Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation
ESCAP WORKS TOWARDS REDUCING POVERTY
AND MANAGING GLOBALIZATION
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation
The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The opinions, figures and estimates set forth in this publication are the responsibility of the authors, and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations.

Mention of firm names and commercial products does not imply the endorsement of the United Nations.
Foreword

In a period of growing global economic interdependence, regional cooperation offers Asia-Pacific countries an effective vehicle for achieving faster economic development. This study on the theme topic “Meeting the challenges in an era of globalization by strengthening regional development cooperation”, prepared for the sixtieth session of the Commission (Shanghai, China, 22-28 April 2004) examines ways in which regional cooperation can contribute to both regional and national shared interests and prosperity, consistent with the multilateral framework.

Globalization has become an unstoppable phenomenon affecting all aspects of our lives. But not all countries are receiving the benefits. An urgent challenge is to draw on the considerable strengths of the Asia-Pacific region in promoting economic prosperity to achieve internationally agreed development goals, including those contained in the United Nations Millennium Declaration.

The Asia-Pacific region is the most economically vibrant region in the world, with a huge reservoir of resources – human, financial and technological. The goal is to use regional cooperation more effectively to reduce poverty, the region’s greatest development challenge. Against this background, the study examines the regional cooperation arrangements employed in the four growth-enhancing areas of trade, transport, information and communication technology, and finance. The state of progress in regional cooperation in these areas and the future potential are assessed.

Over the years, ESCAP has contributed to promoting regional development cooperation in a wide range of areas. Some examples of its efforts in this direction are building the capacity of countries to prepare for WTO membership, forging intersubregional cooperation, as reflected in the Bangkok Agreement, and facilitating the Asian Highway network agreement. The findings include suggestions for enhancing ESCAP’s role in regional development cooperation.

In an era of rapid globalization, it is my hope that this study will draw attention to areas where regional cooperation can be further strengthened.

Kim Hak-Su
Executive Secretary
Acknowledgements

This study, Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation, has been prepared by a team of staff members of the Poverty and Development Division of ESCAP under the direction of Raj Kumar and with the work coordinated by Hiren Sarkar.

Experts from within and outside the ESCAP secretariat contributed at various stages in the preparation of the report. Raj Kumar and Hiren Sarkar reviewed the study outline, various drafts and also contributed to the writing of individual chapters. Amarakoon Bandara and Biswajit Nag were the authors of the major part of the study. The finance chapter was prepared from input provided by Yung Chul Park, who has been working as a consultant to the Division.

Experts’ comments and advice on selected draft chapters are acknowledged. The experts who attended the Expert Group Meeting on Development Issues and Policies, held at Bangkok from 17 to 19 December 2003, were: Stephen Y.L. Cheung (Hong Kong, China), George Manzano (Philippines), Yung Chul Park (Republic of Korea), Richard Pomfret (Australia), H.K. Pradhan (India), Binayak Sen (Bangladesh) and Viktoria Ter-Nikoghosyan (Kyrgyzstan).

Other members of the ESCAP secretariat who were consulted on different sections of the study pertaining to their particular areas of expertise were Barry Cable, Xuan Zengpei, Ravi Ratnayake, Pranesh Chandra Saha, Tiziana Bonapace and Nokeo Ratanavong. Andrew Flatt provided useful comments and suggestions on data presentation. Other staff members who contributed inputs to the report include Wu Guoxiang, Kohji Iwakami, Harishchandra Iyer, Fuyo Jenny Yamamoto, Nuankae Wongthawatchai and Meriem El Harouchi, Fulbright Fellow attached to ESCAP. Kiatkanid Pongpanich provided research assistance. In addition, Poverty and Development Division staff Shahid Ahmed, Muhammad H. Malik and Nobuko Kajiura also contributed in various ways during the preparation of the study. The study was edited by Nicholas Cumming-Bruce. Nuankae Wongthawatchai contributed to the cover design and layout.

The logistics of processing and production and the organization of the Expert Group Meeting were handled by Dusdeemala Kanittanon, Woranut Sompitayanurak, Orawan Singho and Aoyporn Chongchitkasem.
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>iii</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>iv</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>xiv</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td><strong>I. Globalization: opportunities and challenges</strong></td>
<td>5</td>
</tr>
<tr>
<td>A. New forces driving globalization</td>
<td>5</td>
</tr>
<tr>
<td>B. Globalization: the Asia-Pacific situation</td>
<td>7</td>
</tr>
<tr>
<td>1. Trade</td>
<td>9</td>
</tr>
<tr>
<td>2. Finance</td>
<td>9</td>
</tr>
<tr>
<td>3. Communication</td>
<td>10</td>
</tr>
<tr>
<td>4. Transport</td>
<td>11</td>
</tr>
<tr>
<td>5. Income and poverty</td>
<td>11</td>
</tr>
<tr>
<td>6. “Divides” in the Asia-Pacific region</td>
<td>13</td>
</tr>
<tr>
<td>C. The challenge of national economic policy in an era of globalization</td>
<td>16</td>
</tr>
<tr>
<td>D. The challenges of globalization: multilateral responses</td>
<td>19</td>
</tr>
<tr>
<td><strong>II. Regional cooperation: conceptual framework and Asia-Pacific experience</strong></td>
<td>23</td>
</tr>
<tr>
<td>Introduction</td>
<td>23</td>
</tr>
<tr>
<td>A. Rationale for regional cooperation</td>
<td>24</td>
</tr>
<tr>
<td>B. Regional cooperation and interlinkages among different sectors</td>
<td>25</td>
</tr>
<tr>
<td>C. Regional cooperation in a globalizing world</td>
<td>26</td>
</tr>
<tr>
<td>D. Asia-Pacific experience of regional cooperation</td>
<td>28</td>
</tr>
<tr>
<td>1. Features and dynamics of Asia-Pacific regional cooperation</td>
<td>28</td>
</tr>
<tr>
<td>2. Structure and objectives of selected subregional groups in Asia-Pacific</td>
<td>32</td>
</tr>
<tr>
<td>E. Future of regional cooperation in Asia-Pacific</td>
<td>35</td>
</tr>
<tr>
<td>1. Integrating diverse economies</td>
<td>35</td>
</tr>
<tr>
<td>2. Important issues for future cooperation</td>
<td>36</td>
</tr>
<tr>
<td>3. Can Asia-Pacific go the EU way?</td>
<td>36</td>
</tr>
</tbody>
</table>
III. Regional cooperation in trade ............................................................... 41
   Introduction ............................................................................................. 41
   A. World Trade Organization and Regional Trading Arrangements .......................................................... 42
   B. Structure and trends of Asia-Pacific RTAs ......................................... 44
   C. Analysis of selected regional trade and investment agreements ........................................................................... 50
      1. Salient features of selected agreements ........................................ 50
      2. Intra-bloc trade in the region .......................................................... 53
      3. Interaction among countries and subregions in trade and investment areas ................................................. 55
   D. Regional trade and concerns of developing countries ................. 58
   E. Issues in strengthening cooperation in trade and investment .... 59
      1. Improving the effectiveness of trade agreements ...................... 59
      2. Cooperation beyond trade ............................................................. 60
      3. Roles for large and small countries .............................................. 60
      4. Synthesizing RTAs with a multilateral process: important issues ... 60
   F. ESCAP’s future role ........................................................................... 61
      1. Multilateral trade and investment cooperation track ....................... 62
      2. Regional trade and investment cooperation track ......................... 62
      3. Bilateral trade and investment cooperation track ............................ 63

IV. Regional cooperation in transport .................................................... 65
   Introduction ............................................................................................. 65
   A. Issues in transport cooperation ........................................................ 68
   B. Selected regional cooperation in the transport sector .................. 71
      1. Transport cooperation in ASEAN .................................................... 71
      2. Cooperation in transport and related issues in ECO .................... 73
      3. Transport cooperation in Pacific island countries ....................... 74
      4. Transport and infrastructure development cooperation in SAARC ....................................................... 74
      5. ESCAP’s initiatives in transport cooperation .................................. 75
      6. Other important initiatives in the region ........................................ 80
<table>
<thead>
<tr>
<th>Contents (continued)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C. Observations on regional cooperation in the area of transport</strong></td>
</tr>
<tr>
<td><strong>D. ESCAP’s future role in transport</strong></td>
</tr>
<tr>
<td>1. Strengthening transport networks through regional cooperation</td>
</tr>
<tr>
<td>2. Improving information and skills for transport planning</td>
</tr>
<tr>
<td>3. Reducing barriers to transport</td>
</tr>
<tr>
<td>4. Future regional cooperation in the transport sector</td>
</tr>
<tr>
<td><strong>V. Regional cooperation in information and communication technology (ICT)</strong></td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
</tr>
<tr>
<td><strong>A. Analysis of selected regional cooperation in ICT</strong></td>
</tr>
<tr>
<td>1. ICT cooperation in ASEAN</td>
</tr>
<tr>
<td>2. ICT cooperation in Pacific island countries</td>
</tr>
<tr>
<td>3. ICT cooperation in SAARC</td>
</tr>
<tr>
<td>4. ESCAP’s initiatives on ICT</td>
</tr>
<tr>
<td><strong>B. Promoting further regional cooperation in the area of ICT</strong></td>
</tr>
<tr>
<td><strong>VI. Financial cooperation in Asia and the Pacific</strong></td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
</tr>
<tr>
<td><strong>A. Existing financial cooperation in Asia-Pacific</strong></td>
</tr>
<tr>
<td>1. Developments in response to the 1997 Asian crisis</td>
</tr>
<tr>
<td>2. Cooperation among central banks</td>
</tr>
<tr>
<td>3. Cooperation in insurance</td>
</tr>
<tr>
<td>4. Development financing arrangements</td>
</tr>
<tr>
<td><strong>B. Prospects for future financial cooperation in the Asia-Pacific region</strong></td>
</tr>
<tr>
<td>1. Mobilization of domestic and international resources for development</td>
</tr>
<tr>
<td>2. Addressing systemic issues</td>
</tr>
<tr>
<td>3. Financial infrastructure development</td>
</tr>
<tr>
<td>4. Securitization of SME bonds</td>
</tr>
</tbody>
</table>
## Contents (continued)

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Looking ahead: a vision for financial development and integration in Asia and the Pacific</td>
<td>121</td>
</tr>
<tr>
<td>1. Financial modernization and integration</td>
<td>121</td>
</tr>
<tr>
<td>2. An Asian monetary fund: can the region justify its case?</td>
<td>123</td>
</tr>
<tr>
<td>D. A possible role for ESCAP in promoting financial cooperation</td>
<td>124</td>
</tr>
<tr>
<td>1. Building channels of communication and policy dialogue:</td>
<td>125</td>
</tr>
<tr>
<td>making ESCAP a “knowledge centre”</td>
<td></td>
</tr>
<tr>
<td>2. Concluding remarks</td>
<td>125</td>
</tr>
<tr>
<td>VII. Regional cooperation: forging a common vision</td>
<td>127</td>
</tr>
<tr>
<td>Boxes</td>
<td>Page</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>I.1. Selected messages from global consensuses on various areas of globalization and development</td>
<td>20</td>
</tr>
<tr>
<td>II.1. Resolution on the establishment of the Asian Development Bank</td>
<td>29</td>
</tr>
<tr>
<td>II.2. South-South cooperation</td>
<td>30</td>
</tr>
<tr>
<td>II.3. The Greater Mekong Subregion Programme</td>
<td>31</td>
</tr>
<tr>
<td>II.4. European integration</td>
<td>37</td>
</tr>
<tr>
<td>III.1. WTO obligation and outward orientation of RTAs</td>
<td>43</td>
</tr>
<tr>
<td>III.2. Economic partnership agreements</td>
<td>46</td>
</tr>
<tr>
<td>III.3. Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation</td>
<td>47</td>
</tr>
<tr>
<td>III.4. Framework Agreement on the South Asian Free Trade Area</td>
<td>52</td>
</tr>
<tr>
<td>III.5. Bangkok Agreement</td>
<td>57</td>
</tr>
<tr>
<td>IV.1. Asian land transport infrastructure development</td>
<td>67</td>
</tr>
<tr>
<td>IV.2. Towards Asia-Pacific natural gas transportation grids: developing regional cooperation</td>
<td>79</td>
</tr>
<tr>
<td>V.1. Using ICT to achieve the Millennium Development Goals: some Asian experiences</td>
<td>86</td>
</tr>
<tr>
<td>V.2. World Summit on the Information Society</td>
<td>89</td>
</tr>
<tr>
<td>V.3. Women and the Internet</td>
<td>95</td>
</tr>
<tr>
<td>V.4. Cooperation in ICT to achieve the Millennium Development Goals: developing a global partnership for development</td>
<td>96</td>
</tr>
<tr>
<td>V.5. Satellite communication and broadband: transcending barriers</td>
<td>99</td>
</tr>
</tbody>
</table>
## Tables

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.1.</td>
<td>Indicators of globalization</td>
<td>8</td>
</tr>
<tr>
<td>I.2.</td>
<td>Indicators of development</td>
<td>12</td>
</tr>
<tr>
<td>III.1.</td>
<td>Main features of preferential trade agreements</td>
<td>42</td>
</tr>
<tr>
<td>III.2.</td>
<td>Intra-bloc export shares of selected preferential trade agreements,</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>five-year average, 1980-2000</td>
<td></td>
</tr>
<tr>
<td>VI.1.</td>
<td>Progress on the Chiang Mai Initiative</td>
<td>104</td>
</tr>
</tbody>
</table>
## Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.1</td>
<td>Gross national income per capita to trade share</td>
<td>14</td>
</tr>
<tr>
<td>I.2</td>
<td>Gross national income per capita to inward stock of foreign direct investment</td>
<td>14</td>
</tr>
<tr>
<td>I.3</td>
<td>Gross national income per capita to intensity of Internet users</td>
<td>15</td>
</tr>
<tr>
<td>I.4</td>
<td>Gross national income per capita to intensity of telephone and mobile phone users</td>
<td>15</td>
</tr>
<tr>
<td>II.1</td>
<td>Regional cooperation in different sectors and their interlinkages</td>
<td>26</td>
</tr>
<tr>
<td>III.1</td>
<td>Kaleidoscope of selected Asia-Pacific trade agreements</td>
<td>49</td>
</tr>
<tr>
<td>III.2</td>
<td>Percentage increase in trade with the world and partners (Bangkok Agreement countries compared with AFTA and SAARC countries)</td>
<td>56</td>
</tr>
<tr>
<td>III.3</td>
<td>Consolidating BTAs among BIMST-EC and Bangkok Agreement members: An example towards future integration</td>
<td>62</td>
</tr>
<tr>
<td>V.1</td>
<td>Bridging the digital divide and regional cooperation</td>
<td>90</td>
</tr>
<tr>
<td>Annex figure VII.1</td>
<td>Two-tier securitization scheme for SME financing</td>
<td>157</td>
</tr>
<tr>
<td>Annex figure VII.2</td>
<td>An example of securitization</td>
<td>158</td>
</tr>
</tbody>
</table>
Maps

<table>
<thead>
<tr>
<th>Map</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Highway route map</td>
<td>76</td>
</tr>
<tr>
<td>Trans-Asian railway network map</td>
<td>77</td>
</tr>
<tr>
<td>ESCAP region</td>
<td>134</td>
</tr>
</tbody>
</table>
## Annexes

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Selected major agreements and other cooperation arrangements</td>
<td>135</td>
</tr>
<tr>
<td>II. Selected trade and investment agreements in the region</td>
<td>140</td>
</tr>
<tr>
<td>III. Other important initiatives in the area of ICT</td>
<td>147</td>
</tr>
<tr>
<td>IV. Regional strategy for ICT proposed by ESCAP</td>
<td>150</td>
</tr>
<tr>
<td>V. Structure of the Chiang Mai Initiative</td>
<td>153</td>
</tr>
<tr>
<td>VI. Credit guarantees and credit guarantee agencies</td>
<td>155</td>
</tr>
<tr>
<td>VII. Securitization of SME bonds</td>
<td>156</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
</tr>
<tr>
<td>APT</td>
<td>Asia-Pacific Telecommunity</td>
</tr>
<tr>
<td>APTA</td>
<td>Asia-Pacific Trade Agreement</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>BTAs</td>
<td>bilateral trading arrangements</td>
</tr>
<tr>
<td>ECE</td>
<td>Economic Commission for Europe</td>
</tr>
<tr>
<td>ECO</td>
<td>Economic Cooperation Organization</td>
</tr>
<tr>
<td>ESCWA</td>
<td>Economic and Social Commission for Western Asia</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>GATS</td>
<td>General Agreement on Trade in Services</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GNI</td>
<td>gross national income</td>
</tr>
<tr>
<td>GNP</td>
<td>gross national product</td>
</tr>
<tr>
<td>ICST</td>
<td>information, communication and space technology</td>
</tr>
<tr>
<td>ICT</td>
<td>information and communication technology</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IT</td>
<td>information technology</td>
</tr>
<tr>
<td>ITU</td>
<td>International Telecommunication Union</td>
</tr>
<tr>
<td>MFN</td>
<td>most-favoured-nation</td>
</tr>
<tr>
<td>ODA</td>
<td>official development assistance</td>
</tr>
<tr>
<td>PPP</td>
<td>purchasing power parity</td>
</tr>
<tr>
<td>PTAs</td>
<td>preferential trading arrangements</td>
</tr>
<tr>
<td>RTAs</td>
<td>regional trading arrangements</td>
</tr>
<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Globalization is a complex, multidimensional and uneven process through which goods and services, capital, people, information and ideas flow across borders, leading to greater integration of economies and societies. The benefits are clearly visible in the increased trade, higher growth and falling poverty of countries fully engaged in the process. Globalization, however, has become controversial precisely because of the uneven distribution of its benefits and its equally visible negative impacts in countries where it has caused job losses, rising income disparity and environmental challenges.

The Asia-Pacific region vividly illustrates this phenomenon. It spans countries which have been among the most vigorous adherents and major beneficiaries of globalization. The newly industrialized economies (NIEs) such as Hong Kong, China; the Republic of Korea; Singapore; and Taiwan Province of China, together with emerging South-East Asian countries, like Malaysia and Thailand have experienced high growth rates, improved living standards and an impressive drop in poverty. The number of poor in East Asia and the Pacific dropped from 457 million in 1990 to 282 million in 1999.¹

However, the region contains many other countries, including least developed and landlocked countries, small islands and transitional economies, whose lack of infrastructure, resources and skills leaves them unable to compete in fast-paced world markets or exploit the opportunities presented by globalization. In the face of falling commodity prices and protectionist trading practices, they are at risk of becoming increasingly marginalized in the world economy.

Emerging socio-economic and geopolitical issues add to the complexity of the international business environment. The present global security climate and the associated costs it imposes on the free

Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

flow of goods, services and people threaten to act as further constraints on developing countries’ ability to reap the benefits of globalization. Lack of regional and international cooperation arrangements has led to excessive transaction costs and rent-seeking in international migration, an important source of foreign exchange for many developing countries in the region and a source of low-cost labour for host economies. Outbreaks of disease in the absence of effective surveillance mechanisms, collaborative research or the supply of drugs at affordable prices could hurt or reverse the development process in affected countries, as seen in the case of HIV/AIDS.

So what options are available to policy makers? Is South-South cooperation useful either as a defence against the negative fallout from globalization or for exploiting its benefits? Should globalization be discarded altogether? The Millennium Summit made it clear that the important debate is not whether globalization is good or bad but how it should be managed to make it a vehicle for broad-based development. The present study analyses how strengthening regional development cooperation can contribute to that result.

The rewards from exploiting globalization can be substantial. Openness to international trade and investment facilitates the acquisition of inputs and technologies which strengthen growth and increase efficiency. Access to wider markets and more diverse exports reduce the risks of trade volatility and exclusion by particular country markets. Openness to the free flow of capital helps to attract FDI, which can stimulate domestic investment, thus contributing to employment generation and economic growth. Financial openness also helps to increase the depth and breadth of domestic financial markets, leading to increased efficiency in financial intermediation through lower costs and improved resource allocation.

But globalization also carries risks and sometimes heavy social and economic costs, as Asia’s 1997 financial crisis starkly revealed. Openness to global capital markets leaves domestic financial markets vulnerable to sudden shocks, leading to greater volatility in exchange rates and abrupt reversal of financial flows, particularly in countries where financial systems are weak and economic policies lack credibility. Trade liberalization has left many developing countries marginalized as demand for their unskilled labour and real wages fell. Fear of job losses because of cheap labour in developing countries has heightened the sense of vulnerability among blue and white collar workers in industrialized countries. Many countries lack either the resources or the skills to upgrade production technologies, widening the technological gap between industrial and developing countries. This compels them to continue to depend on primary commodity exports, with the well-known structural problems
associated with them. Moreover, developing countries’ access to capital markets tends to be asymmetric: they are able to borrow only in “good” times and face severe credit constraints during “bad” times.

Managing globalization to maximize the benefits and minimize these potential costs depends as much on political will as on market forces and new technologies. The factors within the control of policy makers, such as structural reforms, ensuring consistency in policies, transparency and good governance, support this strategic aim. The economies that gained the most from globalization are those, like East Asia’s NIEs, that adjusted their policies and institutions to exploit it.

At the Fourth WTO Ministerial Conference, the International Conference on Financing for Development and the World Summit on Sustainable Development, a global consensus was forged on priorities and policies for a new partnership for development between developed and developing countries aimed at accelerating economic growth, reducing poverty and promoting sustainable development so that the benefits of globalization could be shared by all. The Doha Development Agenda is aimed at establishing a development-friendly multilateral trading system. The Monterrey Consensus pledged action on domestic, international and systemic policy issues, in particular those relating to financing for development. It made a further commitment to enhance the role of regional and subregional agreements and free trade areas consistent with the multilateral trading system. The World Summit also supported the emergence of stronger regional groupings and alliances to promote regional cooperation, improved international cooperation and sustainable development.

The Asia-Pacific region can draw on considerable strengths in the task of bringing poor and marginalized countries into the development process and ensuring that global development agendas work for them. First, the region’s level of savings has been the highest in the world. Over the past five years, the total combined savings of the 10-country Association of Southeast Asian Nations together with China, the Republic of Korea and Japan (ASEAN+3) have accounted, on average, for 19.7 per cent of global savings and are larger in absolute terms than those of the European Union. Second, the region has a large accumulation of foreign reserves. The total foreign reserves of ASEAN+3 alone amounted to $1.9 trillion at the end of 2003. Third, the region contains Japan, the second-largest economy in the world, and two large and populous economies, China and India, which could serve as stimuli to growth in the region. Growth in income and demand arising within Asia and the Pacific is expected to provide a powerful driving force for development in the region.

---

2 The structural problems faced by primary commodities producers include falling relative prices and increasing protectionist measures by industrialized countries, which negate the benefits of competition for developing countries.
But the region also contends with weaknesses. It is home to two thirds of the world’s poor. Many countries in the region have yet to introduce the economic policies, institutions and standards of governance needed to exploit the benefits of globalization. The lack of physical and social infrastructure and limited access to financial capital hinder many of the region’s developing countries. So do poor standards of governance, transparency and accountability and low regard for the environment. The region continues to lend a large part of its savings to the industrialized world to finance their investments at the same time as many developing countries in the region face difficulties in mobilizing development finance. The region’s large foreign exchange reserves have been invested mainly in low-return safe assets in more advanced countries, particularly the United States of America, and are recycled back into the region at a higher cost in the form of short-term capital, with potentially destabilizing effects on financial markets in times of distress.

In a period of growing global economic interdependence, regional cooperation offers Asia-Pacific countries an effective vehicle for promoting sustainable development. It would enable Asia-Pacific countries, particularly small island economies and least developed countries, to overcome the limited size of their domestic markets, achieve economies of scale in production and diversify exports, reducing their vulnerability to external shocks. More efficient use of the financial resources and technology available within the region would also help to shield countries in the region from the kind of volatility in the global economic and financial environment experienced in the 1997 financial crisis.

The present study examines some of the existing regional cooperation mechanisms to identify ways Asia-Pacific countries can achieve these objectives. Regional approaches to dealing with social and environmental impacts of globalization have already been covered by other reports.3 As a result, this study focuses on the four growth-enhancing areas of trade, finance, information and communication technology and infrastructure, and explores how they are facilitated by subregional organizations, including ASEAN, the Economic Cooperation Organization (ECO), the Pacific Islands Forum and the South Asian Association for Regional Cooperation (SAARC). The conclusions derived from this analysis should be valid for any cooperation arrangement in these four areas.

---

3 These include “Sustainable social development in a period of rapid globalization: challenges, opportunities and policy options” (E/ESCAP/1233) and “Integrating economic and social concerns, especially HIV/AIDS, in meeting the needs of the region” (E/ESCAP/1267).
I. GLOBALIZATION: OPPORTUNITIES AND CHALLENGES

A. NEW FORCES DRIVING GLOBALIZATION

Many people consider globalization nothing new – societies have been interconnected for years. But globalization took different forms in the past and the contemporary conjuncture is new. The world has never experienced globalization at this level of intensity before or the speed at which it is transforming and integrating societies.

There is no single, all-encompassing definition of globalization, notes Sen. Instead, it has become a broad heading for a multitude of global interactions, ranging from the expansion of cultural influences across borders to the enlargement of economic and business relations throughout the world. For the economist, globalization is essentially the emergence of a global market. For the historian, it is an epoch dominated by global capitalism. Sociologists see globalization as the celebration of diversity and the convergence of social preferences in matters of lifestyle and social values. To the political scientist, it represents the gradual erosion of State sovereignty. But discipline-specific studies explain only a part of the phenomenon. From a multidisciplinary angle, globalization may be treated as a phenomenon, a philosophy and a process which affect human beings as profoundly as any previous event. Several factors have been responsible for this phenomenon. This study confines its attention to four growth-enhancing facets of globalization that have been among its key drivers, namely, trade, finance, communications and transport.

Trade

The protectionism which emerged in international trade after the Second World War gave way to gradual liberalization, comprising both unilateral liberalization and rules-based multilateral liberalization spearheaded by GATT. The latter effort culminated in the Uruguay

---

Multilateral liberalization processes of trade spearheaded by WTO now have to coexist with a proliferation of RTAs and PTAs

Round of negotiations and the formation of WTO, which took over the process of multilateral negotiations and included agricultural goods and services in the process for the first time. These steps coincided with a proliferation of regional arrangements comprising of RTAs and PTAs intended to lead to increased market access for the contracting countries and to create new trading opportunities. WTO also laid the legal foundation for setting up RTAs so that such arrangements are able to accentuate the multilateral process.

Finance

Along with the wave of trade liberalization, capital from developed countries provided developing countries with new opportunities to fuel future growth. Most developing countries have been people-rich and capital-poor. Their domestic savings have been inadequate to meet their need for resources. Global capital markets and direct investments by multinational companies helped to fill the gap. There have been two types of FDI. The predominant type has been outsourcing to reduce production costs in terms of labour, infrastructure and natural resources as well as to promote exports. Production in some manufacturing sectors, such as electronics, cars, textiles and garments, tends to be relocated in stages from more advanced to less developed countries in search of lower labour costs, i.e., the so-called flying-geese pattern of FDI. Another important form of FDI has been the creation of new comparative advantages by accessing information technology and marketing channels as well as new technologies, products or services, with conventional international production networks (IPNs), i.e., within multinational enterprises. Later on new IPNs consisting of inter- and intrafirm relationships through which multinationals organize a complete range of business activities, including research and development, product design, supply of inputs, manufacturing, distribution and support services were formed. Examples include automobiles and ICT products. The multinationals also brought with them new technologies which increased productivity in the recipient countries.

Communication

The improvement in Internet-based satellite communication has been spectacular. Galloping development in the quality of personal computers has been complemented by the leap in Internet technology from only e-mail in the early 1990s to recent advances in multimedia transmission aided by broad banding and satellite communication. The use of mobile phones, which often rely on satellite technology, has increased dramatically. These developments have greatly increased economy-wide efficiency in production and trading.

---

Transport

Expansion of international trade created concomitant demand for more transport. The rise in productivity of the maritime sector took place through massive increases in ship sizes and the number of container ships. These have contributed to a considerable reduction in unit transport costs, thereby shrinking the economic distance between raw material sources, producers and consumers. The efficiency of the transport sector further increased with the arrival of multimodal transport, linking maritime and surface transport. As a result, countries became better linked, both internally as well as with neighbours, through highways and roads.

During the 1990s, air traffic in the Asia-Pacific region grew at a much faster rate than in the rest of the world. Demand for air cargo services increased sharply owing to increased movement of high-value products. These included many niche items such as flowers and fresh vegetables as well as parts and components to feed the needs of the international production networks, particularly those of ICT equipment manufacturers. In fact, the growth in commercial air services continues to outstrip the available capacity of more and more airports, forcing Governments, airlines and airports to tackle problems of insufficient airport capacity.

These developments have been the driving forces of globalization in recent years. The interconnection and synergy between the forces are clear: trade expansion creates additional demand for finance, transport and communication, whereas improvement in the latter areas makes trade more efficient. At the same time, the sudden rise of the Internet and mobile phone communications brought an unparalleled increase in productivity. The sectors which use these technologies i.e., trade, finance and transport, experienced equally impressive increases in productivity. For example, a convoy of container trucks on the move can remain in continuous contact with all the relevant parties. The development of e-commerce has been very fast; trade and financial deals can be made within minutes. The result of this synergy is the increased speed of integration between countries. Distance, size, natural endowments and specific skills do not pose a constraint to economic development any more, provided that a country has sufficient human skills, infrastructure and institutions to take advantage of the opportunities that globalization can provide.

B. GLOBALIZATION: THE ASIA-PACIFIC SITUATION

Table I.1 indicates the state of globalization in developing Asia-Pacific countries, grouped into five geographical subregions, namely, East and North-East Asia, South-East Asia, South and South-West Asia, North and Central Asia, and the Pacific. They are also grouped by the
### Table I.1. Indicators of globalization

<table>
<thead>
<tr>
<th>Economies/areas</th>
<th>Trade openness</th>
<th>Capital openness</th>
<th>Information openness</th>
<th>Container traffic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Economies/areas)</td>
<td>(Exports (% of GNP))</td>
<td>Average inward portfolio equity flows ($ billions)</td>
<td>Average inward FDI stock ($ billions)</td>
</tr>
<tr>
<td>East and North-East Asia</td>
<td>China</td>
<td>42.2</td>
<td>22.3</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>Democratic People's Republic of Korea</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Hong Kong, China</td>
<td>233.6</td>
<td>113.9</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Macao, China</td>
<td>..</td>
<td>37.5</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Mongolia</td>
<td>83.7</td>
<td>33.3</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Republic of Korea</td>
<td>68.0</td>
<td>35.8</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Taiwan Province of China</td>
<td>83.3c</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>Brunei Darussalam</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Cambodia</td>
<td>57.1</td>
<td>29.2</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>60.9</td>
<td>39.8</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Lao People's Democratic Republic</td>
<td>56.1</td>
<td>20.7</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>207.4</td>
<td>114.2</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Myanmar</td>
<td>43.4d</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>85.7</td>
<td>45.1</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>264.7</td>
<td>134.7</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>102.5</td>
<td>63.8</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>90.0</td>
<td>44.1</td>
<td>..</td>
</tr>
<tr>
<td>South and South-West Asia</td>
<td>Afghanistan</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Bangladesh</td>
<td>30.2</td>
<td>12.9</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Bhutan</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>19.5</td>
<td>8.9</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>Iran (Islamic Republic of)</td>
<td>38.3</td>
<td>23.9</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Maldives</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Nepal</td>
<td>39.6</td>
<td>12.8</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Pakistan</td>
<td>33.4</td>
<td>15.2</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Sri Lanka</td>
<td>69.4</td>
<td>30.4</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td>39.5</td>
<td>15.3</td>
<td>0.2</td>
</tr>
<tr>
<td>North and Central Asia</td>
<td>Armenia</td>
<td>57.4</td>
<td>14.5</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Azerbaijan</td>
<td>63.3</td>
<td>33.3</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Georgia</td>
<td>32.2</td>
<td>10.1</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Kazakhstan</td>
<td>71.5</td>
<td>43.6</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Kyrgyzstan</td>
<td>81.2</td>
<td>38.0</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Russian Federation</td>
<td>63.0</td>
<td>42.1</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Tajikistan</td>
<td>136.3</td>
<td>69.8</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Turkmenistan</td>
<td>89.4</td>
<td>52.0</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Uzbekistan</td>
<td>63.5</td>
<td>33.4</td>
<td>..</td>
</tr>
<tr>
<td>Pacific</td>
<td>Fiji</td>
<td>71.4e</td>
<td>39.5</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>French Polynesia</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Kiribati</td>
<td>73.5f</td>
<td>9.5</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Marshall Islands</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Micronesia (Federated States of)</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>New Caledonia</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Papua New Guinea</td>
<td>90.1</td>
<td>56.4</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Samoa</td>
<td>56.1g</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Solomon Islands</td>
<td>58.5h</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Tonga</td>
<td>78.5i</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Tuvalu</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>Vanuatu</td>
<td>45.7j</td>
<td>15.7</td>
<td>..</td>
</tr>
</tbody>
</table>

**Developed Economies**

|                  | Australia | 33.4 | 15.6 | .. | 114.45 | 3 711 | 11 143 | 3 500 905 | 31.2 |
|                  | Japan | 15.7 | 9.3 | .. | 53.43 | 3 850 | 9 907 | 12 635 446 | 16.5 |
|                  | New Zealand | 55.0 | 26.8 | .. | 24.78 | 4 637 | 10 818 | 1 120 747 | 17.9 |

**Notes:**
- (..) indicates that data are not available
- a TEU stands for 20-foot-equivalent units, a standard-size container.
- b Data includes 14 major ports of the People’s Republic of China.
- c Data refer to trade (percentage of GDP).

**Sources:**
four driving forces of globalization: trade openness, the extent of capital inflows, penetration of communication infrastructure and capacity to handle bulk transport. The indices used are average trade and exports as percentages of GNP during 1999-2001, average inflows of portfolio capital and the average stock of FDI during 2000-2002, Internet, mainline and mobile telephone users per 10,000 population in 2001, and the volume and growth of container traffic in 1997-2001. The following observations can be made:

1. TRADE

In trade and export openness, both East and North-East Asia and South-East Asia are ahead of the other subregions. The top three positions are occupied by Singapore (with a trade-to-GNP ratio of 264.7), Hong Kong (233.6) and Malaysia (207.4). Countries belonging to South and South-West Asia appear to be the least liberalized, with India recording the lowest trade-to-GNP and export-to-GNP ratios (19.5 and 8.9 per cent respectively during 1999-2001) in the region.

But a wide variation in the extent of trade openness is also observed within each subregion. Within South-East Asia, the relatively low trade-to-GNP ratio of the Myanmar (43.4 per cent) contrasts with Singapore’s high 264.7 per cent. Within South and South-West Asia, India’s trade-to-GNP ratio of 19.5 per cent contrasts with Sri Lanka’s much higher ratio (69.4 per cent). In North and Central Asia, Tajikistan’s trade openness is four times that of Georgia.

In the Pacific region, however, the variations are relatively small. Among the countries for which data are available, a trade-to-GNP ratio of 90.1 per cent observed for Papua New Guinea is almost twice that of Vanuatu (45.7 per cent).

Clearly the level of trade openness varies between subregions as well as within them. A number of wide-ranging and interconnected policies are responsible for this variation, ranging from the extent and timing of external sector and market-oriented policy reforms to appropriate investment in domestic infrastructure.

2. FINANCE

During the period 2000-2002, only seven countries recorded portfolio equity capital movements. Such inflows are dependent on a country’s financial infrastructure, the availability of opportunities for investing profitably in equity and other financial markets and a liberalized capital market regime. The very few entries in the table under this heading point to the fact that only a limited number of countries possess the necessary conditions for attracting portfolio capital. The outflow of portfolio capital observed in two countries also points to the possibility
of a reversal in such capital flows when investors, based on their perception of their investment’s profitability, quickly decide to withdraw from a market.

By contrast, FDI has been a more stable and universal instrument for accessing global resources. A large number of developing countries of the region have been able to build FDI stocks. Higher FDI stocks which accrued because of past flows at higher levels can mostly be found in the developing countries of East and North-East Asia and South-East Asia, notably Hong Kong, China, with $435.93 billion, Singapore $117.98 billion, Indonesia $57.94 billion, Malaysia $54.22 billion and the Republic of Korea $40.52 billion. These countries and areas also recorded higher trade openness by integrating their economies with the rest of the world from the early to mid-1980s. However, countries which began to participate in the globalization process relatively late were also able to accumulate significant FDI stock. The best example is China, which amassed the second-highest stock of FDI, amounting to $397.14 billion. Countries in South and South-West Asia and North and Central Asia (especially India, Turkey, Kazakhstan and the Russian Federation) also attracted significant FDI flows. However, direct investment flows to the Pacific subregion have been very modest. Papua New Guinea, with the highest stock, had accumulated only $2.07 billion.

3. COMMUNICATION

The penetration of information and communication technology (ICT) infrastructure followed a pattern similar to that of trade openness. Countries of East and North-East Asia have recorded much higher use of the Internet, telephones and mobile phones. As with trade openness, use of communications infrastructure is impressive in Hong Kong, China (with 3,883 Internet users and 15,885 telephone and mobile connections per 10,000 population), Singapore and Malaysia. The Republic of Korea has the highest Internet use in the Asia-Pacific region (with 5,154 Internet users per 10,000 people) and high telephone use as well. All these countries and areas belong to subregions which also show high trade openness.

Within all the subregions, the penetration of ICT varies widely between member countries. East and North-East Asia contains Mongolia with 167 Internet users per 10,000, compared with 5,154 in the Republic of Korea. In South-East Asia, Myanmar with very low Internet use (in fact, the lowest recorded in the whole region) with 2 users per 10,000 population contrasts with Singapore with very high Internet use intensity. In South and South-West Asia, Bangladesh (14 users per 10,000 population) contrasts with Turkey (604 users per
10,000 population). Tajikistan (5 users per 10,000 population) also compares very unfavourably with Kyrgyzstan (301 users per 10,000 population). The Pacific subregion, in general, appears to be more equitably connected although use intensity has been only moderate (the Federated States of Micronesia scored highest with 455 Internet users per 10,000 people). To the extent that Internet and telephone connectivity are important elements enabling countries to participate in and benefit from globalization, a large number of countries of the Asia-Pacific region have a great deal of catching up to do.

4. TRANSPORT

Volume and growth in container traffic can serve as good indicators of the state of a country’s transport infrastructure for trade. Countries belonging to East and North-East Asia and South-East Asia once again are well ahead. China records the highest growth rate in container traffic (164.0 per cent from 1997 to 2001), which shows the increasing availability of transport infrastructure, including the higher handling capacity of port and link road networks. It is followed by the Philippines (120.1 per cent), Malaysia (116.2 per cent) and the Islamic Republic of Iran (95.4 per cent).

High growth rates signify a conscious attempt by policy makers to draw both public and private investment into this sector, thus enabling the countries to strengthen the process of integration through trade. But in contrast to Asia-Pacific’s frontrunners, many developing countries recorded relatively modest growth. To the extent that improved transport infrastructure contributes to increased container traffic, policy makers of the latter group of countries need to take care that their globalization does not become constrained by lack of transport facilities.

5. INCOME AND POVERTY

The level of development of the major countries of the Asia-Pacific region is shown in table I.2 through the use of two indicators: gross national income (GNI) per capita and percentage of the population living under the one dollar a day poverty line. Globalization creates opportunities to improve economic performance and achieve sustained economic growth, which increases per capita income and reduces poverty.

