Economic and Social Commission for Asia and the Pacific

Development through globalization and partnership in the twenty-first century:

an Asia-Pacific perspective for integrating developing countries and economies in transition into the international trading system on a fair and equitable basis

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FOREWORD

Over the last two decades, globalization has accelerated, affecting political, social, cultural and economic aspects of life in numerous ways and making national economies increasingly integrated and interdependent. The process of globalization has led to phenomenal surges in international trade and investment accompanied by rapid advances in information systems, technology, communications and transport networks. Increased trade and capital flows have generated gains in productivity and efficiency that have spurred economic growth. However, integration into the world economy comes with potential costs. For instance, increased reliance on volatile international capital flows can be a source of instability, as witnessed recently in Asia.

Some developing countries have oriented their development strategies so as to benefit from the vast opportunities created by the world trading system and globalization. Many developing countries, however, find it extremely difficult to integrate effectively into the world trading system on a fair and equitable basis. In order to develop a trading system that is truly global, it is imperative for these countries to become an integral part of the system without being further marginalized.

In view of these concerns, the Commission had decided that the theme topic for the fifty-sixth session should be "Development through globalization and partnership in the twenty-first century: an Asia-Pacific perspective for integrating developing countries and economies in transition into the international trading system on a fair and equitable basis". The present publication has been prepared by the secretariat to guide policy deliberations on the topic. The study demonstrates that a major policy challenge for developing countries today is how to manage globalization by designing and adopting an appropriate set of policies to ensure that a country can seize the new opportunities created by globalization while minimizing the inevitable costs. At the same time, policy reforms in developing countries need to be complemented by supportive policies in both developed countries and in international institutions.

The achievements of multilateral trade liberalization initiatives under the World Trade Organization (WTO) have remained far short of the initial expectations. Developing countries in the region, in particular the least developed countries, Pacific island countries and other small economies continue to experience difficulties in implementing their WTO commitments and in realizing the expected benefits from participation in the international trading system. From the viewpoint of these countries, there is a wide-ranging "unfinished agenda" for the next round of multilateral trade talks.

The study also examines the roles of regional preferential trading arrangements, trade facilitation and electronic commerce as well as transport in facilitating the integration process. The study shows that regional trading arrangements can be viewed as building blocks in a broader trade liberalization strategy. With regard to regional trading arrangements which have not yet achieved considerable results in terms of regional/subregional trade liberalization, lessons can be learned from the relatively advanced arrangements in the region. Trade facilitation measures in the form of harmonizing and simplifying the micro aspects of individual trade transactions are a necessary accompaniment to trade policy reforms. For small and medium-sized enterprises, procedural obstacles impede trade far more than tariff barriers. Information technology, with techniques such as electronic data interchange, the Internet and the World Wide Web can play an important role in removing these obstacles. But first, developing countries need to improve their information technology infrastructure in order to take advantage of these facilities. In the area of transport, the maritime sector has so far been the prime facilitator of trade flows of countries in the region. International sea routes and ports alone, however, cannot facilitate the development of the hinterlands, which, for most developing countries in the region, provide great potential for future growth. This will be achieved only when adequate road, rail and inland water transport infrastructure is developed and the process of intermodal (sea-land) transport is fully integrated and institutional bottlenecks are removed.

Adrianus Mooy
Executive Secretary

Acronyms and abbreviations

ABAC	APEC Business Advisory Council
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AMS	Aggregate measurement of support
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting
ASYCUDA	Automatic System for Customs Data
ATLA	Accelerated Tariff Liberalization Initiative
ATMs	Automated teller machines
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BIMST-EC	Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation
CCI	Chamber of Commerce and Industry
CEPT	Common External Preferential Tariff
CER	Australia New Zealand Closer Economic Relations Trade Agreement
CIF	Cost, insurance, freight
DSB	Dispute settlement body
EABC	East Asian Business Council
ECE	Economic Commission for Europe
EC	European Community
ECO	Economic Cooperation Organization
Ecotech	Economic and technical cooperation
EDI	Electronic data interchange
EFTA	European Free Trade Association
EPNPs	Environmentally preferable natural products

ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
EVSL	Early sectoral voluntary liberalization
FDI	Foreign direct investment
FAK	Freight all kind
FICs	Forum island countries
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GMS	Greater Mekong subregion
GNP	Gross national product
GSP	Generalized system of preferences
GST	Goods and services tax
GSTP	Global System of Trade Preferences among Developing Countries
GWP	Gross world product
HCI	Heavy and chemical industries
HIAPs	High-value, income-elastic agricultural products
HS	Harmonized system
ICAO	International Civil Aviation Organization
ICT	International communication technology
IF	Integrated Framework
IMF	International Monetary Fund
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
IMO	International Maritime Organization
IORARC	Indian Ocean Rim Association for Regional Cooperation
IPRs	Intellectual property rights
ISO	International Organization for Standardization
ISPs	Internet service providers
IT	Information technology
ITA	Information Technology Agreement
ITC	International Trade Centre UNCTAD/WTO

ITU	International Telecommunication Union
JBC	Joint Business Council
MATGs	Multilateral Agreement on Trade in Goods
MERCOSUR	Mercado Comun del Sur
MFA	Multifibre Arrangement
MFN	Most-favoured nation
MRA	Mutual recognition arrangement
MSG	Melanesian Spearhead Group
NAFTA	North American Free Trade Agreement
NIEs	Newly industrialized economies
NTBs	Non-tariff barriers
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PAFTA	Pacific Free Trade Area
PARTA	Pacific Regional Trade Agreement
PBF	Pacific Business Forum
PCs	Personal computers
PSA	Port of Singapore Authority
PSTN	Public switched telephone network
QRs	Quantitative restrictions
R&D	Research and development
REPAs	Regional Economic Partnership Agreements
RTAs	Regional trading arrangements
S&D	Special and differential
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SAPTA	South Asia Preferential Trading Arrangement
SCCI	SAARC Chambers of Commerce and Industry
SMEs	Small- and medium-sized enterprises

SNS	Singapore Network Services
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS	Sanitary and phytosanitary measures
TAR	Trans-Asian Railway
TBT	Technical barriers to trade
TEU	Ten-foot-equivalent unit
TNCs	Transnational corporations
TRIMs	Trade-related investment measures
TRIPs	Trade-related aspects of intellectual property rights
TTFA	Transit Transport Facilitation Agreement
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VERs	Voluntary export restraints
WCO	World Customs Organization
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Introduction

Globalization, or the deepening structural interdependence of the world economy, has been one of the most discussed subject in the development policy debate during the last two decades of the twentieth century and is bound to influence thinking and policy making in the new millennium. Government actions in the sphere of trade and financial market liberalization coupled with technological developments in production, transportation and communication have led to unprecedented specialization in international production, with production patterns changing to exploit comparative advantage on a world-wide scale in all stages of production processes. Through a high degree of market integration, globalization is shaping a new environment that has direct bearing on consumption patterns, business behaviour and the overall level of economic welfare of the nation. These changes are encapsulating and reconfiguring the nature of the economic space, with many profound, and still unfolding, implications for development policy and governance in the nation-state.

Globalization has created vast new opportunities for developing countries to make economic and social progress. The ability to import ideas, investment goods, and intermediate inputs from more advanced countries can boost economic growth. Increased trade and capital flows have generated gains in productivity and efficiency that have spurred growth and created jobs. Access to foreign capital markets can help countries circumvent the traditional obstacle to rapid growth created by limited domestic savings.

Becoming integrated into an increasingly interdependent world economy also has significant potential costs, however. For instance, increased reliance on volatile international capital flows can be a source of instability, as witnessed in some parts of Asia recently. There can be social costs as some individuals or social groups who are not equipped to take advantage of the new opportunities and the challenges created by global integration risk becoming marginalized. A wide range of important, complex forces of push and pull are having a continual impact on all countries, firms, workers, social groups and regional entities. These impulses and imperatives do not always operate in the same direction, or mutually reinforce each other in their implications or impact. Frictional costs resulting from these conflicting forces can be very high.

Globalization is a process driven by fundamental economic forces that cannot be tamed through government decisions so that only the benefits are reaped while avoiding bad aspects. Any attempt to steer globalization or halt it by resorting to protectionism would have detrimental effects on overall levels of welfare. The challenge, therefore, is how to manage globalization, design and adopt sets of policies to ensure that a country can seize new opportunities created by globalization, while protecting itself from the inevitable costs (Rodrik, 1999; UNDP, 1999, pp. 29-39).

At the same time, benefits from globalization should be viewed as potential benefits that will only be gained if countries have appropriate policies and institutions. There is no single set of such policies and institutions, but history has shown a number of styles of capitalism or development strategies that can work successfully. Certain ingredients of countries' policies may have made openness work, namely macroeconomic stability and high investment rates, but details and institutions may vary according to cultural and historical differences. Indeed, the capacity of countries to make openness work varies. Countries with greater social divisions, associated with ethnic, regional or income differences are more likely to find it difficult to cope with pressures associated with external shocks.

Developing countries of the Asian and Pacific region have been participating actively in the global economy, although levels and pace of integration differ owing to the wide diversity of their economic, social and political circumstances. The more industrialized East Asian economies have become almost fully integrated into the world economy and have benefited from globalization. South-East Asian countries are on their way to successful integration, but their outcomes have been more mixed. Other developing countries in the region have used liberalization reforms to speed up the pace of their integration, although by no means does it have the depth and scope seen in East and South-East Asia. On the other hand, least developed countries, the Pacific island countries and the economies in transition have remained consistently outside the mainstream of integration.

This study seeks to develop a regional perspective on the issues related to development through globalization and partnership. This is done by examining policy challenges faced by developing countries and the economies in transition of the Asian and Pacific region with respect to their integration into the world trading system on a fair and equitable basis. More specifically, it charts the way forward in a global age by studying the contours of the new landscape and distilling some lessons from the past with a comparative global perspective.

