Export Target for Asia-Pacific Least Developed Countries in the 2030 Agenda for Sustainable Development. United Nations ESCAP. Trade Insights No.15.

LDCs preferences in services; (iv) expanding Aid for Trade to improve supply-side capacity. In addition to external market access, LDCs must assure the budding exporters have access to needed inputs through an appropriate trade regime themselves.

(iii) Supporting integration through better monitoring of bilateral and regional preferential trade agreements (RTAs). RTAs received little if any, explicit attention in the main SDG text, but are referenced in the AAAA (#87, 90). These agreements are the most active area of trade policy-making today, but it has been difficult to find concrete evidence of how they serve as stepping stones to a progressively more open multilateral trade regime (the objective reflected in SDG target 17.10). At the end of 2015, there were 262 regional trade agreements (RTAs) in implementation worldwide, 156 of which included one or more parties from the Asia Pacific region. Many of these agreements overlap, both regarding members and content, resulting in what is known in the Asia-Pacific context as a "noodle bowl" of agreements. Improved indicators for monitoring RTAs could include information not only on gross trade (export and import) flows but also on flows utilizing negotiated preferences and also on the trade costs components of those flows.[4]

(iv) Creating the environment for flourishing digital trade. The diffusion of digital technologies and the digitisation of many products and services are transforming global trade. These transformations can make it easier for small- and medium-enterprises (SMEs), or even individuals, to engage in global commerce. This is especially true for women entrepreneurs. For developing countries, traditionally disadvantaged by distance from consumer markets, weak infrastructure, and low economies of scale, digital trade has great potential to boost their integration with the global economy and drive socio-economic development. However, benefitting from these opportunities will require both investment in physical infrastructure for connectivity and regulations that support the process of buying, paying and delivering digital products. Measured against these benchmarks progress is mixed across Asia-Pacific developing countries. While consumers are increasingly gaining confidence in using online platforms, access to secure digital identities remains difficult in some markets. While an estimated 73% of economies in the region have e-transaction laws already adopted, only 38% have adopted laws on consumer protection.[5]

(v) Lifting absorptive capacity for technology and investment. Firms in developing countries can potentially benefit from technology transfers either through FDI, trade in intermediates or via the licensing of foreign technology. Technology transfer supports productivity growth as well as firms' ability to introduce new products to markets, thereby supporting overall economic diversification. The extent of the benefits, however, will depend on the countries' absorptive capacity. Countries' absorptive capacities encompass the ability of domestic agents actually to learn to use and adopt new technologies transferred from foreign markets. Countries with better-educated workforces that can domestically supply technical skills, and where some independent R&D activity is taking place, will find themselves in better positions as there will be greater complementarity between the imported technology and the labour force that is using it. Hence, firms will be more willing to invest in acquiring and in learning to use new technologies. Governments seeking to maximize the impact of this form of technology transfer should,

[4] As mentioned above, given existing problems with statistical data collection and data quality, a strengthened monitoring function would need to be combined with a capacity-building programme for member States.

[5] Asian Development Bank (2015). Aid for Trade in Asia and the Pacific: Thinking Forward About Trade Costs and the Digital Economy. ADB, WTO and Australian Government: Department of Foreign Affairs and Trade.

therefore, invest in building up the country's human capital stock and its technical capabilities.

About Economic and Social Commission for Asia and the Pacific (ESCAP)

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programmes and issues. It supports Government of countries in the region in consolidation regional positions and advocates regional approaches to meeting the region's unique socio-economic challenges in a globalizing world. The ESCAP office is located in Bangkok, Thailand.

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