In this context, table I.2 shows that East and North-East Asia and South-East Asia seem to be ahead of the other subregions in realizing the benefits of globalization. The average unweighted per capita
Table I.2. Indicators of development

<table>
<thead>
<tr>
<th>Selected economies/areas</th>
<th>Indicators of development</th>
<th></th>
<th>Percentage of population living below $1 a day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GNI per capita (PPP $)</td>
<td>GNI per capita (PPP $)</td>
<td>2001</td>
</tr>
<tr>
<td>East and North-East Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>4 260</td>
<td>4 390</td>
<td>12.7</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>26 050</td>
<td>26 810</td>
<td>..</td>
</tr>
<tr>
<td>Macao, China</td>
<td>18 190</td>
<td>18 970</td>
<td>..</td>
</tr>
<tr>
<td>Mongolia</td>
<td>1 800</td>
<td>1 650</td>
<td>13.9a</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>18 110</td>
<td>16 480</td>
<td>&lt;0.5</td>
</tr>
<tr>
<td>South-East Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>1 520</td>
<td>1 590</td>
<td>44.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2 940</td>
<td>2 990</td>
<td>7.2</td>
</tr>
<tr>
<td>Lao People’s Democratic Republic</td>
<td>1 610</td>
<td>1 610</td>
<td>30.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8 340</td>
<td>8 280</td>
<td>&lt;0.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>4 360</td>
<td>4 280</td>
<td>11.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>24 910</td>
<td>23 090</td>
<td>..</td>
</tr>
<tr>
<td>Thailand</td>
<td>6 550</td>
<td>6 680</td>
<td>2.4</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2 130</td>
<td>2 240</td>
<td>13.6</td>
</tr>
<tr>
<td>South and South-West Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1 680</td>
<td>1 720</td>
<td>36.0b</td>
</tr>
<tr>
<td>Bhutan</td>
<td>1 530</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>India</td>
<td>2 450</td>
<td>2 570</td>
<td>34.7c</td>
</tr>
<tr>
<td>Iran (Islamic Republic of)</td>
<td>6 230</td>
<td>6 340</td>
<td>&lt;2.0d</td>
</tr>
<tr>
<td>Maldives</td>
<td>4 520</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Nepal</td>
<td>1 450</td>
<td>1 350</td>
<td>37.7a</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1 920</td>
<td>1 940</td>
<td>31.0a</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>3 560</td>
<td>3 390</td>
<td>6.6a</td>
</tr>
<tr>
<td>Turkey</td>
<td>6 640</td>
<td>6 120</td>
<td>&lt;2.0f</td>
</tr>
<tr>
<td>North and Central Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Armenia</td>
<td>2 880</td>
<td>3 060</td>
<td>12.8d</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>3 020</td>
<td>2 920</td>
<td>3.7f</td>
</tr>
<tr>
<td>Georgia</td>
<td>2 860</td>
<td>2 210</td>
<td>&lt;2.0f</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>6 370</td>
<td>5 480</td>
<td>1.5a</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>2 710</td>
<td>1 520</td>
<td>2.0g</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>8 660</td>
<td>7 820</td>
<td>6.1f</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>1 150</td>
<td>900</td>
<td>10.3d</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>4 580</td>
<td>4 570</td>
<td>12.1d</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>2 470</td>
<td>1 590</td>
<td>19.1d</td>
</tr>
<tr>
<td>Pacific</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td>5 140</td>
<td>5 310</td>
<td>..</td>
</tr>
<tr>
<td>French Polynesia</td>
<td>23 340</td>
<td>24 360</td>
<td>..</td>
</tr>
<tr>
<td>New Caledonia</td>
<td>21 820</td>
<td>21 960</td>
<td>..</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>2 150</td>
<td>2 080</td>
<td>42.8</td>
</tr>
<tr>
<td>Samoa</td>
<td>5 450</td>
<td>5 350</td>
<td>..</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>1 680</td>
<td>1 520</td>
<td>..</td>
</tr>
<tr>
<td>Tonga</td>
<td>..</td>
<td>6 340</td>
<td>..</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>2 710</td>
<td>2 770</td>
<td>..</td>
</tr>
<tr>
<td>Developed economies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>25 780</td>
<td>26 960</td>
<td>..</td>
</tr>
<tr>
<td>Japan</td>
<td>27 430</td>
<td>26 070</td>
<td>..</td>
</tr>
<tr>
<td>New Zealand</td>
<td>19 130</td>
<td>20 020</td>
<td>..</td>
</tr>
</tbody>
</table>


Note: (..) indicates that data are not available.
national income of the countries of East and North-East Asia in 2002 reached a substantial level (PPP $13,660); and, on the development side, poverty has either virtually disappeared or been kept at low levels. The average unweighted per capita income of the countries in the South-East Asian subregion is also recorded at a relatively high level (PPP $6,345).

The economies able to achieve a higher per capita income – Hong Kong, China; Singapore; the Republic of Korea; Malaysia; Thailand; the Philippines; and Indonesia – liberalized their trade regimes and at the same time pursued market-oriented policies, starting from the early to mid-1980s, which helped them to expand exports and consolidate substantial economic gains.

However, many countries were not able to benefit from the process. This is evident from their low per capita income and high incidence of poverty in 2002. They include Cambodia (with a per capita income of PPP $1,590 and poverty incidence of 44.2 per cent), the Lao People’s Democratic Republic (PPP $1,610 and 30 per cent), Nepal (PPP $1,350 and 37.7 per cent) and Bangladesh (PPP $1,720 and 36 per cent).

Many countries have also been unable to achieve and sustain high economic growth. The reasons are many but include differences in the sequencing of reform policies, lack of proper development in physical and social infrastructure, structural weaknesses including remote location, limited natural endowment and being landlocked. It is imperative that all these countries be able to exploit the opportunities provided by globalization to sustain high economic growth, increase per capita income and achieve the Millennium Development Goals, especially the goals for poverty reduction. There is a strong need to ensure an equitable distribution of gains from globalization.

6. “DIVIDES” IN THE ASIA-PACIFIC REGION

Clearly, the ability of countries to enhance their performance in trade, finance and communication technology – the three pillars of globalization – will determine their ability to participate in the process and benefit from it. Figures I.1, I.2, I.3 and I.4 show the relationship for the countries of the ESCAP region between trade openness, stock of foreign investment, intensity of use of the Internet, mobile phones and telephones and per capita GNI in the year 2001. A positive linear relationship in all cases shows that the countries which were in general, able to achieve higher values of these indicators could also sustain a
Figure I.1. Gross national income per capita to trade share

Figure I.2. Gross national income per capita to inward stock of foreign direct investment
A glaring divide yawns between a large cluster of developing countries at the bottom and a few developed and developing countries at the top with respect to trade openness, capital attractiveness and use of ICT. This result does not establish any causality, but the association between the indicators and the benefits of globalization in the form of high per capita income is clear.5

Another interesting feature of the figures is the existence of divides in trade intensity, foreign capital mobilization, the intensity of mobile phone and telephone use and Internet use. The divide between a large cluster of developing countries at the bottom and a few developed and developing countries at the top is very clear in all cases. Closing these gaps by improving the status of the countries at the bottom is essential to improve their per capita income and enable them to share more equitably in the benefits of globalization.

This calls for a concerted effort to expand trade and strengthen the communication infrastructure and transport facilities of the region’s developing countries on the one hand and ensure their access to the necessary financial resources on the other. Special attention is needed for least developed, landlocked and island developing countries and countries in transition to offset the structural weaknesses impeding their ability to participate in and benefit from globalization.

C. THE CHALLENGE OF NATIONAL ECONOMIC POLICY IN AN ERA OF GLOBALIZATION

Each country, based on its individual endowments and circumstances, will have to design and implement national policies in a range of areas that ensure the country takes advantage of the opportunities that globalization provides and at the same time deals with the risks that it introduces. In terms of the national economy, as Stiglitz6 points out, there are three distinct advantages:

(a) The demand for a country’s product is no longer constrained by its own markets;

(b) A country’s investment is no longer constrained by what it can save itself;

(c) A country’s producers can have access (at a price) to the most advanced technology.

5 In the case of the relationship between per capita GNI and stock of FDI, China and Hong Kong, China, are outliers.

Corresponding to these opportunities, some of the challenges are:

(a) Lack of complete access to product markets caused by both trade barriers and hefty subsidies in developed countries on commodities of interest to agricultural producers;

(b) Limited access to financial resources, and for some countries high conditionality attached to concessional resources;

(c) The constraints on acquiring technology in terms of resources, both human and financial, and inadequate infrastructure.

These issues are considered in the ensuing chapters.

The era of globalization also brings about a closer degree of financial and economic integration between countries in an environment where shocks have become more global in nature and where a crisis in one country can easily affect others. This presents special challenges in the conduct of fiscal and monetary policies, particularly in conditions of heightened uncertainty. It is no longer possible to formulate monetary policy independently of international and regional developments. This requires knowledge of world market conditions and continuous monitoring of financial market developments. The 1997 economic crisis highlighted the tension between achieving the benefits of market integration while minimizing the risks of market instability. Systemic risk management is becoming an integral element of the economic framework and has to reflect the broadest possible coverage of the maximum downside risks a country can face.7 This not only requires sound financial systems but also improving the understanding of the institutions and social and political dynamics in countries.

A growing innovation in the world economy is the establishment of international standards and codes as “rules of the game” for all economies. Now, there are codes of good practice in monetary policy, fiscal transparency, insurance and payments systems, securities, corporate governance, accounting, statistics and bank supervision, as well as a growing array of standards in other fields. This means that there is greater scrutiny of the policies of individual countries by market participants, and policy makers have the additional burden of “selling” their policies to the world at large through greater transparency. The performance of economies, industries and firms is continuously compared

---

and benchmarked across nations. This requires the harmonization of systems with internationally agreed codes and at the same time creates pressures for speedy reforms.

Within a country, there is the challenge of forging liberalization policies that promote greater integration of the domestic economy into the global economy. There are pressures from trade unions, lobby groups and local businesses over the effect of these policies on jobs and the closure of local industries. These can make it politically and socially difficult to implement reforms that could benefit a country in the medium to long term. The issue of national ownership of an adjustment programme thus presents a challenge in its practical application. The responsibility for achieving the right balance and pace of adjustment lie with individual Governments, but in practice this is not simple as it appears.

Building a powerful set of domestic institutions that can meet the rising demands in the race to be and remain competitive brings its own challenges. What determinants of competitiveness should a country focus on? The standard determinants of competitiveness are not only economic and technological but also include non-economic factors such as the promotion of democratic institutions, good governance and human rights. These require not only robust public systems and a vibrant private sector that can deal with sophisticated transnational companies and others in the global marketplace but also strong political and social frameworks, which take time to evolve. Without these frameworks, some countries may be trapped at the lower end of the international skills market.

Such factors highlight the need for a vision in each country about its position in the dynamic global economy. To achieve this, there has to be, first, political will and good leadership. Secondly, a national consensus needs to be forged among stakeholders concerning the necessary reforms and, thirdly, appropriate institutions and policies must be put in place to meet the challenges. The rules of the game may be perceived to be unfair by some, but there are few alternatives to well-designed country policies and programmes to manage globalization.

Globalization is an unstoppable phenomenon, presenting opportunities to those who are prepared and threats to those who are not. It is not easy for countries to manage globalization for their own benefit. Regional cooperation through which the countries look beyond their borders to tap and leverage other’s strengths could be an effective approach in this endeavour.
D. THE CHALLENGES OF GLOBALIZATION: MULTILATERAL RESPONSES

Globalization has become all-pervasive. It has even “appeared to many to be almost a force of nature”.8 Recognizing this state of affairs, the United Nations and other multilateral agencies initiated a number of international conferences at the summit or ministerial level to achieve a global consensus on issues of globalization and development and especially to ensure that, as nations and people become increasingly interconnected and interdependent, they recognize that there is a collective responsibility to uphold the principles of human dignity, equality and equity at the global level. In addition to the Johannesburg Declaration on Sustainable Development,9 trade issues were considered in the Doha Development Agenda, trade issues were considered in the Monterrey Consensus, transport transit issues in the Almaty Declaration12 and ICT issues in the Declaration of Principles of the World Summit on the Information Society.13 The special concerns of least developed countries were addressed in the Brussels Declaration.14

These documents not only spelled out the global development challenges which need to be addressed to help countries to increase the benefits they extract from globalization but also proposed plans of action for meeting the challenges. These plans gave specific roles and responsibilities to the stakeholders, especially through partnership arrangements. Stakeholders consisted of national Governments, the private sector, civil society and international and regional institutions, including international financial institutions. Particular attention was given to addressing the vulnerability of least developed and landlocked developing countries and the special structural difficulties they face in the global economy. The special problems of economies in transition were also addressed.

The United Nations Millennium Declaration of 8 September 2000 sets out the convergence of views reached by 191 nations on the challenges in a range of areas including poverty, hunger, education, health and other developmental goals (for key messages from the global consensuses see box I.1).

---

8 “Address by the Secretary-General to the World Economic Forum, Davos, Switzerland, 23 January 2004, para. 3.
10 WT/MIN(01)/DEC/1.
11 A/CONF.198/3.
12 A/CONF.202/3.
13 WSIS-03/GENEVA/DOC/0004.
14 A/CONF.191/12.
### Box I.1. Selected messages from global consensuses on various areas of globalization and development

**Millennium Declaration**

“We resolve further: to halve, by the year 2015, the proportion of the world’s people whose income is less than one dollar a day and the proportion of people who suffer from hunger and, by the same date, to halve the proportion of people who are unable to reach or to afford safe drinking water.”

**Monterrey Consensus**

“Globalization offers opportunities and challenges. The developing countries and countries with economies in transition face special difficulties in responding to those challenges and opportunities.”

“Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts... A central challenge, therefore, is to create the necessary domestic and international conditions to facilitate direct investment flows, conducive to achieving national development priorities...”

“We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration.”

**Doha Development Agenda**

“International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates.”

“We reaffirm that provisions for special and differential treatment are an integral part of the WTO Agreements. We note the concerns expressed regarding their operation in addressing specific constraints faced by developing countries, particularly least developed countries.”

**World Summit on Sustainable Development**

“We recognize that poverty eradication, changing consumption and production patterns, and protecting and managing the natural resource base for economic and social development are overarching objectives of, and essential requirements for, sustainable development.”

“Globalization has added a new dimension to these challenges. The rapid integration of markets, mobility of capital and significant increases in investment flows around the world have opened new challenges and opportunities for the pursuit of sustainable development. But the benefits and costs of globalization are unevenly distributed, with developing countries facing special difficulties in meeting this challenge.”

**The Third United Nations Conference on the Least Developed Countries**

“We believe that increased trade is essential for the growth and development of LDCs. A transparent, non-discriminatory and rules-based multilateral trading system is essential for LDCs to reap the potential benefits of globalization. The accession of LDCs to the WTO should be encouraged and facilitated.”

---

a General Assembly resolution 55/2 of 8 September 2000, para. 19.
b A/CONF.198/3, p. 3.
c Ibid., p. 5.
d Ibid., p. 9.
e WT/MIN(01)/DEC/1, p. 1.
f Ibid., p. 9.
h Ibid.
I. Globalization: Opportunities and Challenges

Almaty Declaration

“We recognize that a major reason for the marginalization of landlocked developing countries from the global trading system is high trade transaction costs. Trade and transport are inextricably linked. Transport costs are a key determinant of international trade competitiveness.”\(^{j}\)

Declaration of Principles of the World Summit on the Information Society

“We are also fully aware that the benefits of the information technology revolution are today unevenly distributed between the developed and developing countries and within societies. We are fully committed to turning this digital divide into a digital opportunity for all, particularly for those who risk being left behind and being further marginalized.”\(^{k}\)

\(^{k}\) WSIS-03/Geneva/doc/0004, p. 2.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation
INTRODUCTION

Globalization is indisputably a complex process having varied impacts on economies. Recent studies show that more globalized countries achieve higher growth and greater reductions in poverty than those outside the process.\(^1\) Indeed, without globalization it is difficult to sustain high growth.\(^2\) Many countries, however, have been unable to take advantage of the opportunities offered by globalization, and in the 1990s the wealth gap between countries widened.\(^3\) Regional cooperation in areas such as trade, transport and ICT can help to bridge that gap by strengthening the ability of countries to realize the benefits of globalization. Although considered a “second-best” policy,\(^4\) it offers a middle path between complete self-reliance at the one end and complete openness on the other.

Regional economic cooperation in the Asian and Pacific region, however, is a relatively recent phenomenon. Despite the formation of the Non-Aligned Movement and the Group of 77 in the 1960s, Asia-Pacific countries did little to cooperate at the regional level. When regional groups started to form in the 1970s, political factors were the driving force. Economic considerations came into play only later.

Even then, Asia-Pacific cooperation has come mainly from subregional groups like ASEAN, SAARC, ECO and the Pacific Islands Forum. Although trade is their main area of economic cooperation,

---

\(^1\) In Globalization, Growth and Poverty: Building an Inclusive World Economy (New York, Oxford University Press, 2001), the World Bank has shown that more globalized developing countries have achieved higher growth rates as compared with less globalized countries and have better track records in alleviating poverty, in general.


\(^3\) United Kingdom, Department for International Development, White Paper on Eliminating World Poverty: Making Globalisation Work for the Poor (London, Her Majesty’s Stationery Office, 2000) indicates that the number of people living on less than $1 a day increased significantly in South Asia, Sub-Saharan Africa and Eastern Europe and Central Asia in the 1990s.

\(^4\) M.E. Kreinin, M.G. Plummer, Economic Integration and Development: Has Regionalism Delivered for Developing Countries? (Massachusetts, Edward Elgar, 2003).
they also work together in areas such as transport, ICT, finance and socio-economic issues (annex I). However, the region’s political and economic diversity has resulted in wide variations in the levels of subregional cooperation.

**A. RATIONALE FOR REGIONAL COOPERATION**

Regional cooperation brings many of the same benefits as multilateralism but on a smaller scale.\(^5\) First, it enables participating countries to overcome the small size of their domestic markets and achieve economies of scale and greater specialization in production, thus increasing the competitiveness of their products. Secondly, access to a larger market enables developing countries both to expand existing industries and to set up new export industries, diversifying exports and reducing their vulnerability to setbacks in a specific product market. Thirdly, regional cooperation can enhance the capacity of developing countries to meet emerging challenges, including the application of new technologies. Fourthly, it is increasingly clear that regional trade facilitation measures offer significant benefits by reducing the costs of transactions across international borders and removing non-border obstacles.

Cooperation at the regional level offers other advantages. Clearly, multilateral processes are slow and, although they may deliver benefits in the long term, countries still face short- and medium-term challenges. Regional cooperation in trade, transport and other areas can help to cope with these challenges. It focuses on addressing the region’s priorities and leaves countries which join the process less scope for backsliding. Changes in the global economy, notably the risk of increased protectionist practices by developed countries and the emerging complementarities among developing countries, also provide a rationale for regional cooperation. Such arrangements can help countries to develop a common understanding on international issues but do not prevent countries from other regions from contributing to this effort.\(^6\)

Despite these advantages, finding equitable ways to share the burdens and benefits of regional cooperation can be difficult. Political tensions or mistrust obstructs cooperation and many countries may be unwilling or unable to meet high coordination costs or to accept asymmetric distribution of costs and benefits. Countries may pull back

---

\(^5\) For example, regional cooperation helps a country to overcome the size limitation and exploit economies of scale, but multilateral trade liberalization and active participation in global trade enhances this and there is no limit to realizing economies of scale in that context.

\(^6\) Recent developments show that countries do not need regional organizations to form common negotiating positions. Neither the Cairns Group nor the G22 had a regional basis. However, many regional groups (like SAARC) discuss WTO matters among themselves for a better understanding of specific issues, which can help in developing a negotiating position before forming a negotiations group.
from their obligations on a particular issue if they are not satisfied that their perceived interests are served. Regional cooperation agreements may also prove difficult to achieve or may fail to deliver the expected results because of weak institutions and a lack of proper enforcement mechanisms to ensure that countries live up to their commitments. Cooperation which leads members of a regional trading bloc to lower tariffs may lead to diversion of trade away from countries outside the bloc, which can limit the benefits of wider trade liberalization. Despite such problems, countries are showing increasing interest in forming regional groups to exploit the opportunities they offer for market expansion, creation of new industries, technology transfer and human resources development.7

B. REGIONAL COOPERATION AND INTERLINKAGES AMONG DIFFERENT SECTORS

Regional cooperation will deliver the most benefit if it is geared to promoting long-term growth and development and is not simply a defensive short-term reaction to the state of the world economy. For this reason, subregional or regional integration should not be limited to trade issues.

Although trade liberalization is usually at the core of regional cooperation, agreements increasingly cover other areas such as investment liberalization and finance. A second group of issues includes ICT, e-commerce, transport, energy and other infrastructure services. Academic and cultural exchanges and cooperation in research, science and technology may form another area of cooperation.

However, cooperation that is “inward-looking” will not be in step with or benefit from globalization. Whatever form of cooperation countries of a particular region adopt should also promote policies that facilitate trade and economic relations with other countries or regional groups.

The previous chapter identified the need to manage globalization in order to achieve stable and sustainable economic growth, reduce poverty and inequality and minimize the risks of volatility in financial markets. There are globally acceptable policy instruments available to deal with these challenges but their impact varies from country to country. Figure II.1 illustrates how different areas of regional cooperation can combine to provide growth and stability and enhance development.

Cooperation in trade, investment, technology transfer, transport, infrastructure development and ICT directly enhances growth. Financial cooperation also contributes to growth and reduces the impact of volatile financial markets, providing macroeconomic stability. Cooperation in research, training and academic exchange helps regional development of human resources as capacity having a positive impact on the development of infrastructure, ICT and energy. Cooperation on socio-economic issues, especially in health and education, also facilitates development, while cooperation on political and security issues contributes to institutional stability.

Growth, development and stability are closely linked. Although national policies will ultimately decide how these three important variables are managed, the effectiveness of national policies can be significantly enhanced by regional cooperation.

C. REGIONAL COOPERATION IN A GLOBALIZING WORLD

Regional cooperation, as a middle path between complete self-reliance and complete openness, gives countries increased room to manoeuvre in pursuing development. As a result, although intensive trade liberalization is making the world increasingly integrated, regionalism or the establishment of RTAs is also on the rise.

Article XXIV of GATT permits the formation of RTAs (for trade in goods) whereby parties to the Agreement grant each other preferential tariff treatment on a reciprocal basis subject to certain conditions. By their nature, such arrangements discriminate against non-members and RTAs are therefore exceptions to the most-favoured-nation (MFN) principle of WTO. It is expected that the proliferation of RTAs and the preferential rates they offer will ultimately create downward pressure on MFN tariff rates and thereby help the multilateral process to move forward.

8 Article V of GATS also permits RTAs for trade in services.
The first wave of regionalism came in the 1950s and 1960s with the formation of the European Free Trade Area and RTAs in Latin America and Africa. However, except for the European Free Trade Area, such RTAs could not make significant headway, primarily because the United States did not then favour regionalism and instead promoted multilateral free trade through GATT. A second wave of regionalism followed in the late 1980s with the formation of the EU’s Single Market, the United States-Canada Free Trade Area and the North American Free Trade Area (NAFTA). In Latin America and Africa attempts were then made to revive old RTAs and form new ones such as the Andean Community and the Mercado Común del Sur (MERCOSUR).

In the Asia-Pacific region, cooperation started in the late 1960s with formation of ASEAN, but actual economic and trade cooperation started quite late with the ASEAN PTA in 1977. South Asian countries came together in SAARC in 1985. Similarly, Pacific island countries formed regional groups in the early 1970s but trade agreements came only later. Australia and New Zealand also developed a closer economic relationship (CER) between themselves in the early 1980s, the Australia New Zealand Closer Economic Relations Trade Agreement, and mutual trade liberalization is the key element of this cooperation.

However, the first and second waves of regionalism are distinct in character. The first was relatively inward-looking and aimed for only shallow integration, mostly involving tariff reductions. The second wave was outward-looking and sought deeper integration. It also promoted greater and faster liberalization going beyond tariff reductions, and it was non-exclusive, allowing countries simultaneously to be members of more than one RTA. The consensus view is that the second wave also led to faster and deeper liberalization than was possible at the multilateral level and can help in achieving multilateral consensus at WTO.

The recent upsurge of agreements, especially BTAs, represents the third wave of regional cooperation. Asia-Pacific countries have signed or prepared several agreements of this kind. But the proliferation of these agreements has caused a debate on whether RTAs and BTAs will prove to be building blocks or stumbling blocks for the rules-based multilateral trading system under WTO.

The membership of many countries in more than one RTA and BTA risks creating inconsistencies in trading rules, leading to implementation problems. The different “rules of origin” among RTAs is a good example. Moreover, developing countries are increasingly concerned that they will face discriminatory deals from any RTA of which they are not members. As a result, there is an urgent need to identify possible areas of cooperation that will avoid the inefficiency arising from uncoordinated approaches to preferential trading systems.
D. ASIA-PACIFIC EXPERIENCE OF REGIONAL COOPERATION

1. FEATURES AND DYNAMICS OF ASIA-PACIFIC REGIONAL COOPERATION

Asia-Pacific cooperation is promoted mainly by subregional groups, notably ASEAN, SAARC, ECO and the Pacific Islands Forum, and by cross-subregional groups like Asia Pacific Economic Cooperation (APEC), the Bangkok Agreement countries, Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC) and the Shanghai Cooperation Organization. Australia and New Zealand cooperate through their closer economic relationship. In addition, countries of the region also have a number of bilateral cooperation arrangements.

Japan, the region’s most developed economy, has long promoted trade liberalization. Japanese multinational companies regarded East Asian countries as an “offshore export platform” and invested heavily there, moving the labour-intensive part of their operations to NIEs and later to selected ASEAN countries. This fostered the export-oriented development of these economies and substantially increased their productivity. Japanese investment also increased economic integration and linkages between North-East and South-East Asia. The process was enhanced by mutual reduction of tariffs and trade barriers and rapid development of transport and ICT links.9

Prolonged and high economic growth in the region also led to other cooperation agreements such as ASEAN+3 and the Japan-Singapore and Singapore-New Zealand economic partnerships. North and East Asia have had less experience in regional cooperation, particularly in the formation of trade blocs.10 However, the accumulation of wealth, especially in Japan and the Republic of Korea, and China’s rise as an economic powerhouse, have added a new dimension to regional cooperation in forming East Asian Economic Cooperation.11 These factors, together with India’s accelerating growth, will help to foster a stronger regional identity and provide important drivers of future development.

---

9 The entire phenomenon is popularly known as “flying geese”, with Asian NIEs and countries of ASEAN moving together following a liberalization-induced development strategy fuelled by the initial Japanese investment.

10 This is mainly due to less trade interest in the region as countries of North America and Europe are their major trading partners.

But the enormous diversity of Asia-Pacific countries in terms of size, resources, economic strength and culture has produced widely divergent national policies, priorities and development strategies. Very few cooperation agreements apply across the whole region and, even among its different subregions, the levels of economic and political cooperation vary widely.

Against this background, ESCAP is uniquely positioned to build trust among countries and promote cooperation. ESCAP has supported economic and social development through regional and subregional cooperation, promotion of trade liberalization and cooperation in areas like transport, sustainable development, ICT and social issues. ADB (box II.1), which was established at the initiative of ESCAP, provides

---

**Box II.1. Resolution on the establishment of the Asian Development Bank**

*The Economic Commission for Asia and the Far East,*

*Recalling* its resolution 62 (XXI) on the Asian Development Bank, adopted at its twenty-first session in March 1965, which, inter alia, called upon Governments of member countries of ECAFE to give urgent consideration to the establishment of the Asian Development Bank; invited the developed countries outside the region to consider favourably participation in the Bank; and created the Consultative Committee on the Asian Development Bank,

*Appreciating* the valuable assistance rendered by the Secretary-General and other officials of the United Nations, particularly the United Nations Development Programme, in giving and securing wide support and resources for the establishment of the Bank,

*Commending* the Executive Secretary for his initiative and for the comprehensive preparatory work undertaken by the ECAFE secretariat in implementing the proposal for the establishment of the Bank,

*Expressing* its appreciation of the work carried out by the Consultative Committee and the Preparatory Committee on the Asian Development Bank, as well as of the collective efforts of countries in the region and of the cooperation extended by the developed countries outside the region to the project,

*Noting* with deep satisfaction the resolution on the establishment of the Asian Development Bank unanimously adopted by the Second Ministerial Conference on Asian Economic Cooperation and the Final Act unanimously adopted by the Conference of Plenipotentiaries on the Asian Development Bank in December 1965,

*Noting* also that the Committee on Preparatory Arrangements for the Establishment of the Asian Development Bank created by the Conference of Plenipotentiaries is undertaking the necessary preparations for the establishment of the Bank in accordance with the programme of preparatory arrangements approved by the Second Ministerial Conference and the Conference of Plenipotentiaries,

*Recalling* the keen desire of interested countries to augment the resources of the Bank to enable it to achieve its objectives effectively,

*Strongly urges* the Signatories of the Agreement Establishing the Asian Development Bank to take measures for the early ratification of that Agreement so that the Bank can commence operating at the earliest possible time;

*Calls upon* the Signatories to extend every possible assistance to the Bank in its operations including contributions to the Bank’s Special Funds;

*Invites* other countries to consider urgently participation in the Bank in the form of subscriptions to its capital stock and/or contributions to its Special Funds;

*Requests* the Executive Secretary and international organizations to continue to provide the necessary assistance to this project.

*346th meeting, 31 March 1966*

---

Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

finance and technical assistance to individual countries. ESCAP has also promoted several specialized cooperative arrangements, including the Bangkok Agreement (see chapter III), the Asian Clearing Union and the Asian Reinsurance Corporation (see chapter VI). The Asian Highway project is another important ESCAP initiative (see chapter IV). Other ESCAP proposals that will further build regional cooperation include the Asian gas pipeline, broadband development and revival of the Bangkok Agreement as the Asia Pacific Trade Agreement. ESCAP has also promoted South-South cooperation (box II.2) by facilitating technical and economic cooperation among developing countries (TCDC and ECDC), particularly in least developed, landlocked and island developing countries and economies in transition.

Box II.2. South-South cooperation

One of the most important United Nations strategies for strengthening developing countries and their economies is South-South cooperation. Since the 1970s, programmes of action on TCDC and ECDC have been increasingly recognized by the international community for their contribution to achieving the development objectives of developing countries and as a tool for ensuring equal participation of countries in the globalization process.

While ECDC refers mainly to South-South cooperation in trade, investment and finance, TCDC refers to a process whereby two or more developing countries pursue their individual or collective development through exchanges of knowledge, skills, resources and technical know-how. In this process, they share each other’s experience and technical expertise, employing their own human and financial resources. When necessary, they may draw on the resources of external agencies, including the United Nations. These arrangements often require the creation of a broad partnership between Governments, international agencies, non-governmental organizations, community-based organizations and the private sector. In 1995, the High-Level Committee on TCDC called for the promotion of high-priority TCDC activities in such areas as trade and investment, debt, environment, poverty alleviation, production and employment, macroeconomic policy coordination and aid management. The new strategy calls for better integration between TCDC and ECDC, introduces the concepts of pivotal countries and of triangular cooperation whereby developed countries or international organizations would be encouraged to become involved in providing financial support.

ESCAP has embraced South-South cooperation implementing numerous TCDC/ECDC-related activities within the framework of its technical cooperation programme. Moreover, ESCAP has actively facilitated the participation of the least developed, landlocked and island developing countries, and economies in transition. Over the years, ESCAP has focused its efforts on strengthening the role of TCDC national focal points in order to enhance their ability to promote and participate in TCDC activities. The use of TCDC continues to be emphasized in the preparation and implementation of ESCAP programmes and projects.

TCDC continues to be highly relevant to the ESCAP region, assisting least developed countries and transitional economies in participating in the formation of the new international structure. South-South cooperation provides a crucial mechanism for addressing pressing issues, such as HIV/AIDS, which require the collaboration of many countries of the South. It offers opportunities to focus on new issues such as ICT, where a number of developing countries are beginning to play a leading role. Its strategy of building broader partnerships will also enable developing countries to sustain economic growth and achieve the Millennium Development Goals.

The main regional vehicle for cooperation is trade agreements (chapter III). All major trading countries belong to one or more regional trading arrangements. Yet the Asia-Pacific region also presents other interesting models of cooperation. Some countries have promoted growth areas, typically through intergovernmental agreements allowing infrastructure development and the creation by the private sector of special zones for production. The Greater Mekong Subregion (box II.3) focuses on freeing up trade between localities of neighbouring countries. This is a public sector-driven initiative focusing mainly on infrastructure, energy and multisectoral transport linkages funded by the international

**Box II.3. The Greater Mekong Subregion Programme**

The Greater Mekong Subregion (GMS) Programme whose origin began in the 1950s, was formally established in 1992 as a subregional initiative designed to promote closer economic ties and enhance economic cooperation among its six members, Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam and Yunnan Province of China. With financial and technical assistance from ADB and ESCAP, it is aimed at facilitating subregional trade and investment, subregional development and the resolution of transborder issues, such as disease and environmental degradation. These main objectives are meant to improve employment opportunities, generate higher living standards, reduce poverty and modernize the various economic sectors.

Recognizing the important role of the private sector in economic development in GMS, ESCAP has worked closely with ADB, donor agencies and the GMS business sector to enhance private sector development in GMS under three different frameworks: the Forum for the Comprehensive Development of Indo-China, Advisory Assistance to Industry for Export Promotion and the GMS Trade Facilitation Working Group. In 1999, ESCAP formulated a comprehensive approach to business sector development in GMS called the Hi-Fi Plan. The approach has four main strategies:

- H – human resources development at the enterprise level, including a series of targeted management training initiatives;
- i – institutional capacity-building of private sector associations and chambers of commerce and industry, advisory services to exporters and establishment of a GMS Business Support Centre;
- F – facilitation measures, especially in the area of trade and related procedures;
- i – investment promotion through increased interfacing between the foreign and domestic business communities and creation of a stronger enabling environment for investment.

A GMS Business Forum was established in October 2000 to give GMS countries further help in creating an environment conducive to the private sector. The Forum aims to promote business activities and investment by building up the capacity of the local private sector, creating networks between local firms and foreign firms and enhancing the public-private sector interface in GMS, including the major multilateral agencies. It also serves as a mechanism for enlisting private sector support for development and provides a direct and regular channel for the private sector to communicate with the GMS Governments.

Given its wide range of natural resources, large and affordable labour force, and strategic location, GMS has great potential for economic development and prosperity. Under the framework of the GMS Programme, several initiatives have contributed to the development of subregional economic cooperation, which in turn will play a crucial role in stimulating faster growth and global competitiveness. ADB and ESCAP also assist GMS countries in creating a private sector-friendly business environment and fostering cooperation and trust between the public and private sectors. This relationship of mutual cooperation and trust should contribute to peace, stability and prosperity in the subregion. It will also lead to international recognition of the subregion as a growth area.

**Sources:** ESCAP, Development through Globalization and Partnership in the Twenty-first Century: An Asia-Pacific Perspective for Integrating Developing Countries and Disadvantaged Economies in Transition into the International Trading System on a Fair and Equitable Basis (ST/ESCAP/2054) and, Greater Mekong Subregion Business Handbook (ST/ESCAP/2183).
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

ASEAN progressed from initial cooperation on political and security issues to increasingly broad-based economic cooperation. The pioneering and most successful initiative was the private sector-driven Singapore-Johore-Riau venture bringing together cheaper sources of land, labour and capital. The Special Programme for the Economies of Central Asia, launched by the Economic Commission for Europe in collaboration with ESCAP and other United Nations partners, is yet another initiative of this kind focusing on infrastructure, energy, water resources, trade and investment.

Apart from cooperation in trade and other core economic areas, Asia-Pacific countries also collaborate on socio-economic issues, and many subregions have quite elaborate arrangements covering education, health and sustainable development. Cooperation in socio-economic issues mainly focuses on redistribution of benefits to the masses, especially poor and vulnerable groups. These arrangements help to foster trust and confidence between member countries, a prerequisite for deeper economic integration.

2. STRUCTURE AND OBJECTIVES OF SELECTED SUBREGIONAL GROUPS IN ASIA-PACIFIC

The varied objectives and state of development of some of the important subregional groups in the Asia-Pacific region underline the region’s enormous political and economic diversity and the challenge of trying to promote broader regional integration.

(a) Association of Southeast Asian Nations

ASEAN was established at Bangkok on 8 August 1967 to bind members in friendship and cooperation and take up joint efforts for development and peace. The founding members were Indonesia, Malaysia, the Philippines, Singapore and Thailand. They were joined later by Brunei Darussalam (in 1984), Viet Nam (1995), the Lao People’s Democratic Republic and Myanmar (1997) and Cambodia (1999).

ASEAN has contributed significantly to the development of the region following principles of consensus decision-making, non-interference in the domestic affairs of member countries and paying attention to the specific needs of member countries. ASEAN remained primarily a political organization for its first 10 years, focusing on resolving conflicts in the region. After the Bali Summit of 1976, its focus widened to include economic and social cooperation. In 1992, ASEAN heads of State and Government declared that it should intensify its external dialogues in political and security matters as a means of

12 For example, the Agreement on Establishing the SAARC Food Security Reserve, the SAARC agreements on child welfare and prevention of trafficking, the ASEAN programmes on HIV issues, including “Healthy ASEAN lifestyles 2002” and the Pacific Islands Forum Basic Education Action Plan.
building cooperative ties with States in the Asia-Pacific region. Three
years later, ASEAN heads of States and Government reaffirmed that
“cooperative peace and shared prosperity shall be the fundamental goals
of ASEAN”.

In its early years, economic and social cooperation was not
a priority and trade among the member countries was insignificant. The idea of regional economic “integration” was formally mentioned for
the first time in the Hanoi Plan of Action (1998). By then, however,
ASEAN had already taken a number of industrial “cooperation” initia-
tives that enabled member countries to increase capacity and specialize
in some products.

In 1992, the Fourth ASEAN Summit in Singapore adopted the
Framework Agreement on Enhancing Economic Cooperation, which
included launching the ASEAN Free Trade Area (AFTA), aimed at
increasing ASEAN’s competitive advantage as a single production unit.
In addition to trade and investment liberalization, regional economic
cooperation is being pursued through the development of a trans-
ASEAN transport network. ASEAN is promoting the interoperability
and interconnectivity of national telecommunications equipment and
services. Member countries are also building trans-ASEAN energy
networks, which consist of the ASEAN power grid and the trans-
ASEAN gas pipeline. ASEAN is also cooperating in ICT through the
e-ASEAN Initiative (1999), the e-ASEAN Framework Agreement
(2000) and the Manila Declaration (2002). Today, ASEAN economic
coopreation covers trade, investment, industry, services, finance, agriculture, forestry, energy, transport and communication, intellectual property, small and medium-sized enterprises, and tourism.

(b) Economic Cooperation Organization

ECO is an intergovernmental regional organization established in
1985 by the Islamic Republic of Iran, Pakistan and Turkey to bring
about sustainable socio-economic development among the member
nations. The concept of ECO evolved from the Regional Cooperation
for Development (RCD) initiative, pursued from 1964 to 1979. The
Treaty of Izmir, signed in 1977, provided the legal framework for
RCD and was later adopted as the basic charter of ECO. It was
modified to provide a proper legal basis for ECO’s transition from RCD
at the Ministerial Meeting held at Islamabad in June 1990. After the
amendment of the Treaty, ECO was fully launched in early 1991. In
1992, the Organization was expanded to include seven new members,
namely, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan,
Turkmenistan and Uzbekistan.

13 The intraregional trade share was around 12 to 15 per cent of total trade in the early 1970s.
Within the few years since its inception, ECO has developed into a thriving regional organization but it faces major challenges with respect to realization of its objectives. The region lacks adequate infrastructure and institutions. The Organization seeks development, on a priority basis, to make full use of the resources available in the region. Member countries have been collaborating to accelerate the pace of regional development and have embarked on several projects in priority sectors, including energy, trade, transport, agriculture and drug control. The ECO Trade Agreement (ECOTA 2003), ECO Transit Trade Agreement (1995), ECO Transit Transport Agreement (1998) and Programme of Action for the ECO Decade of Transport and Communications (1998-2007) are some important examples of cooperation initiatives in ECO. However, the ratification process for some ECO agreements is relatively slow.  

(c) Pacific Islands Forum

The Pacific Islands Forum represents heads of Government of all the independent and self-governing Pacific island countries, Australia and New Zealand. Since 1971 it has provided member nations with the opportunity to express their joint political views and to cooperate on issues of political and economic concern. The Forum’s 16 members are: Australia, Cook Islands, Fiji, Kiribati, the Federated States of Micronesia, the Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The Pacific Islands Forum Secretariat was established as a “Trade Bureau” in 1972 and later became the South Pacific Bureau for Economic Cooperation. In 2000 it changed again to become the Pacific Islands Forum Secretariat.