A number of questions and issues need to be considered. What, for example, are the new opportunities for development and social advancement created by the increasing mobility of production processes, assets, knowledge and information? What are the potential economic and social costs involved? What is the role of transnational corporations (TNCs) in the process of integrating countries into a rapidly changing global economy? What kinds of policies require re-evaluation as governments seek to maximize net gains from greater global integration? What is the proper role for multilateral, regional and non-reciprocal trade liberalization initiatives in facilitating the economic transformation in developing countries through greater integration and global partnership? The study aims to shed light on these and related issues from Asian and Pacific perspective, informed by a sizeable body of literature in this subject area.

The contents of each chapter are briefly highlighted here with a focus on the main features and key inferences of each chapter.

Chapter I provides a broad picture of deepening globalization in the world economy, the post-war development experience of developing economies in Asia and the Pacific, the policy choices for these countries in a global age and the salient features of the international context for national development policy. The analysis in this chapter outlines the contours of the new global landscape and the underlying technological and communication revolutions in order to underscore the fact that by and large globalization is a mixed blessing for nation-states. The process creates ample opportunities for rapid growth and social advancement, but potential costs and uncertainties are considerable. The net outcome thus depends on the ability of the government to design and adopt a set of policies that will ensure that a country can seize new opportunities created by globalization, while minimizing the inevitable costs. In sum, the transition from a controlled regime to an open trade regime is by no means smooth sailing. On the one hand, the scope, sequence, timing and pace of implementation of various sectoral policies are as crucial as they are complex. In addition, the policies are far from identical and do not carry the same weight among the diverse countries or sectors concerned. Finally, the chapter notes three key developments on the international policy scene: (1) the emergence of a new rule based trading system under the World Trade Organization (WTO), (2) the recent re-examination of the so-called "Washington Consensus", and (3) soul searching following the outbreak of the Asian crisis. These developments have started to create a more conducive setting for national development policy making.

Chapter II examines the role that the WTO can play in the process of global integration for developing countries, with an emphasis on the implementation and effectiveness of various WTO agreements. The formation of the WTO process helped raise the hopes of developing countries that the new trade rules and the institutional setting would enable them to accelerate their economic growth and increase their participation in the world trading system. The analysis in this chapter, however, vividly demonstrates that the achievements to date remain far short of these expectations. Developing countries, particularly the least developed countries, Pacific island countries and other small economies in the region continue to experience difficulties implementing their Uruguay Round commitments and capitalizing fully on the benefits they expect to derive from participation in the international trading system. Their comparatively weaker position in relation to developed countries puts these countries at a considerable disadvantage as participants in a multilateral trading system based on reciprocity and mutual benefit. The chapter draws attention to a wide range of issues on an unfinished agenda, which needs to be pursued at the next round of trade talks with a view to enhancing the quality of integration of the poorer countries into the multilateral trading system. If negotiations follow historical patterns of hard bargaining motivated by special interests within developed countries giving too little attention to the interests of the developing countries, the next round could end by strengthening those in the developing world who resist outward orientation and market-oriented reforms.

Chapter III discusses regional trading arrangements (RTAs), generalized system of preferences (GSP) and other non-reciprocal arrangements that affect global integration as they relate to countries in the Asian and Pacific region. In theory, the advantage of these alternative approaches is that they make it less time-consuming and less complicated to work out mutually agreed on arrangements involving neighbouring countries, instead of the full WTO membership. These arrangements can also play a role in trade facilitation and productive government-private sector partnerships in trade and investment expansion. However, in a context of rapid global integration, these initiatives tended to lose their relevance because of the fact that growth through globalization essentially implies a transition away from a narrow regional policy focus to a wide global focus on reaping gains from multilateral interaction at the global level. Therefore, RTAs should be viewed as only stepping-stones to multilateral market opening under the auspices of the WTO. The relevance of GSP schemes and other non-reciprocal arrangements for the international trade diplomacy of countries in the region (and presumably all developing countries) has diminished rapidly in recent years in the context of the ongoing process of multilateral trade liberalization.

Chapter IV examines the role of trade facilitation for integrating developing countries into the global trading system. Emphasis is given to the important fact that trade facilitation measures can harmonize and simplify the detailed, micro aspects of individual trade transactions and these must necessarily accompany wider, macro level trade policy reforms aimed at global integration for national economies. Information technology, with techniques such as electronic data interchange, the Internet and the World Wide Web, can play an important role. Applying the new technology to overcome major trade procedural bottlenecks can save considerable time and money. However, the chapter must end with a caveat. Developing countries obviously risk being excluded from the global mainstream unless their private and public sectors embrace modern information technology. Developing countries first need to find ways to improve their information technology infrastructures in order to take advantage of the opportunities offered by the Internet. However, those countries just beginning to use computers need not wait until the entire infrastructure has been set up to support information technology before initiating trade facilitation measures. These countries need to immediately begin work to make existing trade procedures simple and transparent. This is not only important for firms that want to participate in the global marketplace. It is also a precondition for the successful automation of trade-related procedures, because information technology is a tool that can contribute more to trade facilitation when used in conjunction with prior simplification and harmonization of procedures.

Chapter V addresses the important role of transport for global integration of countries in the Asian and Pacific region. The current state of transport networks is considered along with the policy actions and reforms required to facilitate the ongoing process of economic transformation and the fair distribution of gains among countries and within each country. The region has an impressive record in the maritime transport sector and these developments have played a key role in facilitating integration of regional economies into the multilateral trading system. However, international sea routes and ports alone cannot facilitate the development of the hinterlands, which provides great potential for future growth in most developing countries. Development will only be achieved when adequate road and rail transport infrastructure is developed and intermodal (sea-land) transport is fully integrated and institutional bottlenecks are removed. If trade liberalization can open new markets for developing countries, efficient transport systems and routes will connect domestic producers with these markets. Transport costs are not the only consideration. Timely delivery and quality of services are essential elements determining the global competitiveness of products.

I. GLOBALIZATION, DEVELOPMENT AND THE MULTILATERAL TRADING SYSTEM

A. Background

This chapter aims to provide a broad-brush picture of the deepening globalization of the world economy, a general review of the post-war development experience in countries of Asia and the Pacific, the policy choices for these countries in a global age and the salient features of the international context for national development policy. The main purpose of the chapter is to place the key issues discussed in the subsequent chapters in a broader perspective. Given that the economics of globalization has been discussed extensively, the focus here is primarily on globalization and partnership through merchandise trade and investment flows.[1]

The discussion in this chapter is structured in five parts. The first part provides a historical perspective on trends and patterns of globalization and development, with an emphasis on the contours of the new landscape. The second part reviews the influence of major advances in transport, information and communication technologies as underlying forces that have changed the nature and patterns of global production and competition. The third part describes the key features of development through globalization in the Asian and Pacific region. The fourth part presents policy options for growth through global integration and advocates that options should be based on structural transformation through upgrading and diversifying the agricultural and manufacturing base. The view is taken that this approach to structural transformation could be appropriate for least developed countries, Pacific island countries and economies in transition provided that certain prerequisites and ancillary conditions are also addressed. The fifth part surveys recent developments in the international context for national policy making. Finally, the concluding remarks bring together the key inferences and suggestions for future policy action.

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[1] Recent significant contributions include UNDP, 1999; ADB, 1999; IMF, 1998c and 1999; UNCTAD, 1996a, 1998a and 1998b; Stiglitz, 1998b; Watkins, 1997; Rao, 1997; and Rodrik, 1998b.

B. Trends and patterns of globalization

Globalization is not novel or unprecedented in its scale and scope in world history. The period from the mid-nineteenth century to the First World War was a time of rapid international exchanges, with trade shares in gross domestic product (GDP) of a number of industrial countries exhibiting levels equal to or even higher than those at the end of the twentieth century (Dunning, 1994; UNCTAD, 1997a; Irvin, 1996; Baker *et al.*, 1998; and O'Rourke, 1999). During both periods, expanding foreign trade and large flows of people and capital across regions and borders were the key dynamics on the economic landscape. But there are indications that the process of globalization over the last three decades of the twentieth century has been fundamentally quicker and more far reaching in its global geographic coverage than the earlier period.

1. Trade expansion

During the first wave of globalization in the nineteenth century, the rising share of merchandise exports in output reached a peak at 12.9 per cent of western developed countries' GDP in 1913. This ratio was not surpassed until the 1970s or early 1980s. From the early 1980s to the mid-1990s, the proportion of exports to output went from about 12 per cent to 17 per cent. As shown in table 1, over the last few decades, trade has consistently grown faster than production indicating an increasing trade orientation in the world economy.

One striking feature of the second wave of globalization is the structural shift in developing countries' exports. The relative share of manufactures in total merchandise exports increased from just over 28 per cent in 1975 to 47 per cent in 1985 and to 83 per cent in 1995.[2] In comparison, for 1913, the estimated figure of manufactured exports (or new technology exports as they were called) from developing countries, including Japan, ranged from 10 to 19 per cent of their export earnings. The emergence of super-traders, that is, economies whose export and re-export values constituted a high

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[2] The major global exporters of manufactured products include Brazil; Hong Kong, China; China; Malaysia; Mexico; Republic of Korea; Singapore; Taiwan Province of China; Thailand; Turkey and the former republics of Yugoslavia.

Table 1. Index of world merchandise exports and gross domestic product, 1950-1997 (Index 1990 = 100)

	Exports (in volume terms)	World GDP
1950	9	19
1960	18	30
1970	41	50
1980	68	74
1990	100	100
1991	104	101
1992	109	102
1993	113	103
1994	124	105
1995	136	107
1996	144	110
1997	159	114
1998	166	116

Source: Based on WTO, *Annual Report 1999,* International Trade Statistics, p. 11.

proportion of their GDP, was also notable. By the mid-1990s, there were at least six economies with exports equivalent to at least one-half of their total output; while gross exports from Hong Kong, China; and Singapore have long exceeded their GDP (Krugman, 1995).