Apart from trade, the Pacific Islands Forum has fostered cooperation in education, gender, ICT, aviation, sustainable development and energy

It focuses on economic policy, trade and investment, corporate sector development and services related to those matters and to political and international legal affairs. Apart from trade, the Forum has detailed cooperation activities in education, gender, ICT, aviation, sustainable development and energy. The major trade agreements in the region are the Pacific Island Countries Trade Agreement (PICTA, 2001) and South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA, 1980). Important initiatives in transport and ICT are the Pacific Aviation Action Plans (1998 and 2003), the Pacific Islands Regional ICT Policy and Plan (PIIPP 2002) and the Forum Communication Action Plan (2002).

(d) South Asian Association for Regional Cooperation

SAARC comprises the seven countries of South Asia, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. It was established on 8 December 1985, when the heads of State of those countries adopted its Charter at Dhaka. The idea of regional cooperation in South

Asia was first floated around November 1980 with a view to holding periodic, regional-level consultations among countries in South Asia on matters of mutual interest and possible cooperation in economic, social, cultural and other fields. After consultations by the foreign secretaries in Colombo (April 1981), the foreign ministers of South Asia met at New Delhi in August 1983 and adopted the Declaration on South Asian Regional Cooperation. They also formally launched the Integrated Programme of Action initially covering five agreed areas of cooperation: agriculture, rural development, telecommunications, meteorology, and health and population activities. As a consequence of that, the heads of state held their first summit meeting at Dhaka and established SAARC. The member countries have signed several agreements and conventions. Apart from trade, the main areas of cooperation include child and women development, food security, combating terrorism and drug abuse, infrastructure development, cultural exchange and environmental protection. Some noteworthy SAARC initiatives are the SAARC Preferential Trading Arrangement (SAPTA, 1993), the Agreement on Establishing the SAARC Food Security Reserve (1987), several conventions to combat drugs (1990) and trafficking (2002), promotion of child welfare (2002), the SAARC Audio-visual Exchange Programme (initiated in 1987) and the Plan of Action on Telecommunications (1998). It is important to note that in January 2004, SAARC countries signed the Framework Agreement on the South Asian Free Trade Area (SAFTA).

E. FUTURE OF REGIONAL COOPERATION IN ASIA-PACIFIC

1. INTEGRATING DIVERSE ECONOMIES

The Asia-Pacific region is diverse and some parts, especially North-East and South-East Asia, are better integrated than others. China’s fast-growing trading relationship with many Asian countries has given a fillip to integration. This will get an added boost with the possible investment of accumulated wealth of Japan and the Republic of Korea in different countries of the region. India’s high growth rate also acts as a major catalyst in the region in providing further impetus, especially in South Asia.

However, countries from other subregions such as those involving ECO and the Pacific islands need special attention to become integrated in the Asian wave of regionalism. Even within ASEAN and SAARC, some countries have fallen behind. The major challenge for the Asia-Pacific region is to enable these countries to become more actively engaged in regional development cooperation. Every subregion offers flexibility to weaker and vulnerable countries in its respective agreements. There are also special initiatives and projects for them. However, there is no region-wide programme to link these efforts with a vision of Asia-Pacific integration.
2. IMPORTANT ISSUES FOR FUTURE COOPERATION

Three considerations should guide future cooperation in the region. First, as the levels of development and of participation in various subregional cooperation activities vary widely in the region, the “developmental aspect” of regional cooperation should have priority. Secondly, the region should pay attention to the idea of “going beyond subregions”. To increase the positive externality of cooperation, all subregional cooperation activities need to be interlinked and ESCAP can play a major role in facilitating this. Thirdly, the integration process should be “outward-looking”, strengthening the multilateral process through cooperation with other countries and regions outside the Asia-Pacific region. The most practical strategy may be to adopt a dual-track approach, which pushes North-East and South-East Asia towards deeper integration while developing an acceptable road map for integration involving the countries of other subregions, taking into account their national priorities.

3. CAN ASIA-PACIFIC GO THE EU WAY?

Countries of the region need time to come together to pursue a concerted and well-planned integration process but the EU experience (box II.4) highlights several issues which are important for Asia-Pacific integration.

First, European integration emerged from a specific political and economic context. It was created with a twofold purpose: to reconstruct the economy after the second World War and to promote peace and prosperity on the continent on the basis of shared democratic and liberal economic values. The existence of this common objective strongly supported by the political commitment and leadership of France and Germany was crucial to successful unification.

Post-war economic conditions were also favourable for European integration, marked by rapid economic growth driven by factor accumulation, strong commercial ties and the relative homogeneity of the founding members of the European Community, most of them small or medium-sized open economies.

The absence of a shared political objective and a clear vision for long-term cooperation will make Asia-Pacific integration more difficult to achieve. In marked contrast to Europe, regionalism in Asia-Pacific has so far been driven by market considerations.

---

15 The recent trend shows that in this context countries use a dual approach: interorganizational cooperation (like SAARC-ASEAN and AFTA-CER) and cooperation between one organization and one or more countries (like ASEAN+3 or the Pacific Islands Forum and New Zealand). These efforts will strengthen collaboration within Asia-Pacific by fostering partnerships among relevant international organizations and institutions working within and outside the region. Moreover, in the absence of active region-wide cooperation, especially in the area of trade, these attempts definitely provide an opportunity to explore the possibility of further market access.
Box II.4. European integration

The EU is the world’s most successful exercise at economic integration. It started as a free trade area and developed into a customs union, then a fully integrated common market and finally a monetary union. What is often referred to as the “European model” of market integration has evolved over many decades, adapting and developing considerably to accommodate changing economic and geopolitical environments. Clearly, the process of European integration is unique and there are many differences between Europe 50 years ago and Asia-Pacific today.

The foundations of European regional economic cooperation were laid in the Schuman Plan of 1951, which addressed the urgent task of economic reconstruction by unifying European coal and steel resources under a single authority. The establishment of the European Coal and Steel Community (ECSC) in 1952 integrated two sectors of central importance for both economic and defence reasons. Encouraged by the early success of ECSC, integration efforts continued, not always successfully throughout the 1950s, and culminated in the establishment of the European Community in 1957. Its main objective was to promote the growth and convergence of national economies through the creation of a common market, the gradual alignment of economic policies and, more specifically, the creation of a customs union, the adoption of Common Agricultural Policy (CAP) and the institution of a supranational framework to support the integration process.

The customs union was completed by July 1968, mainly owing to the favourable macroeconomic environment of the late 1950s and 1960s. Intraregional trade increased and in turn drove up national growth rates. The creation of the customs union was accompanied by the establishment of key institutions b and the adoption of the CAP in 1962, which led to the progressive liberalization and rapid expansion of intracommunity trade in agricultural products. However, no substantial progress was recorded in the fields of transport, factor movement and macroeconomic coordination.

The unprecedented rise in oil prices and global inflation which added volatility to international exchange rates, convinced most members that a customs union was not enough to withstand international economic shocks. In order to deepen the integration process, two major initiatives were put forward in the period 1973-1992: the European Monetary System (EMS) and the Single European Market (SEM).

EMS was established in 1979 to encourage monetary stability and counter inflation among members States. c The scheme was designed to reduce currency fluctuations by creating a stable-but-adjustable exchange rate mechanism that limited the fluctuations of exchange rates to plus or minus 2.25 per cent of an agreed European Currency Unit (ECU) central rate. d The establishment of a European Monetary Fund to provide determined intervention and loan arrangements supported the exchange rate framework and protected the participating currencies from excessive exchange rate fluctuations.

The SEM initiative was launched to resolve these problems and combat the threat of growing competition in the industrial world in the 1980s. It introduced a shift in economic policies towards supply-side programmes and economic deregulation. The directives, adopted by the 1987 Single European Act, related mainly to:

- Formal and non-formal barriers.
  - Physical barriers: simplification of export-import documentation and customs checkpoint procedures;
  - Technical barriers: harmonization of standards and regulations through the principle of "mutual recognition;"f

---

a Attempts at military and political cooperation were pursued in the early 1950s, without success. An agreement establishing the European Defence Community was signed in Paris in 1952, but vetoed by the France’s National Assembly.

b European Commission, European Council, European Court of Justice, European Parliament and Economic and Social Committee.

c The fight against inflation in which most of the EC countries had been engaged since the mid-1970s resulted in a convergence of economic and monetary policies, which greatly assisted the Franco–German initiative to establish EMS.

d The ECU was composed of a weighted average of EC member currencies.

e Ex ante studies (synthesized in the Cecchini Report) suggested that the Single Market would lower prices through increased competition, induce market structure transformations and foster a concentration of resources in more efficient uses. These effects would, in turn, translate into sizeable welfare gains, increase GDP and increase competitiveness vis-à-vis the rest of the world.

f If a product is legal in one country, it can access all other countries’ markets, given no security or safety problems.

(Continued overleaf)
(Continued from preceding page)

- Fiscal barriers: homogenization of value added tax and corporate taxation;
- Liberalization of government procurement (greater transparency and opening up of purchases from firms of other member countries).
- Mobility of factors of production: capital markets and financial services, labour.

The essentials of the internal market were accomplished successfully by the target date of January 1993, owing to changes to the Community legislative system which facilitated decision-making procedures through qualified-majority voting.

The next stage in the integration was set out in the Maastricht Treaty (1992), with economic and monetary union (EMU) as its centrepiece. The EMU entered into force in 1992, with the goal of introducing a single currency. The European Central Bank (ECB) was set up in 1998 to manage the monetary policy. The process also established economic discipline requirements (convergence criteria)\(^9\) that countries would have to fulfil if they wished to be included in the monetary union, and provided for automatic sanctions involving heavy fines as a deterrent to economic indiscipline. Progressive steps were taken to bring about the conduct of a single monetary policy. Under the responsibility of the ECB, Euro was introduced in money markets in 1999 alongside national currencies whose parities were fixed irrevocably against the new currency.

The number of participating Member States increased to 12 (Denmark, Sweden and UK have not adopted Euro) on 1 January 2001, when Greece entered the final stage of EMU. On 1 January 2002, euro-denominated notes and coins are put into circulation.

In Copenhagen on 13 December 2002, the European Council took one of the most momentous steps in the history of European unification. It decided to welcome 10 more countries to join the EU on 1 May 2004. The countries are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Accession negotiations were conducted on the basis of political and economic criteria and the criteria to adopt the entire body of the EU Law (acquis communautaire).

The expanded membership has brought to the fore the issue of effectively managing the EU infrastructure. In this regard, one of the key attempts is to develop an EU Constitution to simplify the Treaties and to make the EU’s decision-making system more transparent and manageable to take account of the expanded membership of 25 countries.

\(^9\) These criteria were all about economic and financial discipline: curbing inflation, cutting interest rates, reducing budget deficits to a maximum of 3 per cent of GDP, limiting public borrowing to a maximum of 60 per cent of GDP and stabilising the currency’s exchange rate.

More developed countries of Asia-Pacific region should take the lead and push for a process of economic integration based on a common denominator

has so far been driven by market considerations, in other words by external considerations. European integration was the result of a strategic choice shaped by internal dynamics.

This does not mean that Asian regionalism should await greater convergence of national economies. Initial conditions, although important, are not decisive factors in economic integration. In the early years of European integration, some countries had lower per capita incomes than others (Ireland, Spain and Portugal), but they all joined the EU. Europe’s example suggests that Asia-Pacific’s more developed countries should take the lead and push for a process of economic integration based on a common denominator (or accession criteria of minimum standards). Regional development cooperation initiatives could be taken by a core group of leading countries which would act as facilitators.
of growth and convergence of national economies by pooling resources and establishing common projects to help less developed and poorer countries to absorb the shocks of trade liberalization. The European Structural Funds provide a good illustration of an initiative that supports the principles of regional solidarity and convergence of national economies.

Second, Europe’s successful economic and monetary integration has been achieved because of gradual and pragmatic sequencing that involved modest initial steps within a long-term vision. The process started modestly with trade integration and fixed-but-adjustable exchange rates, while keeping domestic and financial markets under tight control. Once the common market was fully developed and exchange rates stabilized (a process that took nearly 30 years), capital markets were liberalized and macroeconomic cooperation enshrined in the Economic and Monetary Union (EMU). European integration has therefore proceeded in evolutionary steps that involved a strategic and logical sequencing of measures to achieve the long-term objective of EMU.16

Monetary and financial cooperation in Asia-Pacific regionalism, however, is more a reaction to new economic and financial risks emerging from globalization. It did not emerge through an evolutionary process. However, as trade cooperation is advancing rapidly, the need for better currency management and deeper monetary and financial integration is fast becoming necessary at least for selected East and South-East Asian countries.

Third, one crucial aspect of European integration is that it has created supranational institutions and relied on the political willingness to surrender national sovereignty in a number of policies to these institutions. In the event of conflicts of national interests, long-term cooperative efforts inevitably fail without the presence of a third party. Europe has developed multinational entities in charge of defending economic integration (European Commission, European Central Bank), mechanisms for compensating the losers (Structural Funds, common agricultural policy (CAP)) and a common jurisdiction to solve conflicts between national laws and common rules (European Court of Justice). In Asia-Pacific, by contrast, there are subregional efforts to develop supra-national institutions but there is very little region-wide institutionalization.

16 In practice, European integration has proceeded along the lines mapped out immediately after the Second World War by Jean Monnet, with the emphasis on practical measures to create an apparent need for supranational action, to be followed logically by supranational control and finally supranational law or political direction. This process of “functionalism” also contains the idea that once States learn to cooperate in this way the habit will “spill over” into other areas. “Integration theory”, Euro Know, A Concise Encyclopedia of the European Union web site, <http://www.euro-know.org/dictionary/i.html>, 16 January 2004.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

Furthermore, while EU regulations are mostly binding and supported by a system of sanctions, the Asia-Pacific regional frameworks issue non-binding “declarations” and “plans of actions”. Supranational institutions, which are a key force for integration in Europe, do not exist in the Asia-Pacific region.

Moreover, in Europe, from the outset there has been a good internal balance between the leading economies (France, Germany, Italy and the United Kingdom of Great Britain and Northern Ireland since 1973). Notwithstanding the relatively high level of trust that existed among the founding members of the EU and the crucial importance of political will as a driving factor of institution-building, an important element worth highlighting is that the loss of national sovereignty in key areas was accompanied by strong compensation mechanisms to ensure that net gains including provision of public goods from integration accrued for each European member State. In this sense, institutionalization was built on a give-and-take compromise.

In Asia-Pacific, already established economic powers (Japan and the Republic of Korea) and a rapidly emerging one (China) dominate the economic scene, and India is taking on a more significant role. These large players can play a crucial part in developing an “Asian way of integration”. However, reaching a balance between rich and poor countries is a challenging task. The need to surrender sovereignty in a number of areas for the common good is still a sensitive and complex issue that first calls for the building of trust among regional players, strong political commitment, and also creativity and flexibility. Asia-Pacific countries need to discuss ways to promote region-wide development cooperation and further economic integration.
INTRODUCTION

Trade liberalization efforts have a long history both at the multilateral level through GATT and at the regional level through organizations ranging from the EU and ASEAN to MERCOSUR and SAARC. Since the establishment of WTO, those efforts have gathered momentum. Many developing countries have become WTO members and vigorous participants in its deliberations on freeing multilateral trade while simultaneously pursuing regional agreements. Most recently, the world has also witnessed a proliferation of bilateral preferential trade agreements.

WTO recognizes that regional cooperation among countries can liberalize trade between the participating countries without raising barriers for others.¹ Many experts consider regional trade liberalization as a step towards further multilateral liberalization. Multilateral agreements, which sometimes aim to achieve many targets at the same time, often put pressure on participants which are at different levels of development and may not be sufficiently prepared to achieve all of the targets. Countries find bilateral and regional trade agreements more focused and easier to comply with. However, bilateral and regional trade agreements should be complementary and consistent with multilateral arrangements, not an attempt to replace them.

Despite the rapid growth of PTAs, the extent of their contribution to high economic growth is still unclear. To assess the extent of trade liberalization under PTAs, these need to be evaluated with respect to the treatment of non-members, the extent of harmonization of policies linked to trade and the nature of dispute settlement mechanisms (table III.1). However, to be consistent with the multilateral process, PTAs should be outward-looking (box III.1).

¹ The WTO rules concerning regional trade agreements are specified in article XXIV of GATT and article V of GATS. The vast majority of WTO members are parties to one or more regional trade agreements. The surge in such agreements has continued unabated since the early 1990s. Some 250 RTAs had been notified to GATT/WTO by December 2002, of which 130 were notified after January 1995. Over 170 RTAs are currently in force; an additional 70 are estimated to be operational although not yet notified. By the end of 2005, if RTAs reportedly planned or already under negotiation are concluded, the total number of RTAs in force might well approach 300. WTO website, <http://www.wto.org>, 19 November 2003.
### Table III.1. Main features of preferential trade agreements

<table>
<thead>
<tr>
<th>Features</th>
<th>Importance of outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Membership</strong></td>
<td></td>
</tr>
<tr>
<td>Diversity in members’ level of development</td>
<td>More diverse PTAs increase the potential for technology transfer and for increasing</td>
</tr>
<tr>
<td></td>
<td>efficiency by specialization.</td>
</tr>
<tr>
<td>Combined size of members’ economies</td>
<td>A larger combined economy is more attractive for investment and creates more potential</td>
</tr>
<tr>
<td></td>
<td>for trade.</td>
</tr>
<tr>
<td>Members’ resources and economic structures</td>
<td>Differences in the structure of the members’ economies and resources determine the</td>
</tr>
<tr>
<td></td>
<td>extent of trade within the PTA and individual countries’ incentives to specialize.</td>
</tr>
<tr>
<td><strong>Policies</strong></td>
<td></td>
</tr>
<tr>
<td>Extent of tariff preference</td>
<td>Less tariff preference for members versus non-members reduces the potential for</td>
</tr>
<tr>
<td></td>
<td>distortion of trade flows. A common external tariff reduces the possibility of distorting</td>
</tr>
<tr>
<td></td>
<td>trade flows among members.</td>
</tr>
<tr>
<td>Sectors covered in agreement</td>
<td>Closer approximation of free trade creates more incentives for specialization and creates</td>
</tr>
<tr>
<td></td>
<td>more competition for domestic industries. Greater sector coverage increases the potential</td>
</tr>
<tr>
<td></td>
<td>welfare gains.</td>
</tr>
<tr>
<td>Non-trade and trade-facilitating policies</td>
<td>Agreements regarding policies other than trade allow countries to commit to domestic</td>
</tr>
<tr>
<td>covered</td>
<td>reforms and further lower the transaction costs of trade.</td>
</tr>
<tr>
<td>Rules of origin</td>
<td>Simple and transparent rules of origin minimize the potential for unproductive rent-</td>
</tr>
<tr>
<td></td>
<td>seeking and corruption.</td>
</tr>
<tr>
<td><strong>Institutions</strong></td>
<td></td>
</tr>
<tr>
<td>Mechanism for dispute resolution</td>
<td>A mechanism for dispute resolution affects the PTAs ability to reduce conflict between</td>
</tr>
<tr>
<td></td>
<td>members. The ability to impose stronger sanctions increases the commitment value of</td>
</tr>
<tr>
<td></td>
<td>the PTA.</td>
</tr>
<tr>
<td>Frequency of meetings</td>
<td>Meetings are an opportunity for exchanging information and coordinating negotiation</td>
</tr>
<tr>
<td></td>
<td>strategies in other settings such as WTO. The interaction of higher-level policy makers</td>
</tr>
<tr>
<td></td>
<td>is likely to have the greatest benefits for policy coordination.</td>
</tr>
</tbody>
</table>


### A. WORLD TRADE ORGANIZATION AND REGIONAL TRADING ARRANGEMENTS

Article XXIV of GATT and article V of GATS provide the legal foundation for RTAs covering trade in goods and services. The “enabling clause” adopted in 1979 provides for the mutual reduction of tariffs on trade in goods among developing countries. At the Doha Ministerial Conference members recognized the importance of RTAs in promoting trade liberalization but stressed the need to harmonize regional and multilateral initiatives.

WTO, however, has proved not fully equipped to deal with the realities of RTAs. Interpretations of its rules on RTAs vary and at Doha members agreed to negotiations aimed at improving existing provisions.

---

Box III.1. WTO obligation and outward orientation of RTAs

Article XXIV of GATT contains provisions that make RTAs acceptable within the WTO framework. However, in practice it has proven difficult for members to agree on the precise interpretation or application of those provisions. For most RTAs there is inevitably a degree of uncertainty about whether they can be assumed to be in conformity with article XXIV. 

In February 1996, the WTO General Council established the Committee on Regional Trade Agreements to examine RTAs and assess whether they are consistent with WTO rules. The Committee was also to examine how RTAs might affect the multilateral trading system and what the relationship between regional and multilateral arrangements might be.

The overall assessment of the costs and benefits of RTAs is often summarized by asserting that outward-looking arrangements are better than inward-looking ones, and they are more likely to facilitate liberal multilateral trade. However, there are several definitions of outwardness:

- An agreement consistent with article XXIV of GATT;
- A rule which stresses the reduction of external barriers;
- A rule which stresses membership conditions and access;
- “Open regionalism”.

The first definition is based on article XXIV of GATT, which permits exceptions to the general rule of non-discrimination under certain conditions. The conditions refer to wide coverage of products and no action that would raise trade barriers against non-members. In practice, these conditions are seldom met. Even if they were, the network of preferential arrangements that would develop could still harm the multilateral system. If article XXIV seems to be extremely weak, its implementation has been even weaker. Now that regionalism is prevalent, WTO is searching for stronger provisions and procedures to ensure that RTAs evolve in a transparent manner.

The second definition, a stronger version of article XXIV, stipulates that at the time of the creation of an agreement, the members commit to a programme of tariff reductions. For this reason, the ASEAN Free Trade Area (AFTA) is sometimes presented as outward-oriented. It is argued that even if the agreement involves discrimination between members and non-members, the impact of that discrimination will diminish as barriers to trade decline.

The third definition includes the introduction of a particular accession clause, that is, openness to new members on the same conditions as current members and attention to administrative arrangements, such as a common set of rules of origin and rules on dispute settlement.

The fourth definition rules out the creation of discriminatory arrangements and is sometimes called open regionalism. Some see it as a prototype for a new version of article XXIV. Open regionalism can be defined by drawing on the work of trade policy.

With reference to trade in goods (and services), the Forum of the Pacific Economic Cooperation Council set the following conditions which illustrates the idea of open regionalism:

- Movement towards free trade, that is, a reduction in barriers to trade compared with what might otherwise have been the case (binding existing tariffs would qualify);
- Consensus among a group of countries located in the same region (for example, East Asia or the Pacific);
- Reduction in trade barriers applied country by country in a non-discriminatory manner, but possibly not equally by every country in the group;
- Reductions in trade barriers in a number of sectors simultaneously.

“Open regionalism” is consistent with narrower product coverage than provided for in the rules of article XXIV. Its virtue is that it does not challenge article I of GATT, yet it still involves a concerted attempt to move towards freer trade. While the product coverage is not as extensive, it involves wider incorporation of other issues. The concept of open regionalism changes the interpretation of MFN from exclusive MFN required for members only, which is the GATT norm, to inclusive MFN (also for non-members). It also changes the norm of reciprocity from specific direct balancing of benefits to more diffuse and general give and take.


a Similarly, article V of GATS provides for economic integration agreements in services.

b Article XXIV of GATT, which permits customs unions under certain conditions, was not expected to be invoked on a large scale. San Marino and Italy or Monaco and France were the types of customs unions that the drafters of GATT had in mind.
The rules are now under review. WTO’s Committee on RTAs, however, has had little success so far in assessing consistency among the notified RTAs as a result of political and legal difficulties. These include problems over preferential rules of origin and dispute settlement processes. The Committee has also been unable to carry out effectively its functions of review and oversight of RTA implementation.\(^3\)

The current negotiations on RTAs have been conducted with an emphasis on transparency and systemic issues. Discussions have been fruitful on transparency issues and RTA surveillance mechanisms leading to more precision in notification procedures. However, the “Cancún failure” means that no “early harvest” on transparency was achieved. Informal discussions on systemic issues began in 2003 but the scope of the issues is wide and complex. This includes clarification and improvement of the existing rule on RTAs and other related rules.

### B. STRUCTURE AND TRENDS OF ASIA-PACIFIC RTAs

RTAs generally develop in four stages. In the first stage, agreements generally contain a “positive list”, identifying goods that are to enjoy tariff reductions. This approach to liberalization is slow and experimental and negotiations proceed on a product-by-product or sectoral basis. In the second stage, agreements switch to a “negative list” approach, detailing only the goods that are excluded from tariff reductions, confirming the commitments of members to faster liberalization. In the third stage, steps are taken towards creating a single market with measures facilitating trade, liberalizing the trade in services and easing restrictions on the movement of labour and capital. The fourth stage involves policy coordination on macroeconomic and other economic matters.

All of the Asia-Pacific region’s major trading countries now belong to one or more regional integration arrangements, the majority following a negative list approach. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) is a good example and ECO also adopted this approach recently. AFTA has succeeded in moving beyond tentative efforts, developing an “inclusion list” that covers more than 85 per cent of traded products. However, a number of other RTAs (such as SAPTA and the Bangkok Agreement) are based on positive lists and negotiations have moved relatively slowly as products have been offered for tariff reductions in stages.

It is noteworthy that AFTA included unprocessed agricultural products with minimum exclusions in its Common Effective Preferential Tariff (CEPT) arrangement. It also established a framework for trade

---

\(^3\) Ibid.
facilitation initiatives, liberalization of the trade in services and investment promotion. Australia and New Zealand also had successful RTAs through ANZCERTA which is now progressing towards deeper integration.

APEC\textsuperscript{4} provides an example of open regionalism based on non-discriminatory liberalization. The best tariff preferences that one APEC member accords to other members are also accorded to non-APEC trading partners. This is a form of “concerted unilateralism” as each member voluntarily determines its liberalization path but with the common goal of reaching free trade by 2010 (2020 for developing countries). APEC was intended to offer the strongest possible support to the multilateral trading system and, in addition to its tariff and non-tariff measures, it also pursues trade facilitation and customs harmonization. APEC focuses its work on three key areas known as its “three pillars”: trade and investment liberalization, business facilitation and economic and technical cooperation.\textsuperscript{5} However, it has been realized that as APEC’s founding principles emphasize voluntary, non-binding, unilateral action, the driving forces to trade liberalization depend very much on WTO and successful implementation of the Doha Agenda is important to achieve the 2010/2020 Bogor Goals.

Japan and the Republic of Korea, setting aside their earlier reticence over RTAs, propose economic partnership agreements (EPAs) (box III.2), a much wider concept encompassing a series of issues, including FTAs. These encompass much deeper integration to increase the overall efficiency of economic production in both countries. The agreement between Japan and Singapore is also a good example of this form of cooperation.

To bridge the gap between subregions, efforts are being made by some regional groupings to integrate with non-member countries through FTAs or comprehensive economic cooperation. ASEAN’s separate collaborations with China and India are noteworthy examples.\textsuperscript{6} New initiatives have been taken to promote interregional cooperation with calls for stronger links between AFTA and NAFTA, AFTA and the Andean Community and many others.\textsuperscript{7}

---
\textsuperscript{4} Established in 1989 as an informal dialogue group, APEC today is a cooperative, multilateral economic and trade forum and has 21 member economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, China, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Republic of Korea, Russian Federation, Singapore, Taiwan Province of China, Thailand, United States and Viet Nam. APEC web site, \textless http://www.apecsec.org.sg/apec/about_apec.html\textgreater , 13 January 2004.

\textsuperscript{5} As the regional economy has become increasingly complex, APEC has broadened its cooperation areas to include new economic challenges such as electronic commerce, the digital divide, terrorism and infectious diseases.

\textsuperscript{6} ASEAN web site, \textless http://www.aseansec.org\textgreater , 20 November 2003.

\textsuperscript{7} Ibid.
Countries are also interested in combining members of different regional groupings into a separate entity. A very good example is BIMST-EC (box III.3), a group formed by some members of SAARC and ASEAN, which may help further integration between those two groups. The Shanghai Cooperation Organization (SCO), uniting China, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan and Uzbekistan, is another example of a cross-subregional grouping.8


Cross-subregional cooperation agreements are also becoming popular
Box III.3. Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation

BIMST-EC was established with the adoption of the Bangkok Declaration at a ministerial meeting held in Bangkok in June 1997. This is a unique joint-action framework in which two ASEAN members have come together with three countries of South Asia for economic cooperation.

The main objective of this arrangement is to enhance regional development by promoting cooperation and optimizing complementarities between member countries in six priority sectors: trade and investment, technology, transport and communication, energy, tourism and fisheries. In each sector, a lead country is given the responsibility of coordinating and implementing regional cooperation initiatives.

On the basis of a feasibility study prepared by ESCAP, priority areas targeted by the BIMST-EC cooperative work programme include:

1. **Trade and investment:**
   
   Guidelines for the promotion of trade and investment set the ultimate objective of developing an FTA in the subregion. In the meantime, they call for:
   
   - Identification of key sectoral areas for intensive interregional cooperation, namely: textiles and clothing, drugs and pharmaceuticals, gems and jewellery, horticulture and floriculture, processed food, automotives and parts, rubber, tea and coffee, coconut and spices;
   - Implementation of trade facilitation measures (harmonization of customs procedures, standards and conformity, mobility of business people);
   - Promotion of interregional banking and financial arrangements to facilitate joint-investment and business opportunities;
   - Provision of technical cooperation and assistance (exchange of information, training and seminars), with the support of ESCAP.

2. **Technology.** Subregional cooperation in the area of technology seeks to provide opportunities to expand technology transfer and the exchange of information.

3. **Transport and communication.** This key sector has attracted much interest, focused particularly on the BIMST-EC component of the Southern Corridor of the Trans-Asian Railway and Asian Highway projects (under the coordinating umbrella of ESCAP). Sectoral areas of cooperation in transport and communication include:
   
   - Identification and promotion of new intermodal linkages within BIMST-EC countries;
   - Improving the efficiency of international land transport.

4. **Energy.** Expected results of functional collaboration in the energy sector are reduced costs and a better use of energy resources that will benefit both producing countries (Bangladesh, Myanmar) and consuming countries (India, Sri Lanka, Thailand). The objectives of subregional cooperation in the field of energy are twofold:
   
   - To identify the possibilities for joint development of natural gas fields and/or pipeline networks and/or liquified natural gas infrastructure in member countries;
   - To promote the development and utilization of non-conventional sources of energy (wind, solar and water/tidal/wave).

Projects have been identified and initial work has begun in these areas.

5. **Tourism.** To strengthen cooperation in the tourism sector, a BIMST-EC Expert Group on Tourism has been set up and an Action Plan on Tourism Cooperation implemented.

6. **Fisheries.** Increased cooperation in fisheries is sought through a comprehensive study on marine resources, processing and marketing.

---

*a* The initial members were Bangladesh, India, Sri Lanka and Thailand. Myanmar joined in December 1997. Nepal and Bhutan became members at the Sixth BIMST-EC Ministerial Meeting (February 2004).
Efforts have been pursued actively to accelerate cooperation in these various sectors. A BIMST-EC Economic Forum was established in 1998 to enhance public-private sector collaboration in identifying and implementing cooperation projects in trade and investment. At the Fourth BIMST-EC Ministerial Meeting in 2001, an intergovernmental group of experts was established to study possible approaches towards an FTA in the subregion. Various expert-level meetings were also held to discuss sectoral cooperation in fishery, tourism, intellectual property, e-commerce, etc.

Despite the success of the BIMST-EC initiative in bringing together two important economic groupings of South Asia and South-East Asia, this intergovernmental framework did not take off during the first five years. At the 6th BIMST-EC Ministerial Meeting, held in Phuket, Thailand, on 8 February 2004, Bhutan, Burma, India, Nepal, Sri Lanka and Thailand signed the Framework Agreement for the BIMST-EC Free Trade Area as part of an economic cooperation agreement to boost trade and investment in South and South-East Asia. The Agreement covers the six above-mentioned sectors and includes trade in goods and services, investment liberalization and improvement of competitiveness. The negotiations should be completed in December 2005, with implementation in July 2006. The full implementation of the FTA between India, Sri Lanka and Thailand, classified as “developing countries”, is expected in June 2012 while implementation for “less developed” countries is expected in 2017.

Under the Agreement, tariff reductions will be carried out through “fast track” and “normal track” approach. India, Sri Lanka and Thailand would cut import tariffs of the “fast track” list to zero no later than 30 June 2009, while Myanmar, Nepal and Bhutan were given two more years to realize zero tariffs on products from the same category in the year 2011. For the remaining “normal track” products, the three developing countries are scheduled to realize zero tariffs no later than the year 2012 and the other three members are expected to achieve that goal in 2017.

The BIMST-EC growth zone has a combined population of 1.3 billion people and a combined GDP of $550 billion. It can derive great benefits from the geographical proximity of South and South-East Asian countries and their complementarities in trade, investment and production. All five countries possess substantial resources and economic growth potential. It is generally agreed that cross-sector subregional cooperation will optimize the benefits that can be derived from harnessing their individual resources and potential.

SCO is at an early stage of development, building up member countries’ institutions. The Bangkok Agreement (box III.5) is an example of regional cooperation bringing together countries from different parts of Asia. The accession of China is giving fresh vitality to this group, which is open to all developing countries of the Asian and Pacific region.

The recent upsurge of BTAs across subregions, however, has created what is popularly known as a “spaghetti bowl” syndrome (figure III.1), making trade relationships more complex as countries are engaged in numerous RTAs and BTAs.

Examples are the Japan-Republic of Korea and the India-Sri Lanka trade agreements. Among Pacific island countries, the Papua New Guinea – Australia Trade and Commercial Relations Agreement (PATCRA) is an important example of BTA.

III. Regional Cooperation in Trade

Figure III.1. Kaleidoscope of selected Asia-Pacific trade agreements

Source: T. Bonapace, “Experiences emerging from the UNESCAP region: Accession to WTO and Regionalism”, in Progress Towards the Doha Development Agenda (Bangkok, TID, ADB and UNCTAD, 2003).

Note: Bhutan and Nepal joined BIMST-EC in February 2004, which is not shown in the diagram.
C. ANALYSIS OF SELECTED REGIONAL TRADE AND INVESTMENT AGREEMENTS

A brief analysis of trade and investment agreements initiated by ASEAN, ECO, the Pacific Islands Forum and SAARC shows how such arrangements can contribute to enhancing the trade of member countries and shows the region’s general approach to cooperation in trade and investment.

1. SALIENT FEATURES OF SELECTED AGREEMENTS

Australia and New Zealand initiated regional trade cooperation in 1967 and in 1983 adopted a comprehensive approach through ANZCERTA, one of the region’s earliest efforts to adopt trade agreements. ANZCERTA took a negative list approach starting with an extensive list that accounted for almost 44 per cent of trade in manufactured goods between the two countries. However, that list was quickly shortened and the timetable for removing trade barriers was also accelerated, culminating in the removal of trade barriers in 1992. The focus has shifted to establishing a “single market” moving on to the liberalization of the trade in services (again adopting a negative list approach), trade facilitation and harmonizing customs rules, food standards and quality accreditation.

ANZCERTA is basically a bilateral agreement between two relatively advanced countries in the region. Trade agreements in other subregions are more complex. ASEAN’s PTA, concluded in 1977, provided for tariff rate reductions on a product-by-product basis according to members’ priorities. Several follow-up protocols in the 1980s further reduced trade barriers. These early initiatives helped member countries to increase capacity and specialize in some products, but the accords were relatively loose and ad hoc in nature. There was little compulsion on the part of participants to liberalize trade and implementation was slow.

Increased momentum came from the Framework Agreement on Enhancing ASEAN Economic Cooperation, adopted at the Fourth ASEAN Summit in Singapore in 1992. This launched the AFTA initiative with the strategic objective of making ASEAN a single production unit, increasing member countries’ efficiency, productivity and competitiveness.

AFTA provides initially for a phased elimination of tariff and non-tariff barriers but also envisages standardization and harmonization of customs procedures, industrial cooperation schemes and liberalizing the

---

10 Details of the agreements are available in the annex.

III. Regional Cooperation in Trade

Trade in services. The ASEAN Framework Agreement on the Facilitation of Goods in Transit (1998) aims at facilitating the transport of goods in transit; a separate protocol was adopted in 1996 for solving disputes. An agreement on creating an investment area followed in 1998, calling for the gradual opening of all sectors to direct investment by ASEAN investors and ultimately to giving them national treatment. The range of agreements equips ASEAN for deeper economic integration but also makes allowances for members’ different levels of development. Advanced countries in the subregion are positioned to take the lead towards integration while the weaker countries are allowed more time to implement agreements.

The Agreement on the SAARC Preferential Trading Arrangement (SAPTA) was signed in 1993 and takes a positive list approach with safeguards for least developed countries. Trade liberalization in the subregion occurred in phases: the first round of SAPTA came in 1995 and the fourth round was concluded in 2002. Various studies indicate that SAPTA was not very effective. Member countries have also participated in multilateral trade liberalization and find that SAPTA’s concessions are becoming less attractive. However, a recent wave of bilateral trade agreements among SAARC countries has prompted new efforts to revitalize SAARC and accelerate trade liberalization. SAFTA (box III.4) has been signed in January 2004 and will be operational as of 2006. The Agreement takes a negative list approach for tariff reduction and provides a dispute settlement mechanism. It also makes provision for special and differential treatment for least developed countries and safeguard measures. Once implemented, SAFTA is expected to promote deeper integration among the countries of South Asia.

SAARC is still at the first level of regional integration but, in addition to trade liberalization efforts, there have been some discussions on a regional investment treaty, a SAARC arbitration council and double taxation avoidance. At their Ninth Summit in Male (1997), SAARC heads of State endorsed efforts to enhance trade and economic cooperation in the region by initiating specific steps to promote and protect investments and joint ventures. The need for a dispute settlement process figured prominently in discussions on how to promote investment and follow-ups initiatives are expected in the near future.

Two key trade agreements for the Pacific island countries are PICTA and SPARTECA. PICTA, signed in 2001 and brought into effect in 2003, follows a negative list approach and aims ultimately to lead to the creation of a free trade area. With the exception of goods identified in the list, the Agreement seeks to reduce tariffs on all goods, which

---

Box III.4. Framework Agreement on the South Asian Free Trade Area

After a slow start in reducing trade barriers through SAPTA and its limited success, countries of the SAARC region have shown a renewed interest and commitment to cooperate with each other through signing the Agreement on the South Asian Free Trade Area.

The Agreement was adopted at the Twelfth SAARC Summit with the aim of promoting and sustaining mutual trade and economic cooperation by exchanging concessions. SAARC member States have agreed to begin implementation on 1 January 2006.

The Agreement will be implemented through the following instruments: trade liberalization programme, rules of origin, institutional arrangements, consultation and dispute settlement procedures, safeguard measures and any other instrument that may be agreed.

Under the trade liberalization programme, tariff reduction is scheduled in two phases. The non-least developed countries, India, Pakistan and Sri Lanka, would have to reduce their tariffs from their existing levels to 20 per cent within a two-year time frame from the date on which the Agreement comes into force. The region’s least developed countries, Bangladesh, Bhutan, Maldives and Nepal, will reduce their existing tariff rates to 30 per cent within two years from the date on which the Agreement comes into force.

The subsequent tariff reduction from 20 per cent or below to 0-5 per cent shall be carried out within a second time frame of five years for non-least developed countries, beginning from the third year from the date the Agreement takes effect. However, the period of subsequent tariff reduction by Sri Lanka shall be six years. The subsequent tariff reduction by the least developed countries from 30 per cent or below to 0-5 per cent shall be carried out within a second time frame of eight years beginning from the third year from the date the Agreement comes into force.

SAFTA recognizes that least developed countries in the region need to be accorded special and differential treatment commensurate with their development needs. It provides these countries with concessions in the area of tariff reduction and dismantling of non-tariff barriers. Non-least developed countries will reduce their tariffs for least developed countries to 0-5 per cent within three years of implementation of the agreement. It also gives them favourable treatment concerning anti-dumping and countervailing measures.