The rising trade in services, with information technology dramatically expanding the boundaries of tradability over the past two decades, has been unprecedented in world history. For example, many leading international software companies have set up software design and production operations in low-wage countries with a considerable human-capital base, such as India and the Philippines. Modern telecommunications services transmit not only frequent messages, but in a sense entire cultures, across the globe at a touch on the keyboard.

2. Labour mobility

International labour mobility is a key facet of economic transformation in both waves of globalization, but global labour markets were generally more integrated in the first wave. Between the late nineteenth century and the early part of the twentieth century, there was substantial mobility of persons in all skill categories. Flows came from within and outside Europe to North America, Australasia and southern Africa, as well as to a lesser extent, the colonial territories in Asia, Africa and the Pacific. In absolute terms, these large numbers have not been surpassed since. They served to raise real wages in the source countries by 28 to 32 per cent and lower wages in the destination economies by 8 to 21 per cent (Aghion and Williamson, 1998; O'Rourke, 1999:151).

Global labour markets remained disintegrated during the post-war period, due to restrictive immigration policies and other barriers. On the other hand, progress in transport and international communication technology (ICT) have been combined with advances in miniaturization of components and parts, which has reduced the need for mass migration of low-skilled workers in many economic activities. However, there has been significant increase in cross-border flows of skilled and professional personnel (the so-called brain-drain) from developing countries to developed countries. There has been increased migration of blue-collar workers, mostly in the form of contract migration from labour-surplus countries to labour-scarce rapidly growing economies in the developing world.

From the early 1970s, there has been considerable outflow of blue-collar workers from surplus labour countries in the Asian and Pacific region to the oil-rich countries in the Middle East. Since the mid-1980s there has been an unprecedented rise (interrupted temporarily by the recent Asian financial crisis) in labour migration within the region. Japan and other high-performing East Asian countries and areas[3] have begun to absorb an increasing volume of foreign workers, mostly from other countries in the region at earlier stages of demographic and economic transition. By the

[3] High performing Asian countries refers to the first-tier of newly-industrialized economies (NIEs), namely, Hong Kong, China; Singapore; the Republic of Korea and Taiwan Province of China, and a second-tier NIEs (Malaysia, Thailand and Indonesia).

mid-1990s, migrant workers accounted for over one fifth of the total labour force in Singapore and Malaysia, over 10 per cent in Hong Kong, China and 6 per cent in Thailand (Athukorala, Manning and Wickramasekara, 2000 and Athukorala and Manning, 1999).

Workers' remittances have been an important source of foreign exchange earnings for many countries, including a number of countries in Asia and the Pacific (South Asia, South-East Asia, East Asia, and the Pacific islands). There are inevitable tradeoffs related to labour mobility, and issues have been raised about the adequacy of such inward remittances in relation to the wide range of economic and social opportunity costs for the source countries.[4]

3. Capital mobility

There were massive flows of capital from the countries of Western Europe to the newly-settled regions in the late nineteenth century and early twentieth century, supported by the gold standard in effect from the 1870s in many parts of the world (Nurkse, 1944). A large portion of the external capital was channeled into bonds and other securities to finance infrastructure development and government debt. In the pre-1913 era, while British investors were interested in overseas business opportunities, 50 to 60 per cent of French and German capital outflows were directed to the northern European periphery, notably Sweden. At its peak, external capital outflows reached 8 to 9 per cent of the gross output of several countries, and this was much higher than the current accounts imbalances, typically averaging about 2 per cent of industrialized countries' GDP in the 1990s. However, international capital markets disintegrated from the early 1910s until the mid-1960s. Tight capital controls prevailed in the industrial economies during the post-war reconstruction and rehabilitation period until the early 1970s. Then a process

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[4] In absolute terms, the major recipients of inward remittances are Bangladesh (averaging US$ 1.4 billion a year from 1995 to 1997); China (US$ 2.1 billion); India (US$ 8.3 billion); Indonesia (US$ 0.7 billion); Pakistan (US$ 1.6 billion) and the Philippines (US$ 0.7 billion). Although the amounts are much smaller, remittance inflows are an important source of foreign exchange earnings for several Pacific island economies. However, the economic costs from losing skilled and professional workers may not be entirely compensated by remittance inflows. A significant portion of remittances may be spent on conspicuous consumption or invested in unproductive domestic assets with a considerable element of speculation as well, such as real estate.

of liberalization was initiated and continued into the early 1990s (IMF, 1997:60-61, 113-114).

Private capital flows to developing countries picked up sharply from the early 1980s and the net inflows reached US$ 200 billion in 1996, which was about six times higher than the annual average inflow during 1983-1989. At first, official development assistance (ODA) accounted for more than half of all external resource flows to developing countries. From the early 1980s, the structure of external resource flows to developing countries was transformed dramatically, with equity investment and portfolio capital becoming the dominant components. By 1997, that share had dropped to just 15 per cent, implying an annual decline of 3 per cent in nominal terms between 1990 and 1997.

These recent trends reflect in part the liberalization of financial markets in both the source and recipient countries. They also mirror the growing importance of transnational business opportunities as well as supply linkages. Most notably, however, foreign direct investment (FDI) has been heavily concentrated in a small number of developing countries, with those in the Asian and Pacific region and the East and South-East Asian economies in the region absorbing the largest share of such resources. The gross flow of FDI to developing countries, for example, went from an annual average of US$ 22 billion during 1984-1989 to US$ 139 billion by 1996-1997. The developing countries and areas of the Asian and Pacific region accounted for 45 per cent of these annual flows during 1984-1989 and 59 per cent during 1996-1997. For all practical purposes, the flows were almost totally directed to developing economies in East and South-East Asia (95 per cent and over 90 per cent, respectively). Among the recipients, however, China has had the largest share of the resources, with US$ 2.3 billion (or 23 per cent of the total) annually during 1984-1989, and US$ 53 billion (or 43 per cent) in 1996-1997. Following their economic reorientation and policy liberalization, India and Viet Nam have become important hosts of FDI since the early 1990s. India has been the destination for about US$ 2.8 billion and Viet Nam received US$ 1.7 billion a year over 1996-1997 (UNCTAD, 1998b:364).

Meanwhile, the global and regional financial markets are becoming increasingly interconnected and integrated, although such integration is typically confined to heavily-traded liquid financial assets. A troubling feature of these new flows is that they are largely independent of performance of the real economy. They are enormously volatile by virtue of their increasingly sophisticated and innovative packaging, global connectivity, and real-time mobility in markets of less than perfect information (Sassen, 1999:87). Views in financial markets can change with astonishing speed and with devastating implications for the recipient countries. This is evident from the breaching of the Exchange Rate Mechanism in 1992, the collapse of the Mexican peso in 1994 and the exchange rate crisis in many parts of East and South-East Asia in 1997. On the other hand, government power to intervene in financial market has become more limited.[5]

Despite the rapid growth of capital inflows, domestic savings still account for the major share of capital formation in East and South-East Asian countries and areas. For instance, during 1985-1996 the share of FDI in gross fixed capital formation in these countries was less than 10 per cent. In addition, through cumulative economic growth and learning-based diversification, high-performing economies in the region have become important sources of surplus capital in their own right since the early 1990s. Such investible resources have been externalized profitably both within and outside the Asia-Pacific developing region.

C. Globalization: underlying forces and new opportunities

Significant advances in transport and international communication technology have been the major push factors behind both the first and the current wave of globalization.[6] The current wave of globalization is, however, considerably different in terms of the intensity of the advances and the vast coverage of countries and actors involved. The technological progress has

[5] The average daily turnover of global trading in foreign exchange markets was almost double the 1989 volume. It reached about US$ 1,190 billion, equivalent to about 85 per cent of official foreign currency reserves in 1995 (IMF, 1997:61 and 64 and Watkins, 1997:8). It is practically impossible for government authorities in a single country or even group of developing countries to defend currencies under a concerted external financial attack launched in the context of full capital account convertibility.

[6] Trends and implications of technological progress are discussed at length in UNDP, 1999:57-83 and ESCAP, 1998:137-237 and ESCAP, 1997:179-212).

become so commercialized over the last three decades that it has created a profound impact on the nature and characteristics of economic interactions among countries, both developed and developing (Geschiere and Mayer, 1998).[7]

The most notable technological forces behind the first great tide of cross-border interdependence were the telegraph and telephone, the steam and internal combustion engines, the electrical generator, the calculating machine, the steamships and railroads, the Suez canal, and refrigeration facilities. Their modern counterparts include the facsimile (fax) machine, the Internet/World Wide Web (the Web), the ever smaller, but increasingly powerful microprocessors and their embodiment in equipment for virtually all kinds of human endeavour.

The new technologies are underpinned by their great cost advantages and have also been more widely and quickly accepted and utilized. It took 38 years from its inception for the radio receiver to gain 50 million users, while the corresponding time spans was 13 for television sets, 16 years for personal computers and 4 years for the Web (UNDP, 1999:58). Detailed and up-to-date information is available at one's finger tip all of the time on markets and market developments, and related responses from competitors and suppliers. Such a facility was formerly the exclusive preserve of well-endowed departments in large corporations. Moreover, advances in ICT have linked financial markets in real time, as well as given rise to sophisticated and innovative financial instruments intended to spread and transfer risks.

The consequent gains in productivity from advances in ICT have been immense, as shown in table 2. The gains proceed from falling input prices and/or shifts in production frontiers. Equally substantial are the savings in time, coordination efforts, information gathering expenses, and storage and retrieval. Superimposed on the whole interconnected process is also a wide range of learning-based positive externalities and innovation.