In order to protect its vulnerable industries, each member country will be allowed to maintain its own sensitive list on which tariffs would not be reduced. The least developed countries may maintain a longer sensitive list than their developing counterparts. Sensitive lists and the rules of origin shall be negotiated by member countries and incorporated into the Agreement as an integral part. In addition, appropriate mechanisms shall be established to compensate the least developed countries for their loss of customs revenue owing to the implementation of the trade liberalization programme. Once sensitive lists, rules of origin and the compensation mechanism concerning the loss of customs revenue have been established, tangible gains are expected to be realized from SAFTA.

The Agreement also suggests that members adopt additional measures, including simplification of banking procedures for import financing, transit facilities for efficient intra-SAARC trade, removal of barriers to intra-SAARC investments, rules for fair competition and the promotion of venture capital, and simplification of procedures for business visas. The dispute settlement mechanism provides member countries with basic guidelines with which to solve disputes.

The adoption of SAFTA represents a crucial step towards economic cooperation among SAARC countries. It has paved a way for future agreements in other areas such as investment, transit and transport. SAFTA provides clear reciprocal benefits for all members and it moves towards trade and investment liberalization. SAFTA, when implemented, should tremendously enhance the economic cooperation among member countries and this in turn should lead to a new era of socio-economic development in South Asia.


PICTA and SPARTECA are two important trade agreements among Pacific island countries.
of origin. Pacific Islands Forum countries are also seeking to promote investment through a Pacific investment programme, which focuses on preparation of business plans, investment plans and training.

The ECO Trade Agreement, signed in 2003, aims to increase trade among member countries and region-wide and to lead to a substantial increase in trade-related investment. To that end, it introduces a negative list and includes provisions for dispute settlement. As many ECO member countries are landlocked, trade within the subregion depends significantly on cross-border and transit facilities. An agreement on transit trade was signed in 1995 and one on transit transport in 1998. However, the ratification process is slow and this has had a direct impact on intra-ECO trade.

2. INTRA-BLOC TRADE IN THE REGION

The intraregional trade share in the Asian and Pacific region has not changed much in the last 20 years (table III.2). The highest intra-bloc export share accrues to APEC because of its large number of member countries both inside and outside the region. Intra-bloc exports within the AFTA region show some improvement, helped by ASEAN’s expansion between 1995 and 1998, when Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam joined. However, most of the Asia-Pacific preferential trade areas have a relatively low share of intra-bloc exports because their trade is mostly with non-members, such as the United States, Japan and the EU. SPARTECA’s intra-bloc export share is more compared to ECO and SAARC as members enjoy a free trade allowance provided by Australia and New Zealand.

Table III.2. Intra-bloc export shares of selected preferential trade agreements, five-year average, 1980-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia and Pacific region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFTA</td>
<td>20.8</td>
<td>18.9</td>
<td>22.5</td>
<td>24.8</td>
<td>24.5</td>
</tr>
<tr>
<td>APEC</td>
<td>66.3</td>
<td>72.2</td>
<td>73.1</td>
<td>74.3</td>
<td>75.2</td>
</tr>
<tr>
<td>ANZCERTA</td>
<td>8.0</td>
<td>8.4</td>
<td>9.1</td>
<td>10.7</td>
<td>9.3</td>
</tr>
<tr>
<td>ECO</td>
<td>9.3</td>
<td>7.3</td>
<td>6.4</td>
<td>8.4</td>
<td>6.6</td>
</tr>
<tr>
<td>SAPTA</td>
<td>6.3</td>
<td>4.9</td>
<td>4.4</td>
<td>5.1</td>
<td>4.8</td>
</tr>
<tr>
<td>SPARTECA</td>
<td>11.9</td>
<td>11.4</td>
<td>12.8</td>
<td>14.2</td>
<td>12.3</td>
</tr>
<tr>
<td>Other regions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andean Pact</td>
<td>5.0</td>
<td>4.8</td>
<td>9.1</td>
<td>13.2</td>
<td>10.8</td>
</tr>
<tr>
<td>EFTA</td>
<td>16.5</td>
<td>16.4</td>
<td>13.7</td>
<td>12.6</td>
<td>11.8</td>
</tr>
<tr>
<td>EU</td>
<td>62.0</td>
<td>65.1</td>
<td>66.5</td>
<td>65.1</td>
<td>66.9</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>9.9</td>
<td>8.5</td>
<td>15.9</td>
<td>24.8</td>
<td>22.3</td>
</tr>
<tr>
<td>NAFTA</td>
<td>41.3</td>
<td>46.7</td>
<td>48.2</td>
<td>53.2</td>
<td>58.8</td>
</tr>
</tbody>
</table>

Trade in the ECO subregion is growing but at a very slow pace. Factors that influence the pattern and volume of intra-ECO trade include tariff and non-tariff barriers and numerous other duties imposed by the member States. Intra-SAARC trade has not grown because of the limited concessions offered. Tariffs have been reduced on more than 5,000 products and SAARC rules of origin have been relaxed but the depth of tariff cuts and product coverage were insufficient. Recent moves to create SAFTA may prove more effective.

Despite low intra-bloc export share, trade among ASEAN countries grew by almost 11.6 per cent annually in the 1990s after the implementation of the CEPT scheme but it remains unclear whether this was a result of CEPT or rapid GDP growth causing a rise in consumption. Intraregion trade fell slightly after the 1997 economic crisis. The extent of AFTA’s success in expanding trade is still under debate.

An analysis of trade flows within the selected RTAs suggests that they cannot be regarded as natural trade blocs, but indicates that there is a greater economic logic behind the groupings that have already developed than among possible alternative groupings. Trade flows within subregions are generally low for larger countries, such as the Islamic Republic of Iran, Pakistan and Turkey within ECO or Bangladesh, India and Pakistan within SAARC. The share of intra-group trade was higher for the smaller members in each grouping, for example, Nepal and Maldives in SAARC and Central Asian countries in ECO.

A similar difference between larger and smaller countries is visible within AFTA, where the shares of Indonesia, Malaysia, the Philippines, Singapore and Thailand were less than those of Brunei Darussalam, Myanmar and Viet Nam. The trade share of the Lao People’s Democratic Republic with its partners in the subregion was as high as 66 per cent in 1997. This highlights the fact that RTAs provide small countries with good opportunities to access the markets of other member countries.

---

14 ASEAN, South East Asia: A Free Trade Area (Jakarta, ASEAN, 2002).
15 AFTA brings only small increases in trade using a simulated model for the five original ASEAN members that compares the effect of MFN tariff reduction and AFTA tariff reduction because most of the important partners of ASEAN countries are non-member industrialized countries. The simulation also shows that the expansion of production and exports in various economic sectors is about the same under AFTA and MFN. See D.A. DeRosa, “Regional trading arrangements among developing countries: the ASEAN example”, IFPRI Research Report 103, September 1995. Other studies argue that an MFN reduction would have delivered greater benefits to ASEAN members. See E. Fukase and W. Martin, “Free Trade Area membership as a stepping stone to development: The Case of ASEAN”, (Washington, World Bank, 2001).
17 Ibid.
3. INTERACTION AMONG COUNTRIES AND SUBREGIONS IN TRADE AND INVESTMENT AREAS

Asia Pacific developing countries as a group are growing faster than either the global economy or other groups of developing countries. Although exports to the rest of the world continue to play a significant part in sustaining the overall momentum of growth, dynamic intraregional trade and strong domestic demand has been central in sustaining the growth momentum. China’s remarkable performance and high trade intensity helps to stimulate the regional economy. Similar trends are visible in several other economies of the region where robust growth has resulted from a combination of higher net exports and domestic demand. The dynamism of the region in the area of trade is reflected in numerous cross subregional efforts like, ASEAN+3, the Bangkok Agreement, BIMST-EC in addition to growing trade among different subregional groups.

Pacific island countries have significant trade with AFTA and CER countries. India, Maldives, Pakistan and Sri Lanka trade intensively with countries in AFTA. The Russian Federation and China, both APEC members, trade actively with the Central Asian members of ECO.

The linkage between RTAs that has been most explored is that between AFTA and CER. The linkage was guided by a series of informal and low-key consultations leading to an agreement on trade and investment facilitation. However, the case for pursuing a separate AFTA-CER free trade arrangement depends on the success of the APEC liberalization process. ASEAN has also attempted to link individual countries such as ASEAN-China, ASEAN-India arrangements to further augment the benefits of regional cooperation.

The 1998 proposal for a free trade agreement between Japan and the Republic of Korea marked a historic attempt by these two countries to promote PTAs. Since then, both countries have actively pursued BTAs with many other countries in the region. The CER economies have also started to follow the same strategy, leading notably to BTAs between Singapore and Japan, Thailand and Australia, and China and New Zealand.

Proposals have also emerged within the region for an ASEAN+3 FTA between ASEAN members, Japan, China and the Republic of Korea. This arrangement may result in creating an East Asian trade

---

18 China’s GDP expanded by 24.9 per cent during 2001-2003 due to its strong investment and consumption demand. During this period, China increased total imports by more than $160 billion, two-thirds of which came from the region. It is now the world’s fourth largest trading nation.
ASEAN+3 arrangements and a revitalized Bangkok Agreement, possibly joined by more ESCAP members, would bring new dynamism to the region.

ASEAN+3 arrangements, which mainly connect the region’s more open economies, together with a revitalized Bangkok Agreement, possibly joined by more ESCAP members, would bring new dynamism to the region. In the previous chapter, it was noted that, to achieve economic integration, the larger countries and stronger economies must take the lead. This requires the involvement of China and India, as the main gravitational forces in the ESCAP region, and rich countries like Japan, the Republic of Korea and Singapore. Future trade dynamics between SAARC and East Asia will give major impetus to the growth of the entire region, leading possibly to ECO and Pacific Islands Forum countries through their growing interlinkages with China, India and ASEAN countries.

Meanwhile, China’s recent entry into the Bangkok Agreement has created a market among member countries of more than 2.5 billion people. China’s attempt to drive down manufacturing costs, coupled with India’s efforts to reduce service costs, will have a global impact on trade and investment. Already there is evidence that trade between member countries and their trading partners is rising (figure III.2). However, the future of the Agreement as an ESCAP-centric trade agreement depends on how Japan and ASEAN react to it and how members can use advances in transport and ICT to optimize costs and efficiency.

---

### Box III.5. Bangkok Agreement

The Bangkok Agreement is a PTA which aims to enhance socio-economic development in the Asian and Pacific region through the promotion of economic cooperation and trade expansion between ESCAP members.

Signed in 1975 by five initial members (Bangladesh, India, Lao People’s Democratic Republic, Republic of Korea and Sri Lanka), the Agreement was the first trading arrangement among developing member countries of ESCAP based on the grant of mutually beneficial trade liberalization measures (GATT’s enabling clause). Since the inception of the Agreement, ESCAP has served as the interim secretariat.

The aim of the Agreement is:

- To liberalize and expand trade through:
  - Relaxation of tariff barriers;
  - Relaxation of non-tariff barriers (customs administration, standardization of procedures and formalities relating to mutual trade, adoption of a common tariff nomenclature and harmonization of rules of origin and rules related to dumping);
  - Trade-related economic cooperation;
- To provide tariff and non-tariff concessions between member countries;
- To give special and differential treatment to the least developed countries;
- To serve as a platform to link subregional PTAs.

Up to the present the Bangkok Agreement has served as a forum for the exchange of tariff concessions on goods. It has followed a positive list, product-by-product approach. To date, two rounds of negotiations have been completed in 1975 and 1990 and a gradual broadening of the number of items being given preferential treatment has been achieved through great efforts since the mid-1970s. China’s accession to the Agreement in 2001 provided a substantial increase in the list of concessions, bringing the total number of items benefiting from general concessions and special concessions to the least developed countries to 1,558 and 112, respectively.

A number of countries have also recently expressed their interest in the Agreement and Pakistan is in the process of accession.

Despite the progress it has registered since the mid-1970s, the Bangkok Agreement has failed to realize its true potential. Its progress has been hampered for various reasons, including:

- A lack of high-level commitment;
- The reliance on ESCAP to serve as the interim secretariat;
- Limited trade among members (significant imports from India by Bangladesh and Sri Lanka only, very low share of the Republic of Korea’s trade with the member countries);
- Limited concessions offered up to now.

However, since the accession of China a huge potential has emerged. China has made an offer of 739 items for general concessions, which is a major step. The combined population of China and India is 2.5 billion and the potential trade increase will be significant. If the Republic of Korea’s contribution is included, the Agreement could become a dynamic regional trade agreement provided that the right initiatives are taken. Total intraregional trade could increase almost fivefold.

The secretariat has embarked on a revitalization strategy to enable the Bangkok Agreement to evolve into a unique region-wide Asia-Pacific Trade Agreement (APTA). A ministerial council has been established; its first session will be held after the third round of negotiations is completed. Efforts have also been directed at expanding its membership, with Bhutan, Cambodia, Mongolia, Nepal and Pakistan among the countries currently studying the possibility of joining the Agreement. An in-depth study is planned to estimate the extra value addition from a revitalized agreement, particularly when many of the member countries are involved or are going to be involved in BTAs among themselves (for example, India-Sri Lanka and India-China).

(Continued overleaf)
D. REGIONAL TRADE AND CONCERNS OF DEVELOPING COUNTRIES

The analysis of RTAs shows that a number of issues of special relevance to developing countries need further attention and that future cooperation may be required to address them more effectively.

Developed countries are slow in providing market access for goods from developing countries, especially in agriculture. As a group, countries of the region may decide on a common position for multilateral negotiations in WTO. With regard to textiles, the future status of the sector (after the phasing out of the Multi-Fibre Arrangement (MFA)) needs to be discussed. As of 2005, textile-exporting countries in the region may unite to generate the appropriate capacity to exploit the quota-free developed country market.

Intraregional trade in the Asian and Pacific region is low, which implies that member countries are trading more with countries outside the region. Trade liberalization in the region alone may not suffice to boost trading volumes. Regional discussion is required on ways to promote more trade and regional investment in order to diversify products and create a regional market. Many countries are trying to strengthen their SME sector to meet the challenges of globalization in the post-WTO era. A regional market for SME products can help them to become more competitive.

Sources:

20 Some textile-exporting developing countries are concerned about the uncertainty of the developed country market in the post-MFA phase as from 2005 with the possibility of new trade barriers. Moreover, developing countries also look for assistance and cooperation for increasing the textile manufacturing capacity in their countries.

21 The post-WTO era creates many opportunities for the SME sector. A brief discussion can be found in B. Nag, “Keep them in place”, The Telegraph, 14 February 2001.
Many developing countries of the region are exporting primary and agricultural products for which the market is inelastic and easily saturated. Price volatility in primary products has also caused serious problems for many poor countries. A regional effort is required to diversify the product basket by adding value to exportable primary products.

In many cases, access to developed country markets is denied on the grounds of technical barriers to trade and sanitary and phytosanitary provisions. Regional cooperation could be effective in mobilizing finance or investment to improve product quality, especially in poor developing countries to overcome these non-tariff barriers. Also emphasis should be given to harmonize product standards regionally.

As many developing countries do not like to pursue multilateral agreements in investment, regional efforts to create a regional investment area may be more acceptable. If that is not possible, bilateral efforts within the region may help to move in the right direction. More use can also be made of regional cooperation arrangements or institutions in taking up the accession issues of non-WTO members.  

E. ISSUES IN STRENGTHENING COOPERATION IN TRADE AND INVESTMENT

The analysis suggests a number of areas in which regional cooperation can more effectively assist member countries in coping with globalization and increasing intraregional trade.

1. IMPROVING THE EFFECTIVENESS OF TRADE AGREEMENTS

The negative list approach to trade liberalization is more effective than the positive list approach, which slows integration and in some cases makes it ineffective. Countries may prepare a negative list and a list of sensitive goods allowing more flexibility to weaker countries. Special emphasis may be given to regional market access for SMEs and agricultural products.

Effective dispute settlement and enforcement mechanisms are also required to ensure serious commitment. Many countries lack expertise regarding international arbitration and countries of a region can jointly

---

22 In the ESCAP region, 11 countries are in the process of WTO accession and 11 countries do not have WTO status.
develop a system. The same is true for developing a strong patent system and harmonizing the quality of products. Providing safeguard mechanisms, for example, to deal with a balance-of-payments crisis, can also act as an incentive to countries to participate in regional trading arrangements more actively and equitably.

2. COOPERATION BEYOND TRADE

Regional cooperation should not be confined to reduction of trade barriers. Trade facilitation issues may be addressed with equal seriousness. Transport and ICT agreements are also important to derive the benefits of trade liberalization. Countries may prefer not to take up the issue of investment at the initial stage of cooperation but to achieve deeper integration the issue should not be neglected for long. Regional initiatives to develop human resources can support the wider promotion of trade and investment.

3. ROLES FOR LARGE AND SMALL COUNTRIES

The experience of successful RTAs highlights the importance of large countries in providing direction to the economic integration process. In the Asia-Pacific region, the accumulated wealth of Japan and the Republic of Korea and the huge markets of China and India create new opportunities for trade-driven growth in the region. The strategic role of these countries can benefit the ESCAP region as a whole by promoting regional cooperation. Meanwhile, the increased access of smaller countries to other markets in the region will definitely enhance their growth. Smaller countries, therefore, should actively work to increase the horizon and scope of regional cooperation, giving due importance to their national priorities.

4. SYNTHESIZING RTAs WITH A MULTILATERAL PROCESS: IMPORTANT ISSUES

Present trends indicate that bilateral trade agreements will continue to multiply and there is a possibility that they may distort the flow of raw materials and other inputs. A regional effort is required to harmonize bilateral agreements so that they lead ultimately to multilateral integration. To facilitate this, it would be useful to develop a unified framework for FTAs and BTAs consistent with multilateral trade liberalization, to prepare manuals on WTO issues and to prepare a framework for impact analysis.

The following principles applied to RTAs may help to promote multilateral trade:

• Countries may be advised to engage only in regional commitments, which they would ultimately be willing to extend to the multilateral setting (by lowering MFN tariff rates);

• Countries can promote the principle of transparency by ensuring that comprehensive information on tariffs, regulations and rules of origin under their RTAs is publicly and easily available. WTO should be informed of all such RTAs in a timely and systematic manner;

• Countries may agree to a consultative system to map and monitor RTAs so that a more effective link between regionalism and multilateralism may be established.

F. ESCAP’S FUTURE ROLE

ESCAP is uniquely positioned to develop a linkage among all major regional groups in the absence of a supranational organization in the region. To provide such a linkage in the area of trade and investment, ESCAP has developed a Comprehensive Trade and Investment Cooperation Framework (CTICF) for Asia and the Pacific. It consists of three tracks and presents a strategy for the next 10 to 20 years to help countries in the region to effectively negotiate, conclude and implement commitments incurred under the multilateral system and through a host of BTAs, bilateral investment treaties and RTAs of which they are members.

CTICF has two long-term objectives:

(a) To enhance national capacities to negotiate, conclude and implement multilateral and regional trade and investment agreements;

(b) To forge consolidation and consistency among emerging BTAs and RTAs and other forms of economic partnerships in the region within a common WTO-consistent framework towards a free and fair multilateral trading and investment regime.

CTICF is based on the idea that only the multilateral trading system as administered and supervised by WTO can guarantee free and fair global and regional trade and investment flows. While WTO may have to undergo some restructuring and reforms in order to ensure that it can perform its role credibly and effectively, in the long run the multilateral trading system is in the best interest of all countries, particularly the least developed countries and other less developed countries. However, realistically speaking, in the short to medium term, bilateral and regional agreements in those areas will prevail. Therefore, CTICF adopts a three-track approach:
1. MULTILATERAL TRADE AND INVESTMENT COOPERATION TRACK

Under track one, ESCAP will organize regional dialogues on WTO issues to enable countries to share experiences in implementing WTO agreements and identify and promote common positions in WTO negotiation forums. It will work closely with WTO, UNCTAD and, at the regional level, ADB, the Colombo Plan and subregional organizations. This track will continue to pursue activities related to assistance to countries in their accession to WTO as well as trade policy courses.

2. REGIONAL TRADE AND INVESTMENT COOPERATION TRACK

Track two seeks to promote regional cooperation in achieving WTO-consistent regional free trade areas. Owing to its region-wide membership, APTA, \(^{24}\) could be used as a prototype RTA in this regard and developed into a framework for full regional integration. Such a framework would include, in addition to trade, such issues as investment, intellectual property rights, competition and wider forms of economic cooperation (i.e., financial and monetary policy cooperation, development of common standards and accreditation, free flow of natural persons, etc.). ESCAP would also seek to develop communication and cooperation among various regional groupings, in particular ASEAN+3 and BIMST-EC.

As a second step (intermediate to long term), track two envisages consolidating emerging RTAs and other regional economic arrangements in line with the common format(s) developed. APTA will be especially promoted for this purpose as indicated in figure III.3; bilateral FTAs may eventually lead to a consolidation or integration between APTA and BIMST-EC. The consolidation aims to bring South, South-East and North-East Asia closer to each other. Such consolidation would take place on a geographical basis as well as on an area basis (integrating trade and investment agreements into one). Thirdly, in the long run, consolidated RTAs would be integrated into the multilateral trading system.

\(^{24}\) ESCAP has embarked on the revitalization of the Bangkok Agreement into APTA. For details, see box III.5.
3. BILATERAL TRADE AND INVESTMENT COOPERATION TRACK

Track three aims in the short to medium term to assist countries, particularly the less developed at their request, in negotiating and implementing WTO-consistent bilateral trade and investment agreements. The focus will be clearly on trade, at least in the short to medium term, but attempts will be made to forge some form of bilateral cooperation in finance as well as to facilitate bilateral trade and investment flows. Secondly, in the medium to long term, it aims to help to consolidate various BTAs and bilateral investment treaties into existing and emerging RTAs, promoting a common format for such agreements and assisting in the harmonization of standards, procedures and rules of origin among various BTAs.

The overall objective underlying the three tracks is to broaden the economic space for cooperation as well as deepening integration as a building block of multilateralism.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation
INTRODUCTION

Transport systems worldwide are undergoing rapid change. Globalization has created a demand for goods and services that makes improved infrastructure and more efficient transport systems a precondition for economic development.

The role of transport in economic development is usually discussed in relation to its contribution to carrying goods and people domestically and internationally. The ability of a country, particularly its more isolated communities, to participate in trade depends on how effectively its transport and communications infrastructure gives it access to the global trading system. Just as liberalization of trade can open new markets for developing countries, efficient transport systems and routes can increase the volume of trade and the movement of people, thus contributing to higher growth. Appropriate transport costs, timely delivery and the quality service are essential factors for improving the competitiveness of exports.

Globalization, however, has introduced new technology, more market-oriented policies and changes in consumption patterns. At the same time, growing environmental concerns are prompting the introduction of new standards for exhaust emissions and other measures which will also influence the transport sector’s growth.

Regional cooperation in this sector calls for well-integrated policies and the fulfilment of three main objectives:

(a) Identifying primary constraints in transport-related areas that hinder the growth of regional trade;

(b) Identifying measures that can be taken to enhance the efficiency of the sector;

(c) Examining the options for financing the construction and subsequent maintenance of infrastructure projects.
Issues such as coordinating various modes of transport, transport development and safety have also come to the forefront in regional discussions. Cooperation in this sector lies mainly in formulating appropriate policies, developing infrastructure and facilitating the movement of goods and services.

Asia-Pacific countries will have difficulty in developing markets within and outside the region if they do not remove obstacles to transport which significantly raise the cost of doing business and weaken the competitiveness of goods. Such obstacles range from inadequate infrastructure and red tape to corruption in customs, restrictive bilateral protocols on the cross-border movement of vehicles, delays and pilferage in ports and lack of safe warehouses. In particular, these issues could prevent the region’s landlocked countries from benefiting fully from liberalized trade.

Reduced maritime transport costs and the speed and ease with which containers and their contents can be moved between one mode of transport and another have created new possibilities for global sourcing in production. In turn, this has provided the opportunity to explore national and regional comparative advantages and has been a major driving force of economic development. However, in many Asia-Pacific countries institutional and infrastructural bottlenecks have meant that economic development has been largely confined to urban areas and coastline corridors, which have easy access to international maritime transport. Broad-based economic development through globalization makes it vital to remove the bottlenecks and create cost-effective maritime and land transport links with access to a wider domestic hinterland.

Until recently, conditions were not conducive to the development of intra- and interregional land transport linkages in the Asian and Pacific region. Conflicts and lack of trust caused considerable damage to land transport infrastructure in many countries and created barriers to international land transport. Since the early 1990s there has been a notable increase in cooperation among nations in Asia and the Pacific. Most regional groups such as ASEAN, SAARC, the Pacific Islands Forum and ECO have action plans to improve transport in their respective subregions. In addition to these activities, ESCAP has taken a number of initiatives to extend maritime and land transport links to facilitate the movement of vehicles and goods across borders. Other organizations such as ADB also have region-wide transport programmes.

Since 1992, ESCAP has pursued the Asian land infrastructure development (ALTID) project (see box IV.1), consisting of the Asian Highway and Trans-Asian Railway projects. These integrated networks demonstrate the commitment of the region’s mainland countries to open routes that would facilitate intraregional trade and provide easy access...
Recognizing the vital role of transport in enhancing economic and social development, ESCAP is promoting the integrated project on Asian land transport infrastructure development (ALTID). Its main objective is to assist member countries in providing reliable and efficient land transport linkages within the region as well as linkages with Europe and Western Asia.

The project was endorsed in 1992 to implement the Asian Highway and Trans-Asian Railway projects. It seeks to develop land bridges that connect adjoining regions and bring into force international conventions that facilitate the cross-border movement of goods and people in transit. It also seeks to develop a regional interactive policy for sustainable and safe transport. ALTID seeks to maximize the use of existing land transport infrastructure, minimize the number of lines and routes to be included in the network, establish efficient cooperative arrangements at the subregional level and optimize the use of the limited resources available.

The project is carried out in close cooperation with national government officials, ECE, ESCWA, ADB, ASEAN, ECO, SAARC, SPECA, BIMST-EC and other international organizations. ESCAP plays a coordinating role in supporting its member countries by formulating and implementing national, regional and interregional transport initiatives called for under the New Delhi Action Plan (1997-2001) and the Regional Action Programme (2002-2006). ESCAP provides countries with practical guidelines on routes, networks, technical standards and requirements for the development of national highway and railway routes of international importance.

The Asian Highway project was conceived in 1959 and has since made considerable progress. Road networks have been identified, revised and formulated. International border-crossing facilitation measures have also been introduced. National networks, road classification and technical and design standards were reviewed and revised regularly to constitute a general guideline for the construction, improvement and maintenance of highways. Other major indicators of success to date include the introduction of the Asian Highway database and the adoption of the Intergovernmental Agreement on the Asian Highway Network. The Agreement lays down modalities for proposing new routes and a mechanism for dispute settlement and withdrawal from the Agreement. It marks a major step towards the realization of a massive land transport network linking the region’s capital cities, tourism sites, industrial and agricultural centres and sea and river ports.

The Trans-Asian Railway, conceived in early 1960s, has identified four major transport corridors which reflect all major intra-Asian and Asia-Europe land bridges:

- **Northern Corridor (Korean Peninsula to Europe)**
  Belarus, China, Germany, Korean Peninsula, Mongolia, Poland, Russian Federation

- **Southern Corridor (South-East Asia to Europe)**
  Bangladesh, China, India, Islamic Republic of Iran, Malaysia, Myanmar, Nepal, Pakistan, Singapore, Sri Lanka, Thailand, Turkey

- **Indo-China and ASEAN subregions**
  Cambodia, China (Yunnan Province), Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Singapore, Thailand, Viet Nam

- **North-South Corridor (Northern Europe to the Persian Gulf)**
  Finland, Russian Federation, Armenia, Azerbaijan, India, Islamic Republic of Iran, Kazakhstan, Pakistan, Turkmenistan, Uzbekistan

A major achievement was the construction of the Bafgh-Bandar Abbas (1995) and Mashad-Sarakhs (1996) rail links in the Islamic Republic of Iran. The Mashad-Sarakhs railway line completed the “New Silk Railway” linking China and Central Asia with Europe via the Islamic Republic of Iran and Turkey. The project provides the landlocked countries of Central Asia with rail access to seaports in the latter two countries. Recently, ESCAP developed a programme of action aimed at running container block trains along designated routes linking the Korean Peninsula to the heart of Europe. In June 2003, a cross-border rail link was reconnected between the Democratic People’s Republic of Korea and the Republic of Korea. This demonstrates the significant political will being mobilized to complete the missing link on the Trans-Asian Railway Northern Corridor and operationalize all routes in that Corridor. The current phase of the project seeks to introduce cooperation agreements among railway organizations on Trans-Asian Railway routes.
The efforts developed by ESCAP under the ALTID project will help countries to enhance their competitiveness, increase international trade and investment flows and promote greater development cooperation with their neighbours. The rail networks can be of great benefit to each country, particularly landlocked countries which have had no access to seaports. The project marks the promotion of friendly and cooperative relations between the Governments and people of the ESCAP region. The next challenge is to bring these efforts into operation in a coordinated manner.

been within the domain of the public sector.\(^2\) However, the success of public-private partnerships in this context depends on clear identification of objectives, legislative and institutional changes, selection and prioritizing of specific project opportunities, parallel public sector investment in supporting infrastructure and upgrading of existing in-house management. These partnerships also require a demonstration of political commitment and, importantly, the support of the population at large for change.

One major obstacle identified by the private sector as inhibiting its involvement in regional projects is the lack of a clear legal framework for its participation, covering ownership, corporate law, accounting practice, adequate flexibility regarding pricing and taxation. Government acceptance of risk-sharing between the public and private sector players is also important to attract private investment in such projects.

Transport facilitation and transit agreements are important to remove non-physical barriers along sea and land routes, including border crossings. Agreements reached by subregional groupings such as ASEAN and ECO can make a significant contribution to the removal of non-physical barriers to the movement of vehicles and goods across borders within the subregional groupings.\(^3\) However, inconsistencies among individual agreements can cause confusion and conflicts in interpretation. This problem also arises in cases where the same countries are signatories to two or more different agreements through their membership in overlapping groupings, such as ASEAN and the Greater Mekong Subregion (GMS).\(^4\) Until all countries are in a position to accede to international facilitation conventions, bottlenecks at border crossings will continue to add to transport costs.

Fierce competition for markets has forced manufacturers to integrate production and transport logistic strategies in order to reduce costs and provide higher service standards. Transport and distribution-related activities, once considered secondary to production, are now being integrated in a process that starts with the collection of raw materials and ends with distribution and delivery of the manufactured product to the final consumer anywhere in the world. The use of reliable and time-definite, door-to-door, freight-forwarding and multimodal transport services increases competitiveness and business. A challenge for developing economies seeking to be integrated into the multilateral trading system is therefore to link up with global transport

---

\(^2\) This does not mean that public sector can not successfully operate infrastructure and public sector experience can be a valuable resource.

\(^3\) For example, the ASEAN Framework Agreement on the Facilitation of Goods in Transit, the ASEAN Framework Agreement on the Facilitation of Inter-State Transport, the ECO Transit Trade Agreement and Eco Transit Transport Framework Agreement.

\(^4\) ESCAP, op. cit.
and logistical services. Partnerships may be the best option available to combat strong competition and develop a global network. The use of ICT, especially e-commerce, can give an added advantage in this respect, and countries need to develop a comprehensive framework encompassing trade, transport and ICT to face the challenges of globalization.

Logistics management is becoming increasingly important to the maritime sector, driven by the advance of containerization and the gradual replacement of conventional cargo systems. As a result, the maritime sector is seeing increasingly close interdependence among the key players: shipowners, shippers and ports. The traditional port services of loading and discharging now need to be backed up by total logistics solutions in order to meet the sophisticated requirements of global shippers. Freight forwarding is also undergoing change. Some countries’ forwarders provide only basic services but others have moved beyond multimodal transport to provide logistics services. The growth of the freight-forwarding industry leads to trade facilitation and greater efficiency in transporting goods. Regional cooperation in developing a proper system will prove useful, especially for landlocked countries which use the ports of different countries. Developing countries face a policy dilemma in ensuring access to competitive shipping services while promoting national shipping fleets and related interests. Overall liberalization of trade and trade services creates a need for a clear understanding of the role of government in a deregulated maritime environment.

Liberalization of maritime services is included for negotiation under GATS. Negotiations were originally due to end in June 1996 but participants failed to agree on commitments and further talks were needed. Talks have resumed as part of the new services round, which started in 2000. The three main areas in this sector are access to and use of port facilities, auxiliary services and ocean transport. To enhance the benefits of liberalized maritime services, the scope of negotiations may be extended beyond auxiliary services and ports to include issues such as multimodal transport, inland waterways and the land transport dimension in international maritime transport. Countries in the region still need time to prepare for this expanded agenda as there are associated risks which may affect their domestic economies. At the same time, they also need to participate actively in negotiations to ensure that the outcome reflects the region’s needs.

Another challenge for developing countries in the meantime is to provide training to upgrade human resources in the transport sector. Programmes to upgrade skills need to be fully integrated into overall

5 For more details, see WTO web site <http://www.wto.org>.
6 ESCAP, op. cit.
infrastructure development plans. The planning, design, operation and maintenance of infrastructure facilities all require the availability of appropriate skills. The training of seafarers is also needed by the shipping industry. Moreover, new skills are required to handle freight forwarding, multimodal transport and logistics management. Investment in human resources development is recognized as one of the most fundamental and cost-effective factors contributing to economic growth. Countries should consider regional cooperation in this context.

B. SELECTED REGIONAL COOPERATION IN THE TRANSPORT SECTOR

Transport in the Asia-Pacific region already has much to its credit. A general feature is the priority given by transport networks to serving industrial and economic activity in the vicinity of international seaports. Attention has been given to improving the regional transport network. In developing the route network, particular emphasis has been given to design, standards and safety. More recently, countries of the region have paid attention to transit transport at border crossings, and subregional groups have signed several agreements, conventions and protocols to facilitate cooperation on this issue. Asian-Pacific countries are also cooperating in the maritime sector.

1. TRANSPORT COOPERATION IN ASEAN

Cooperation among selected ASEAN members started with a multilateral agreement on non-scheduled commercial flights in 1971 and an agreement on searching for aircraft in distress and rescuing survivors of accidents in 1972. Similar agreements for marine transport followed in 1975. In the 1980s increased intraregional movement of vehicles made a common driving licence necessary and Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand agreed in 1985 to recognize each others’ domestic driving licences.

The major move towards cooperation in transport came through the ASEAN Plan of Action in Transport and Communications (1994-1996). Its major objectives were to:

---

7 In order to deal with the continuing problems faced by landlocked and transit developing countries and to improve their transit transport systems the International Ministerial Conference (held in Almaty, Kazakhstan, 2003) addressed the special needs and problems of these countries in integrating effectively into the world economy. The conference adopted the Almaty Programme of Action, which aims to forge partnerships to overcome the difficulties encountered by landlocked countries due to their lack of territorial access to sea and remoteness from world markets.

8 The details of these agreements are available from the ASEAN website, [http://www.aseansec.org/7370.htm](http://www.aseansec.org/7370.htm).

Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

• Develop multimodal transport and trade facilitation to allow door-to-door delivery of goods, thus reducing the time and cost of marketing and distribution;

• Develop interconnectivity in telecommunications, fixed and mobile voice, data and electronic data interchange services for trade and business communications, enhanced land, sea and air transport to ensure interconnectivity and harmonization of telecommunication services between ASEAN countries and between ASEAN and global networks;

• Harmonize road transport laws to facilitate movement across land borders;

• Improve air management to increase the efficiency of airspace utilization;

• Develop ASEAN rules for the carriage of dangerous goods and industrial waste on land and by sea to ensure safety and avoid spillage;

• Develop human resources in the transport and communication sectors to increase operational efficiency and capacity utilization.

Projects and activities under each programme have been designed and implemented under the Integrated Implementation Programme for the ASEAN Plan of Action in Transport and Communications (1997). The Programme has received technical assistance and some financial support from a variety of countries, including technical assistance for an open-skies study from Australia, human resources development in river transport and road traffic management from China and Belgium, studies on the maritime sector, road safety, intelligent transport systems and urban transport from Japan, studies on highway construction from the Republic of Korea and planning for handling dangerous goods in ports from Germany. ADB and the International Maritime Organization (IMO) also provided technical assistance in road safety studies and the accession of ASEAN countries to IMO conventions respectively.

ASEAN has concluded agreements on transit trade (1998) and recognition of vehicle inspection certificates (1998). The agreements show that ASEAN countries recognize the value of transport integration where common infrastructure will be used extensively to spread the benefits of AFTA. Projects such as the ASEAN highway network also reflect the existence of institutional mechanisms to help to identify strategic routes and ensure uniform technical design standards and compatibility with ASEAN road safety standards.

ASEAN’s wide-ranging cooperation on transport in its region (consisting of six agreements, two plans of action, three ministerial declarations and two extraregional cooperation agreements with China and Japan) highlights the importance of interconnectivity in strengthening the capacity of member countries to manage globalization. Moreover, the plans of action give member countries a common level of transport and regulation, enhancing the mobility of goods and passengers. These initiatives generate employment, increase socio-economic benefits and help the economies to integrate. ASEAN leaders at their Eighth Summit in 2002 emphasized that liberalization of intra-ASEAN trade in services required stronger transport links, interconnecting telecommunications, increasing use of ICT and the liberalization of investments in these sectors.

2. COOPERATION IN TRANSPORT AND RELATED ISSUES IN ECO

The development of a reliable and efficient transport network in the ECO region will be a high priority in the new Millennium. Many ECO countries are landlocked, making transport an integral part of their development. The transit transport agreement mentioned previously emphasizes, among other points, designation of transit routes (road, rail and water routes), improvement of the transit infrastructure (north-south and east-west corridors, postal and telephone links), identification and upgrading of some existing routes and encouragement of combined and multimodal transport based on internationally recognized procedures. Efforts are also being made to develop transport linkages within and beyond the ECO region, as well as to remove physical, procedural and administrative obstacles to the free flow of road, rail and air transport. Steps towards the implementation of the Almaty Outline Plan for the Development of the Transport Sector in the ECO region and the Programme of Action for the ECO Decade of Transport and Communications (1998-2007) and the ratification of the Transit Transport Framework Agreement (1998) are being undertaken.12

A major effort to develop railways began in the ECO region in the 1990s,13 adding 4,000 km to the rail network between 1994 and 1999, although rail-carried freight did not increase between 1995 and 1998, except in the Islamic Republic of Iran and Azerbaijan. Meanwhile, the road network only increased significantly in Pakistan and Turkey in the second half of the 1990s.14

Despite the importance of transport to ECO in managing and profiting from globalization, many member countries are slow to ratify transport and communications conventions.15 Networking with other subregional groups may be useful on issues such as institutional development, private sector financing and coordinating different modes of transport.

---

13 These connections help ECO countries access the ports in China, Iran and Turkey.
14 ECO, op. cit.
15 Ibid.
3. TRANSPORT COOPERATION IN PACIFIC ISLAND COUNTRIES

For faster communication, the Pacific Islands Forum formulated the Forum Aviation Action Plan in 1998 and then, after reviews in 1999 and 2001, adopted a new action plan in 2003. The 1998 action plan was aimed at encouraging trade, investment and tourism in the island countries but focused mainly on cost-effective airspace management and enhancing competition through the participation of the private sector. The 1999 and 2001 reviews emphasized safety and the use of new technologies. After a major overhaul, Forum ministers committed themselves in 2003 to implementing the new plan, which focuses on four areas: economic regulation and liberalization, oversight of regional safety regulations, airspace management and airfreight for export promotion.

The ministers agreed that collaborative effort was required to enhance safety and assistance is being sought to improve airspace management and airport infrastructure development.

4. TRANSPORT AND INFRASTRUCTURE DEVELOPMENT COOPERATION IN SAARC

SAARC members recognized the inadequacy of infrastructure in the South Asian subregion at their Ninth Summit in 1997 and the following year agreed to modernize telecommunications, including simplifying regulations and tariffs. The group set up a Technical Committee on Communications and Transport with a plan of action to develop transport, telecommunications and postal services. The former Technical Committee on Transport worked towards exchanging data and information, compiling databases and directories, organizing seminars and workshops and conducting training courses.

Under the direction of SAARC’s Council of Ministers, the group’s Committee on Economic Cooperation looked closely at ways to improve transport infrastructure and transit facilities in the 1990s, but a comprehensive agreement has yet to be developed. The creation of SAFTA, however, gives even greater importance to the role of the transport sector. The Islamabad Declaration (2004) emphasizes the need to accelerate cooperation and the participation of the private sector through joint ventures.