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[7] The multi-faceted implications of the technological changes on human relationships and organizations beyond the economic sphere are beyond the scope of this study. These aspects are covered by Geschiere and Mayer, 1998.

Table 2. The declining cost of transport and communications (in 1990 US dollars)

	Sea freight (average ocean freight and port charges per ton)	Air transport (average revenue per passenger mile)	Telephone call (3 minutes, New York/London)	Computers (index, 1990 = 100)
1920	95			
1930	60	0.68	245	
1940	63	0.46	189	
1950	34	0.30	53	
1960	27	0.24	46	12 500
1970	27	0.16	32	1 947
1980	24	0.10	5	362
1990	29	0.11	3	100

Sources: IMF, 1997:46 and UNDP, 1999:30.

The self-reinforcing breakthroughs in transport and ICTs have greatly facilitated a wide range of systemic innovations. They have also made new configurations of best practices feasible for both processes and products. In particular, similar technological progress during the last century led to significant changes in modes and patterns of industrial organization, location and competition. There was the dedicated mass production system, especially in assembly and fabrication as shop-floor work motions were studied and refined. In an ancillary development, firms internalized intermediate product and input markets, often though vertical integration. Production and marketing could now be split into geographically distant steps and value-added stages. This is mediated through complex FDI strategies and/or collaborative networks of distant firms with highly flexible specialization and greater emphasis on sustaining or enhancing core competencies in various production and service activities. In the process, external equity capital is becoming truly footloose while the new modalities of industrial organization have sharply increased the flows of intra-firm, intra-industry and/or intraregional trade in intermediate goods.

Another contrast is the shorter life cycles in product and process development, innovation and commercialization. This trend is often accompanied by the increasing complexity, differentiation, knowledge-intensity and the small-batch runs of many modern manufactured products. The feasibility and spread of distant processing (for example, financial or other data), whether or not on a chained basis, and electronic commerce are other cases in point. At the firm level, all of these imply and embody competitive, timely and flexible responses to constantly changing consumer tastes and preferences for better quality, fairer, greener and health-promoting goods and services.[8]

There are more profound implications that are not yet fully understood, but include the over-arching influence of multi-dimensional technological leaps, those relating to transport and ICTs and future trajectories of development and globalization. On the one hand, progress has become more discrete, instead of incremental. It has also incorporated new-found discoveries from a host of unrelated, diverse industries and processes. Typical of this emerging trend are the many commercial applications of space-related technologies and, more generally, the fusion of information processing as the backbone of most industrial and service activities and, by extension, of the accumulating human knowledge base.[9] On the other hand, research and development have become increasingly privatized and there is now a much stronger regime for the international protection of intellectual property rights (IPRs). The race to do further basic research and the speedy commercialization of results may have been set off largely among the developed countries. These countries hold 97 per cent of all patents worldwide.[10]

It is implicit that international trade and investment as well as learning-based capabilities and technological knowledge can no longer be treated as separate elements of globalization. Increasingly, they complement each other within a process of structural upgrading and diversification for

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8 It should be clarified that competitiveness at the firm level may originate from cost-based efficiencies, especially in the case of relatively standardized goods and services. It may also come from product-based advantages, through durable product differentiation. Thus, the quality of both location and the supportive nexus of networked businesses are crucially importance in maintaining competitive advantage (Porter, 1990).

9 ESCAP, 1999c:158-159 discusses the development and application of ICTs in the maritime industry of the Asian and Pacific region.

10 It was estimated that in 1993 about 70 per cent of global royalty and licensing fees were between parent and affiliate TNCs. The use of IPRs is not that common and resources devoted to research and development in subsidiaries in developing countries were miniscule. More than 80 per cent of the patents granted in these countries belong to residents of industrialized countries (UNDP, 1999:67-68).

enhanced external competitiveness. This process has been taking on a regional and international dimension among interdependent partner economies.

As such, technological change embodies an inherent element of creative destruction, which is indispensable to the Schumpeterian concept of entrepreneurship. It has helped create new and differentiated products and processes, enhance the efficiency of existing processes of production and marketing, facilitate the emergence and maturity of new industries and expand markets and employment. Unavoidably, there are losers from transitional displacements and burdens in the process as well. Sectors and industries become sunset as a result of technology-driven obsolescence, cost disadvantages, inadequate differentiation, and shifts in consumer preferences. The patterns of employment, and hence earnings and income distribution, have also undergone noticeable changes among different categories of workers.

Opportunities for growth, which have been opened by these technological advances should not, however, be idealized or overemphasized. They are the levers and catalysts of economic transformation, but they are not substitutes for domestic factors of economic advancement such as skills and entrepreneurship, competent institutions, managerial capabilities, and good governance. The new technologies and their ancillary infrastructure constitute just one set of interdependent or complementary prerequisites for growth and transformation in developing countries. Reaping benefits from the process requires a continuous, learning-based repositioning of various sectors and industries through upgrading and diversification, referred to as positive or defensive restructuring. The evolutionary adaptation that is required poses issues during the transition process that are even more difficult to manage to the mutual satisfaction of interdependent nations working out the calculus of political economy.[11]

Modern technologies have not only become a factor of production in their own right, but the knowledge-base goal posts are constantly shifting as well. While multi-dimensional technological advances commercialized so

[11] The current debate and political concerns about high levels of unemployment point to the revealed inequality in earnings between more- and less-skilled workers and among groups of similarly skilled employees, as well as the notable slowdown in real-wage growth in industrialized countries. Such concerns intensify pressures for greater trade protection. See Bhagwati, 1997; Slaughter, 1999:600-629; IMF, 1997:47-71; and UNCTADb, 1995:119-197.

far may reduce the barriers of time and space that separate national markets, this also means ironically that the technological distance (in terms of both knowledge accumulation and acquired capabilities) has been widening between developed and developing countries. At the same time, there is no guarantee that the needs and interests of developing countries will be adequately incorporated in the evolution of research and development, which underpins global knowledge accumulation (UNDP, 1999:67-74).

The technological playing field will remain far from level in the foreseeable future. One recurrent theme of this analysis is that globalization embodies valuable opportunities as well as formidable challenges to development transformation. Building up and diversifying local absorptive capacities is another point that needs emphasis. Local capacity includes skills, a culture of entrepreneurship and learning-based innovation. On the supply side, rising domestic savings plus policy coherence and stability at the macroeconomic level and on intersectoral dimensions are two essential parameters for attracting mobile external resources (especially FDI) that have the desired nature and go in the desired direction, including infrastructure provision.

The main issue is not whether the (information) superhighway should be set up. Rather, it is how to ensure that the erected infrastructure and facilities will not be unduly congested or sparsely utilized. Focus and balance are critical in this context, although the pertinent details will have to be customized by governments in a partnership with private sector entities, both domestic and foreign. The aim is to remain appropriate for domestic circumstances and growth and transformation priorities. A number of options and equalizing opportunities can be considered here.

The first set of benefits created by advances in transport and ICTs is embodied in the upward trend of cross-border decentralization of production and marketing activities over the past two decades. This trend has been mediated mostly, but not exclusively, by increased FDI flows. A wide spectrum of activities with diverse levels of labour and capital embodiment have been included in the relocation of comparative advantage, such as resource extraction, labour-intensive manufactures and high technology production and assembly. Most developing countries in the Asian and Pacific region have begun to benefit from these developments.

Among other components of transnational business, the proliferation of global production arrangements is expected to continue. There is now growing evidence, especially in innovation economics, that a close interaction between firms exerts a major influence on the collective levels of technological advancement, absorption and competitiveness. Clustering is recognized as an important determinant of dynamic patterns when upgrading and deepening industry, including attention to lagging or declining domestic regions. Indeed, the phenomenon of industrial districts in many developed countries could be a feasible alternative to the established large firms. Such clusters typically exhibit a high level of concentration, both by geography and sector, with networks of small and medium-sized enterprises (SMEs).[12] A cluster or agglomeration of firms is more localized spatially, even though the firms may be local subsidiaries and other partners of TNCs. Clustering facilitates specialization and investment in small increments. It also helps gain access to limited public infrastructure (such as water, electricity, roads, storage etc.), and to the right labour force or raw material supplies. Furthermore, a cluster of firms can lower transaction costs by building trust, social proximity and interactions, sharing common risks and costs (including those for quality improvements) and the transfer of knowledge.

Arms-length networking provides a cost-saving means of self-help that enhances flexibility for both the domestic and foreign partners. Joint projects, consultations and activities enable the networked firms and clients to produce and innovate, to differentiate and gain market access, to secure inputs and improve designs or quality and to shorten processes and delivery times. These provide multiplied gains in collective efficiency and flexibility that individual firms or customers may not be able to achieve on their own. They emerge from inter-firm networks driven to overcome the common constraints of limited resources and facilities and are realized through simultaneous cooperation and competition. Networking can thus be an effective means for local enterprises to establish suitable links with TNCs and other

[12] Literature on inter-firm networking and clustering totals about 550 publications in English between 1990 and 1997. A concise discussion of the typologies, modalities, experiences and impact of various forms of inter-firm cooperation and linkages in developed and developing countries is in Berry, 1997:1-32; Knorringa and Stamer-Mayer, 1998:31-55. Both have extensive bibliographies.

external entities, the vast global market and the unlimited external accumulation of technologies and knowledge.

In almost all developing ESCAP-member countries and areas, SMEs are the backbone of the economy, especially in terms of employment generation, equitable distribution and social cohesion. They can be encouraged and strengthened by providing helpful policy incentives and adequate access to the necessary technologies. A cluster or network of SMEs operating in various subsectors can be a viable alternative to fill the hollow middle, which is a persistent gap between integrated conglomerates and other large corporations and a multitude of mostly independent SMEs owned and operated by family members. Such modalities of industrial organization can subsequently lead to the formation and emergence of a core group of dynamic SMEs as an indispensable element of a vigorous industrial sector.

In a similar manner, electronic commerce can level the playing field between big corporations and small businesses. A formal or temporary alliance, network or partnership of SMEs can be formed electronically as a single, diversified business to the virtual customers and clients. SMEs in most parts of Asia and the Pacific seem to have lagged far behind on this path of development transformation.[13] But this situation must be viewed against a more general backdrop related to inadequate capacity and knowledge to manage change. It follows, therefore, that policy support to develop a competitive SME sector is no longer an option but a necessity, because there are gains from increasing socio-economic returns and more equitable human development in general is ensured.

Developing economies with relatively more advanced technological capabilities and a knowledge base could consider a more challenging option. Networking between domestic and foreign institutions or firms is a valuable way to create opportunities related to the rapidly increasing global accumulation

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[13] Trade via the World Wide Web and Internet has become an integral part of the business activities of an increasing number of SMEs in developed countries. About one half to one-third of medium and small-sized companies in Europe have an e-mail or web presence. The number of Internet hosts, although rather unevenly distributed worldwide, has grown from about 5.8 million connected servers in January 1985 to 36.8 million in July 1998. Electronic commerce turnover (including transactions via the Internet, value-added networks, and CD-ROM) have been forecast to range between US$ 100 billion and US$ 400 billion by 2002. Direct business-to-business trading is valued at about one-half of the above estimates. Annual revenue growth from electronic commerce is expected to have double-digit rates in the coming decade (UNCTAD, 1998a and 1998b).

of ideas and technological progress on the supply side. Such a linkage will also help effectively monitor the fast changes in consumer demand and preferences. Developing countries are beginning to form more partnerships with industrialized countries and other developing economies through technological agreements covering a wide range of fields. Furthermore, developing economies have become increasingly viable partners in their own right, as indicated by the growing importance of two-way agreements between entities (both commercial enterprises and research institutions) from developing and developed countries. Information technologies, chemicals and automotive sectors tend to dominate the industrial profile of such linkages. Firms from the Republic of Korea and India have been active in the formation of such cross-border technological partnership.[14]

D. Globalization in the Asian and Pacific region

The Asian and Pacific region is one of the most heavily populated areas in the world, accounts for just over one fourth of the arable land surface, and provides home to over half of the world's population. It also is home to a major share of the world's poor and other disadvantaged social groups, despite substantial development progress over the last several decades. The nature and extent of resource endowments, acquired production capabilities and historical and cultural heritage vary widely among countries of the region. National development priorities and strategies; the nature of policy orientation; the urgency, sequence and timing of policy changes to support the process of economic transformation display a wide range of differences. In particular, the region has some of the most dynamic, high-income developing economies by global standards. At the same time, there are a number of least developed countries, economies in transition and other relatively fragile and economies faced with geographic disadvantages.

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[14] International technological agreements involving developing countries accounted for about 5 per cent of the total number (about 4,270) in the 1980s and 6 per cent of almost 4,000 agreements made during the mid-1990s. One-way agreements were the norm in the last decade, but they have been gradually replaced by two-way partnerships, especially in information technologies. See UNCTAD, 1998b:26-27. UNCTAD, 1995c and 1996c contain a large number of analyses and country case studies on building technological capacity and technological partnerships.

It is possible, however, to highlight certain common features that characterize the contours of development through globalization with special, but not exclusive, reference to the high-performing developing economies of East and South-East Asia. This provides a point of reference for the wide range of policy implications and lessons to be examined in other parts of the study.

1. Sustained economic expansion

Hong Kong, China; the Republic of Korea; Singapore; and Taiwan Province of China are categorized as the first-tier newly industrialized economies (NIEs) because they have generally sustained exceptionally rapid rates of income growth and structural transformation unmatched by historical standards. Their dramatic economic transformation has contributed to a shift in development thinking from the early1980s, despite some reservations about the viability of export-led industrialization in developing countries (Myint, 1965, 1999: Chapter 6).

The first-tier NIEs started with relatively low levels of per capita income even by regional standards. As a result of sustained rapid growth, per capita income for these four NIEs ranged between US$ 10,000 and US$ 30,000 by 1996. The levels of income per capita in Hong Kong, China and Singapore were well within the range of industrialized countries. At the same time, the gap in per capita income widened substantially between the NIEs and other Asian developing economies.[15] The second-tier NIEs in South-East Asia, Indonesia, Malaysia and Thailand have recently managed to move rapidly and steadily up the income ladder in the past few decades. China also began to quickly move up the ladder since the 1980s.

The two groups of Asian NIEs are among very few countries to have sustained high rates of income growth for about three decades (World Bank, 1993:28-30). The pace of poverty alleviation in these countries was also more rapid than elsewhere in the developing world. In absolute terms, the total number of poor in both groups of Asian NIEs fell significantly over

[15] The income gap between these countries and the industrialized countries has been considerably narrowed over the years. The four NIEs in the first tier are now grouped with developed countries and form a category named the advanced countries, for analytical purposes. IMF, *World Economic Outlook* (May 1997).

two decades. Other gains in social welfare include longer life expectancy, notable reductions in infant and maternal mortality rates, greater calorie intake and widened access to basic needs, such as health, housing, safe water, sanitation facilities and education. Gender disadvantages and inequality also decreased.

The evidence on income distribution is more varied among the first- and second-tier Asian NIEs, with income inequality rising in some economies and falling in others. However, as a group these countries have become much more egalitarian than Latin America or sub-Saharan Africa as groupings.[16]

The economic landscape of East Asia was battered by the sudden eruption of a financial crisis in mid-1997.[17] The crisis was triggered by a speculative run on the Thai currency, which quickly spread to Indonesia, the Philippines, Malaysia, and the Republic of Korea. Macroeconomic policy weaknesses during the period of growth in some of these countries made them vulnerable to speculative attacks. Close trade and investment linkages quickly transformed the economic collapse into a regional crisis. The growth prospects of other countries, such as Singapore, Taiwan Province of China and China had their growth prospects hampered, even as they managed to weather speculative attacks on their own currencies. Overall, the crisis has produced a severe contraction in gross domestic output in most parts of East and South-East Asia since July 1997.

In most countries, signs of recovery began to emerge from late 1998 and gathered momentum in the following year. Many analysts view the long-term growth prospects for the region as still favourable, notwithstanding the crisis. The growth process has been disrupted, but it has not negated years of human and physical capital accumulation and institutional development, based on prosperity through increased integration with the international economy.

[16] See UNDP, 1999; ESCAP, 1998:107-114; and World Bank, 1998b:2-3 and 74-78; and 1993:29-36).

[17] Preliminary examinations of the economic and social impact and the policy responses to the crisis in Indonesia, Malaysia, Philippines, the Republic of Korea and Thailand are in ESCAP, 1998:116-134 and World Bank, 1998b:80-92.

2. Export orientation

One common factor behind the impressive and above-average performance for income growth in the high performing Asian economies has been the rapid expansion of merchandise exports. There have also been significant changes in the commodity mix over time. The growth of manufactured exports from the NIEs has been dramatic. Their share in total manufactured exports from developing countries increased from 14.2 per cent in 1965 to 73.5 per cent in 1990 (World Bank, 1993:38). Exports from the NIEs had accounted for about 17 per cent of the regional total in 1960. However, their relative share (including a large amount of re-exports of Hong Kong, China; and Singapore) rose rapidly to reach 57 per cent in 1990 and 47 per cent in 1996. China's share in the regional total has also risen rapidly as a result of major policy reforms, from just over 10 per cent (US$ 18 billion) in 1980 to 16 per cent (US$ 151 billion) in 1996.

A similar trend can be observed for export earnings of the second-tier NIEs, from US$ 2.4 billion in 1960 to US$ 41.4 billion (helped by oil price rises) two decades later, and US$ 184 billion in 1996. About US$ 78 billion accrued to Malaysia, while the shares of Indonesia and Thailand ranged from US$ 50 to US$ 56 billion. When compared to the impressive expansion of exports by the first-tier NIEs and China, the proportion of exports from the South-East Asian second-tier NIEs generally declined from 21.2 per cent in 1960 of the regional total to a peak of 23.5 per cent in 1980, which then fell to 11.4 per cent in 1996.

A considerable gap remains between the South-East Asian exporters and the rest of the economies in the region. In terms export value in 1996, the other large exporting countries were India, with US$ 33 billion in earnings and the Islamic Republic of Iran and the Philippines, with export earnings ranging from US$ 20 to US$ 23 billion. Many countries in the various subregions experienced a rapid expansion in their exports in the 1990s, following the implementation of major initiatives to liberalize trade and deregulate economic activities, benefiting from buoyant international demand and resource relocation. Furthermore, per capita exports have been quite large in several economies, including in Central Asia and the Pacific islands. Exports of the Pacific island countries, however, are dominated by primary products and other resource-based products. The notable exception is Fiji, which has experienced notable growth in garment exports in recent years.

3. Export diversification

Rapid export expansion and gains in market shares have been supported by rapid changes in commodity composition. This is most apparent for the first-tier NIEs than the second-tier exporting countries. At the initial stage, the dominant exports of the larger NIEs were primary commodities and semi-processed primary products such as silk, rice, sugar, tungsten and iron ores. They provided 80 to 90 per cent of export earnings for the Republic of Korea and Taiwan Province of China in the late 1950s.

As a result of rapid export-led industrialization from the mid-1960s, the relative share of primary products fell to just over one half of non-oil export value by 1965. Manufactured and assembled textiles, clothing and footwear replaced primary products as the principal source of non-oil export receipts. This category of exports based on labour-intensive, low-skill and standard technology became important from the early 1960s. At that time, labour-intensive manufactured exports were the most significant source of foreign exchange earnings in the 1970s. These items accounted for 39 per cent of total (non-oil) exports from the Republic of Korea and 44 per cent from Taiwan Province of China in 1975 (UNCTAD, 1995b:30).