---


17 Earlier, two technical committees on telecommunications and transport existed; they were merged into one.

18 This was announced during the Twelfth SAARC Summit, held at Islamabad from 4 to 6 January 2004.
5. ESCAP’S INITIATIVES IN TRANSPORT COOPERATION

ESCAP has worked extensively in the transport sector and promoted regional development cooperation as an effective means for countries to meet the emerging challenges of globalization. The most significant transport projects promoted by ESCAP are the Asian Highway and the Trans-Asian Railway, which together provide a web of transport links spanning the region.

The Intergovernmental Agreement on the Asian Highway Network was finally adopted in November 2003 after years of work and consensus-building. It identifies roads to be developed as international highways linked to the road networks of other countries, and contains agreed designs and standards. For the first time, countries made a formal commitment to the linkages and alignment of highways totalling over 140,000 km and connecting 32 member countries (see Asian Highway route map).

The Trans-Asian Railway network, cutting across the entire Asian continent, offers a land transport alternative which connects Asian markets with Europe and facilitates intraregional and interregional movements. The network was updated in 2003 to include new linkages proposed by member countries and now comprises 80,000 km of tracks in 25 countries (see Trans-Asian railway network map).

Both systems provide valuable links to ports for landlocked countries. The Trans-Asian Railway gives Central Asian countries access to ports in the Islamic Republic of Iran and Turkey, while giving Mongolia access to ports in China and the Russian Federation. The Asian Highway plays a similar role for Bhutan, the Lao People’s Democratic Republic and Nepal, where rail transport is not extensively developed. Bhutan and Nepal have access to ports in Bangladesh and India; the Lao People’s Democratic Republic is linked to ports in Thailand, Viet Nam and China, and will be linked to Myanmar possibly at a later stage. The Asian Highway will help these countries to have quicker and smoother access to seaports in other countries.

The secretariat is now formulating an intergovernmental agreement on the Trans-Asian Railway network. Rail transport has considerable potential, particularly for Asia’s landlocked countries, and offers significant advantages for the environment and safety. The challenge is to overcome the technical and institutional barriers, which currently hinder the through-movement of trains and the smooth transfer of goods across different gauges.

Over the years the transport needs of the region have continuously changed in response to new requirements. Issues such as road safety, air pollution, environmental degradation and the unwanted side effects of land transport have become issues of increasing concern to countries.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

Increased population mobility and urban migration have exacerbated the undesirable social consequences of such movements. Although regional cooperation in the fields of environmental protection and human security related to the adverse impacts of land transport has not fully developed, ESCAP is assisting countries in developing appropriate regional strategies to meet their social and environmental needs.

In maritime transport, the major concerns are the application and impact of modern shipping technology and ICT, and the regulatory issues related to commercialization, corporatization and private sector participation in ports. Related issues are simplification of port tariffs, freight rates and ancillary charges. The ESCAP secretariat has established a consultative mechanism for the major stakeholders: shipowners, shippers and ports. On the recommendation of the Committee on Transport, Communications, Tourism and Infrastructure Development, ESCAP is trying to improve manpower planning in order to bring about a better balance between supply and demand in the shipping industry. The secretariat has also been actively engaged with countries in forecasting the container transport requirements of the major ports in the region.

ESCAP is supporting efforts to harmonize the initiatives of subregional groupings such as ASEAN, ECO and GMS. In accordance with the mandate given by the 2001 ESCAP Ministerial Conference on Infrastructure, a cooperative initiative has been forged with the Tumen River Secretariat and other relevant organizations to develop an integrated transport network in North-East Asia.

In addition, to reduce the pressure on ocean transport, ESCAP could play a catalytic role in facilitating regional cooperation in the area of transportation of gas through natural gas transportation grids (see box IV.2). To the extent gas is transported by pipelines, the demand for ocean transport is reduced with positive impact on the environment. This is important as consumption centres of gas are often located far from the production site and require large scale investment for its safe and smooth transportation. In the region, a mismatch exists between the areas of resource endowment and the centers of demand for natural gas. This is true within countries as well as across countries and subregions; some countries or subregions are resource-rich and others resource-poor. For example, the Russian Federation is rich in natural gas resources, while nearby countries of North-East Asia are resource poor. Similarly in South-East Asia, Indonesia has large natural gas reserves, while others have no or relatively low reserves. In Western and Central Asia too, there are large variations in supply and demand, with large reserves

---

19 ESCAP, “Major issues in transport, communications, tourism and infrastructure development: establishment of consultative mechanisms among key maritime stakeholders” (E/ESCAP/CTCTID (3)/(4).
Box IV.2. Towards Asia-Pacific natural gas transportation grids: developing regional cooperation

There is a great potential for trade in natural gas in the Asia-Pacific region given the continuing high demand for energy and the energy resource endowment. To achieve this, a comprehensive strategic plan needs to be developed with appropriate analysis of the market dynamics and energy trade flows. This is to ensure the availability of adequate, clean and affordable energy.

There are a number of initiatives already at various stages of development or implementation across the region, such as the Trans-ASEAN gas pipeline, initiatives in North-East Asia and the proposed APEC-PEG gas pipeline, as indicated in the figure below.

In 1998, at the APEC leaders’ meeting in Kuala Lumpur, Malaysia, a plan for an Asian gas grid was proposed by the Partnership for Equitable Growth (PEG), a non-profit organization acting as a catalyst for private sector involvement within the framework of APEC. The proposal is to connect major gas fields, in particular those of Indonesia, for bulk transport to Shanghai, China, through a submarine gas pipeline extending over almost 5,000 km. The gas grid also plans to link up with the Trans-ASEAN gas pipeline, which will enable South-East Asian countries to tap their requirements from the grid or feed surplus natural gas for eventual transmission to China and possibly to other countries in North-East Asia.

Natural gas fields and planned or proposed gas pipeline routes in Asia

---

a ASEAN Centre for Energy web site <http://www.aseanenergy.org/>

b ESCAP “Perspective for intercountry cooperation in energy development in North-East Asia”, presented at the Senior Officials Meeting on Energy Cooperation in North-East Asia, 2002 <http://www.unescap.org/esd/energy/>

c APEC: The Partnership for Equitable Growth (APEC-PEG) <http://www.apecpeg.org/>

d Compiled by the ESCAP secretariat based on various maps from the Northeast Asian Gas and Pipeline Forum, the Energy Information Administration, the China National Petroleum Corporation (CNPC), APEC-PEG and the ASEAN Centre for Energy.

(Continued overleaf)
As the major markets for natural gas are currently in North-East Asia, connecting gas fields of the Russian Federation and South-East Asia to North-East Asia will provide a steady supply of natural gas to countries in need of natural gas and present an option for those countries to diversify their energy supplies with an environmentally sound energy option with enhanced energy security.

To facilitate the matching of resources with demand, a long-term vision has to be developed with the participation of all relevant stakeholders focusing on public-private partnership. Such a vision would form the basis for effective coordination of the apparently isolated initiatives. With the necessary political commitments in place, it would be possible to establish Asian natural gas grids with linkages among the subregions that have the potential for gas development and trade. To realize such potential, thorough feasibility studies would need to be carried out with extensive consultations and the involvement of concerned stakeholders. Studies should include projections of energy demand and supply trends taking into account economic, social and environmental dimensions, followed by the development of a strategy to achieve the long-term vision. Considerable financial resources will be required to achieve the vision; private sector participation will be critical in securing the necessary funds. However, with a solid strategic plan in place, mobilization of investments may be possible given the strong interest of the international oil and gas companies.

Natural gas pipelines that cross several borders will certainly contribute to enhancing energy security through the sharing of risks and responsibilities in the development and operation of the pipelines. One initial but critical challenge will be to secure political and financial commitment, followed by extensive multi- and bilateral negotiations to clearly identify and share the responsibilities among stakeholders. ESCAP, as an independent and neutral body, could play a catalytic role in facilitating regional cooperation in this area. It has agreed in principle to a request to support the proposed APEC-PEG initiative on the Asian gas grid with a view to developing a linkage and synergies with other initiatives, in particular the North-East Asian energy initiative.

in some countries, including the Islamic Republic of Iran, Kazakhstan, Turkmenistan and Uzbekistan. These variations indicate the existence of untapped potential for turning the mismatch problem into an opportunity for trade by developing a well-coordinated natural gas pipeline grid(s) in Asia-Pacific by linking resource-rich countries and subregions with demand centres. Such networks would facilitate infrastructure development and intraregional energy exchange and trade with investment flows as well as bring economic and environmental benefits with less pressure on large scale ocean transportation. ESCAP is well placed to develop synergies among existing efforts and initiatives.

6. OTHER IMPORTANT INITIATIVES IN THE REGION

(a) ADB initiatives

ADB, a key source of finance for infrastructure development, emphasizes the importance of regional and subregional cooperation in transport. It also supports the development of guidelines for reducing vehicle emissions in Asia. Some important initiatives undertaken by ADB in last few years are:

- Implementing the Agreement for Facilitation of the Cross-Border Transport of Goods and People in GMS;
- Developing regional solutions to Asia’s high traffic mortality rate;
- GMS projects on energy, environment, trade, and transport;
- Road safety in ASEAN;
Regional cooperation in transport projects in Central Asia;

- Strengthening subregional cooperation in the transport sector of the East ASEAN Growth Area and the Indonesia-Malaysia-Thailand Growth Triangle;

- Cooperative airspace management in the Pacific subregion.

(b) APEC initiatives

APEC has paid particular attention to enhancing regional cooperation on transport safety and security, but has also considered ways of reducing obstacles to trade and investment, including liberalizing transport services. The APEC Transportation Working Group has endorsed a series of projects intended to work towards the goals of an increasingly safe, secure, efficient, integrated and environmentally sustainable transport system in the APEC region.²⁰

C. OBSERVATIONS ON REGIONAL COOPERATION IN THE AREA OF TRANSPORT

Countries in Asia and the Pacific have continued to expand their share of global trade in the past decade despite the 1997 Asian financial crisis and Japan’s slow economic recovery. The twin stimuli of expanding industrial and agricultural production and trade are generating demand for transport as never before. Countries face the challenge of not only transporting greater volumes of freight, but also providing the level and quality of services which are required to support increasingly globalized trade and manufacturing practices. At the same time, countries need to find new and creative ways to cooperate in order to manage the pressures that globalization generates.

An analysis of the cooperation arrangements in transport shows that subregional groups are cooperating beneficially in some areas of transport. However, compared with the enormous potential value of such links, there is relatively little cross-border road and rail transport in Asia. There are several reasons for this, including lack of infrastructure, uncoordinated planning, bureaucratic procedures and lack of familiarity with integrated logistical practices. This prevents countries from exploiting the benefits of intermodal transport systems emphasizing just-in-time delivery and competitive pricing.

²⁰ Some of the projects recommended are developing a competency-based model of mutual recognition of qualifications for logistics managers, workshops on the use of global navigation satellite systems in relation to several aspects of multimodal transport, a workshop on international air services negotiations, case studies on using new technologies in intermodal transport in trade and forecasting cargo throughput to assist shipping and port authorities. See APEC web site, <http://www.apecsec.org.sg>, 26 January 2004.
Most regional and subregional initiatives focus on improving major transport infrastructure, particularly highways, railways and large ports, and the provision of services. Attention also needs to be given to developing feeder roads creating links to a wider hinterland and to opening smaller ports; otherwise the benefits of transport cooperation will not trickle down to the general population and the benefits of development goals will be unevenly distributed.

Countries also need to establish a favourable investment climate to encourage private sector participation in financing transport and operations. This requires an appropriate legal framework, trade facilitation measures, equitable risk-sharing strategies and clarifying the role of any regulatory body. Asia-Pacific countries should enact enabling legislation which would recognize and encourage freight forwarders, multimodal transport operators and the use of e-commerce, as well as encourage the development of logistics services and supply-chain management.

D. ESCAP’S FUTURE ROLE IN TRANSPORT

ESCAP’s main concern is to build the capacity of countries to plan and implement transport policies and enhance participation in the regional and subregional agreements relating to transport infrastructure and facilitation. In promoting infrastructure and transport the focus of its support is first on strengthening networks, second on improving information and skills for transport planning and third on reducing transport barriers at borders.

1. STRENGTHENING TRANSPORT NETWORKS THROUGH REGIONAL COOPERATION

The next phase of ESCAP’s work will be to complete the existing projects including the Asian Highway and the Trans-Asian Railway. It will look for ways to further integrate the various networks and create linkages between different modes of transport and between subregions. This will entail, for example, setting up or upgrading inland container depots and dry ports so that countries can exploit the benefits of containerization, multimodal transport and logistics solutions.

2. IMPROVING INFORMATION AND SKILLS FOR TRANSPORT PLANNING

As more and more countries look for ways to strengthen their transport sector, there is a growing need for better and more appropriate information on transport developments across the region, as well as the skills to use such information. This will help countries to exploit
existing port capacities efficiently, thus reducing excess investment in capacity generation. It will also help them to give more attention to auxiliary services, which shippers now look for when selecting ports. ESCAP initiatives are promoting greater transparency and increasing the information available to forecast container transport requirements for the major ports of the region. This activity also helps to provide long-term forecasts of investment requirements in the sector. Focus will be given in the next phase to the collection of similar data and statistics on the movement of vehicles and goods across land borders by both road and rail. ESCAP will assist countries in collecting such data along selected transit corridors, with the aim of better monitoring the movement of goods and identifying bottlenecks.21

3. REDUCING BARRIERS TO TRANSPORT

Transport facilitation is another challenging area of work, which encompasses many actors; it raises legal, regulatory, institutional, operational and technological issues. Indeed, one of the challenges is to harmonize the different initiatives undertaken by different subregions, which have led in some cases to conflicting legal commitments, documentary requirements and procedures. As the region’s trade is increasingly among the countries that comprise it, these conflicts are pushing up administrative costs, making products less competitive in the market. The ESCAP secretariat is analysing facilitation agreements within the region with the intention of preparing model framework agreements on transit transport. It is anticipated that this work will lead to a substantial review of commission resolution 48/11 of 23 April 1992 on road and rail transport modes in relation to facilitation measures and provide a checklist of the most important transport-related conventions and other arrangements which need to be put in place to ensure efficient border-crossing movements.

4. FUTURE REGIONAL COOPERATION IN THE TRANSPORT SECTOR

Towards the middle of the current decade, the Asian Highway and Trans-Asian Railway networks are expected to become the main international trunk routes linking countries to each other and to other regions. The secretariat will continue to assist countries so that they can take the fullest advantage of these networks, in terms of using them not only for international and transit transport purposes but also as the basis

---

21 This will be done as a result of some recent studies undertaken as part of the preparations for the International Ministerial Conference on Transit Transport Cooperation, (Almaty, 25-29 August 2003).
Governments and the private sector need to find out ways for better communicating their requirements and plans to spread economic development to wider hinterlands. Indeed, a major challenge in the context of increasingly globalized manufacturing practices will be to find ways of ensuring that all countries are able to compete for international and trade investment flows. That will require the region to have a wide range of transport options. It also makes it necessary for all major stakeholders, particularly Governments and the private sector, to find ways of better communicating their needs and plans to each other.
INTRODUCTION

ICT constitutes both a challenge and an opportunity for developing countries. It is one of the key driving forces behind globalization. ICT alone provides a powerful convergence of tools for handling information, from acquisition and production to transmission, archiving and storage. Combined with space technology, it has an enormous impact on all aspects of life by reducing time, distance and the information gap. It increases the scope for greater and faster interaction within different groups of people from different societies and civilizations.

Debate on the importance of access to ICT and its value in addressing global development disparities is part of the wider discussion on the potential benefits and risks of globalization. The level and pace of global flows in physical and intangible assets have been boosted dramatically by ICT’s ability to connect vast networks of individuals across geographic boundaries, at negligible marginal cost. In its power to cut across national boundaries, ICT is perhaps the most dynamic force behind globalization.

Under favourable conditions, ICT can be a powerful instrument for increasing productivity, generating economic growth by facilitating trade, transport and financial issues, thus creating jobs and improving the quality of life of all. ICT has brought e-commerce, e-learning, e-health and e-sustainability, and among many other things, the creation of an e-society. The challenge for the developing world is how to harness the potential benefits of ICT to achieve the Millennium Development Goals (see box V.1). ICT has become so important in the process of both globalization and achieving the Goals that it has warranted the

---

1 Space technology, here mainly referring to satellite communications, remote sensing and geographic information systems (GIS), plays both a complementary and a supplementary role to conventional technologies in the different types of applications. It has indeed been instrumental in providing the means to extend the reach of ICT services to even the most remote and isolated regions.
Box V.1. Using ICT to achieve the Millennium Development Goals: some Asian experiences

The effective use of ICT can enhance the possibilities of achieving the Millennium Development Goals. In fact, ICT enables the rapid development of various sectors of the economy and can generate widespread gains and positive effects.

Eradication of extreme poverty and hunger

ICT can help to reduce poverty through direct and indirect means, creating employment opportunities as well as increasing productivity. ICT can help the poor to acquire literacy and marketable skills. In rural India, TARaHaat, a portal designed to serve villages, provides information about job opportunities on local web sites in local dialects. The successful use of ICT in Bangladesh by the Grameen Bank in its Village Pay Phone initiative is quite well known. In a village in Thailand, Baan Samka, children and youth gather useful information from the Internet and broadcast it to adults via the village audio tower. Microfinance initiatives using ICT can help to reduce transaction costs. India’s Swayam Krishi Sangam smart card project is a good example of this.

ICT can also help to combat hunger by providing timely information to trigger a rapid response in delivering food to areas with severe shortages and also help to monitor and manage the procurement, storage and distribution of essential foodgrains. China’s Beijing FarmKnow project enables a large number of farmers, through its web site, to access information on crop planting, disease control, pest identification and control, seed prices and market prices of agricultural products. In Malaysia, farmers can consult agricultural specialists by e-mail under the TaniNet project.

Achieving universal primary education

ICT can be used to reach people living in distant and remote areas, making education feasible. Governments in most countries of Asia are initiating programmes to promote the use of ICT at all levels of education. The Government of India has an ambitious programme (announced in June 2003) to connect 60,000 schools in the country through an online library and provide academic services and training through the Internet. Other countries, such as Pakistan through the Pakistan Education Network (launched in 2003), and Viet Nam, through its Educational Network, have invested significant resources to provide computer-based connectivity to improve the education system. China’s Advanced Distance Learning Satellite Broadband Multimedia Transmission Platform became operational in November 2000 to serve the country’s western and other remote regions.

Promoting gender equality and the empowerment of women

ICT can help women to overcome the mobility barriers that restrict their access to education, knowledge and information and offers possibilities to engage in e-commerce, distance education and e-government. It also empowers them through increasing the potential for their participation in politics and decision-making. The Gobi Women’s Project in Mongolia uses radio broadcasts to provide non-formal distance education to some 25,000 nomadic women, giving useful instructions on health, family planning, traditional crafts and environmental issues. The Centre for Women’s Research in Sri Lanka has launched a women’s electronic information network and provides women with training.

Reducing child mortality

ICT can help to reduce infant and child mortality rates by improving the effectiveness of health promotion and disease prevention programmes as well as health-service delivery. ICT increases access by caregivers in rural and remote areas to specialist support and diagnosis and reduces the need to transfer patients to a site of medical expertise. Telemedicine is also becoming more popular. In India, the Apollo Hospitals Telemedicine project specializes in providing consultations and second opinions to rural and remote areas where access to quality health care for children is difficult. In western China, the Angel Programme established a telemedicine network, connecting hospitals at the national level. In Thailand, the Government’s major health promotion schemes use ICT to deliver health information to pregnant women and mothers of the newborn, as well as health-care workers.

Improving maternal health

In order to improve maternal health, ICT can be used to access and link networks of expertise, manage medical information and patient data, enable remote medical assistance, improve public knowledge and awareness of maternal health issues, facilitate maternal health research and training, generate locally relevant content and mobilize volunteers. Hand-held computers, such as personal digital assistants (PDAs) and emerging wireless technologies,
provide health-care practitioners with unprecedented opportunities to improve their services. The Indian Health Care Project in Rajasthan equipped auxiliary nurse midwives with PDAs and relevant support tools to improve the management of patient health information at the village level. In order to improve the quality of their diagnoses and provide prompt treatment, the village doctors in mountainous areas of Yunnan, China, use mobile telephones to consult directly with experts at provincial capital hospitals several hundred miles away.

**Combating HIV/AIDS, malaria and other diseases**

ICT can help in addressing HIV/AIDS, malaria and other diseases by disseminating relevant information to patients, caregivers and other family members. ICT can be used as a tool for advocacy, awareness-building and education for preventing the transmission of infectious diseases as well as facilitating support groups, counselling, etc. In Thailand, 488 radio stations and 15 television stations aired HIV/AIDS preventive messages for 30 seconds every hour and owing partly to public health campaigns, the number of new HIV/AIDS cases dropped from 143,000 in 1991 to 29,000 in 2000.

**Ensuring environmental sustainability**

GIS and satellite remote sensing have played an important role in collecting information, pinpointing sensitive and vulnerable forest, watershed and marine ecosystems which are of critical relevance to the livelihoods of the poor. In Thailand, the “Forest Loves the Water and the Land” project used satellite images to identify denuded forest areas in five northern provinces. GIS was applied for the rehabilitation of the water distribution system in Mirzapur, India. China used GIS and remote sensing systems to track urban development and the decrease in arable land in Shanghai between 1996 and 2000 and floods along Dongting Lake in the Yangtze River Basin in 1998. Mongolia’s disaster management system through upgraded emergency warning systems using ICT, is a good example of how to protect people from natural disasters.

---

*Source: UNDP, Promoting ICT for Human Development in Asia 2004: Realizing the Millennium Development Goals – Summary (New Delhi, Elsevier, 2004).*

Developing countries face major obstacles in hooking up their population to ICT and the benefits it can deliver. ICT requires infrastructure and connectivity but government budgets are limited and private investment in the sector is often deterred by outdated legislation, policies that block investment in and the use of new converging technology, the lack of intellectual property rights protection and ICT service market barriers. Another issue in many cases is the small size of the market for ICT services. The use of such technology is not yet commercially viable in many of these countries owing to the low levels of education and knowledge of ICTs among the general public, resulting in a lack of demand for ICT-enabled services. However, the absence of effective laws and regulations in some countries has allowed them to become a base for cybercrime, another major obstacle to ICT development. A range of other issues further complicating the situation of developing countries includes the weakness of old-model education systems, the high cost of training to develop ICT personnel, cultural and social attitudes and the local market dominance of key hardware and software companies.
The extent to which a country adopts ICT will determine its position in the new world economic order. However, huge disparities are already evident among the countries of the region in the main ICT development indicators. This points to a digital divide, which threatens to increase the gap between the rich and poor among and within countries.

This so-called “digital divide” is in fact several gaps in one. There is a “technological divide” exposing the lack of basic infrastructure in many countries to absorb the minimum ICT technology. There is a “content divide”, much of the web-based information is simply not relevant to people’s needs and a significant portion of the content is in English, at times crowding out local voices and views. There is a “gender divide”, with women and girls enjoying less access to information technology than men and boys; this can be true in both rich and poor countries. There is also a “commercial divide”, as e-commerce, which leads to faster business communication among companies and people, is more prevalent in some countries than in others. There are also social, economic and other disparities and obstacles that affect a country’s ability to take advantage of digital opportunities. The challenge is how to convert these “digital divides” into “digital opportunities” for all, particularly for those at risk of being left behind and further marginalized.

There is no single approach to using ICT for development purposes. Most countries have a national policy on ICT in place. What is lacking is a comprehensive framework on how to use ICT to meet the needs of the poor, vulnerable and marginalized groups. Countries need a specific policy or action plan to realize the potential benefits of ICT, foster sustainable development, empower people, including women and youth, build capacity and skills, assist small and medium-sized enterprises and reinforce popular participation in decision-making at all levels. Attention should also be given to the issues of cultural and linguistic diversity, the ethical dimensions of ICT usage, the use of the right technology (which is cost-effective and user-friendly) and human resources development.

In addition to framing sound ICT policy, Governments need the political will to implement it. Before ICT can work for the poor, Governments first need to create an enabling environment by preparing innovative policies for the sector, strengthening institutions and improving infrastructure and connectivity. Distance education cannot function without a school with electricity; telemedicine will not work if hospitals do not exist. Second, Governments need to concentrate on “application programmes” to enable understanding of the development linkages among

---

2 See chapter I: the disparities are discussed in some detail in section B 6.
3 Address by the Secretary-General to the World Summit on the Information Society (SG/03/15).
various sectors. Governments should involve ICT service providers and agencies working in poverty alleviation in developing the institutional mechanisms of ICT policy. Third, they need to improve ICT awareness, develop skills and human resources to create sufficient demand and manage the sector properly. Attention should also be given to monitoring the impact of ICT projects and adjusting projects on the basis of experience.5

The challenge of building an open society using these technologies is political, economic and social. The World Summit on the Information Society (see box V.2) adopted a Plan of Action for tackling the digital

---

**Box V.2. World Summit on the Information Society**

ICT has become so important to achieving the Millennium Development Goals that it warranted the convening of the World Summit on the Information Society, the only world summit to be held in two phases. The first took place in Geneva from 10 to 12 December 2003, and the second will be held in Tunis in November 2005.

The two principal outcomes of the World Summit are the Declaration of Principles and the Plan of Action.

The Declaration of Principles reaffirmed the commitment of all stakeholders to build a people-centred, inclusive and development-oriented information society to harness the potential of ICT to promote the Millennium Development Goals, namely, eradicating poverty, achieving universal primary education, promoting the empowerment of women, ensuring environmental sustainability, combating HIV/AIDS and developing a global partnership for development. The Declaration of Principles stresses that regional integration contributes to the development of the global information society and makes strong cooperation within and among regions indispensable. In particular, regional dialogue should contribute to national capacity-building and the alignment of national strategies with the goals of the Declaration of Principles.

The Plan of Action identifies specific targets for establishing the information society at the national level in the framework of national e-strategies. These include 10 specific national targets for improving connectivity and access to ICT by 2015; the development of national e-strategies, including human capacity-building, by 2005; and the establishment of public-private partnerships or multisector partnerships by 2005 as a showcase for further action. The Plan of Action also highlights 11 action lines and stresses the vital role of international and regional cooperation in pursuing them. It suggests that consideration be given to the creation of a voluntary Digital Solidarity Fund.

International as well as regional cooperation among different stakeholders is vital in implementing the Plan of Action and needs to be strengthened with a view to promoting universal access and bridging the digital divide. Governments of developing countries should raise the relative priority of ICT projects, promote public-private partnerships in ICT to achieve the Millennium Development Goals and invite international and regional organizations to assist. The Plan of Action lays down a Digital Solidarity Agenda aiming to put in place the conditions for the mobilizing human, financial and technological resources for the inclusion of all men and women in the emerging information society.

Before the World Summit, the Asian Regional Conference for the World Summit on the Information Society held in Tokyo in January 2003, provided guiding principles which are commonly known as the Tokyo Declaration. These became the basis for the Summit’s Declaration of Principles and the global Plan of Action.

The second phase of the World Summit will consider the follow-up to, and implementation of, the Plan of Action at the national, regional and international levels. For this purpose, all countries and regions are required to develop tools for providing statistical information on the information society, including basic indicators and an analysis of its key dimensions.


---

5 ESCAP, Use of Space Technology Applications for Poverty Alleviation: Trends, Strategies and Policy Frameworks (ST/ESCAP/2309).
divide, which calls for new forms of solidarity, partnership and cooperation among Governments and other stakeholders, ranging from the private sector to civil society and international organizations, and seeks their commitment to the Plan’s Digital Solidarity Agenda. Regional dialogue should contribute national capacity-building and the alignment of national strategies with the goals set out in the Summit’s Declaration of Principles.

A. ANALYSIS OF SELECTED REGIONAL COOPERATION IN ICT

Regional cooperation can help poor countries to bridge the digital divide and address core issues of developing ICT infrastructure, improving connectivity and supporting ICT education and financing. Regional cooperation can also help to develop the necessary legal and regulatory framework to promote e-commerce, prevent cybercrime and create an “application programme” that addresses issues of governance, community empowerment and economic growth (see figure V.1). At the World

---

**Figure V.1. Bridging the digital divide and regional cooperation**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Strategy</th>
<th>Regional cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve infrastructure support especially in rural and remote areas</td>
<td>Develop ICT infrastructure and community resources</td>
<td>Develop applications programmes with development linkage</td>
</tr>
<tr>
<td>Improve connectivity to increase the speed of information flow in rural as well as urban areas</td>
<td>Choose right technology for future convergence and financing through promotion of private sector and public-private partnerships</td>
<td></td>
</tr>
<tr>
<td>Improve ICT education through awareness, skills development and training</td>
<td>Address financial issues to bear the cost of ICT</td>
<td></td>
</tr>
<tr>
<td>Address ethical issues including cybercrime</td>
<td>Develop legal framework</td>
<td>Community empowerment (broadcasting, interactive development, communication, weather, distance education, telemedicine)</td>
</tr>
<tr>
<td>Develop human resources</td>
<td>Address financing options and issues regionally</td>
<td>Growth engine (bandwidth creation, networks, VSATs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Governance and management of the economy (databases: natural resources, disaster management, environment, infrastructure, infosystems, kiosks, decision support)</td>
</tr>
</tbody>
</table>

**How to address these issues**

- Improve infrastructure support especially in rural and remote areas
- Improve connectivity to increase the speed of information flow in rural as well as urban areas
- Improve ICT education through awareness, skills development and training
- Address financial issues to bear the cost of ICT

**Note:** Developed by ESCAP secretariat staff.
Summit, regional organizations were invited to mainstream ICTs in their work programmes and assist all levels of developing countries in preparing and implementing national action plans in line with the Declaration of Principles.

A number of initiatives have been launched in the Asia-Pacific region in recent years to address the digital divide. For example, ESCAP has organized a number of high-level regional conferences on several issues of ICT with the countries of the region and partners from the Regional Inter-agency Working Group on ICT, which includes the Asia-Pacific Telecommunity (APT), ADB, the International Telecommunication Union (ITU), UNESCO and UNDP. Several organizations, such as ASEAN, SAARC and the Pacific Islands Forum, have also launched initiatives to increase and share the economic and social benefits of ICT.

1. ICT COOPERATION IN ASEAN

The key areas of cooperation in ICT among ASEAN countries are the e-ASEAN Initiative (1999),\(^6\) the e-ASEAN Framework Agreement (2000),\(^7\) the e-ASEAN Reference Framework for Electronic Commerce Legal Infrastructure (2001)\(^8\) and the Manila Declaration (2002).\(^9\) The e-ASEAN Initiative developed a comprehensive action plan to promote an ASEAN e-space covering the economy, society and government. The e-ASEAN Task Force identified pilot projects for each sector to clarify the policy issues involved in establishing an electronic marketplace. The Task force is now working on establishing an ASEAN Information Infrastructure and consulting with the private sector on short- and long-term plans. It has formulated plans to accelerate the development of e-commerce across the region (cyberlaws, security infrastructure, payment gateways, online services and products).

The e-ASEAN Framework Agreement signed by member States at the Fourth ASEAN Informal Summit held in Singapore from 22 to 25 November 2000, aims to promote cooperation to strengthen the competitiveness of the ICT sector and narrow the digital divide within and among member countries. To that end, it promotes the liberalization

---

\(^6\) The Initiative aims to develop a broad-based and comprehensive action plan, including the physical, legal, logistical, social and economic infrastructure needed to promote an ASEAN e-space, as part of an ASEAN positioning and branding strategy. E-ASEAN would cover the economy, society and government.

\(^7\) The Agreement was signed in Singapore. It seeks to promote, develop and enhance the competitiveness of the ICT sector.

\(^8\) The Framework was formulated by the ASEAN Secretariat and focuses on the general principles, scope, legal effects, provisions, presumptions and implementation of e-commerce law.

\(^9\) The ASEAN telecommunications ministers met on 27 and 28 August 2002 and signed the Manila Declaration resolving to exploit ASEAN’s competitive edge in the ICT sector.
of trade in ICT products, services and investments. An e-ASEAN working group has been formed to oversee the implementation of the agreement. A number of e-government and ICT training programmes, workshops and seminars were conducted in a number of member countries.

The e-ASEAN Reference Framework for Electronic Commerce Legal Infrastructure acts as a guide to help to accelerate the drafting of e-commerce laws by member States that do not yet have them and facilitate cross-border e-commerce and cross-recognition/cross-certification of digital certificates/digital signatures (for those member States that have e-commerce law). An e-commerce white paper is under preparation to share information on each country’s initiatives and developments. Cyberlaw seminars have been held to share the best practices of more developed countries in ASEAN. An e-ASEAN forum has been established and is studying the harmonization of cross-border e-transactions. It is considering a range of other activities, including the creation of a business environment to support the e-commerce development of SMEs.

The ASEAN Subcommittee on Space Technology and Applications working under the ASEAN Committee on Science and Technology, has formulated a framework for enhancing collaboration in space technology and its applications in the ASEAN region. The Subcommittee also designs and coordinates collaborative programmes and projects using space technology applications. These include remote sensing, communications and satellite technology applications for environmental and natural resource management, and applications for development planning. It also proposes ways to involve government agencies, industries and academia in promoting and sustaining regional cooperation in space technology and its applications. These include exchanging information on national policies and programmes to facilitate the transfer of space technology and its applications among ASEAN members.

2. ICT COOPERATION IN PACIFIC ISLAND COUNTRIES

Pacific island countries have recognized that ICT is important for promoting socio-economic development (“ICT for every Pacific islander”). However, the countries realize that substantial resources are required to put the endorsement into practice. Moreover, limited accessibility of equipment and lack of technical personnel are major obstacles to the development of this sector. Against this background, members of the Pacific Islands Forum have launched a number of

---

initiatives, including the Forum Communications Action Plan, the Pacific Islands ICT Policy and Strategic Plan and the Pacific 14D Initiative,\textsuperscript{11} which identify priority areas for island countries, including telehealth, distance learning and universal access through community telecentres. These are important for small island countries scattered over large distances. The Pacific Islands Forum Secretariat’s regional input paper\textsuperscript{12} identified a number of regional institutes to build a cooperative framework to implement priority ICT projects, including a pilot telehealth project, Pacific Resources for Education and Learning and a community telecentre development project which involves the setting up of Internet cafes.

3. ICT COOPERATION IN SAARC

Cooperation in the SAARC subregion has been extensive in telecommunications and in other areas such as audio-visual exchange programmes, information-sharing and networking. At the Ninth SAARC Summit, held at Male in 1997, member countries agreed to enhance economic cooperation by simplifying complex documentation procedures. The first SAARC Communications Ministers Conference held in Colombo in 1998, adopted the Plan of Action on Telecommunications\textsuperscript{13} and proposed to modernize telecommunications in the subregion. It also proposed that regulations, including tariffs, be simplified. SAARC also runs joint programmes with APT and ITU in telecommunications. SAARC has also emphasized the use of ICT in the media as a tool for disseminating information. The SAARC Audio-Visual Exchange (SAVE) Programme already uses radio and television channels to encourage socio-cultural exchange programmes aimed at improving public understanding of the culture and society of member countries. The SAVE Programme includes joint productions on such issues as the environment, disabled youth, literacy, participatory governance, safe and clean water, and mountains and hills. The Islamabad Declaration issued by the Twelfth Summit held in January 2004,\textsuperscript{14} pledged greater efforts to bridge the digital divide in the region.

\textsuperscript{11} The Forum Communications Action Plan focuses mainly on facilitating the construction, expansion, technical cooperation and development of human resources in the sector. The Pacific Islands ICT Policy and Strategic Plan includes the vision “ICTs for every Pacific islander”, which is a regional approach to bringing about coordination among national policies. Pacific Islands Information and Communication Technology of Development (the Pacific 14D Initiative) proposes partnership through ICT to address World Summit issues.


\textsuperscript{13} The Plan of Action calls for a reduction in telecommunication tariffs within the SAARC subregion, special rates for transiting regional traffic, cellular roaming, liberalized leased lines and human resources development, among other things.

4. ESCAP’S INITIATIVES ON ICT

There are many other regional initiatives in the area of ICT, some of which are discussed in annexes III and IV. ESCAP also has a number of programmes to assist its members and associate members in exploiting the potential benefits of ICT.

ESCAP promoted ICT accessibility for persons with disabilities in Asia and the Pacific (in 2002) through the Biwako Millennium Framework for Action towards an Inclusive, Barrier-free and Rights-based Society for Persons with Disabilities in Asia and the Pacific during the Decade of Disabled Persons, 2003-2012. It recommended specific action at the national and regional levels using technologies such as speech synthesizers, computer screen readers and text magnifier programmes to provide training and jobs for the disabled. ESCAP also organized the Asia-Pacific Conference on Cybercrime and Information Security in 2002 to develop common understanding between all stakeholders, in particular, Governments, the private sector and members of the international community, regarding priority action to address the issue at both the national and regional levels. The Asia-Pacific Conference on E-commerce Strategies for Development, also held in 2002, adopted the Declaration on Electronic Commerce for Development, which recommended urgent action at the national and regional levels to narrow the gap in e-commerce capacity and ICT infrastructure within the Asia-Pacific region.

ICT provides a number of opportunities to women but in general they are unable to take advantage of this technology (see box V.3). To address the issue of the gender divide within the digital divide, since 2000, ESCAP, in collaboration with the Asian Women’s Resource Exchange, has been organizing an annual Women’s Electronic Network Training workshop, which trains women from all over Asia and the Pacific to develop web-based information services, using online communication tools to advance their social and advocacy work and to develop databases. A partnership with a network of women’s groups that seek to increase the capacity of women’s organizations in the Asia-Pacific region to share information using ICT has been established.

ESCAP also takes an active part in developing an ICT policy environment and preparing a regional road map towards an information society as part of its ongoing and future work in following up on the targets set after phase I of WSIS and achievement of the Millennium Development Goals. It has a Regional Inter-agency Working Group on ICT and has worked with the United Nations ICT Task Force.

ESCAP has played a catalytic role in promoting space technology applications for sustainable development and assisted Asia-Pacific countries in building the capacity to use them. The Regional Space
The emergence of new ICTs has shaped and transformed today’s society, forming new social and political structures. Feminists view ICTs, and the Internet in particular, as the “radical potential of communication”, as they provide unprecedented possibilities for women through communication and new means of raising political issues that move beyond male domination. The Internet offers unique opportunities for new forms of knowledge-building by women, especially for those outside global politics. Through global networking, women from diverse cultures can gain knowledge, share information, promote women’s rights and create a more gender-equitable global culture.

Cyberspace enables women’s groups around the world to link up with broader women’s movements. Local and international development agencies are also using ICTs to build connections around global issues such as violence against women, reproductive health and trafficking of women and children. New ICTs seem to provide the greatest opportunities for women who have less exposure owing to social and cultural barriers to enter into broader structures of knowledge, power, language and life. Women working in NGOs in countries with such barriers can use the Internet to express themselves and give their views on politically sensitive topics, which would be impossible in their own country. By helping to shape cultural space, the Internet appears to have great potential for counteracting social segregation and discrimination in many societies.

There is also growing concern that ICTs contribute to widening the gap between the information-rich and information-poor. It is believed that ICTs will simply follow historic patterns of economic inequality. Like the Industrial Revolution, the ICT revolution will further enhance differences between the rich and the poor, between women and men and between the North and the South. The problems of infrastructure and access to new technology are not the only major obstacles for women. These include cost, computer literacy, lack of training and time constraints. To use the World Wide Web also requires a high level of literacy unavailable to vast numbers of women living in the developing world.

The digital divide and the consequences of uneven access to new technologies have become a matter of critical concern among developing countries and international development agencies. Many countries in the ESCAP region regard ICTs as a tool to promote women’s empowerment, rights and full participation in all spheres of the society in line with the goals of an equitable information society. ESCAP is playing an active role in promoting gender perspectives in policies, programmes and projects related to ICTs. ESCAP initiatives to bridge the gender gap include providing capacity-building for women’s organizations and strengthening their networking and advocacy work through the Women’s Electronic Network Training Workshop in collaboration with the Asian Women’s Resource Exchange.