A completely different pattern of restructuring took place among the first-tier NIEs. Textiles, clothing and footwear provided a major portion of earnings from non-oil exports (including re-exports) for Hong Kong, China in the 1960s and 1970s. The relative importance of these exports declined, but at a comparatively much slower rate. On the other hand, Singapore continued to gain advantages from its entrepôt status, with primary products still accounting for a dominant, but declining, proportion of its non-oil export (and re-export) receipts, from 40 per cent in 1965 to 16 per cent in 1985. The country successfully by-passed labour-intensive, low-skill and standard-technology manufacture and assembly of textiles, clothing and footwear. Instead, Singapore focused on promoting and facilitating exports that embodied high levels of skill, technology and value-added, including electrical (and electronics) machinery, communications equipment, precision instruments, fine chemicals and pharmaceuticals. Such products are commonly referred to as high-tech manufactures, and they accounted for a major rising share of non-oil export earnings, accounting for 26 per cent in 1975 and 46 per cent in 1985 (UNCTAD, 1996a:118-119).

During the 1960s and 1970s, primary products accounted for over 85 per cent of total non-oil exports from Malaysia, Thailand and Indonesia. From the mid-1970s, manufactured goods have expanded dramatically, accounting for over 70 per cent of total exports by the mid-1990. However, the three countries are still among the largest exporters of traditional commodities as well as newer primary commodities, including rice, rubber, palm oil, cocoa, tin, tropical logs and wood-based products and tapioca.

The late 1980s witnessed the third transition in the export composition of the first-tier NIEs. Products of the high-tech category have dominated their non-oil export receipts with a relative share in the range of 40 to 60 per cent in 1994. The share was as high as 80 per cent in the case of Singapore. A notable divergence was the concerted push by the Republic of Korea in favour of heavy and chemical industries (HCI). The push contributed to significant non-oil export earnings in the early and mid-1980s, especially in shipbuilding and in iron and steel products.[18] The relative importance of such resource- and energy-intensive exports was subsequently obscured by a wide range of high-tech manufactures since the latter half of the 1980s.

The second-tier NIEs in South-East Asia generally display a similar pattern of transformation in their exports and economic and employment structures. The timeframes and the scale of transformation are not similar, however. The most dramatic trend has been the convergence in high-tech exports achieved during the 1990s. In 1996, the relative share of export earnings from such products ranged from 50 per cent in Thailand to 69 per cent in Malaysia. The corresponding share was 24 per cent for Indonesia and 34 per cent for China (World Bank, 1998:22). Such diversification is based on electronic products, components and parts, which generally accounted for the largest share (at least two-thirds in value) of high-tech exports from the second-tier NIEs in 1996. This rising trend is due to the relocation of

[18] The HCI drive has been a key issue in assessments of the Republic of Korea's industrialization drive. See Amsden, 1988; World Bank, 1993 and UNCTAD, 1996a.

comparative advantage for mutual restructuring and is mediated mostly through greater flows of FDI and intraregional trade (intra-firm and intra-industry). The proportion of imported parts in finished electronic products ranges from 32 in Singapore to 38 per cent in Malaysia and as high as 60 per cent for Thailand in 1994. Corresponding figures for the Republic of Korea and Taiwan Province of China were less than 20 per cent.

Export restructuring in these countries has taken place largely at the expense of food and other resource-based products, which still accounted for about two-thirds of non-oil export receipts in both Malaysia and Thailand during the mid-1980s. In the case of Singapore and Malaysia, the manufacture and assembly of textiles, clothing and footwear have reduced importance, while the relative importance of this category of exports increased sharply in Indonesia in the 1990s and much less in Thailand a decade earlier. There thus appears to be a concentration of exports at the higher and lower ends of skill- and technology-intensive ranges in these two countries.

4. Role of investment

Rapid growth and structural transformation in the high-performing Asian economies would not have been possible without a high and rising rate of investment. Investment was financed by domestic savings and foreign capital inflows, with the former playing the dominant role. Table 3 gives some idea of the relationship of savings and investment to GDP for the Asian NIEs during various time periods. The trend of fast growth in investment's share of GDP as well as exports' fast-growing share is also shown in the table.

a. Domestic accumulation

Savings rates (domestic savings as a percentage of GDP) in East and South-East Asia were relatively low in the 1950s and 1960s, as a function of modest income levels. The rate of savings in the Republic of Korea averaged about 3.3 per cent of GDP during the 1950s. For Hong Kong, China; China; Taiwan Province of China and Indonesia the corresponding figures were less than 10 per cent (UNCTAD, 1996a:110). Overall saving rates in the

Table 3. Gross national savings and gross domestic investment of selected East and South-East Asian economies, selected periods (percentage share of GDP)

Period	Republic of Korea		Taiwan Province of China		Hong Kong, China		Singapore		Indonesia		Malaysia		Thailand	
	Savings	Invest-ment	Savings	Invest-ment	Savings	Invest-ment	Savings	Invest-ment	Savings	Invest-ment	Savings	Invest-ment	Savings	Invest-ment
1961-1970	13.7	20.0	19.7	21.9	20.6	20.6	14.9	22.3	4.9	10.4	21.5[a]	19.9	19.9	21.5
1971-1980	22.0	28.0	31.9	30.5	28.3	26.7	28.9	41.2	24.6	22.7	26.2	26.3	22.4	26.2
1981-1990	30.4	307.0	32.9	21.9	34.0	24.8	42.1	42.1	25.1	28.3	27.4	30.7	26.2	30.7
1991-1997	35.2	37.0	27.2	23.2	32.4	31.0	48.6	35.0	29.8	32.7	35.8	50.4	34.8	41.1

Source: UNCTAD, 1996a: 110 and Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries*, various issues.

Note: [a] 1965-1970 data include Singapore, which became independent in 1965.

region were less than Latin America, even by the mid-1960s (World Bank, 1993:41).

The savings doubled or almost tripled among the Asian NIEs over the past three and a half decades to a typical range of 27 to 35 per cent of GDP in the early 1990s. One notable exception was the Indonesian savings rate, which expanded five-fold, and Singapore's rate of savings, which was almost half of GDP during the same period. These upward trends were accompanied by the sustained expansion of personal incomes and corporate profits, the maintenance of high positive interest rates in real terms, institutional schemes for compulsory savings, relative macroeconomic stability and policy coherence and predictability.[19]

b. External resources

Foreign capital, especially in the form of FDI, has played a key role in the economic transformation of the Asian NIEs. Apart from complementing domestic saving to help expand domestic investment, foreign capital was equally important for the embodied technological and organizational packages, market access and marketing expertise and the instant efficiency of (long refined, tried and tested) international best practices. Generally, the Asian NIEs have been open to foreign capital and knowledge. Several of the second-tier NIEs have also been less restrictive about allowing wholly foreign-owned subsidiaries. They have been particularly successful in attracting FDI, which has also been consistently more export-oriented than those flowing into other regions. Their patterns of upgrading and diversifying exports appear in general to have been dependent on FDI and, by implication, the dense and multiplying networks of intra-industry and intraregional trade.

Initially, the Republic of Korea and Taiwan Province of China attracted external capital and other wealth-creating assets in ways other than FDI and

[19] Maintaining positive real interest rates in the East Asian NIEs was against the conventional wisdom at the time (which favoured low interest rates to stimulate domestic capital formation). World Bank, 1993:203-242) gives a detailed standard explanation of the main determinants for high savings and investment behaviour in East and South-East Asia.

the associated technology transfers.[20] There were mediating channels for domestic learning and innovation and for the development of indigenous enterprises. One channel was reverse engineering (of imported machinery and equipment), technology licensing, original equipment manufacture under subcontract along with technical and managerial assistance from foreign sources. FDI was relied on frequently but selectively, in conjunction with domestic content agreements and technological screening. Subsequently, however, a more liberal approach to FDI was adopted from the later part of the 1980s. This shift had been necessary for successful industrial upgrading and diversification, a process that involved much more complex processes and technology transfers and licensing.

Singapore and the second-tier NIEs generally have used more liberal and less selective approaches. In particular, export-oriented FDI had long helped develop the rich local resources of agricultural plantations, minerals and forestry in South-East Asia. FDI was drawn into manufacturing subsectors in the 1970s and TNCs intensified their participation in the following decade. Greater efforts (in fiscal and other policies) have also been made to target and attract FDI for the purpose of expanding exports as well as to promote general building of domestic capacity.[21]

The outcome overall has been greater participation of TNCs in manufacturing oriented to the domestic market, in addition to their crucial role in export-oriented production. For example, the share of foreign affiliates in the total domestic sales of manufactures ranged from 40 per cent in Malaysia and the Philippines to as high as 50 per cent in Singapore and Thailand in the late 1980s. The corresponding figures were in the range of 17 to 21 per cent in Hong Kong, China and the Republic of Korea (UNCTAD, 1996a:121).

[20] As a contrast to the Republic of Korea, the economy of Taiwan Province of China has been dominated by small and medium-sized enterprises with much lower debt to equity ratios. Both economies had much scope and flexibility for TNC participation, even in the early or initial stages of upgrading and diversifying manufacturing capacity and capabilities.

[21] Details about incentive packages and promotion measures, the sequence of policy changes and shifts and the time frames involved can be found in World Bank, 1993:123-156 and 292-326; and UNCTAD, 1994:49-76 and 1996a:107-138.

Since the 1980s, China has accounted for the largest share of gross FDI inflows into the Asian and Pacific region, as shown in table 4. FDI inflows have been largely trade-oriented, whether or not they have been directed towards resource-based activities (exploitation and development of mineral deposits and forestry resources), agro-processing (palm oil extraction and other plantation projects, aqua-culture and poultry farming) or manufacturing (Naughton, 1996 and Lardy, 1994).

In most high-performing Asian economies, the shares of foreign affiliates in manufactured exports are typically higher than their relative importance for GDP or gross fixed capital formation. In the electrical and electronics, machinery and equipment categories, for example, the export share of foreign affiliates is as high as 70 per cent in the Republic of Korea (UNCTAD, 1996:123-126).[22] As noted earlier, the rapid development of the electronics export sector in the second-tier NIEs and China represents a relocation of comparative advantage for mutual upgrading and restructuring, including from the first-tier NIEs to the second tier. One positive outcome from the growth of FDI and the externalization of their proprietary advantages is that the first-tier NIEs combined have more direct investment in the ASEAN-3 plus the Philippines than Japan (UNCTAD, 1996a:123). Some companies from the first-tier NIEs have also been among the biggest investors in emerging economies such as Viet Nam.

Although external wealth-creating assets and capabilities are important, FDI has been only a small part of gross domestic capital formation. FDI's relative share was less than 3 per cent in the Republic of Korea and Taiwan Province of China from 1971 to 1993. Among the ASEAN-3 and the Philippines, with the exception of Malaysia, the corresponding figures have ranged from 1 to 5 per cent. Malaysia and Singapore have received and absorbed a sizeable amount of foreign private capital. From the 1970s to the early 1990s, the pertinent ratio rose from 14 to 25 per cent in Malaysia and from 16 to 37 per cent in Singapore (UNCTAD, 1996a:122). The limited share of FDI in total capital formation is typical for large countries. However, as implied in the discussion, the crucial importance of FDI at the

[22] An indirect indicator of the growing importance of intra-industry networks for trade in the electronics sector is the relatively high and growing share of imported parts in the finished goods exported from countries such as Indonesia, Malaysia, Singapore and Thailand.

Table 4. Gross inflows of foreign direct investment in selected regions and economies, selected period and years (Millions of US dollars)

	1987-1992 (annual average)	1995	1996	1997	1998
East, North-East and South-East Asia	**18 112**	**64 118**	**75 892**	**83 169**	**73 844**
(of which:)					
Brunei Darussalam	..	13	11	5	4
Cambodia	..	151	294	204	140
China	4 652	35 849	40 180	44 236	45 460
Hong Kong, China	1 886	3 279	5 521	6 000	1 600
Indonesia	999	4 346	6 194	4 673	-356
Lao People's Democratic Republic	4	88	128	86	45
Macao, China	..	2	6	3	..
Malaysia	2 387	4 178	5 078	5 106	3 727
Mongolia	..	10	16	25	19
Myanmar	96	115	38	124	40
Philippines	518	1 478	1 517	1 222	1 713
Republic of Korea	907	1 776	2 325	2 844	5 143
Singapore	3 674	7 206	7 884	9 710	7 218
Taiwan Province of China	1 127	1 559	1 864	2 248	222
Thailand	1 656	2 068	2 336	3 733	6 969
Viet Nam	206	2 000	2 500	2 950	1 900
North and Central Asia	**8**	**1 474**	**1 972**	**2 921**	**2 772**
(of which:)					
Armenia	8	24	18	52	232
Azerbaijan	..	155	591	1 067	1 085
Kazakhstan	..	964	1 137	1 321	1 158
Kyrgyzstan	..	96	47	84	102
Tajikistan	..	15	16	4	30
Turkmenistan	..	100	108	108	80
Uzbekistan	..	120	55	285	85
South and South-West Asia	**800**	**3 836**	**4 254**	**5 852**	**4 540**
(of which:)					
Afghanistan	..	..	..	..	..
Bangladesh	2	2	14	141	317
India	58	2 144	2 426	3 351	2 258
Iran (Islamic Republic of)	-129	17	26	380	300
Maldives	5	7	8	8	7
Nepal	2	5	19	23	9

Table 4. *(continued)*

	1987-1992 (annual average)	1995	1996	1997	1998
Pakistan	227	720	919	714	497
Sri Lanka	57	56	120	430	345
Turkey	578	885	722	805	807
Pacific islands	**219**	**561**	**180**	**146**	**175**
(of which:)					
Fiji	43	70	27	34	91
Kiribati	..	..	..	1	..
New Caledonia	10	..	..	10	5
Papua New Guinea	138	455	111	29	30
Samoa	2	3	1	20	10
Solomon Islands	10	2	6	21	10
Tonga	..	..	2	1	1
Vanuatu	16	31	33	30	28
All developing countries	**35 226**	**106 223**	**135 343**	**172 533**	**165 936**
Developed countries	**136 628**	**208 372**	**211 120**	**273 276**	**460 431**
World	**173 530**	**328 862**	**358 869**	**464 341**	**643 879**

Source: UNCTAD, 1999: 479-480.

margin may be masked. In many cases, such external resources do not supplement the capital level but determine the success or failure of pertinent investment projects. There are also various spillover and demonstration effects from superior know-how and technologies, which represent important, but immeasurable externalities.

E. Policy options for growth through global integration

The process of economic transformation in member countries and areas of ESCAP has been discussed above by focusing mostly on the experiences of the high-performing economies. It is now important to examine the policy options for economic growth and transformation through globalization and partnership in trade and investment, particularly for those ESCAP-member countries which are at the early stages of opening-up (referred to as late reformers in the following discussion).

1. Strengthening domestic agriculture

With few exceptions, agriculture dominates the patterns of production, consumption, employment, domestic and external trade, and/or resource use in the developing countries of the Asian and Pacific region, particularly in countries, which have started liberalization reforms only recently. A strong rural economy is, therefore, a prerequisite for successful structural transformation with equity and sustainability in the utilization of common resources.

It is now widely acknowledged that development success in the Republic of Korea and Taiwan Province of China was partly based on their success in strengthening the rural economy as a solid foundation for development transformation. Major institutional reforms, most notably extensive land redistribution and tenancy re-arrangements, were introduced in the Republic of Korea and Taiwan Province of China from the 1950s until the early 1960s.[23] A series of exchange rate devaluations were also carried out in the Republic of Korea (1961, 1964 and 1965) and Taiwan Province of China (1958 and 1961). Although primarily intended to promote exports, these adjustments also redressed the bias against the rural economy at the time. Government policy also ensured that a relatively greater share of government resources would be transferred to the agricultural sector and to many small farmers by introducing a wide range of price and non-price incentives.[24] The overall outcome was a lower level of effective taxation (or negative protection), and more extensive provision and availability of support infrastructure and services (education, transport, research and extension training especially) in the rural economy (World Bank, 1993:34-36; and ESCAP, 1992a:183-191).

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[23] Discussion of land redistribution programmes in the Republic of Korea and Taiwan Province of China are in Scitovsky, 1990:132-133 and 144-147; Dorner and Thiesenhusen, 1990:73-84.

[24] Price incentives include: setting higher farm-gate procurement or support prices, and/or of lower volumes of procurement or stocking requirements; liberalized transportation of farm produce for commercial purposes; and subsidized inputs. Such subsidies are only a small proportion of the gross transfer of resources outside the rural economy. The main non-price incentives include human resource development, institutional improvements (facilitate easier access to land resources, credit and other essential inputs, etc.) and government investment in agricultural infrastructure and support services. The ready availability of water and good water control are the most important factors behind the growth in food grain output and productivity in Asia during the recent decades. Attention needs to focus on how to alleviate the many problems facing small farmers and landless tenants (ESCAP, 1991:152-153; and 1990:70-76).

Many late-reforming countries have weaker rural economies, which impede development and diversification through various linkages between the agricultural sector and the modern economy.[25] On the demand side, rural consumption of goods and services, including those coming from the protected manufacturing sector itself, is limited. The vitality and diversity of off-farm activities and employment opportunities are circumscribed, despite the fact that such activities absorb as much as 20 to 25 per cent of the rural workforce in many countries. There is, moreover, an important equity consideration: poorer farm households, cultivators of marginal farms and landless tenants predominate in the various off-farm subsectors (Liedholm and Kirby, 1989).

Poor agricultural performance lowers the foreign exchange earned through exports or saved by reducing food imports. Net food deficits in many countries have increased in recent years, compounded by high rates of population growth and periodic adverse weather conditions. Moreover, stagnation in the rural economy and excessive out-migration from the rural economy helps aggravate urban unemployment problems, the acute shortage of basic infrastructure and services in urban and suburban areas and related social tensions and instability.

As a consequence of these unfavourable conditions in agriculture, there are strong pressures on external payments, persistent domestic inflation and other macroeconomic imbalances. Shortfalls in government revenue lead to further under-investment in agriculture. All of these factors combine to frustrate, if not cripple, industrialization and transformation efforts in many countries of the region. They have also reduced domestic economic strength, flexibility and resilience to withstand and overcome exogenous swings and shocks considerably. The 1970s and most of the 1980s was a highly turbulent period which constrained or even set back development in several countries in the region.[26]

A backward rural economy can also cause several adverse ecological effects. Abject poverty and the intensified search for basic necessities such

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[25] The available evidence indicates that a 1 per cent expansion in rural output would raise India's industrial value-added by 0.5 per cent and national income by 0.7 per cent.

[26] ESCAP, 1983:171-188 has a detailed discussion about the impact and regional responses to the oil and food price crises of the 1970s and early 1980s.

as food, fodder, firewood and shelter have contributed to the unsustainable exploitation of the local commons and to resource degradation in many economies of the region and the world as well (ESCAP, 1992b and World Bank, 1992). There is thus a close link between a strong rural economy, poverty alleviation, and ecological preservation.