At the global level, the World Summit’s Declaration of Principles underlines that women are key actors in and an integral part of the information society. The World Summit aims to promote women’s empowerment and full participation in the use of ICT, not only on the basis of gender equality but also in all decision-making processes. The Plan of Action of the World Summit also calls for international and regional cooperation to support its Digital Solidarity Agenda, which aims to put in place the conditions for mobilizing human, financial and technological resources for the inclusion of all men and women in the emerging information society. Collective national, international and regional cooperation is vital in implementing the Plan of Action. It needs to be strengthened with a view to promoting universal access and bridging the “gender divide” within the digital divide.


Applications Programme for Sustainable Development (RESAP), initiated in 1994, promotes operational applications of satellite-based ICT for sustainable development and improved quality of life in the region. A wide range of RESAP activities have been initiated at both the regional and national levels.
B. PROMOTING FURTHER REGIONAL COOPERATION IN THE AREA OF ICT

There are a number of countries in the region with surplus capital, world-class expertise in electronics, hardware and software technologies and very good technical institutes. Many developed countries outsource their business processes which use ICT to countries of the region. Moreover, hardware and software industries constitute a major export sector in many countries which has created substantial employment opportunities in the region. In spite of this, there are many countries that do not possess even the basic ICT infrastructure. Regional cooperation in the region should aim to narrow this gap and foster development. There are enough regional resources to tackle the digital divide: the issue is to utilize them strategically (as an example of cooperation, see box V.4).

Box V.4. Cooperation in ICT to achieve the Millennium Development Goals: developing a global partnership for development

Creating inclusive global partnerships is one of the major challenges of the twenty-first century. This is important, as many developing countries have been marginalized, lacking the skills, technologies and financial resources required for development. The eighth Goal, “Develop a global partnership for development”, addresses the ways in which industrialized countries can assist developing countries in achieving the seven other Goals. The partnership can be supported through the development and dissemination of I CTs. Knowledge exchange and the sharing of technical expertise can help developing countries in the new information age. Regional cooperation in this context is important in achieving other Goals. Asian countries have taken up various initiatives to develop partnerships within and across countries and institutions through ICT.

Partnerships in education and research

ICT tools have linked worldwide research institutions enhancing scientific research and supported the development of innovative projects through collaborative efforts. Indonesia has been aggressive in using ICT to build partnerships with foreign research institutes to enhance its education sector, through such projects as the Global Distance Learning Network at the University of Indonesia. The Asian Technology Information Programme, part of Japan’s efforts towards global partnership, has promoted high performance computing activities in Asian countries through partnerships between Asian and Australian universities and research institutions and their partners in the United States and European countries.

Global public policy networks

Global public policy networks are international networks and coalitions that can work consensually in developing sustainable policy positions. They have been effective in drawing the interest of a wide group of individuals and institutions with similar objectives although they operate in different local environments. A good example is RosettaNet, which is a consortium of the world’s leading electronic companies working to create and implement e-business process standards, enabling companies in the supply chain to communicate and conduct business electronically through common codes for the sourcing of parts and components. ICT facilitates the standardization of formats, systems, standards, codes and protocols which are essential for international collaboration and exchange.

ICT as a business tool to facilitate international trade

The use of ICT has radically transformed the way business is conducted with foreign parties. China has established wide public and private networks for global and regional networking through the Internet, such as the international web site for the new Euro-Asian Continental Bridge, the International Network for Bamboo and Rattan and the Asian City Network. In Sri Lanka, the implementation of electronic data interchange (EDI) has also resulted in the setting up of MARINET by the Sri Lanka Ports Authority linking it with the shipping agents and the adoption of some of the UN/EDIFACT (EDI for administration, commerce and transport) standards.
ICT for SMEs

ICT can provide critical support to SMEs in accessing global markets with limited expenditure on advertising and overhead expenses. E-mail communication cuts costs and provides an instantaneous mode of communication linking suppliers and purchasers across the globe. Even rural and excluded groups have succeeded in leveraging ICT to improve their economic status through these channels.

Governance issues

ICT can be used extensively to streamline public service delivery (procurement, forms and registration) and improve efficiency. In 1993, China initiated the Golden Customs Project intended to create an integrated data communication system connecting foreign trade companies, banks and the customs and tax authorities to solve criminal and smuggling cases. The Regional Network Project of the Indonesia Environmental Impact Management Agency is a joint venture with ADB providing an environmental network for 7 provinces and 14 districts to disseminate information to the public.

Partnership among stakeholders

In 2001, Intel launched its worldwide effort to help teachers to integrate technology into instructions known as the “Teach to the Future” programme in Karachi, Pakistan. Several government bodies have worked together under India’s Warna wired village project to increase computer penetration to a cluster of 70 contiguous villages, and civil society has been involved extensively. To raise awareness on the environment, the United Nations Environment Programme and the World Wide Fund for Nature established the International Television Trust for the Environment in 1984. Yet another partnership was established between the Asia-Pacific Broadcasting Union and Sri Lanka to provide skills and training for improving broadcasting standards in Sri Lanka. In Mongolia, the Millennium Development Gateway, which is part of the Global Development Gateway, uses ICT for development by sharing knowledge and experiences among 45 countries.


An analysis of the cooperation arrangements in ICT shows that most regional groups and institutions are concerned about the digital divide. Every group emphasizes different aspects based on specific subregional priorities. However, some countries are still not mainstreaming ICT comprehensively in their development policy framework. In general, regional cooperation in ICT has been sporadic and sometimes superficial. However, the extent and nature of cooperation vary from one subregion to another.

ICT is used to promote people-to-people contact among SAARC member countries through the audio-visual exchange of culture and ideas for promoting awareness on literacy, health, participatory governance and other socio-economic issues. In Pacific island countries, the application of ICT has been proposed to enhance telehealth and distance learning programmes through community telecentres. However, the issue of financing ICT applications in Forum countries and the timely supply of ICT equipment in different islands is important. By contrast, ASEAN, having a relatively high penetration of ICT, gives more importance to the commercial use of the technology, especially in e-commerce, an appropriate legal framework governing electronic translation and promoting private investment and training in this field.
ICT issues are not yet at the forefront of discussions among members of the ECO region. However, some attempt is being made to modernize telecommunications. Emphasis is placed on the harmonization of regulatory and technical features and the development of telecommunication networks. ECO secretariat is currently engaged towards developing a framework for Ministerial Conference in ICT.

Meaningful regional networking and cooperation with other subregional groupings regarding institutional development, helping private sector participation in these sectors and understanding the benefits of using ICT in the trade and transport sectors may prove useful to enhance the growth and development of the region.

Many countries are unable to take full advantage of space technologies to enhance the use of ICT because of high costs. However, wider application of the technology and rural penetration will reduce the cost significantly as economies of scale are high and marginal costs are minimal. Satellite communication application programmes can be used extensively to promote education, health and multi-purpose community telecentres in rural and remote areas15 and to help the self-employed.

ESCAP’s attempt to strengthen regional cooperation in this sector is to create a regional information society in line with World Summit guidelines towards implementation of its Declaration of Principles and Plan of Action. The Regional Road Map towards an Information Society in Asia and the Pacific, adopted by representatives of 16 member countries at the Fifth Regional Inter-agency Working Group Meeting on ICT, held in August 2003, recommends specific action at the national and regional levels to create such an information society and mainstream ICT to achieve the Millennium Development Goals.

It further suggests that since the actions required at the regional level are cross-sectoral in nature, ESCAP is the appropriate organization to facilitate cooperation with ITU, APT, UNDP, UNESCO and others. The suggested regional priorities include preparing a regulatory, legal and security framework, facilitating and promoting a regional broadband network, preparing an e-readiness index and developing special programmes for weaker countries (see annexes III and IV and box V.5).

However, more collaboration is required among countries and regional institutions to widen access to space technology applications and integrate them into development programmes at the national, regional and international levels. ESCAP needs to encourage and seek cooperation from individual countries and subregional organizations to improve the network infrastructure and access to it. It also needs to

15 Community telecentres can provide information about the weather, education and many issues of public interest.
Access to low-cost bandwidth connectivity will be a vital component for economic development in the new millennium. Therefore, one aspect of what makes space more relevant to the poor and marginalized is the outreach capabilities of satellite communication. While broadband terrestrial networks are likely to cover urban areas and dynamic corridors, rural regions having lower concentrations of people and generally less intense economic activity will continue to be isolated digitally if the satellite communication option is not used. Although terrestrial wired (fibre optic, Digital Subscriber Line), wireless (microwave) and satellite-based communications are all experiencing significant technological advances, the big improvements that are looming in the affordability and broadband capacity of satellite communication will arguably have the greatest potential benefit for reaching previously underserved or unserved communities.

The main issues in this context are availability, reliability, affordability, relevance of content and services, training abilities and motivation to use the capabilities of this technology. Satellite communication provides enhanced opportunities for enabling and diversifying broadband access. It has also demonstrated the potential to bridge the digital and knowledge divides and to reach out and benefit the poor, if used innovatively. There are different measures for achieving satellite broadband applications and services. One-way broadband broadcasting by satellite has contributed greatly to distance education programmes in China and Thailand for years. There are many commercial models for asymmetric satellite broadband access: two-way access through satellite, and externally interactive Internet access through satellite broadband downlink and ordinary dial-up Internet uplink. Service practices have demonstrated their technical availability and economic affordability. Developments in local wireless connectivity (Wi-Fi) will further enhance the affordability of delivering broadband ICT applications to remote and underserved areas. Although this service has not been generally available in the Asia-Pacific region, the timely development of enabling policies and viable institutional models may be appropriate for developing countries in the region. Satellite Communication-based VSAT-WLL services offer cost-effective and appropriate community-level solutions providing a variety of services to some areas, but the large-scale provision of services appears to be possible only by the mainstreaming of satellite broadband services, which will be available shortly.

However, further understanding is needed of how this technology will affect poverty alleviation programmes in terms of accessibility, affordability and usefulness. ESCAP and other regional institutions have a vital role to play in accessing the operational viability of this technology and refining the financial models (for example, revenue-sharing between government and community) for using it. Other key roles for ESCAP include fostering partnerships among different players, namely, satellite operators, service providers, Governments, the application service industry, NGOs, international organizations and multinational companies. It can also help to develop sustainable service mechanisms for least developed countries and commercial service providers.

Broadband satellite-based multi-purpose community telecentres have a clear potential to emerge as a one-stop multi-purpose service provider for bridging digital, knowledge and health divides in underserved areas. Blending satellite and terrestrial networks, multi-purpose telecentres can enable accessible, affordable and useful services to empower the poor with knowledge, responsive governance and entrepreneurship. Multi-purpose centres appear likely to emerge as viable grass-roots-level enterprises, managed by their stakeholders and connecting their activities with the forces of globalization, transcending many current barriers. However, quasi-operational prototype development would still benefit the process of bringing telecentres into operation. It would help to better understand the operational framework of telecentres in settings where poverty and deprivation continue to exist. The ultimate success of the centres will depend on support from local community leaders working with agencies engaged in education, health and welfare and with strategic alliances with broadband satellite communication service providers.

Promoting broadband satellite-based telecentres is likely to be of great benefit to areas and peoples currently isolated from, or at least partially underserved by, the global economy. The new trend of convergence of ICT services with broadband Internet will attract countless small and medium investors into the arena of satellite broadband-based services, if appropriate policies can be adopted. The newly developing service models separating satellite operators and service providers have created opportunities for least developed countries to access ICT services and applications more easily.

encourage competition, research and development and human resources
development in the sector to achieve better value in terms of quality and
price. It also needs to highlight the role of SMEs in ICT applications
on the ground.

It is necessary to facilitate regional negotiations on technical,
institutional and policy-level issues in order to (a) foster public-private
partnerships, (b) build strategic partnerships among stakeholders,
(c) strengthen institutional capacity, particularly of least developed
countries, (d) develop viable and sustainable ICT service provision and
(e) develop the mechanisms for regional and subregional cooperation.

ESCAP is also well positioned to promote the implementation of
the outcome of the World Summit and monitoring of the results and to
facilitate the regional cooperation that can convert the multidimensional
challenges of the digital divide into a digital dividend.
INTRODUCTION

Regional development cooperation in finance is relatively new in Asia and the Pacific. The regional or subregional cooperation arrangements that existed prior to the 1997 Asian financial crisis were confined primarily to cooperation in research and training among central banks, clearing and settlement, reinsurance and small-scale development financing and swap arrangements. This was mainly due to the underdeveloped nature of financial markets in most countries in the region. All but a handful of countries in the Asia-Pacific region failed to nurture a market-oriented financial culture. Banks and other financial intermediaries have long dominated the financial systems even in the relatively advanced economies in the region.

The lack of financial sophistication has led to an outflow of savings from the region, much to the disadvantage of its developing countries, which are competing for financial resources for development in international capital markets. The region’s development financing requirements came mainly from ADB and other bilateral donors such as Japan and Australia together with multilateral lending agencies such as the World Bank and private capital flows in the form of FDI and portfolio capital, while IMF provided balance-of-payments support for countries in times of crisis. However, the availability of such financial resources for development purposes was not only limited but also concentrated in a handful of economies. Portfolio capital in particular was subject to sudden reversals, with destabilizing effects on economies, as witnessed during the Asian financial crisis, while credits from multilateral lending agencies, in particular IMF, were often linked to conditionalities.

Financial stability and the availability of capital are vital complements to national and international development efforts, a fact reiterated in the Monterrey Consensus. However, the lack of finance for development has become a major impediment to growth and development in many developing countries in the region. Declining ODA has compounded the scarcity of long-term private capital at low cost for development financing. Moreover, the underdeveloped nature of financial
markets has often restricted countries’ potential for growth in real sectors such as trade and investment, as they are interlinked. Weaknesses in the financial systems and the role that regional development cooperation in finance could play in financial and economic stability in the region were amply evident during the 1997 Asian financial crisis.

A notable development in the aftermath of the Asian financial crisis has been the emergence of keen interest in exploring various forms of monetary and financial cooperation in the region, particularly in East Asia. The main objectives of these initiatives have been to provide mechanisms for crisis prevention and management, policy dialogue and the sharing of resources aimed at maintaining financial stability. Several factors contributed to this new development:\(^1\)

- First, the unexpected and unprecedented contagion effect of the crisis suggested that financial crises in individual countries should not be a matter of indifference to other countries in the region because such crises may have significant spillover effects;
- Second, since the crisis had its origin in weaknesses in the financial and corporate sectors among several countries, cross-country cooperation on financial sector reform issues is considered beneficial to all;
- Third, there is increasing awareness in the region that policy dialogue at the regional level can usefully complement national-level policy-making and global-level policy dialogue.

The regional initiatives on finance that emerged after the crisis include the ASEAN Surveillance Process, the Manila Framework Group, the Chiang Mai Initiative (CMI), the ASEAN Framework Agreement on Services, which also covers financial services, and the Asian bond initiatives under the Asian bond market development programme. These developments have laid the foundation for a reasonable level of development cooperation in finance in Asia. However, as has been the case in the development of financial systems in the Asia-Pacific region, the emergence of regional development cooperation initiatives as well as their perceived benefits have been concentrated mainly in the East Asian subregion. Many developing countries in the Asia-Pacific region have yet to benefit from such new initiatives or to make use of the sophistication and innovations in financial services elsewhere during the last decade or so to their advantage in reaping the benefits of globalization.

It is in this context that the need for regional cooperation in finance will be felt by all countries in the Asia-Pacific region, underpinning the Monterrey Consensus for mobilizing domestic resources,

\(^1\) Y. Iwasaki, “Monetary and financial cooperation in East Asia: the way ahead”, presentation made at the Boao Forum for Asia Conference, Hainan, China, 2 November 2003.
VI. Financial Cooperation in Asia and the Pacific

attracting international flows, promoting international trade as an engine for development, sustainable debt financing and external debt relief, and addressing systemic issues by enhancing the coherence and consistency of the international monetary, financial and trading systems.\(^2\)

The objective of this chapter is to analyse the existing development cooperation initiatives in finance in the Asia-Pacific region, with a view to developing a monetary and financial framework which reflects the architecture necessary to support the development process in the region. It focuses mainly on selected aspects such as CMI, the Asian bond market and infrastructure development, with special emphasis on how these initiatives could be extended for the benefit of a wider section of developing countries in the region. Such a cooperative approach would enable countries in the region to protect themselves from risks arising from volatile international financial and capital markets in an increasingly globalized world and ensure sustainable development in the region.

A. EXISTING FINANCIAL COOPERATION IN ASIA-PACIFIC

1. DEVELOPMENTS IN RESPONSE TO THE 1997 ASIAN CRISIS

The 1997 Asian financial crisis set in motion two interrelated financial developments in the region. Most East Asian countries, including the crisis-affected ones, have increased the pace and scope of domestic financial reform to liberalize and open financial markets and improve corporate governance and risk management in financial institutions. The other development is the regional movement for financial cooperation and integration in East Asia, epitomized by CMI, which was organized by ASEAN+3.

(a) Chiang Mai Initiative

CMI was developed at Chiang Mai, Thailand, on 6 May 2000 to establish a system of swap arrangements within the ASEAN+3 countries. It covers the basic principles and operational procedures for bilateral swap transactions (see annex V). These are designed to provide liquidity support for member countries that experience short-run balance-of-payments deficits in order to prevent an extreme crisis or systemic failure in those countries and subsequent regional contagion, as occurred in the Asian financial crisis in 1997. Emergency support facilities such as CMI are similar in nature to other regional and international “lender of last resort” facilities.

\(^2\) A/CONF.198/11.
Since the intent of CMI was to be proactive, it is based on a mutually agreed framework for intercountry cooperation within the ASEAN and ASEAN+3 countries that could be used to quickly and effectively render emergency assistance at the required levels when the need arises. Moreover, a multilateral approach would ensure that any conditionality associated with the financial assistance is consistent across all countries.

At present, the total amount of bilateral swap arrangements covering all 13 countries concerned is estimated at around $35 billion (see table VI.1). The maximum amount of money any individual country can draw varies a great deal. For example, in the case of Thailand, the maximum is around $6 billion, 10 per cent of which can be drawn automatically.

Table VI.1. Progress on the Chiang Mai Initiative
(End of December 2003)

<table>
<thead>
<tr>
<th>Bilateral swap arrangement</th>
<th>Currencies</th>
<th>Conclusion dates</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan-Republic of Korea</td>
<td>$/won</td>
<td>4 July 2001</td>
<td>$7 billion⁹</td>
</tr>
<tr>
<td>Japan-Thailand</td>
<td>$/baht</td>
<td>30 July 2001</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Japan-Philippines</td>
<td>$/peso</td>
<td>27 August 2001</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Japan-Malaysia</td>
<td>$/ringgit</td>
<td>5 October 2001</td>
<td>$3.5 billion</td>
</tr>
<tr>
<td>China-Thailand</td>
<td>$/baht</td>
<td>6 December 2001</td>
<td>$2 billion</td>
</tr>
<tr>
<td>Japan-China</td>
<td>yen/yuan renminbi</td>
<td>28 March 2002</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Republic of Korea-China</td>
<td>won/yuan renminbi</td>
<td>24 June 2002</td>
<td>$2 billion</td>
</tr>
<tr>
<td>Republic of Korea-Thailand</td>
<td>$/local</td>
<td>25 June 2002</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Republic of Korea-Malaysia</td>
<td>$/local</td>
<td>26 July 2002</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Republic of Korea-Philippines</td>
<td>$/local</td>
<td>9 August 2002</td>
<td>$1 billion</td>
</tr>
<tr>
<td>China-Malaysia</td>
<td>$/ringgit</td>
<td>9 October 2002</td>
<td>$1.5 billion</td>
</tr>
<tr>
<td>Japan-Indonesia</td>
<td>$/rupiah</td>
<td>17 February 2003</td>
<td>$3 billion</td>
</tr>
<tr>
<td>China-Philippines</td>
<td>yuan renminbi/peso</td>
<td>29 August 2003</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Japan-Singapore</td>
<td>$/Singapore dollar</td>
<td>10 November 2003</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Republic of Korea-Indonesia</td>
<td>$/local</td>
<td>24 December 2003</td>
<td>$1 billion</td>
</tr>
<tr>
<td>China-Indonesia</td>
<td>$/rupiah</td>
<td>30 December 2003</td>
<td>$1 billion</td>
</tr>
</tbody>
</table>


⁹ The dollar figure includes the amounts committed under the new Miyazawa Initiative: $5 billion for the Republic of Korea and $2.5 billion for Malaysia.

ASEAN+3 policy makers have made considerable progress over the past three years towards increasing the availability of liquidity, as they have succeeded in contracting a number of bilateral swaps and establishing informal mechanisms of policy dialogue and review among the ASEAN+3 countries. Since one of the objectives of CMI is to prevent future crises by stabilizing financial and foreign exchange markets, CMI must have great credibility. For this reason, ASEAN+3 authorities have been studying the modalities of monitoring, surveillance and cooperation in exchange rate policy among the participating countries.
(b) Asian bond market development: the Asian bond initiative

Since the East Asian crises in 1997 and 1998, many countries in the region have given priority in domestic financial reform to developing domestic capital markets in order to diversify their sources of financing and reinforce the stability of their financial systems. Recent calls for the development of regional capital markets have gained momentum owing to efficiency and cost considerations in domestic capital markets. At an informal meeting of deputy finance ministers of ASEAN+3 in Tokyo in November 2002, the representative of the Republic of Korea proposed discussing the feasibility of creating new Asian bond markets under the ASEAN+3 framework and improving the existing ones. This proposal received broad support among the 13 members and a month later Japan introduced a comprehensive plan for the development of regional bond markets in Asia, the Asian bond initiative.

The participants concluded that the public sector’s role was to improve and build the infrastructure, whereas the private sector would work to enlarge the borrower and investor base of the markets. Six working groups are engaged in (a) analysing the prospects for facilitating market access through a wide variety of issues and (b) creating an environment conducive to developing the markets. The issues to be examined concerning market access include:

(a) Bond issuance by Asian Governments to establish benchmarks;
(b) Bond issuance by Asian Governments’ financial institutions to finance domestic private enterprises;
(c) Creation of asset-backed securities markets, including collateralized debt obligations;
(d) Bond issuance by multilateral financial institutions and government agencies;
(e) Bond issuance to fund FDI in Asian countries;
(f) Issuance of bonds in a wider range of currencies and introduction of currency-basket bonds.

With regard to the creation of an environment conducive to active participation by both issuers and investors, the working groups are also examining:

(a) Provision of credit guarantees;
(b) Improvement of the credit-rating system;
(c) Establishment of a mechanism for disseminating information;
(d) Improvement of the settlement system;
(e) Development of the legal and institutional infrastructure for bond market development.
Given East Asia’s dynamism and its enormous pool of savings, it could accommodate large and efficient regional capital markets that are as competitive as global capital markets. If these markets are efficient and robust, they may improve the allocation of resources and also help to safeguard the region against financial crises.

The ASEAN+3 countries have been engaged primarily in constructing a regional infrastructure for Asian bond markets, including institutions such as regional credit agencies, cross-border securities borrowing and lending mechanisms, credit enhancement and guarantee agencies, clearing and settlement systems, a centralized depository system, and exchanges and over-the-counter markets for bond trading. In addition, the six working groups are devising plans for harmonizing various financial standards, regulatory systems and tax treatments throughout the region.

In addition to ASEAN+3, there is another regional organization that has been promoting the development of Asian bond markets. While actively participating in the ASEAN+3 working groups, Thailand has also been seeking the support of other Asian countries through the expansion of the activities of the Asian Cooperation Dialogue.

However, regional bond markets will not be efficient if these cooperative efforts are not carried out in conjunction with domestic financial reform in individual member countries, which will open up their capital markets. Capital market development in Asia has been hampered by many institutional weaknesses and regulatory controls. The major reasons include a lack of professional expertise in the securities business, the inadequacy of the financial and legal infrastructures including regulatory systems, low standards of accounting and auditing and the opacity of corporate governance.

Without domestic financial market deregulation and capital account liberalization, borrowers and investors in the region will not be able to take advantage of regional bond markets, as they will be restricted in cross-border lending and investment.

(i) Rationale and need

There are three main reasons that justify efforts to develop Asian bond markets:

- First, robust Asian bond markets will, at least in part, keep Asian savings in Asia, instead of sending them to other countries, in particular the United States, to finance their current account deficits;
- Second, deep and liquid Asian bond markets will help Asian economies to guard more effectively against future crises as they will be able to raise more funds in their own currencies in the regional bond markets, thereby avoiding the currency mismatch problem;
• Third, such an initiative would emphasize the importance of sustaining the financial reform efforts that began after the 1997 financial crisis, especially since there have recently been signs of regression.

A number of recent studies show that the reform efforts in the region have slowed down and several countries have in fact relapsed into their old practices of managing financial institutions and old modes of formulating financial policy. Many advocates of the Asian bond initiative rightly argue that this initiative will exert peer pressure and at the same time generate incentives for Asian countries to continue with their financial reform.

Of these objectives, the second appears to be less important. Although efficient bond markets offer a wider range of sources of financing and instruments for saving, facilitating the development of a more diversified financial system, they are not a substitute for good macroeconomic policy. A review of the developments leading to the 1997 crisis suggests that the currency mismatch problem may also have been exaggerated as a cause of the crisis.

As to the first objective, it is difficult to argue with the view that channelling practically all the official reserves from Asia to developed markets is both a consequence and, to a lesser degree, a cause of the underdevelopment of the Asian bond markets. The ASEAN+3 countries collectively held nearly $1.9 trillion in reserves at the end of 2003, the bulk of which is invested in United States short-term treasury and agency securities. Judging from any criteria of optimum reserve holding, one cannot but argue that the ASEAN+3 countries have accumulated more reserves than necessary, even after considering that they should arm themselves with substantial “war chests” to fight future speculative attacks.

Many advocates of the Asian bond initiative point out that at least some of these reserves could be allocated to finance additional Asian investment. The huge holdings of dollar reserves also incur large losses as these reserves earn a low return while Asian borrowers pay much higher interest on their foreign loans.

(ii) Asian Bond Fund (I and II)

The preceding discussion leads to the conclusion that region-wide financial reform is and should be the most logical and viable objective of creating Asian bond markets. Depending on how they are structured and managed, these funds will maintain the momentum for domestic financial reform created by the 1997 crisis.
The Asian Bond Fund was launched in June 2003 by the Executives’ Meeting of East Asia-Pacific Central Banks (EMEAP). The initial round of the Asian Bond Fund, ABF I, is valued at around $1 billion and is earmarked for investments in a basket of dollar-denominated bonds issued by Asian sovereign and quasi-sovereign issuers in EMEAP (other than Japan, Australia and New Zealand). The second round, ABF II, will be a much larger fund involving private sector co-investors; it will also include bonds denominated in regional currencies.

The architects of ABF I and II rightly argue that the funds will serve as a catalyst for domestic financial reform in East Asia, as they provide incentives as well as the rationale for East Asian policy makers to restructure their domestic bond markets and cooperate in developing regional bond markets as well. In other words, ABF I and II will encourage East Asian countries to increase the supply of bonds in which the Funds could invest. However, in view of the small size of ABF I, market participants believe that it may have had little effect on the market for East Asian sovereign dollar bonds. If anything, the Fund’s investments may have crowded out private investors.

It is unlikely that additional demand for high-quality Asian bonds denominated in Asian currencies can increase the supply of these bonds. At present, there is strong private demand for high-grade Asian bonds denominated in either local or major international currencies. The planners of ABF II should realize that this excess demand has not generated any incentives to increase the supply of such bonds. Managers of ABF II will certainly not prefer Asian local currency bonds that private and institutional investors would not invest in. ABF II may then end up competing for a limited supply of high-quality Asian bonds, particularly when the spreads on them are as tight as they are now.

There are also two other concerns raised regarding the viability of ABF II. First, since ABF II is likely to invest in East Asian sovereign bonds denominated in local currencies, it may serve as a mechanism for having the fiscal deficits of some member countries financed by other members belonging to EMEAP. In that case, the investment policy of ABF II cannot be dictated solely by the profit motive, even if a private institution manages the Fund.

Second, if ABF II is of considerable size, then its investment operations could affect the foreign exchange and interest rate policies of the EMEAP member countries whose bonds are purchased or sold.

---

by the Fund. Even if the amount of a sale or purchase is relatively small, the Fund’s operations may send the wrong signals to financial markets against the wishes of the EMEAP central banks. This signalling problem is likely to remain, even if a private institution manages the Fund, insofar as EMEAP central banks have a controlling stake in it.

The preceding discussion suggests that the EMEAP member central banks could contribute more to the development of Asian bond markets if they were to use the ABF II leverage to strengthen the regional financial infrastructure, removing institutional constraints on the supply of high-grade Asian corporate and sovereign bonds.

(c) ASEAN Surveillance Process

Soon after the Asian crisis the Terms of Understanding on the Establishment of the ASEAN Surveillance Process were agreed in 1998.\(^4\) The objective of the ASEAN Surveillance Process is to strengthen cooperation by:

(a) Exchanging information and discussing economic and financial developments in the region as well as outside it;

(b) Providing an early warning system and a peer review process to enhance the stability of the macroeconomic and financial system in the region;

(c) Highlighting possible policy options and encouraging early unilateral or collective actions to prevent a crisis;

(d) Monitoring and discussing global economic and financial developments which could have implications for the region and proposing possible regional and national-level actions.

Periodic meetings and joint declarations of ministers have ensured that the member countries have continuously monitored the development of their financial markets. These meetings also provide a forum for the exchange of ideas on future financial reforms in the region which would increase the efficiency and stability of the financial markets.\(^5\) At the meetings there is recognition that future financial market architecture should be based on greater private sector participation, proper standards for transparency and disclosure, dissemination of necessary information, early warning systems and a well-sequenced approach to capital account liberalization depending on a country’s degree of development and macroeconomic stability.


(d) ASEAN Framework Agreement on Services

Another important agreement on financial cooperation is the Protocol to Implement the Second Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (2002). Based on the ASEAN Framework Agreement on Services (1995), member countries agreed to enhance cooperation to open service sectors, including financial services. The Protocol ensures that ASEAN member States that are non-WTO members are accorded the same treatment as other ASEAN members. Efforts have also been made to open up the region’s financial sector. A new modality, which is based on a positive list approach, has been considered by the Working Committee on ASEAN Financial Liberalization under the ASEAN Framework Agreement on Services. This includes the adoption of a combined unilateral and negotiated request/offer mechanism for the subsector(s) in the inclusion list in order to chart a road map towards a free flow of financial services by 2020. Negotiations have taken place for the current round, which is expected to be concluded by the end of 2004.

(e) ASEAN Swap Arrangement

ASEAN has a long and rich history of addressing financial sector issues. The Memorandum of Understanding on the ASEAN Swap Arrangement was signed in 1977 to promote monetary cooperation in the region. Initially, five major ASEAN members signed it and agreed to renew it periodically, revising the swap amount and time. The Ministerial Understanding on ASEAN Cooperation in Finance was initiated in 1997; it focuses on major financial areas such as banking, insurance and capital markets.

2. COOPERATION AMONG CENTRAL BANKS

The countries in the region also benefit from cooperation among central banks. The SEANZA Group was established in 1956, initially comprising central banks of British Commonwealth countries in the Asia-Pacific region, with a view to pooling their resources in order to provide intensive and systematic training courses for promising central bank staff.

The South East Asian Central Banks Research and Training Centre (SEACEN) was established in 1982; it currently represents central banks, monetary authorities or finance ministries of Indonesia, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Sri Lanka,
Thailand, the Republic of Korea, Taiwan Province of China, Mongolia and Brunei Darussalam. Its objectives are to initiate and facilitate cooperation in research and training relating to policy and operational aspects of central banking.10

**Asian Clearing Union**

The Asian Clearing Union (ACU), established in 1974, is a facility for the multilateral settlement of payments among members (the central banks of Bangladesh, Bhutan, India, the Islamic Republic of Iran, Myanmar, Nepal, Pakistan and Sri Lanka). Its main objectives are to facilitate payments among member countries for eligible transactions, thereby economizing on the use of foreign exchange reserves and transaction costs, as well as promoting trade among the participating countries. Participants in deficit at the end of a settlement period are eligible to avail themselves of a swap facility. Every eligible participant is entitled to the facility from every other participant up to 20 per cent of the average payments made by it through the ACU mechanism to other participants during the three previous calendar years.11

ACU has not achieved its desired objectives mainly owing to limited intramember country trade. However, reinvigorating ACU may warrant consideration given the potential for more trade among ACU countries as a result of the increasing trend towards bilateral trading arrangements among Asian economies and the role that ACU could play in facilitating payments for such trade.

### 3. COOPERATION IN INSURANCE

**Asian Reinsurance Corporation**

The Asian Reinsurance Corporation (ARC), established in 1979, has a broad membership that includes Afghanistan, Bhutan, India, the Islamic Republic of Iran, the Philippines, the Republic of Korea, Sri Lanka and Thailand.12 The Bangkok-based Corporation, which began its underwriting business in 1980, helps to reduce the leakage of foreign exchange from the region in the form of insurance and reinsurance premiums.

While the low level of capitalization has restricted expanding ARC’s underwriting business, competition from private insurance companies has eroded its edge in underwriting. Its low rating has restrained international insurers, which obtain reinsurance only from companies with a triple-A rating. The injection of additional capital and greater market orientation would be necessary to make ARC a viable business enterprise.

---

4. DEVELOPMENT FINANCING ARRANGEMENTS

(a) ECO Trade and Development Bank

A proposal to establish the ECO Trade and Development Bank made in 1995 with the objective of financing intraregional trade and development projects in the ECO member countries, has recently been adopted by the finance and economy ministers of the member countries. The Organization also expects to establish an ECO reinsurance company along with the Bank. Efforts to develop a common framework for regional financial instruments are still in their infancy.

(b) South Asian Development Fund

The idea of establishing a South Asian Development Fund (SADF) was proposed at the Sixth SAARC Summit (1991) to mobilize external funds for the development of South Asia. The basic objective of SADF is to provide finance for industrial development, poverty alleviation, protection of the environment, balance-of-payments support and promotion of economic projects in the SAARC region. SADF has three windows for (a) identification and development of projects, (b) institutional and human resources development projects and (c) social and infrastructure development projects. The SADF Governing Board, at its sixth meeting in Malé, Maldives, proposed to establish a permanent secretariat and create a substantially larger core capital base for the consideration of its member States. Its current core capital base is $5.8 million.

(c) SAARC-Japan Special Fund

The SAARC-Japan Special Fund was established in 1993 to finance selected programmes/activities identified and managed by the SAARC member States and those identified and managed by the Government of Japan. Although SAARC’s secretariat undertakes continuous discussion on the macroeconomic stability of individual countries, it has made no significant move towards any financial integration of the SAARC region.

---


14 SADF has provided funding support for feasibility studies in respect of 16 approved projects, of which 12 have already been completed.


16 Central banks of the SAARC region hold regular consultations on global financial and economic conditions and their impact on that region. SAARC plans to emphasize collective capacity development in the field of international finance.
B. PROSPECTS FOR FUTURE FINANCIAL COOPERATION IN THE ASIA-PACIFIC REGION

There are many economic, institutional and political barriers to financial cooperation and integration in Asia and the Pacific. These are mainly the diverse nature of financial sector development across countries and the lack of required infrastructure and policy frameworks. However, keen interest in the issue has been shown by subregions, in particular East Asia and South Asia, which have put financial cooperation high on their development agendas. The perceived benefits of such initiatives for the whole region would make reinvigoration of such efforts worthwhile. The potential for the Asian and Pacific region to be a driving force in shaping the global economy, when two potential large economies, China and India, are making moves in that direction, also makes greater financial integration a necessity.

What kind of regional financial cooperation initiatives could the policy makers in the region undertake to meet the challenges of the twenty-first century and make the region a third force in the global economy? What are the prerequisites that countries in the region must fulfil in order to benefit from such initiatives? This study proposes:

(a) A framework to enhance the mobilization of domestic and international resources for development in the region through the extension of the Asian Bond Initiative;
(b) A framework for addressing systemic issues through the extension of the Chiang Mai Initiative;
(c) A framework for the development of financial infrastructure in the region.

1. MOBILIZATION OF DOMESTIC AND INTERNATIONAL RESOURCES FOR DEVELOPMENT

(a) A road map for Asian bond market development

The first proposal is an extension of ABI to cover the entire region. This does not mean however, that all countries in the region should automatically become members of the Initiative. The architects of the existing ABI could develop a set of convergence criteria for eligibility to become members, as in the case of the Euro common currency area (see box II.4). Countries which satisfy such conditions could become members and benefit from an extended initiative. This would not only make the existing ABI more efficient and large enough to meet the bond-financing needs of Asia and the Pacific but would also provide an opportunity to those with limited access to international capital markets to raise funds for development within the region. Such an initiative could also be extended to financing SMEs in the region by providing guarantees and securitization of SME bonds.
(b) Deregulating and opening up domestic financial systems

The most logical and realistic road map for the development of Asian bond markets is to begin by deregulating and opening up domestic financial systems so that more investment-grade local currency bonds could be issued, domestic investors would be allowed to invest in foreign bonds and foreign borrowers could issue bonds denominated in different currencies in domestic markets.

At an early stage of development, when domestic bond markets are small and illiquid, domestic borrowers should be allowed to issue local currency bonds in regional and global bond markets. However, this step should be accompanied by efforts to develop and liberalize domestic bond markets to establish a large base of foreign and domestic investors.

Market liberalization and opening would be the first step to facilitate cross-border investment in bonds in Asia and the Pacific, which would in turn naturally form integrated regional bond markets. In this evolutionary process, those countries with a well-developed financial infrastructure and few financial restrictions would then emerge as regional trading centres for Asian bonds.

(c) Regional financial infrastructure

Market liberalization and opening would not, however, be sufficient to expand cross-border investment unless a regional financial infrastructure is also constructed that includes a regional system of clearing and settlement, regional credit guarantee institutions, hedging facilities and regional credit-rating agencies. In addition to the establishment of such an infrastructure, countries in the region should also be able to join forces to harmonize their legal and regulatory systems, domestic clearing and settlement systems, market practices and withholding taxes on bond coupon payments.

In developing strategies for the regional capital markets, countries could take either a market-led or government-led approach. The market-led or evolutionary approach relies more on competition among countries attempting to transform their domestic capital markets into regional ones. A market-oriented approach would be a more realistic strategy than a government-led one owing to leadership and other intercountry issues.

If a market-oriented strategy is pursued, the most efficient domestic capital markets will emerge as the dominant regional capital markets. Under this approach, Governments in Asia and the Pacific should work together to develop financial, legal and regulatory infrastructures at the regional level to ensure the efficiency and stability of the regional capital markets. The more direct Government-led approach requires active participation on the part of Governments not only in building the
financial and other institutional infrastructure, but also in offering a wide range of capital-market instruments tailored to the preferences of investors through, for example, schemes guaranteeing the principle and interest payments on private bonds, securitizing bank loans and credit enhancement.

Several countries have already taken steps to open their domestic bond markets to foreign borrowers and investors and to create an offshore market. Competition among these countries will ensue, and both borrowers and investors will migrate to the markets with the most efficient payment and settlement systems, thereby creating regional financial centres.

If an Asian bond market is to develop rapidly, Asian currency bonds, sovereign or corporate, would have to be tailored to the preferences of private and institutional investors in terms of maturity and credit quality. This is because, at the early stage of development, institutional investors, including various types of local currency investment funds, insurance companies and investment banks, would likely dictate what types of bonds could be issued and traded. These investors would also encourage healthy competition among the potential regional financial centres and the construction of regional financial infrastructures.

Multilateral lending agencies and regional development finance institutions could act as a catalyst for bond market development in the region. The initiatives taken by ADB to promote the development of domestic bond markets and by the World Bank to issue local currency bonds in domestic economies are positive signs in this respect.17

2. ADDRESSING SYSTEMIC ISSUES

Making CMI a regional financial arrangement

The second proposal is an extension of CMI to cover the entire region. CMI is currently in an embryonic stage of development, and as such must be greatly expanded and consolidated before it can serve as an efficient regional liquidity support system. In view of the relatively small amount of liquidity available through CMI, doubts have been raised as to whether the system of bilateral swap arrangements (BSAs) in its present form could serve as a credible and effective system of defence against speculative attacks in the future. Participants in international financial markets are not likely to be impressed by the amount of liquidity available and will therefore ignore CMI, unless the ASEAN+3 countries are prepared to increase the number of BSAs and increase the amount of each BSA.

An extension of CMI to cover a large section of the Asia-Pacific region would raise liquidity and make the initiative an effective line of defence against speculative attacks. Convergence criteria similar to that proposed for the Asian bond market could be developed for an extended CMI.

For it to serve as a fully-fledged regional financial mechanism further organizational and operational details would have to be worked out. A regional financial arrangement established by a group of countries for economic cooperation and policy coordination in general would comprise the following institutional components:

(a) A mechanism of short-term liquidity support for members experiencing balance-of-payments deficits;

(b) A mechanism of surveillance for monitoring economic and policy developments in the member countries and imposing policy conditionality on those countries receiving financial support;

(c) A regional collective exchange rate system designed to stabilize the bilateral exchange rates of the member countries.

There are several institutional and political constraints on further expansion of CMI that have to be addressed. First is the articulation of the ultimate objectives of the CMI arrangement, that is, whether CMI is going to be fostered as a regional liquidity-support programme or as a building block for a fully-fledged regional monetary system in Asia. If BSAs are activated collectively and supported by an independent surveillance system, then they would constitute a de facto regional monetary fund. CMI could then be used as the base on which an elaborate system of financial cooperation and policy coordination could be built by following in the footsteps of European monetary integration.

A second institutional constraint is related to the need to coordinate the activities of CMI with other regional arrangements such as the Manila Framework and EMEAP in which the United States, Australia and New Zealand participate. At some point in the future, member countries may have to decide on the mode of cooperation and division of labour to promote regional growth and stability among these institutions and CMI. Unless CMI is developed into a credible financing mechanism by increasing the swap amounts, its role will become similar to that of other regional economic arrangements, weakening the coherence of the group.

A third problem is that the fear of another financial crisis has receded owing to a recovery that was faster than those following previous crises. Such complacency causes countries to be less interested in enlarging and institutionalizing CMI operations. In recent years the interest of the region has shifted away from financial reform and addressing systemic issues to creating free trade agreements.
This movement is undoubtedly a desirable development and CMI could facilitate further liberalization of trade by stabilizing the bilateral exchange rates of regional currencies and minimizing the disruptive effects of financial market turbulence. This advantage suggests that there may be incentives to broaden the scope of CMI in parallel with negotiations on establishing free trade areas in the region.

The success of CMI as an effective system of defence against systemic crises greatly depends on the region’s capacity to deal with other systemic issues. As such, extension of CMI could be linked to addressing the following institutional requirements in order to develop sound domestic financial institutions which could weather stormy systemic crises:

- Ensuring consistency in macroeconomic policies to achieve market stability;
- Improving transparency and accountability rules to enhance governance;
- Establishing appropriate measures for the detection of external vulnerability through well-designed surveillance and early warning systems;
- Formulation of standards and codes to reduce a country’s vulnerability to financial crises and contagion;
- Dissemination of accurate information on a timely basis to market participants.

3. FINANCIAL INFRASTRUCTURE DEVELOPMENT

If countries are favourably disposed to the idea of the market-oriented approach, then the thrust of ABI may be directed towards supporting the creation of a regional infrastructure that includes a regional financial research institute, a regional clearing and settlement system and a regional rating agency. A financial institute may be created with a mandate to conduct economic and financial market research and monitor financial reform and market developments in the region. It could also be structured to serve as a forerunner of the surveillance and monitoring organization of CMI.

(a) Clearing and settlement

With regard to regional clearing and settlement, Asian currency bonds can, in principle, be settled through existing international systems such as Euroclear and Clearstream or other cross-border settlement methods. A recent proposal recommends linking the central banks and national clearing and settlement systems of East Asia to serve as the...
clearing and settlement system for the Asian bond markets.\textsuperscript{18} This proposal deserves further study to cover an expanded membership in the Asia-Pacific region. At the initial stage, this system would handle only the clearing and settlement of local currency-denominated Asian government bonds.

The advantage of this system is that it could resolve the problems related to the different time zones in which business is conducted. Since most Asian currencies are not internationalized, the payment settlement of Asian bonds denominated in local currencies must be finalized in a local market, even though the transfer of ownership of securities settlement can be done through a global system located in Europe. However, given the time difference between Europe and Asia, real-time payment settlement of Asian bonds is not possible unless changes are made in the global clearing and settlement system. An Asia-Pacific regional system could cover the third time zone, that is, the non-business hours of Europe and the Americas.

Currently, global clearing and settlement systems are reluctant to link their systems with the local systems of Asia, which are subject to many restrictions on bond market transactions. Efficiency considerations will, however, compel the integration of the Asian clearing and settlement system with global systems in the future. It is therefore advisable that the system be devised in a way that would facilitate eventual integration.

(b) \textbf{Credit rating}

Liu and Ferri\textsuperscript{19} show that corporations in developing countries face discrimination in credit rating by global agencies in that their ratings are strongly affected by the sovereign ratings regardless of their domicile. Firms in developing countries are given low ratings because their sovereign ratings are low. This is mainly a result of the poor quality of institutions and information disclosure. From the perspective of the architects of ABFs, the most serious roadblock they will face in promoting the funds would be an inadequate supply of high-quality Asian bonds in which the funds could invest because of the absence of regional credit-rating agencies.

The long-term solution to this rating problem is to improve the rule of law and the quality of information disclosure by investing more heavily in social capital and institution-building. In the short run, the


establishment of Asian rating agencies through ABFs independently or jointly with member States could be considered. Regional schemes could also be organized to cooperate with global rating agencies in order to devise separate firm-level ratings based on firm-specific risks only.

There is little disagreement that efficient and stable regional bond markets will help to increase access to and diversify the sources of financing for firms in Asia and the Pacific. What is required at this stage of development is to ascertain the characteristics of regional bond markets that would best serve the interests of the region’s savers and investors.

Borrowers have the option of issuing bonds in the local, regional and global bond markets. As shown previously, most of the large corporations that can obtain investment-grade ratings have been migrating to the global bond markets. They also have access to the global and domestic equity markets. Many small and medium-sized firms are not capable of raising capital from either the local or regional bond markets, despite the fact that some of them have good credit records. Who then, will, raise funds in the regional bond markets in Asia and the Pacific?

Since institutional investors prefer quality, there will not likely be strong demand for high-yield Asian bonds. A large increase in the supply of top-grade Asian bonds cannot be expected in the foreseeable future. Since issuance costs in Asian bond markets are likely to be higher than those of global markets at the beginning, there will be few top-grade Asian firms tapping the Asian bond markets. These structural constraints suggest that such markets would have a better chance of survival if they were designed to be complementary to either the domestic or the global capital markets. Indeed, a poor strategy for the Asian bond markets would be to attempt to lure away creditworthy Asian borrowers from the global bond markets.

The regional bond markets in Asia cannot remain separated from the global financial markets. With the opening of financial services, foreign investment banks, brokers and dealers will play an important role in developing regional capital markets in Asia, particularly by forming a critical mass of issuers and investors from the region. Because of their dominance in supplying capital market services in global financial markets, they will also be instrumental in harnessing the linkages between regional capital markets and global markets.

If the planners of the Asian Bond Initiative emulate the issuance procedures, regulations and market infrastructure of the global bond markets, the Asian bond markets may not take off; most likely they will become moribund like the so-called Samurai and Shogun bond markets. At the same time, the Asian bond markets will not thrive and become viable sources of financing if they are designed primarily to accommodate the borrowing of low-rated or unrated Asian bond issuers because there would be little demand for high-risk Asian bonds.

Many small and medium-sized firms are not capable of raising capital from either the local or regional bond markets, despite the fact that some of them have good credit records.
There are numerous categories of bonds ranging from top-grade and low-risk bonds to high-yield and high-risk bonds in the global bond markets. Because of their nascent features, the success of Asian bond markets will depend on identifying and bringing into the markets those issuers that do not have access to the global bond market but do have good credit records. To this end, creating regional credit rating agencies specialized in rating Asian bond issues would be of critical importance in launching and developing regional bond markets in Asia.

(c) Guarantee mechanism

Initially, substandard bonds issued by creditworthy Asian firms could be made more attractive to risk-averse foreign investors through credit enhancement and guarantees of these bonds (see annex VI). However, credit enhancement and guarantee facilities often do not exist. Where they do exist, the cost of the credit quality improvement tends to be high, making bond financing less attractive than bank financing. Several regional institutions, including multilateral ones, have expressed interest in guaranteeing Asian currency bonds, but they would be selective in choosing the bonds they could accept, lest they should be seen as subsidizing the issuers. If the guaranteeing cost at these institutions is lower than the market level, then their clients would be mostly sovereign and small and medium-sized business issuers.

This mechanism could be extended to cover SMEs of developing economies in the region through innovative institutional arrangements. For example, a central authority could undertake the bond issues on behalf of SMEs. This would allow the provision of guarantees to a central institution with a sovereign counter-guarantee instead of guaranteeing individual SMEs. Efficient institutional arrangements such as debt recovery laws and transparency and accountability rules would be essential for the sustainability of such an arrangement.

4. Securitization of SME Bonds

Another option to help small-scale entrepreneurs to make use of the Asian Bond Initiative is the securitization of SME bonds. Securitization is a form of structured financing in which securities are issued through repackaging a series of assets that generate cash flow in a way that separates these assets from the credit profile of the company that originally owned them (see annex VII for an example). High-yield bonds issued by those corporations and financial institutions with speculative grades could be transformed into investment-grade paper through the creation of special-purpose vehicles which issue and market bonds of their own backed by the substandard bonds that they pool. Securitization can take on a broad variety of attributes depending on the structure, the underlying assets, the way underlying assets are managed and the types of asset-backed securities issued.
The potential benefits of securitization include cost-efficient funding, credit risk mitigation, diversification of funding sources and tenor and currency management. In most cases, the real motivation for securitization is more likely to be risk mitigation and de-leveraging of the balance sheet at the lowest cost rather than merely obtaining access to cheap funding.

Securitization is useful to resolve the maturity mismatch problem in several ways. First, a securitization deal enables the creditworthiness of asset-backed securities to be independent of the creditworthiness of the company that originally owned the underlying assets. The credit assessment of asset-backed securities is made solely on the basis of the cash flows created by the underlying assets. In addition, securitization schemes such as collateralized bond obligations and collateralized loan obligations can reduce the overall credit risk of the asset pool by diversifying the idiosyncratic credit risk of each borrower.

Despite the benefits from credit risk diversification, securitization by itself cannot remove the credit risk. Instead, it enables issuers to sell the credit risk at a lower cost. It reduces the overall cost of raising funds by creating securities whose credit risk profile is tailored to the risk preference of investors. In particular, bonds with a higher credit rating than the underlying assets can be issued by using the senior/subordinate tranches. Generally, senior bonds receive higher credit ratings than collateralized assets and can therefore be absorbed more easily by the market.

In addition to senior/subordinate tranching, other credit enhancement methods such as over-collateralization, spread accounts, cash collateral accounts, credit swaps and credit guarantees can be used to enhance the creditworthiness of the asset-backed securities and make them attractive to an even greater range of investors.

C. LOOKING AHEAD: A VISION FOR FINANCIAL DEVELOPMENT AND INTEGRATION IN ASIA AND THE PACIFIC

1. FINANCIAL MODERNIZATION AND INTEGRATION

The financial systems in the Asia-Pacific region are known to be unevenly developed, often bank-based, controlled by the State and closed to foreign competition. Banks and other financial intermediaries of these countries, including China and Japan, are saddled with large amounts of non-performing loans. Unless these bad loans are removed, they could pose a serious systemic risk for a country’s financial system and expose it to financial crises. China, Japan and the South-East Asian countries affected by the 1997 financial crisis are taking steps to deal with this issue.
Financial markets and financial service businesses are tightly regulated and closed to foreign investors and borrowers, thereby restricting cross-border financial transactions in the region. The lack of financial integration has resulted in inefficient allocation of resources and has also rendered the region highly susceptible to financial instability caused by speculation, panic, mania and investors’ herd behaviour.

A number of East Asian countries which suffered severe financial crises in 1997-1998 have taken steps to restructure their financial systems and have initiated institutional reforms, including reform of their legal and regulatory systems. However, despite these, the momentum of the reform efforts has to be intensified in order to improve the efficiency and the stability of the financial systems.

These crisis-affected countries have amassed huge amounts of reserves to build a “war chest” for fighting future financial crises instead of strengthening their financial markets and institutions; at the same time investment in infrastructure and social and rural development has been less than desired. Some of the reserve holdings of China; Hong Kong, China; Japan; the Republic of Korea; and Taiwan Province of China could also be lent to other countries for their productive investment, but there are no channels to facilitate such lending.

In a world economy that is being rapidly globalized, Asia-Pacific economies cannot remain much longer outside the integrated global financial system. Therefore, one possible vision for the future of the financial sector of Asia and the Pacific is financial modernization and integration through financial reform, institution-building and cooperation.

What is required of ESCAP members to achieve this vision? What could ESCAP do to assist its members in realizing the goal of financial modernization? The following are some suggestions that the ESCAP members may wish to consider:

- Sustain the efforts of extensive financial reform and institution-building: members may adopt different financial reform plans with different speeds of implementation tailored to their reform capacity.
- Develop the banking sector and capital markets simultaneously: recent studies have shown that banking and capital market developments are complementary to each other. Credible and reliable legal and regulatory systems are pre-requisites to developing an efficient banking sector; they also underpin efficient capital markets.
- Adopt from the emerging international standards for accounting, disclosure, corporate governance, risk management and capital adequacy at financial institutions. Introducing these standards to many territories of Asia and the Pacific may run into formidable road blocks; indigenization rather than the grafting of these standards is the preferred strategy.
• At a certain stage of financial development, emerging market economies of Asia should embark on gradual deregulation of capital account transactions and the opening of financial service businesses. Here again, different countries may consider different scopes and speeds of financial opening that befit their institutional capacity.

• There is no one-size-fits-all exchange rate regime for emerging market economies. Most countries which are not active participants in the global capital market may decide what is best in their interest.

• If monetary integration is the ultimate objective of the countries participating in regional arrangements, they will find it expedient to accept a collective exchange rate regime and tighten policy coordination.

• Experience has shown that financial reform is often derailed by opposition mounted by the vested interest groups. One possibility of diffusing such domestic political resistance is to exert peer pressure on individual members by collectivizing the financial reform within a regional financial arrangement organized by a group of like-minded countries. For example, ASEAN+3, ECO, SAARC and other similar regional arrangements could construct a common framework of financial reform for the participating countries. Member countries could then devise their own reform plans based on the common framework. To be effective, the collectivization scheme would have to be supported by monitoring the implementation of reform in each country. A self-enforcement mechanism could be introduced and a review process could be instituted at the regional level.

2. AN ASIAN MONETARY FUND: CAN THE REGION JUSTIFY ITS CASE?

The idea of establishing an Asian monetary fund was first proposed by Japan in September 1997 following the Asian financial crisis. The original objective of such a fund was to make available a pool of funds to be quickly disbursed as a means of emergency balance-of-payments support for economies affected by the crisis. Although many in the region welcomed the proposal, it failed to gain support from the United States and IMF on the grounds that it would weaken the role of IMF in the international monetary system.

The proposal has recently met with some support from early opponents, as such a fund could play a complementary role to IMF by providing funds required in a crisis situation which IMF alone would not be able to galvanize. It could also engage in crisis surveillance and prevention at the regional level. However, the realization of an Asian
monetary fund would greatly depend on the region’s ability to fit into
the international financial architecture. An extended CMI could be a
stepping stone for the establishment of such a fund. Further, the
linkages between the fund and IMF would have to be spelled out, as
they should be complementary and not competing arrangements.

3. CURRENCY UNION: A LONG-TERM VISION?

Although the Asian and Pacific region by no means constitutes
an ideal group for an optimum currency area compared with today’s
Europe, some subregions, particularly East Asia, are as well qualified
for a common currency as the members of the EU were in the 1970s
and 1980s. Empirical studies invariably point to the large increase in
intraregional trade in East Asia in recent years as a development
conducive to financial and monetary integration in East Asia. Trade and
investment liberalization have been the driving forces behind much of
the increase in intraregional trade. This increase has in turn served
to synchronize business cycles across East Asian countries, thereby
producing economic conditions that are favourable to the creation of a
currency union in the region.

Against these trade and macroeconomic developments, financial
deregulation and market-opening have drawn Asia away from regional
financial integration. Financial liberalization throughout the region has
led many countries to establish closer linkages with international finan-
cial markets than before, but not with markets of other neighbouring
countries in the region. In contrast, however, the financial markets of
European countries were much more integrated with one another in
the 1970s and 1980s than the markets of Asian countries are at present.
As indicated in chapter I, with the increasing tendency towards regional
cooperation in trade in Asia and the Pacific, better currency manage-
ment and monetary and financial integration will become necessary.

As the EU’s experience suggests, the Asian and Pacific region
needs to have a long-term vision with a gradual and pragmatic approach
towards creating a common currency area, which should be preceded by
trade liberalization and financial integration.

D. A POSSIBLE ROLE FOR ESCAP IN
PROMOTING FINANCIAL COOPERATION

As a regional arm of the United Nations for the Asian and Pacific
region, ESCAP is entrusted with the mandate to promote economic and
social development through regional and subregional cooperation and
integration. Over the years, ESCAP has supported regional movements
for trade liberalization and integration; it has also participated in
numerous projects for social development, including poverty reduction
in Asia and the Pacific.
ESCAP was instrumental in establishing ADB in 1965 to provide development finance and technical support to developing countries in the region (see box II.1) and the Asian Clearing Union in 1973, which ESCAP continues to provide advisory services. With the mandate given by the Monterrey Consensus for promoting the role of the regional commissions in supporting policy dialogue among countries at the regional level on macroeconomic, financial, trade and development issues, a reinvigoration of ESCAP’s role in facilitating financial cooperation among Asia-Pacific countries is timely. In this respect, the following proposals are recommended.

1. **BUILDING CHANNELS OF COMMUNICATION AND POLICY DIALOGUE: MAKING ESCAP A “KNOWLEDGE CENTRE”**

As noted in chapter I, there are separate tracks of regional economic cooperation, particularly in the fields of trade and finance. For instance, ASEAN is forging its own arrangements and arrangements with other regional partners in the context of ASEAN+3 and ASEAN+1. Similarly SAARC is pursuing its own initiatives. Likewise, the Pacific Islands Forum and ECO have their own tracks. There is some merit in bringing these initiatives together, at least starting with a deeper understanding of the cooperation mechanisms involved and the ways that inter subregional cooperation could be fostered.

In this regard, ESCAP, whose membership covers the Asia-Pacific region, could serve as a mechanism to play a facilitating role in promoting greater awareness among subregional groups of the cooperation mechanisms that are being pursued, including their linkages to the multilateral process.

A possible way to proceed could be for ESCAP to be granted “observer” status in various forums such as ASEAN, ASEAN+3, SAARC and ECO on a mutually agreed basis with those subregional organizations. ESCAP currently has observer status at the Forum Secretariat ministers meetings in the Pacific Islands Forum Secretariat. Such observer status would enable ESCAP to forge inter subregional awareness of developments in the fields of trade and finance that are emerging in the region.

In this way, ESCAP could facilitate policy dialogue between different subregional groupings on macroeconomic and financial issues. With its wide experience in areas such as trade and investment, transport and ICT, ESCAP is well placed to be a regional knowledge centre facilitating financial cooperation in the Asia-Pacific region.

2. **CONCLUDING REMARKS**

Despite its short history, ASEAN and three North-East Asian countries, China, Japan and the Republic of Korea, have been able to initiate and lead financial cooperation and integration by successfully

**The Monterrey Consensus sets out the role of the regional commissions in supporting policy dialogue among countries at the regional level**

**ESCAP could be a “knowledge centre” for bridging the gap between subregional groupings**
launching the two regional initiatives for developing a liquidity support system (CMI) and regional bond markets in Asia (ABI). The progress that ASEAN+3 has made in consolidating and expanding the two initiatives also raises the question of expanding its membership and of broadening and deepening its relations with non-member countries and other regional trade arrangements. In particular, the success of ABI requires the participation and support of other non-ASEAN+3 countries in the region.

East Asia could play a critical role in providing leadership for an extension of ABI and CMI to other countries in the Asia-Pacific region. It could also take the lead in designing a plan of action which could include a set of convergence criteria for becoming members of such initiatives at a future date. While improving efficiency, such initiatives would also be a catalyst for financial integration in the Asia-Pacific region and provide an opportunity to reap the benefits of globalization.

The success of such initiatives would greatly depend on the region’s ability to fit into the international financial architecture, necessitating reforms to make their financial markets sound, efficient and deep so that they could support economic development while withstanding external shocks.
VII. REGIONAL COOPERATION:
FORGING A COMMON VISION

The preceding chapters have highlighted the symbiotic relationship between globalization and regional cooperation that is evolving in the Asia-Pacific region. Is regional cooperation the “middle path” or the “second-best approach” for responding to globalization, as some models suggest? Can regional cooperation be disentangled as a separate step in building consensus on a global multilateral framework? This is unlikely to be the case. The two processes are intertwined with economic and financial liberalization and rapid application of ICT, which are pushing the region towards closer economic, trade and financial relations. Globalization and regional cooperation are not so much competitive as complementary trends which can and should proceed simultaneously. Better management of globalization itself requires better management of regional cooperation, with national policies aligned to these processes to maximize benefits. In this model, there is a close global-regional-local nexus that has to be exploited to reap benefits.

Globalization confronts smaller and disadvantaged countries with many challenges that can be handled more effectively through cooperation with other States. Such cooperation strengthens the position of individual States as they strive to secure their national interests in an integrating world economy. It makes it possible for many countries to overcome the small size of their domestic economies, specialize in niche products and reduce transaction costs across borders. The Asia-Pacific experience is beginning to show that regional cooperation can be a powerful means to minimize the risks of globalization. It can also provide a defence against protectionist pressures.

Emerging trends suggest that the world economy in this century is likely to consist of a network of various forms of regional cooperation. Developments in regionalism in other parts of the world such as Europe and the Americas make it clear that the Asia-Pacific region needs to speed up its economic integration or risk becoming marginalized in an increasingly competitive global landscape. The diverse histories and differing economic, social and political policies of countries in the Asia-Pacific region have caused regional cooperation to move more slowly than in other regions. However, the emergence of East Asia, in particular, as a dynamic, export-led economic growth centre and the
bitter experiences of the economic crisis of 1997 have invigorated and accelerated regional cooperation to deal with the challenges of globalization. The outbreak of diseases such as SARS and avian influenza and the evidence that national surveillance policies were inadequate to deal with them also increased recognition of the need for greater regional cooperation, which should not be confined to economic interests only but should also extend to emerging social issues which are an integral part of economic development.

What is the Asia-Pacific framework for regional cooperation? As discussed in chapter II, the European model of integration and other traditional approaches whereby a group of countries form a simple free trade agreement which moves progressively towards deeper economic integration, culminating in economic and monetary union, is unlikely to be the model for Asia-Pacific integration process and should not be the benchmark for monitoring it. Increasing globalization and the rapid cross-border exchanges brought about by technological changes require a different approach in the Asia-Pacific region, an approach which blends in with its heterogeneous and complex economic environment and is based on felt needs and perceived benefits.

Today’s global economy, including that of the Asia-Pacific region, involves open and competitive market-based economies whose various agreements in trade, finance and transport have contributed to fundamental change in the way regional integration is taking place. The process now demands both an intraregional and interregional focus.

Developing countries are linking up not only with other regional partners but also with industrialized countries in various sectors, especially trade. In the Asia-Pacific region, this has created a so-called “spaghetti bowl” of bilateral, subregional and interregional arrangements. There is concern about the variety of approaches to issues like rules of origin, “positive” and “negative” lists and new issues such as services, investment and intellectual property rights. But in the medium and long terms, these differences can be ironed out as arrangements mature and converge. On the positive side, these agreements can be viewed as building blocks for larger trade arrangements that will ultimately have to dovetail with the multilateral framework for trade. The experience countries gain trading under these regional arrangements makes them more competitive and better prepared to cope with multilateral agreements regulating the global market instead of trying to cope with the full pressure of the global market from scratch.

This study has identified three layers of regional cooperation:

- Intergovernmental forms of subregional cooperation through formal institutions such as ASEAN, ECO, the Pacific Islands Forum and SAARC, which forge “rules-based” cooperation among members and those outside, such as ASEAN+3.
Activities-based regional cooperation through such organizations as the Greater Mekong Subregion, which promotes cross-border projects such as roads and power. Included in this layer are private sector-driven growth triangles.

Transnational corporation-driven initiatives in the form of integrated international production networks and outsourcing arrangements, often with public sector backing and incentives.

These layers are interconnected, are part of the globalization process and represent the Asia-Pacific way of promoting incremental economic integration. They are driven by both Governments and the private sector and exhibit some of the characteristics of public-private partnerships. Even the intergovernmental cooperation is influenced by contributions to the regional agenda made by chambers of commerce and other private institutions.

The key challenges facing Asia-Pacific regional cooperation are:

(a) Significant differences in the depth and breadth of cooperation across subregions. ASEAN is making greater headway than other subregional groups and no institutional framework exists for intergovernmental cooperation in North-East Asia;

(b) Cooperation and interlinkages between subregions are weak;

(c) Emphasis is being placed on trade and related matters, but the “developmental” possibilities of cooperation in other sectors are not given sufficient prominence. Small island economies and least developed and landlocked countries need special attention in the Asia-Pacific wave of regionalism. The Millennium Declaration’s aspirations require stronger underpinnings in cooperative arrangements;

(d) There is a wide range of issues on which Asia-Pacific countries need to take stronger action to face the pressures of globalization. These include:

(i) The need to develop resilient domestic and regional, public and private institutions and frameworks to respond to the dynamic global environment;

(ii) Effective governance;

(iii) Building a social consensus on the benefits of outward-looking policies and regional cooperation;

(iv) Solving political differences and other impediments to sustainable cooperation;

(v) Paying adequate attention to the social and environmental effects of globalization and, above all, the needs of the poor;

(vi) The huge requirement for human and financial resources to deal with the benefits and costs of globalization and regional cooperation.
The emerging principles of regional cooperation in Asia-Pacific may be summarized as follows:

1. While respecting the region’s diversity of culture, politics, religion and stage of economic development, regional cooperation strengthens interdependence throughout the region, enhancing stability and prosperity;

2. Regional cooperation should build upon and strengthen the various interlocking frameworks for cooperation in the region;

3. It should be consistent with the broader multilateral consensus that is enshrined in the Millennium Declaration and other agreed international development goals.

Underlying these principles is the objective that regional cooperation will contribute to both regional and national shared interests and prosperity, consistent with multilateral frameworks.

The study has examined regional cooperation taking these principles into account in four selected economic growth-enhancing areas: trade, transport, ICT and finance. Some examples of areas which require further development cooperation are set out below:

**TRADE**

- Addressing the challenge of harmonizing the “spaghetti bowl” structure of bilateral and regional trade arrangements in the region to make them consistent with the rules-based multilateral trading system in the full spirit of the Doha Development Agenda.

- Focusing cooperation efforts in product standard harmonization, trade in services and improving patent system.

- Expanding cooperation in other areas such as trade facilitation, transit trade and regional investment agreements to harness the full potential of expanding trade.

**TRANSPORT**

- Making the Asian Highway and the Trans-Asian Railway the main international trunk routes in the region with substantial emphasis on building intermodal connections to meet increasing traffic demands.

- Promoting the use of logistics and supply chain methodologies and full integration of ICT by means of favourable investment regimes and cooperative ventures in order to reduce the costs of transport and substantially improve the competitiveness of the region’s products.
Cooperating on development by assisting countries in building infrastructure, especially feeder roads that link the major highways, rail and ports, so that benefits can be dispersed to the wider hinterland and, in particular, remote rural areas.

**ICT**

- Converting the “digital divide” into a “digital opportunity” for all, particularly marginalized countries, through regional cooperation that harnesses the region’s surplus capital, world-class expertise in electronics, hardware, software and space technologies, and its outstanding technical institutes.
- Building an Asia-Pacific information society by developing new forms of partnership and cooperation among Governments and other stakeholders, such as the private sector, civil society and regional research and training institutes.
- Garnering commitment from all stakeholders to implement the Digital Solidarity Agenda set out in the Plan of Action adopted by the World Summit on the Information Society.

**FINANCE**

- Establishing a strong, safe and efficient financial architecture to support economic development and in this regard strengthening existing cooperative arrangements such as the Chiang Mai Initiative and the Asian Bond Initiative to include the needs of disadvantaged economies.
- Developing a regional cooperation road map to greater financial integration and more efficient financial markets in the light of the Monterrey Consensus.
- Promoting arrangements to enable SMEs to access regional capital markets, helping them to achieve economies of scale and compete in a growing regional market.

This list is not exhaustive and indicates only some of the areas where regional cooperation can help to develop resilient legal and regulatory institutions and frameworks which can diversify and deepen the region’s economic and financial base. Consideration has to be given specifically to the interlinkages among trade, transport, ICT and finance as well as other development concerns.

These proposals are some of the ways to implement the global consensus achieved in the Millennium Declaration and other international development goals. In this regard, regional cooperation requires an emphasis on constructive and genuine partnership, particularly between developed and developing member economies and between the public

*Regional cooperation is a public good*
and private sectors, and a commitment to reduce the economic disparities in the region. Regional cooperation is a “public good” with strong externalities, which are positive in the long term, although they might involve short-term costs for some countries. The delivery of regional cooperation as a “public good” would involve some level of subordination of the sovereignty of individual country interests and the provision of resources by wealthy to poorer countries, but this is for the long-term creation and maintenance of a stable, competitive and prosperous Asia-Pacific region.

The Asia-Pacific region’s dynamism is the result of its successful response to globalization and it stands on the threshold of a major transformation. It is the world’s fastest-growing region and, with a combined population of 4 billion people, it is viewed as the region most likely to become the economic locomotive of the whole world in the same sense as the United States is today. Two of the world’s most populous countries, India and China, are emerging as economic giants. Together with the developed and newly industrializing countries in the region, they have the potential to make Asia and the Pacific a more attractive market and investment destination. However, not all Asia-Pacific countries or subregions are able to match the level of growth achieved by its most dynamic economies and the region has to address this disparity.

Without the kind of formal regional architecture that exists, for instance, in the EU, the challenge for Asia and the Pacific is to forge a common strategic vision from the various layers of regional cooperation. This requires effective leadership by the larger countries as well as determination. The region has the best opportunity to eliminate poverty and improve living standards by promoting economic and social fundamentals, improved governance, outward-oriented policies and deeper linkages among countries. The region also needs to develop its institutions and cooperative frameworks to respond to the emerging challenges of terrorism, human security, population ageing, migration, human trafficking, disease, environmental degradation, corruption and international crime. At the same time, individual countries must also take steps to put “their house in order” and recognize that globalization is an unstoppable phenomenon. Their policies and institutions must continuously adapt to the fast-changing environment. This is not an easy task for each country on its own, and countries will need to look beyond their borders to tap and leverage one another’s strengths.

Regional cooperation is blooming not only in the Asia-Pacific region, but also in Africa, the Americas and Europe. It is important that the efforts at regional cooperation parallel steps to strengthen the United Nations, WTO and other global frameworks to ensure a level playing field for all countries in the intensely competitive arena of the global
It is important to have fair and transparent rules that are implemented justly for all countries, taking into account different levels of economic development.

Various recent global conferences have provided emphatic acknowledgement of the need for regional cooperation to achieve their goals. They have clearly articulated the role that regional commissions can play in assisting implementation at the national, subregional and regional levels. With more than five decades of experience in forging regional cooperation, ESCAP will continue to have an important role to play in supporting economic and social development through regional and subregional cooperation. This study provides illustrations of ESCAP’s significant achievements fostering regional cooperation through such initiatives as setting up ADB, promoting trade arrangements such as BIMST-EC and the Bangkok Agreement and supporting the development of the Asian Highway and the Trans-Asian Railway and, more recently, the use of ICT.

ESCAP is uniquely positioned to assist countries in forging greater integration in the region and, in particular, in promoting greater linkages among subregional institutions. There are separate tracks of regional economic cooperation being forged in the fields of trade, transport and finance, for instance. ASEAN is building arrangements among its members and with other regional partners in the context of ASEAN+3 and ASEAN+1. ECO, the Pacific Islands Forum and SAARC similarly have their own tracks. There is merit in bringing these initiatives together and creating a fuller understanding to tap synergies among these initiatives. In the interest of promoting greater regional integration, ESCAP could be mandated to play a coordinating role in bringing these initiatives together, at least starting with the promotion of a deeper understanding of the cooperation mechanisms. ESCAP, whose membership spans the entire region, could play the role of a facilitator to promote greater awareness among the various subregional groups of the other cooperation mechanisms that are being pursued and their linkages to the multilateral processes.

One way to proceed would be for ESCAP to be granted observer status in various forums such as ASEAN, ASEAN+3, SAARC and ECO on a mutually agreed basis. At present, ESCAP has observer status at ministers meetings organized by the Pacific Islands Forum Secretariat. Observer status would enable ESCAP to increase awareness of developments in trade, finance and other fields that are rapidly changing. In the spirit of the Monterrey Consensus and other global agreements, ESCAP could facilitate policy dialogues between different subregional groupings on selected issues and at the same time become a “knowledge centre” for the Asia-Pacific region in areas where it has wide experience. ESCAP’s capacity and resources would have to be built up to enable it to assist the region in such an endeavour.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation
## ANNEX I.

**Selected major agreements and other cooperation arrangements**

### ASEAN

<table>
<thead>
<tr>
<th>Trade, investment and economic integration</th>
<th>Preferential Trading Agreement 1977</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agreement among the Governments of Brunei Darussalam, the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand for the Promotion and Protection of Investments (1987)</td>
</tr>
<tr>
<td></td>
<td>Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (1992)</td>
</tr>
<tr>
<td></td>
<td>(a) Protocol to Amend the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (1995)</td>
</tr>
<tr>
<td></td>
<td>(b) Protocol to Amend the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) for the Elimination of Import Duties (2003)</td>
</tr>
<tr>
<td></td>
<td>Framework Agreement on Enhancing ASEAN Economic Cooperation (1992)</td>
</tr>
<tr>
<td></td>
<td>(b) Protocol to Amend the Framework Agreement on Enhancing ASEAN Economic Cooperation (1995)</td>
</tr>
<tr>
<td></td>
<td>Agenda for Greater Economic Integration (1995)</td>
</tr>
<tr>
<td></td>
<td>ASEAN Vision 2020 (1997)</td>
</tr>
<tr>
<td></td>
<td>Framework Agreement on the ASEAN Investment Area (1998)</td>
</tr>
<tr>
<td></td>
<td>Ministerial Declaration on the AFTA-CER Closer Economic Partnership, Bandar Seri Begawan (14 September 2002)</td>
</tr>
<tr>
<td></td>
<td>Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China (5 November 2002)</td>
</tr>
<tr>
<td></td>
<td>Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and Republic of India (2003)</td>
</tr>
<tr>
<td></td>
<td>Joint Declaration of the Leaders of ASEAN and Japan on the Comprehensive Economic Partnership (5 November 2002)</td>
</tr>
<tr>
<td></td>
<td>ASEAN-Japan closer economic partnership (2002)</td>
</tr>
<tr>
<td></td>
<td>Declaration of ASEAN Concord II (Bali Concord II) (2003)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transport</th>
<th>Multilateral Agreement on Commercial Rights on Non-scheduled Services among the Association of Southeast Asian Nations (1971)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agreement for the Facilitation of Search for Aircrafts in Distress and Rescue of Survivors of Aircraft Accidents (1972)</td>
</tr>
<tr>
<td></td>
<td>Agreement for the Facilitation of Search of Ships in Distress and Rescue of Survivors of Ship Accidents (1975)</td>
</tr>
<tr>
<td></td>
<td>Agreement on the Recognition of Domestic Driving Licences Issued by ASEAN Countries (1985)</td>
</tr>
</tbody>
</table>
### ASEAN

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministerial Understanding on ASEAN Cooperation in Transportation (1996)</td>
<td></td>
</tr>
<tr>
<td>Agreement on the Recognition of Commercial Vehicle Inspection Certificates for Goods Vehicles and Public Service Vehicles Issued by ASEAN Member Countries (1998)</td>
<td></td>
</tr>
<tr>
<td>Ministerial Understanding on the Development of the ASEAN Highway Network Project (1999)</td>
<td></td>
</tr>
<tr>
<td>ASEAN Memorandum of Understanding on Air Freight Services (2002)</td>
<td></td>
</tr>
<tr>
<td>ASEAN-China cooperation in transport (2003)</td>
<td></td>
</tr>
<tr>
<td>ASEAN-Japan cooperation in transport (2003)</td>
<td></td>
</tr>
</tbody>
</table>

### ICT

| The e-ASEAN Initiative (1999) |  |
| Ministerial Understanding on ASEAN Cooperation in Telecommunications and Information Technology (2001) |  |
| Manila Declaration 2002 |  |

### Finance

<table>
<thead>
<tr>
<th>Memorandum of Understanding on the ASEAN Swap Arrangements (1978)&lt;br&gt;  (a) Supplementary Agreement to the Memorandum of Understanding on the ASEAN Swap Arrangements (1978)&lt;br&gt;  (b) Amendments to the Memorandum of Understanding on the ASEAN Swap Arrangements (1981)&lt;br&gt;  (c) Third Supplementary Agreement to the Memorandum of Understanding on the ASEAN Swap Arrangements (1982)&lt;br&gt;  (d) Fourth Supplementary Agreement to the Memorandum of Understanding on the ASEAN Swap Arrangements (1987)&lt;br&gt;  (e) Fifth Supplementary Agreement to the Memorandum of Understanding on the ASEAN Swap Arrangements (1992)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministerial Understanding on ASEAN Cooperation in Finance (1997)&lt;br&gt;  (a) Protocol for the Accession of the Lao People’s Democratic Republic to the Ministerial Understanding on ASEAN Cooperation in Finance (1997)&lt;br&gt;  (b) Protocol for the Accession of the Union of Myanmar to the Ministerial Understanding on ASEAN Cooperation in Finance (1997)</td>
<td></td>
</tr>
<tr>
<td>Joint Ministerial Statement of the Third ASEAN Finance Ministers Meeting (1999)</td>
<td></td>
</tr>
<tr>
<td>Joint Ministerial Statement of the ASEAN+3 Finance Ministers Meeting (2000)</td>
<td></td>
</tr>
<tr>
<td>Protocol to Implement the second Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (2002)</td>
<td></td>
</tr>
</tbody>
</table>
## ASEAN

### Other economic areas (agriculture, customs, industry, tourism, SMEs)
- Agreement on the ASEAN Food Security Reserve (1979)
- ASEAN Customs Code of Conduct (1983)
- ASEAN Customs Code of Conduct 1995
- ASEAN Agreement on Customs (1997)
- Guidelines for Mutual Assistance to Combat Customs Fraud and Smuggling (1998)
- ASEAN Customs Policy Implementation and Work Programme (1999)
- Basic Agreement on ASEAN Industrial Projects (1980)
- Basic Agreement on ASEAN Industrial Complementation (1981)
  - (a) Memorandum of Understanding Brand-to-Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation (1988)
- Basic Agreement on ASEAN Industrial Joint Ventures (1983)
- Agreement on the Preferential Short-listing of ASEAN Contractors (1986)
- Basic Agreement on ASEAN Industrial Cooperation Scheme (1996)
- ASEAN Framework Agreement on Mutual Recognition Arrangements (1998)

### Energy and environment
- Agreement on ASEAN Energy Cooperation (1986)
  - (a) Protocol Amending the Agreement on ASEAN Energy Cooperation (1995)
  - (b) Protocol Amending the Agreement on ASEAN Energy Cooperation (1997)
- Manila Declaration on the ASEAN Environment (1981)
- Bangkok Declaration on the ASEAN Environment (1984)
- ASEAN Declaration on Heritage Parks and Reserves (1984)
- ASEAN Agreement on the Conservation of Nature and Natural Resources (1985)
- Jakarta Resolution on Sustainable Development (1987)
- Agreement on the Establishment of the ASEAN-EC Energy Management Training and Research Centre (1988)
  - (a) Protocol Amending the Agreement on the Establishment of the ASEAN-EC Energy Management Training and Research Centre (1995)
- Singapore Resolution on Environment and Development (1992)
- ASEAN Cooperation Plan on Transboundary Pollution (1995)
- Bandar Seri Begawan Resolution on the Environment and Development (1994)
- Jakarta Declaration on Environment and Development (1997)
- Regional Haze Action Plan (1997)
- Agreement on the Establishment of the ASEAN Centre for Energy (1998)
- ASEAN Memorandum of Understanding on the Trans-ASEAN Gas Pipeline (2002)
- ASEAN Agreement on Transboundary Haze Pollution (2002)
### ASEAN

**Social development issues** *(health and nutrition, education, youth)*

<table>
<thead>
<tr>
<th>Document/Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration of the ASEAN Health Ministers on Collaboration on Health (1980)</td>
</tr>
<tr>
<td>Resolution of the Third ASEAN Health Ministers Meeting (1984)</td>
</tr>
<tr>
<td>1st HIV/AIDS ASEAN Regional Workshop of Islamic Religious Leaders (1998)</td>
</tr>
<tr>
<td>Declaration of the 2nd HIV/AIDS ASEAN Regional Workshop of Islamic Religious Leaders (2000)</td>
</tr>
<tr>
<td>Declaration of the 5th ASEAN Health Ministers Meeting on Healthy ASEAN 2020 (2000)</td>
</tr>
<tr>
<td>7th ASEAN Summit Declaration on HIV/AIDS (2001)</td>
</tr>
<tr>
<td>Declaration of the 6th ASEAN Health Ministers Meeting on Healthy ASEAN Lifestyles (2002)</td>
</tr>
<tr>
<td>Joint Declaration of the Special ASEAN Leaders Meeting on SARS (2003)</td>
</tr>
<tr>
<td>Joint Statement of the ASEAN+3 Ministers of Health Special Meeting on SARS (2003)</td>
</tr>
<tr>
<td>SEAMEO – Southeast Asian Ministers of Education Organization established through the SEAMEO Charter (1965)</td>
</tr>
<tr>
<td>(a) ASEAN University Network</td>
</tr>
<tr>
<td>• Charter of the ASEAN University Network (1992)</td>
</tr>
<tr>
<td>• Agreement on the Establishment of the ASEAN University Network (1995)</td>
</tr>
<tr>
<td>Joint Communiqué of the First ASEAN Education Ministers Meeting (1977)</td>
</tr>
<tr>
<td>6th Meeting of the ASEAN Sub-committee on Education (1998)</td>
</tr>
<tr>
<td>8th Meeting of the ASEAN Sub-committee on Education (2000)</td>
</tr>
<tr>
<td>Declaration of Principles to Strengthen ASEAN Collaboration on Youth (1983)</td>
</tr>
<tr>
<td>Kuala Lumpur Agenda on ASEAN Youth Development (1997)</td>
</tr>
<tr>
<td>Yangon 2000 Declaration on Preparing ASEAN Youth for the Challenges of Globalisation (2000)</td>
</tr>
<tr>
<td>Manila Declaration on Strengthening Participation in Sustainable Youth Employment (2003)</td>
</tr>
</tbody>
</table>

### ECO

**Trade and investment**

<table>
<thead>
<tr>
<th>Document/Agreement</th>
</tr>
</thead>
</table>

**Transport**

<table>
<thead>
<tr>
<th>Document/Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almaty Outline Plan for the Development of the Transport Sector in the ECO Region (1993)</td>
</tr>
<tr>
<td>Programme of Action for the ECO Decade of Transport and Communications (1998-2007)</td>
</tr>
</tbody>
</table>

**Energy and environment**

<table>
<thead>
<tr>
<th>Document/Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECO Plan of Action on Environment (1997)</td>
</tr>
<tr>
<td>Joint Statement on Cooperation in Energy/Petroleum in the ECO Region (2000)</td>
</tr>
<tr>
<td>Plan of Action for Energy/Petroleum Cooperation in the ECO Region (2001-2005)</td>
</tr>
</tbody>
</table>
## Annexes

### SAARC

**Trade and investment**
- Agreement on a SAARC Preferential Trading Arrangement (1993)
- Framework Agreement on the South Asian Free Trade Area (SAFTA) (2004)

**Other economic areas**
- Agreement on Establishing the SAARC Food Security Reserve (1987) (agriculture)

**Social development issues**
- (drugs, trafficking, youth, terrorism)
  - SAARC Convention on Narcotic Drugs and Psychotropic Substances (1990)
  - SAARC Regional Convention on Suppression of Terrorism (1987)

**Communication**

**People-to-people linkages**
- SAARC Visa Exemption Scheme (1988)

**Human resources development, culture and the arts**
- SAARC Youth Awards Scheme (SYAS) (1996)
- SAARC Consortium of Open and Distance Learning (SACODiL) (1999)
- SAARC Chairs, Fellowships and Scholarships Scheme
- SAARC Youth Volunteers Programme (SYVOP)

### Pacific Islands Forum

**Trade and investment**
- Pacific Island Countries Trade Agreement (PICTA) (2001)
- Pacific Agreement on Closer Economic Relations (PACER) (2001)

**Transport**

**ICT**
- Pacific Information and Communications Technologies Policy and Strategic Plan (PIIPP) (2002)

**Other economic areas**
- Forum Economic Action Plan 2002
- Forum Economic Action Plan 2003

**Energy and environment**
- Rarotonga Declaration on Energy for the Sustainable Development of the Pacific Islands (2002)

**Gender**
- Pacific Platform for Action (PPA) for the Advancement of Women (1994)
- Pacific Island Forum Secretariat Gender Policy (1998)

**Human development**
- Suva Declaration on Sustainable Human Development in the Pacific (1994)
ANNEX II.

Selected trade and investment agreements in the region

TRADE AGREEMENTS UNDER ASEAN

ASEAN Preferential Trading Arrangement

The ASEAN Preferential Trading Arrangement\(^1\) was signed in 1977. The Agreement was applied to basic commodities and most-favoured-nation (MFN) rates were reduced. However, many important products were excluded. Tariff rates were proposed on a product-by-product basis. Emphasis has been given to each country’s priorities regarding product selection.

In 1987, members signed a Protocol on Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Arrangements intended to enhance economic cooperation by making further tariff cuts and reducing the exclusion list. A proper rule was also proposed to phase out tariffs. Rules of origin clauses have also been relaxed in accordance with this Protocol. A Memorandum of Understanding (MOU) on Standstill and Rollback on Non-Tariff Barriers among ASEAN Countries was also signed in 1987. Under this MOU, the Contracting Parties agreed to eliminate GATT-inconsistent non-tariff barriers.\(^2\) In some cases, they agreed not to increase further the current extent of non-tariff barriers. The ASEAN secretariat took responsibility for monitoring this elimination procedure.

ASEAN Free Trade Area

In the late 1980s there were growing uncertainties about the outcome of GATT amid the formation of new regional groups such as APEC (1989), MERCOSUR (1991) and the EU. In response, ASEAN leaders undertook further trade liberalization and more cooperation through the formation of AFTA in 1992.\(^3\)

The AFTA arrangement, through CEPT, envisages the reduction of tariffs to 0-5 per cent within 15 years (later shortened to 10 years). Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam have been allowed more time. The CEPT scheme contains an Inclusion List (IL), a Temporary Exclusion List (TEL), Sensitive List (SL) and General Exception List (GEL). Products in IL are divided into two groups subject to two different schemes of tariff

reductions: normal-track products (tariffs to be reduced by 2002/03) and fast-track products (tariffs to have been reduced by 2000). In 2003, the average CEPT tariff rate for IL products was 2.7 per cent (compared with 12.8 per cent in 1993). The tariffs on TEL products would ultimately come down to the CEPT levels but they are temporarily protected. Items in SL are unprocessed agricultural goods, for which tariffs will be reduced to the CEPT level by 2010. GEL consists of products that are permanently excluded from the tariff reduction initiatives. The 2001 package of tariff cuts covered almost 84.7 per cent of the products in IL, 13.4 per cent in TEL, 1.3 per cent in GEL and 0.6 per cent in SL. The modalities of CEPT are based on concessions granted on a reciprocal product-by-product basis, thereby encouraging members to include more products in IL. In the case of the earlier PTA there was no definite time frame, while under AFTA not only the reduction in tariffs but also the non-tariff barriers are subjected to a proper time schedule. The modalities of AFTA are reviewed periodically and countries have signed different protocols to implement the rules.

The Protocol to Amend the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) for the Elimination of Import Duties (2003) has provided a time line for complete elimination of import duties of IL products by 2010 and for Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam by 2015. However, flexibility has been allowed for import duties on some sensitive products which are to be eliminated not later than 1 January 2018.


This Agreement is aimed at facilitating the transport of goods in transit and establishing an effective, efficient, integrated and harmonized transit transport system by simplifying and coordinating transport, trade and customs regulations and requirements so as to support the aims of AFTA and further integrate the economies of the region. The principle of this Agreement depends on MFN and national treatment and the consistency, transparency and simplicity of the clauses. This Agreement has two most important characteristics. First is the exemption of taxes and other charges on transit transport except charges for specific services rendered in connection with such transport. Second is the stipulation that containers shall not be subjected to examination at customs offices en route. However, to prevent abuses such as smuggling and fraud, customs authorities of the contracting parties may do so in exceptional cases if irregularities are suspected. Border and frontier facilities are also ensured through this Agreement. Disputes regarding this issue will be tackled under the ASEAN Protocol on Dispute Settlement Mechanism (1996).  

---

4 Ibid.  
TRADE AGREEMENTS IN ECO

ECOTA

The ECO Trade Agreement (ECOTA) was signed by the member countries of ECO in 2003. The basic objectives of this Agreement have been to promote harmonious development through expansion of trade, provide fair conditions of competition for trade among members, increase intraregional trade and thereby expansion of world trade and substantially increase trade-related investment opportunities in member countries.

The Agreement focuses on the gradual phasing out of tariffs and other trade barriers among member countries with more flexibility provided to Afghanistan (allowed 15 years compared with eight years for other members). Members have decided to consider goods traded among themselves as the positive list for tariff reduction (except as notified in the negative list). The Agreement also states that within two years non-tariff barriers and export duties should be abolished. Tariff concessions will be based on proper rules of origin. Trade-distorting support will be deemed incompatible except for agricultural goods. Provisions for the protection of intellectual property rights, anti-dumping measures, safeguard measures, a dispute settlement system and balance-of-payments difficulties are also included in the Agreement.

In addition to this Agreement, other major agreements related to international trade are on the simplification of visa procedures and on the establishment of an ECO trade and development bank and reinsurance company. Individual Governments and the ECO secretariat are working together for the implementation of ECOTA. The Islamic Republic of Iran, Pakistan and Turkey have signed a protocol for mutual liberalization among themselves through tariff reductions before ECOTA comes into force.

Transit trade and transport agreements in ECO

In addition to the agreement on trade, ECO has given much attention to transport and the transit of goods, reaching two major agreements: ECO Transit Trade Agreement (1995) and ECO Transit Transport Framework Agreement (1998). The 1995 Agreement promotes uniform, simplified and harmonized administrative formalities, in particular at border-crossing points. The purpose of this Agreement is to facilitate trade between members when goods transported have to pass through other member countries. The 1998 Agreement is aimed at facilitating the smooth and safe movement of goods and passengers among member countries. The objective is to provide the necessary facilities for transit transport, avoid unnecessary delays and coordinate efforts to avoid customs frauds and tax evasion.

---

7 ECO web site <http://www.ecosecretariat.org>, 8 October 2003. For a detailed discussion of transit transport in ECO, refer to chapter IV.
TRADE AGREEMENTS IN THE PACIFIC ISLANDS

Pacific Island Countries Trade Agreement

PICTA was signed in 2001 by Pacific Islands Forum countries. The objective of the Agreement is to strengthen, expand and diversify trade between the partners. It also aims to develop the efficient use of resources of the Pacific subregion, leading eventually to a single market contributing to socio-economic development.

PICTA is the major agreement under the Pacific Agreement on Closer Economic Relations (PACER), the umbrella regional cooperation arrangement. With the signing of PICTA and PACER and future integration strategies with Australia and New Zealand, the Forum’s Trade and Investment Division now focuses on preparations for implementing (and monitoring) these agreements, including providing advice on tariff and tax reforms, compliance with the rules of origin clauses and trade facilitation measures. The Forum Secretariat is also working towards the extension and deepening of these agreements. In 2002, the secretariat put emphasis on the preparation of WTO-related issues including accession, technical assistance and information dissemination.

In accordance with the Agreement, developing Forum countries will liberalize towards each other within 8 years up to 2010 and the small island States and least developed countries will do so within 10 years up to 2012. The Agreement also provides for the protection of sensitive industries through a negative list that will be maintained over a longer time period and be eliminated by 2016. For fixed and specific tariffs, members have the option of converting them to advalorem tariffs or reducing them. The rules of origin will be based on 40 per cent value added criteria but also provide for cumulation and derogation. A Rules of Origin Committee will administer the application of the rules. Against the background of their special relationship with the United States, the Compact Countries (Marshall Islands, Federated States of Micronesia and Palau) will be given an additional period of three years to sign the agreement. PICTA entered into force following ratification by six countries in April 2003.

South Pacific Regional Trade and Economic Cooperation Agreement

SPARTECA is a non-reciprocal trade agreement under which the two developed nations of the Pacific Islands Forum, Australia and New Zealand, offer duty-free and unrestricted or concessional access for virtually all products originating from the developing island members of the Forum. SPARTECA was signed by the majority of Forum members at the Forum’s Eleventh Meeting in Kiribati on 14 July 1980. It came into effect for most Forum countries as at 1 January 1981.

---

With the accession of new members to the Forum, the current list of signatories of SPARTECA includes Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The Agreement includes provisions for general economic, commercial and technical cooperation, safeguard provisions relating to dumped and subsidized goods and suspension of obligations, and provisions for general exceptions and revenue duties. The Agreement also provides for special treatment and assistance to be extended to the Smaller Island Countries, Cook Islands, Kiribati, Nauru, Niue, Samoa, Tonga and Tuvalu. However, to qualify for duty-free and unrestricted or concessional access benefits, goods exported to Australia and New Zealand must meet the rules of origin set out in SPARTECA.

PICTA provides some flexibility to least developed countries and small island countries but there is no specific enforcement authority to monitor the implementation part of the Agreement. Members are advised to solve disputes amicably. However, the final outcome of this Agreement depends much more on the member countries’ trade dynamics with Australia and New Zealand. The Forum Secretariat is working towards the harmonization of customs and WTO-related issues. PICTA does not deal with trade relations between Forum developing countries and Australia and New Zealand and hence it does not have any effect on SPARTECA. However, SPARTECA would not prevent developing countries from having FTAs among themselves. Already some efforts have been taken by some of those countries to pursue subregional cooperations, such as the Melanesian Spearhead Group Trade Agreement and the Cotonou Agreement.

**Melanesian Spearhead Group Preferential Trade Agreement**

The Melanesian Spearhead Group (MSG) Preferential Trade Agreement is a trade treaty governing the four Melanesian States of Papua New Guinea, the Solomon Islands, Vanuatu and Fiji (joined in 1998). The MSG Trade Agreement signed in 1993 is a subregional trade treaty established to foster and accelerate economic development through trade relations and provide a political framework for regular consultations and review on the status of the Agreement, aiming to ensure that trade is conducted in a genuine spirit of the Melanesian Solidarity and is undertaken on a most-favoured-nation basis. The MSG Trade Agreement is GATT consistent and has recently been approved and accorded recognition by the WTO Committee on RTAs. This Agreement covers over 180 Tariff lines of the Harmonised Systems (HS) of Customs Tariff Code. The MSG Trade Agreement is likely to include issues of intellectual property rights and trade-in-services in due course. During the Ninth MSG Trade and Economic Officials meeting in Port Moresby, Papua New Guinea (November 2000), members agreed to the expansion of the MSG Product Schedule tariff headings from four-digit to six-digit HS code, thereby facilitating MSG trade by removing the ambiguity in product identification at customs points of entry.

---

TRADE AGREEMENT IN SAARC

**SAARC Preferential Trading Arrangement**

SAPTA was signed in 1993 and its basic principles are:

- Overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
- Step-by-step negotiation of tariff reform, improved and extended in successive stages through periodic reviews;
- Recognition of the special needs of the least developed Contracting States and agreement on concrete preferential measures in their favour;
- Inclusion of all products, manufactured goods and commodities in their raw, semi-processed and processed forms.

The Agreement aims at reducing tariffs, para-tariffs and non-tariffs. Initially a product-by-product approach was suggested, for tariff reduction, but later an across-the-board reduction and a sectoral reduction were introduced. The Agreement has provisions for least developed countries safeguard measures and the possibility of withdrawal from the Agreement. It has a proper rules of origin clause and provision for a balance-of-payments crisis. It has been suggested that all disputes be resolved amicably through discussions.

Until now concessions have been provided for more than 5,000 products. In the first three rounds of reductions, product-by-product or chapter-wise concessions were provided. From the fourth round, an attempt was made to implement a steep reduction in tariff rates. Also, simultaneously, reductions in non-tariff barriers were suggested. The domestic requirement content for rules of origin has been revised downward. Consensus was reached regarding faster movement towards a South Asian free trade area during the Tenth SAARC Summit in 1998.\(^\text{10}\) SAFTA has been signed in Islamabad during the Twelfth Summit in 2004.\(^\text{11}\)

**INVESTMENT AGREEMENTS**

**ASEAN Investment Agreement (Promotion and Protection of Investments)\(^\text{12}\)**

The Agreement among the Governments of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand for the Promotion and Protection of Investments was signed in 1987:

---


\(^{11}\) Refer to box III.4.

This Agreement defines investment broadly. The term “investment” includes:

(a) Movable and immovable property and any other proper rights such as mortgages, liens and pledges;
(b) Shares, stocks and debentures of companies or interests in the property of such companies;
(c) Claims to money or to any activity performed under contract having a financial value;
(d) Intellectual property rights and goodwill;
(e) Business concessions conferred by law or under contract, including concessions to search for, cultivate, extract or exploit natural resources.

Under this Agreement, each Contracting Party shall, in a manner consistent with its national objectives, encourage and create favourable conditions in its territory for investments from the other Contracting Parties. All investments to which this Agreement relates shall be governed by the laws and regulations of the host country, including rules of registration and valuation of such investments. The Agreement also makes detailed provision for the protection of investments and the repatriation of profits and earnings with few exceptions. Any related disputes are to be resolved amicably. For prolonged disputes, arbitration may be sought, taking into consideration regional or international arbitration procedures and institutions. Through a Protocol in 1996, the Contracting Parties supported simplification of approval procedures for investment in the region.

Framework Agreement on the ASEAN Investment Area (1998)

This Agreement is the result of the joint efforts at liberalizing trade and promoting intra-ASEAN trade and investment flows enshrined in the Framework Agreement on Enhancing ASEAN Economic Cooperation, adopted in 1992. Its objectives are to establish a competitive ASEAN investment area with a more liberal and transparent investment environment among member States in order to achieve a sustainable increase in direct investment, by both members and non-members, to strengthen the competitiveness of the region and progressively reduce all barriers to investment so that national treatment can be offered to ASEAN investors by 2010 and to all investors by 2020 and so that all sectors are opened as well. The Agreement emphasizes the role of the business sector in achieving this goal and facilitating the freer flow of capital, skilled workers, professionals and technology among member countries. It ensures a faster process of facilitation, promotion and liberalization and provides safeguard options and emergency measures on difficult balance-of-payments situations. Disputes are to be resolved according to the ASEAN Protocol on Dispute Settlement Mechanism. The Agreement was followed by a Protocol in 2001.

ANNEX III.
Other important initiatives in the area of ICT

Asian Development Bank’s ICT initiatives

ADB recognizes that ICT is a powerful force in shaping the social and economic development of Asia and the Pacific. ADB will assist its developing member countries in using ICT to enhance the impact of its poverty reduction and other development activities by promoting ICT literacy, e-learning and awareness programmes and the development of ICT applications and information for ADB-supported activities.

Asia-Pacific Development Information Programme

The Asia-Pacific Development Information Programme is an initiative of UNDP which aims to promote the development and application of ICT for poverty alleviation and sustainable human development in the Asia-Pacific region. It has three core programmes: policy development and dialogue, access and content development and knowledge management. The Programme supports activities ranging from advocacy and capacity-building to promoting ICT policies and equitable access to tools and technologies. Its programmes rely on strategic public-private sector partnerships and opportunities for technical cooperation among developing countries.

Asia-Pacific Telecommunity

APT was established by ESCAP in 1979 as a regional telecommunication organization. It has been actively engaged in bridging the digital divide in the region, focusing on developing telecommunications. In 2000, it organized Asia-Pacific Initiatives for the Information Society. It also organizes training and seminars on human resources development in telecommunication sector development.

UNESCO’s regional initiatives

The UNESCO Asia and Pacific Regional Bureau for Education has launched a web site <http://www.unesco.org/bangkok/education/ict/index.htm> to promote the use of ICT for education, a recent phenomenon in Asia and the Pacific. The site serves as a portal for initiatives and experiences generated by the UNESCO project on ICT for education in Asia and the Pacific funded by Japanese funds-in-trust. It has explored different dimensions of ICT use in education, ranging from the integration of ICT into both formal and non-formal

1 See <http://www.apdip.net/>. 
education to the collection, processing and dissemination of innovative practices and successful approaches. It also serves as a clearing house for a wealth of resources arising from ICT-based education programmes throughout the region and elsewhere.

**Japan’s Regional Broadband Programme**

The Government of Japan launched this Programme in March 2003 to promote the application of broadband in the region. It will assist countries of the region in building national and regional information interchange carriers and connecting them to a regional broadband network. This will facilitate information exchange for trade, services, cultural exchanges and public domain applications such as e-government, e-learning, e-health and distribution of digital content through machine translation. The implementation of the Programme requires wide regional cooperation to create an enabling policy framework, ensure security, develop content and promote standardization.

**Asia-Pacific Multilateral Cooperation in Space Technology and Applications**

During the International Space Year in 1992, China, Pakistan and Thailand agreed to promote cooperation in space technology and applications in the Asia-Pacific region and to set up Asia-Pacific Multilateral Cooperation in Space Technology and Applications. One of the major programmes taking shape under this initiative is the Small Multi-Mission Satellite project involving Bangladesh, China, the Islamic Republic of Iran, Mongolia, Pakistan, the Republic of Korea and Thailand. The organization, whose secretariat is in China, is working on the establishment of the Asia-Pacific Space Cooperation Organization.

**Asia-Pacific Regional Space Agency Forum**

The Asia-Pacific Regional Space Agency Forum was set up in 1992 to mark the International Space Year. Its main purpose is to bring together space agencies in the Asia-Pacific region to exchange information on national space programmes and discuss the possibility of future cooperation. The National Space Development Agency of Japan plays a central role in planning and organizing the annual meeting of the Forum, including undertaking secretariat functions. The Forum has discussed cooperation in using space technology for monitoring disasters and environmental protection and satellite communication applications in information, space education and commercialization. The conclusions of the Forum’s meetings are non-binding.

**Asia-Pacific Satellite Communications Council**

The Asia-Pacific Satellite Communications Council was conceived at the United Nations Workshop on Space Communication for Development in the Asia-Pacific Region in 1992 and formally established in 1994. It coordinates
and implements satellite programmes that could meet the growing demand for satellite services in the Asia-Pacific region. The Council is a non-profit regional organization which aims to promote satellite communications and broadcasting in the region through regional cooperation among its members to enhance the social, cultural and economic prosperity of the region. It also seeks (a) to exchange views and ideas on policies, technologies, systems and services which have potential benefits for the region, (b) to accelerate the introduction of services via satellite and (c) to develop and broaden the national and regional satellite communication and broadcasting services of Asia-Pacific countries. The Council promotes cooperation among member countries to minimize technical or regulatory barriers and works towards expanding the impact of IT on development and promoting digital opportunities through the greater use of space technologies. The secretariat of the Council is hosted by the Republic of Korea.
ANNEX IV.
Regional strategy for ICT proposed by ESCAP

Policy, regulatory and legal framework

- Open and transparent competition policy to act as a driver for better-quality service and lower prices
- Investor-friendly to attract domestic and foreign investment by declaring the ICT industry a “priority” and providing preferential tariffs, interest rates on borrowed capital and other fiscal incentives
- Level playing field
- Regulatory and legal framework to boost confidence
- Universal access

Regional broadband network

- Providing for broadband interactive services
- Providing for Internet exchanges in countries in accordance with a regional master plan to be developed based on techno-economic and national considerations for the routeing of domestic and intraregional traffic
- Providing for a win-win situation for all stakeholders
- Providing for digital television broadcast and other multimedia services

E-readiness index

- Identifying and promoting the application of the agreed e-readiness index and relevant indicators for quantifying the digital divide

Security

- Developing network security policy at the national, regional and global levels
- Promoting data integrity and prevention of dissemination of viruses and hacking
- Encouraging the enactment of national cyberlaws and their regional harmonization and cooperation to build confidence, trust and security and prevent the use of ICT for terrorist purposes, transnational cybercrimes or other activities harmful to society
- Promoting international convention on the security of ICT networks and systems
- Promoting a regional/international convention to prevent the use of ICT for purposes incompatible with international stability and security
**Human resources development**

- Capacity-building for ICT and promotion of ICT literacy and skills
- Application of ICT to improve basic and advanced education
- Strengthening the institutions and networks for the production, acquisition, absorption and dissemination of knowledge products and services
- Building national capabilities to administer information systems and develop sustainable ICT projects
- Creation and dissemination of multicultural and multilingual content

**Research and development**

- Promotion and creation of technological incubators linked to universities and research centres
- Encouragement of R&D efforts for the development of low-cost terminals and related devices for IT access, new broadband access technologies
- Study of migration from IPv4 to IPv6
- Development of technologies especially suitable for disadvantaged people
- Standardization: based on platforms of internationally interoperable open system standards

**Language and culture**

- Promotion and development of multilingual translation software to permit all the world’s languages to be present and used on the Internet
- Preservation of cultural diversity:
  - Application of ICT in archiving
  - Production of content in local languages

_A handbook on good practices and success stories_ from the Asia-Pacific region to be prepared and reissued periodically as a permanent sharing exercise

**Governance of the Internet for domain name registration**

- Conducting a feasibility study and entrusting the work to a regional body, taking into account the concerns of national sovereignty, regional cooperation and global coordination

_Model ICT projects_ aimed at youth and gender equality objectives

- School-Net
- Text to Teach
Special programmes for least developed, landlocked and small island developing countries

Partnerships

- Global and regional digital compact to create a new pattern for partnership and interaction between Governments and non-governmental agencies, based on division of labour, specialized responsibilities and the identification of specific and common interests
- Innovative resource mobilization and other forms of ICT development projects
- Networks of e-centres of excellence to support ICTs in the region
CMI has two components: (a) an expanded ASEAN swap arrangement and (b) a network of bilateral swaps and repurchase arrangements among the 13 countries concerned.

In 1977, five ASEAN countries – Indonesia, Malaysia, the Philippines, Singapore and Thailand – agreed to establish the ASEAN Swap Arrangement, a short-term liquidity-support facility for participating countries suffering balance-of-payments difficulties. In May 2000, the arrangement was expanded to include the 5 new member countries under CMI, and the total amount of the facility was raised to $1 billion from the initial amount of $200 million.

The currencies available under the ASEAN Swap Arrangement are the United States dollar, the yen and the euro. The euro, yen and euro LIBOR interest rates are used as the base rates for swap transactions. Each member is allowed to draw from the facility a maximum of twice its committed amount for a period not exceeding six months, subject to extension for another period not exceeding six months.

ASEAN+3 agreed to a system of bilateral swap arrangements (BSAs) which provides a short-term facility for liquidity assistance in the form of swaps of dollars with the domestic currencies of the 13 participating countries. The maximum amount that can be drawn under each of the BSAs is determined in bilateral negotiations. However, it is expected that disbursements to a member requesting liquidity assistance would be made in a concerted manner through consultation among the swap-providing countries. One of these swap-providing countries then serves as the coordinator for the consulting process. The BSA agreement allows an automatic disbursement up to 10 per cent of the maximum amount of drawing. However, a country drawing more than 10 per cent from the facility is required to accept an IMF programme for macroeconomic and structural adjustments. In this sense, the BSA is complementary to IMF’s financial assistance.

Participating countries are able to draw from the BSA for a period of 90 days. The first drawing may be renewed seven times. The interest rate applicable to the drawing is LIBOR plus a premium of 150 basis points for the first drawing and the first renewal. Thereafter, the premium rises by an additional 50 basis points for every two renewals but it is not to exceed 300 basis points.

Repurchase (repo) agreements are used to provide short-term liquidity to a participating member through the sale and buy-back of appropriate securities. The basic features of repo agreements are finalized through bilateral negotiations.
between the contracting parties. The securities used for a repo agreement are United States Treasury Notes or Bills, with remaining maturities of not more than five years, and government securities of the counterpart country of the repo.

The term of a repo agreement is one week but can be extended on the termination value date by agreement between the contracting parties. The minimum amount for each repo transaction requested is 5 per cent of the total amount of the repo agreement. In each repo transaction, the buyer is given a margin of 102 per cent for United States Treasury Notes or Bills and 105 per cent for government securities of the counterpart country.
Many Asian bonds are likely to belong to the “junk-bond” category, according to the standards of the international bond markets. A large number of East Asian firms do not have credit ratings that are good enough to issue bonds in the domestic bond markets let alone the international bond markets. As a result, even under securitization schemes, the amount of funds that can be raised through senior bonds is likely to be quite limited. In order to increase the portion of securities that can be absorbed by the market, credit guarantees can be utilized. Credit guarantees on timely payment of interest and principal enhance the creditworthiness of bond issues because the issues with a full credit guarantee can acquire the credit rating of the guarantee agency. Credit guarantee agencies may provide coverage for the entire issue or a specific tranche.

Credit guarantees can be obtained from private credit guarantee agencies such as monoline and multiline insurance companies and from government agencies and international financial institutions. However, the existing credit guarantee agencies may not be suitable for providing credit guarantees for Asian bonds. For example, the Japan Bank for International Cooperation (JBIC) cannot provide credit guarantees for private corporations or special-purpose companies. JBIC can only guarantee bonds denominated in Japanese yen. ADB and JBIC are restricted from providing guarantees to bond issuers from advanced economies. As a result, regional securitization deals involving issuers from Japan or the Republic of Korea cannot obtain credit guarantee services from these official sector agencies.

Private credit guarantee agencies in general prefer dealing with credit risk alone and, as a result, are reluctant to provide currency swaps together with credit guarantees. More effective schemes for regional bonds may require currency swaps to overcome the currency mismatch problem in addition to credit guarantees. Private guarantee agencies might also have limited capacity to provide guarantees.

In order to provide credit guarantee services for Asian bond markets more efficiently, it would be useful to establish an international organization to provide regional credit guarantees. The operational mode (monoline or multiline) and the governance structure (an international agency or a private company) need to be discussed and negotiated. Such a regional guarantee agency might also provide currency swaps.
ANNEX VII.

Securitization of SME bonds

An example of the use of securitization to promote Asian bond markets is the two-tier securitization scheme for SME financing proposed by the Republic of Korea’s Ministry of Finance and Economy and Oh and Park. As shown in annex figure VII.1, this securitization scheme entails two steps in the securitization process: the first step takes place in each of the capital-importing countries and the second in the capital-exporting country.

In the first step, a local special-purpose company (SPC) is set up in each of the capital-importing countries to securitize SME loans or bonds. The loans and bonds to be collateralized may be denominated in the local currency in order to eliminate the currency mismatch problem. In order to minimize the moral hazard problem, the junior tranche bonds are absorbed by local institutions that are in charge of selecting the firms to be included in the collateralized loan obligation or collateralized bond obligation (CBO) pool. The senior tranche bonds are sold in the local bond markets and the remainder are transferred to the second SPC established in the capital-exporting country. The senior tranche bonds may be guaranteed by the local credit guarantee agency to increase their marketability.

In the second step of the securitization, the SPC established in the capital-exporting country issues CBOs using the senior bonds it acquired from SPCs located in the capital-importing countries as collateral. Once again, different tranches of bonds are issued to better satisfy the diverse preferences of investors. In order to further enhance creditworthiness and marketability, the senior tranche bonds may acquire credit guarantees.

The securities issued by the special-purpose company can be denominated in one of the international vehicle currencies, in the currency of the capital-abundant East Asian country, or in a basket currency unit, as proposed by Chaipravat and Ito. The underlying assets can be expanded to include non-performing loans, project bonds and government bonds.

Of course, there is a cost in overcoming the maturity/credit mismatch problem through securitization. Whereas senior bonds acquire better credit risk profiles, subordinated bonds have to absorb the remaining credit risks, thereby becoming unattractive. In addition, there are various charges, including underlying fees, legal fees, custodian fees and so on.

The interest cost to be borne by the issuers participating in a CBO scheme depends on the proportion of the subordinated tranche and the price at which subordinated bonds are disposed of. To see how the issuer cost is determined, it is worth examining a simple case of a one-tier CBO scheme, as shown in annex figure VII.2. For the sake of simplicity, it is assumed that the underlying asset pool consists of only one-year yen-denominated bonds issued by 100 BB-rated firms, each raising 100 million yen. The most important element in designing a securitization deal is the target credit rating of the senior bonds. In order to create higher-rated senior bonds out of a given asset pool, the portion of the senior tranche should become smaller. Since it is the credit-rating agencies that determine the rating of the senior bonds, the same criteria as those used by credit-rating agencies are also applied in designing a securitization structure. If we follow the rating criteria of Fitch IBCA, Inc., the proportion of the senior tranche should not exceed 73 per cent in order to create an A-rated senior tranche out of a well-diversified asset pool with an average rating of BB. That means at least 27 per cent of the bonds issued must belong to the subordinated tranche.4

Suppose that the proportion of the senior tranche is 73 per cent and that the annual market yield on A-rated yen-denominated bonds is 2.5 per cent. Then, the interest rate each issuer has to pay depends on the price at which the subordinated bonds are disposed of. To see how the issuer cost is determined, it is worth examining a simple case of a one-tier CBO scheme, as shown in annex figure VII.2. For the sake of simplicity, it is assumed that the underlying asset pool consists of only one-year yen-denominated bonds issued by 100 BB-rated firms, each raising 100 million yen. The most important element in designing a securitization deal is the target credit rating of the senior bonds. In order to create higher-rated senior bonds out of a given asset pool, the portion of the senior tranche should become smaller. Since it is the credit-rating agencies that determine the rating of the senior bonds, the same criteria as those used by credit-rating agencies are also applied in designing a securitization structure. If we follow the rating criteria of Fitch IBCA, Inc., the proportion of the senior tranche should not exceed 73 per cent in order to create an A-rated senior tranche out of a well-diversified asset pool with an average rating of BB. That means at least 27 per cent of the bonds issued must belong to the subordinated tranche.4

Suppose that the proportion of the senior tranche is 73 per cent and that the annual market yield on A-rated yen-denominated bonds is 2.5 per cent. Then, the interest rate each issuer has to pay depends on the price at which the subordinated bonds are disposed of. To see how the issuer cost is determined, it is worth examining a simple case of a one-tier CBO scheme, as shown in annex figure VII.2. For the sake of simplicity, it is assumed that the underlying asset pool consists of only one-year yen-denominated bonds issued by 100 BB-rated firms, each raising 100 million yen. The most important element in designing a securitization deal is the target credit rating of the senior bonds. In order to create higher-rated senior bonds out of a given asset pool, the portion of the senior tranche should become smaller. Since it is the credit-rating agencies that determine the rating of the senior bonds, the same criteria as those used by credit-rating agencies are also applied in designing a securitization structure. If we follow the rating criteria of Fitch IBCA, Inc., the proportion of the senior tranche should not exceed 73 per cent in order to create an A-rated senior tranche out of a well-diversified asset pool with an average rating of BB. That means at least 27 per cent of the bonds issued must belong to the subordinated tranche.4

4 The proportion of the subordinated tranche for a concentrated asset pool must be larger than that for a well-diversified asset pool.
subordinated bonds are disposed of. For example, the interest rate equals 7.6 per cent if the subordinated bonds are sold at a 20 per cent discount. At a 50 per cent discount, the interest rate goes up to 18 per cent.

The proportion of the subordinated tranche can be reduced by purchasing credit guarantees. For example, the proportion of the junior tranche can be reduced to 10 per cent if a partial guarantee is applied to the senior tranche up to the amount of 1.7 billion yen or 17 per cent of the total amount of CBOs issued. The use of credit guarantees, however, does not necessarily reduce the cost to the issuer. If the market is efficient, the credit guarantee fee will equal the difference in the yields of the senior bonds and the subordinated bonds. Credit guarantees, however, make it easier to dispose of the subordinated bonds. In many CBO deals, it is usually the issuers that absorb the subordinated bonds that cannot be absorbed by the market. By absorbing the subordinated tranche, issuers expose themselves to credit risk. Decreasing the size of the junior tranche through the use of credit guarantees reduces the credit risk issuers have to bear.

There are, however, a few stumbling blocks in making use of securitization schemes to develop Asian bond markets. First of all, there are wide differences in the legal frameworks for securitization among East Asian economies. For example, while the common practice of Hong Kong, China; Singapore; and Malaysia that acknowledges trusts already provides the institutional foundation required for securitization, civil law countries need to enact a securitization law that recognizes the true-sale nature of the transactions between asset originators.
and special-purpose companies and grants pass-through status to special-purpose companies. Other stumbling blocks can be found in different accounting standards and tax treatments for special-purpose companies in different countries. With the exceptions of Japan; the Republic of Korea; Hong Kong, China; and Singapore, issuers and investors are not familiar with securitization schemes. The scarcity of a previous record or historical performance data is also a stumbling block for the success of securitization deals in the region.
READERSHIP SURVEY

The Poverty and Development Division of ESCAP is undertaking an evaluation of this publication, Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation, with a view to making future publications more useful for our readers. We would appreciate it if you could complete this questionnaire and return it, at your earliest convenience, to:

Chief
Poverty and Development Division
ESCAP, United Nations Building
Rajadamnern Avenue
Bangkok 10200, THAILAND

QUESTIONNAIRE

<table>
<thead>
<tr>
<th></th>
<th>Excellent</th>
<th>Very good</th>
<th>Average</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Please indicate your assessment of the quality of the publication with regard to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• presentation/format</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>• readability</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>• timeliness of information</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>• coverage of subject matter</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>• analytical rigour</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>• overall quality</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

2. How useful is the publication for your work?

• provision of information         | 4         | 3         | 2       | 1    |
• clarification of issues          | 4         | 3         | 2       | 1    |
• its findings                     | 4         | 3         | 2       | 1    |
• policy suggestions               | 4         | 3         | 2       | 1    |
• overall usefulness               | 4         | 3         | 2       | 1    |

3. Please give examples of how this publication has contributed to your work:

----------------------------------------------------------------------------------------
----------------------------------------------------------------------------------------
----------------------------------------------------------------------------------------
----------------------------------------------------------------------------------------
4. Suggestions for improving the publication:

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

5. Your background information, please:

Name: ................................................................................................................................
Title/position: ..................................................................................................................
Institution: .......................................................................................................................
Office address: ................................................................................................................

Please use additional sheets of paper, if required, to answer the question.
Thank you for your kind cooperation in completing this questionnaire
Globalization has been a complex and uneven process. Several countries in the Asia-Pacific region have reaped substantial benefits, but many others, particularly the least developed, have been left behind. The fundamental vision of the United Nations Millennium Declaration is that better management of globalization is central to achieving the Millennium Development Goals. This study examines the state of globalization and regional cooperation in the Asia-Pacific region, focusing on four areas that are the key driving forces in globalization.

- Trade
- Finance
- Transport
- Information and communication technology

The study explores how regional cooperation in these areas can help to make globalization a positive force for all people. In the spirit of the Monterrey consensus, it reviews a number of recent initiatives: the growing array of preferential trade agreements, the Asian Bond Market proposals, the Digital Solidarity Agenda, the Asian Highway and the Trans-Asian Railway.

The study poses the questions: Can the European Union model work for Asia-Pacific integration? How can better synergy be achieved by regional cooperation arrangements such as ASEAN, ASEAN+3, ECO, the Pacific Islands Forum Secretariat and SAARC? How can regional cooperation help countries to integrate with the global economy?

In this way the study guides stakeholders to address the policy dilemmas in managing globalization.