Overall, a gradual positive change has been noticeable in the rural development policies of many countries in the region compared to the situation two decades ago. There are increased levels of investment in infrastructure, larger volumes of institutional credit and quantities of modern inputs (such as fertilizers, high-yield and high-resistant cultivars etc.) and supportive measures to improve the terms of trade within the farm sector. This new policy emphasis, coupled with improved weather conditions, is reflected in unprecedented rates of agricultural growth, averaging 3 to 4 per cent annually for India, Nepal and Pakistan during the 1980s, for example. Bangladesh's strong agricultural expansion in the previous decade was subsequently constrained by unfavourable weather conditions.

The major agricultural economies in the region, including India and Indonesia, by and large achieved food grain self-sufficiency from the latter part of the 1980s, an achievement which could not have been predicted a decade ago as they had long been among the world's largest importers of food grains. In fact, some Asian and Pacific countries emerged as occasional food grain exporters in the process. Viet Nam is a notable example, because it became the world's third largest rice exporter (about 1.4 million tons) in 1989, which compared to its large deficit position during the previous year and inadequate rice supplies in the mid-1980s.[27] As a whole, the region's food export/import ratio has tended to rise, from about 25 per cent in the mid-1970s to 45 per cent a decade later (ESCAP, 1988:110-112).

Despite these impressive gains, there is still much scope for further improvements in the rural economy in many parts of the region. Even in countries that have achieved food self-sufficiency, agricultural production tends to vary precariously from year to year, due not only to unpredictable weather but also to the fragility of other manageable supply-related factors.

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[27] The relatively quick turnaround was due to the latent advantage released through the process of systemic economic transition. It was also assisted by more favourable terms of trade for domestic staples and a series of (downward) exchange rate realignments.

The availability and accessibility of cultivable land has also remained a problem in the face of unrelenting population pressures. In addition, there are relatively pressing issues regarding intensive cultivation and environmental degradation due to agricultural practices. The design and implementation of an effective research-cum-extension (rather than a parallel) programme has proved to be one of the most complex, unpredictable and problem-prone aspects of agricultural support infrastructure (ESCAP, 1990:70-76; 1991:153-155; and 1992:188-192).

2. Agricultural diversification

The potential for agricultural diversification though outward-oriented policies is enormous. Spreading affluence and tighter regulations on food safety and the environment can cause a simultaneous shift in demand that favours high-value products of superior quality, health promoting characteristics, naturalness, and/or environmental compatibility. Such buoyancy in external demand operates with different phases, timing and sequences among countries at various levels of development. Nevertheless, the expanding markets for high-value, income-elastic agricultural products (HIAPs) has been a common denominator behind several successful stories in agricultural diversification within the Asian and Pacific region and elsewhere (Jaffee and Gordon, 1993:56-105; Thrupp, 1995:17-113; and Lam, 1997:14-22).

Examples of the main categories of HIAPs include meat and dairy produce, fish and fish products, fruits, vegetables, sugar and sugar confectionery, vegetable oils and oilseeds, nuts, and spices. The total value of exports for these products averaged about US$ 33.4 billion (30 per cent of world trade in all non-fuel primary commodities) a year from 1971 to 1973. It then expanded to US$ 182 billion (34 per cent) by the early 1990s. The share of these products in total exports from developing countries increased from 31 per cent a year in 1971-1973 to 39 per cent by the 1990s.

These products are generally characterized by high income elasticity of demand, with estimated elasticity coefficients varying in the range from unity to as high as 3.38 (World Bank, 1994:48-50). This means that demand for these products tends to increase much faster than an increase in income, which is an important advantage along with the high levels of domestic value-added of these products compared to standard labour-intensive manufactured exports such as clothing, toys and electronics. In addition, HIAPs also command relatively better (net barter) terms of trade than other primary commodities subject to inelastic demand, which has been a long-running problem for many developing countries. The problem of other primary commodities has been compounded by recent resource-saving technology and engineering advances to create substitutes.[28] Production and processing of many HIAPs are highly labour intensive and involve participation by small-scale farmers and small enterprises, which generates significant spread effects in the rural economy (Athukorala and Sen, 1998; Lam, 1997:14-16; and UNCTAD, 1996b).

Many developing countries throughout the Asian and Pacific region have been major beneficiaries of expanding external markets for HIAPs. One good example is the astounding growth in shrimp exports from Bangladesh, China, India, Indonesia, the Philippines, Thailand and Viet Nam, among others.[29] Several East and South-East Asian economies are also important suppliers of other HIAPs, including canned fruits and fruit juice, processed vegetables, vegetable oils, spices, tuna and chicken meat. A standard commodity such as rice also commands considerable growth prospects. Imports of Basmati rice from India and Pakistan and Jasmine rice from Thailand have been on an upward growth trend in the United States and the European Union. This has occurred even though these two markets are surplus producers of high-quality rice and there are high tariff barriers in the European Union.[30]

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[28] The perceived deterioration in the terms of trade for primary commodities in world trade had been a key consideration behind the push for import-substitution industrialization (Spraos, 1983; Evans, 1987; Maizels, 1992; and Morgan and Sapsford, 1994.

[29] Thailand and Indonesia are the largest exporters of frozen shrimps and prawn, which increased from US$ 0.13 billion in the early 1980s to US$ 2.26 billion in 1993 (from 11 to 33 per cent of world exports). Other major exporters are China, India, Ecuador, Mexico, the Philippines and Viet Nam. Their combined earnings reached US$ 1.88 billion (27 per cent of world exports) in 1993.

[30] United States' imports of high-quality rice (dominated by Basmati and Jasmine varieties) have risen steadily from 40,000 tons in 1985 to about 200,000 tons in 1993 (from 4 to 7 per cent of domestic consumption). The share of fragrant varieties in total rice imports was 83 per cent in 1993, compared to 44 per cent in 1983. Rice imports into the European Union, despite a 25 per cent decline from the early 1980s to the 1990s, remained at just under half a million tons (one-third of European Union consumption) in 1993. Long-grain *Indica* and fragrant rice constitute about 90 per cent of total imports. Imports to the European Union have stayed at high levels despite high customs duties. (UNCTAD, 1995a:23)

High-quality rice becomes a substitute for lower-price counterparts as a result of greater prosperity, and there is thus substantial demand for such food grains among high-income groups who are part of rice-consuming populations in many developing countries.

The market for HIAPs is clearly huge and there is also great potential for many countries in the region to increase their market shares. This is true regardless of the occasional trade inconvenience in the form of sanitary and phytosanitary measures and measures relating to avoiding collateral damage to wildlife, such as dolphins.

TNCs have been partners in the production and/or distribution of many HIAPs from Asia and the Pacific. Such partnerships will continue to be a viable option for obtaining the technologies, market access and distribution channels. On the other hand, there are challenges to take policy efforts that widen and deepen the agricultural advantage. These advantages do not derive only from providing more focused research, dedicated (or tailor-made) infrastructure and facilities, extension services and capacity building for farmers. It is also necessary to set up credible standardized schemes for certification and quality enhancement, and ensure the widespread dissemination of market and consumer information.

In those contexts, a long-term framework of cooperation and other collaborative linkages at various levels domestically and regionally should be created by governments, producers, traders, distributors and consumers. The concerned civil societies should also be involved, because such a framework is a prerequisite for mutual protection, success and benefit.

3. Industrialization

A sound and flexible agricultural base constitutes the crucial first step on the way to development transformation. Despite the vast potential for further expansion of domestic agriculture, the relative importance of this sector in domestic output and employment is eventually bound to decline as part of the growth process. This reflects the outcomes of two separate forces. One relates to the impact of Engel's law on the (food) demand side. The other concerns a gradual but steady movement of (excess) on-farm resources to off-farm, value-added processing and service activities and to the domestic manufacturing sector. The services and domestic manufacturing have much higher productivity levels, thus further pushing downwards the already falling share of agriculture. Possibilities for accelerated growth in income, employment and productivity are limited within the rural economy, even in countries richly endowed with agricultural resources.

Industrialization eventually has to play the pivotal role in the transformation process in order to provide a vent for surplus labour and to ensure rapid income growth. Labour productivity in the industrial sector tends to rise faster than that in (land-scarce) agriculture based on highly fragmented (small) holdings, which is the situation in most parts of Asia. For equity reasons, there is thus the need to ensure that farm incomes keep pace with the rapid increases in urban real wages through a variety of support measures. The comparative advantage based on agriculture is subsequently eroded through higher input costs (wages especially) and farm-gate prices, and then lost in the re-distributive process.

Domestic agricultural output, for example, is unlikely to rise consistently by several percentage points every year, given a healthy and flexible economy and notwithstanding a variety of environmental trade-offs. In comparison, however, industrial value-added averaging 7 to 10 per cent annually is the norm, rather than exception, in most parts of East, South-East and South Asia (Asian Development Bank, 1999:245). Rural diversification, including the production of HIAPs and off-farm processing, and the upstream or downstream manufacture of products based on mineral resources may provide useful means for earning or saving foreign exchange. But rural diversification has not offered as many employment opportunities as needed by the prevailing patterns of population growth and movements within the region.

Industrial development to produce and export manufactured goods involves an almost inexhaustible potential for long-term employment generation and productivity growth, other things being equal. It represents an unavoidable transformation path for the large majority of developing economies worldwide, at least in its general direction, if not necessarily the pace, sequence and details of upgrading and widening the process. The various sets of policy incentives and their packaging with regard to the textile and clothing industry is discussed below in the context of compliance with WTO.

At one time or another, the production and/or assembly of textiles, clothing and footwear have dominated the industrial base in the high performing Asian economies, except Singapore and Malaysia. In particular, these manufactured products are the main pillars of export earnings and employment among the least developed countries in the region (Bangladesh, Cambodia and Lao People's Democratic Republic), economies in transition such as China and Viet Nam and other countries such as Fiji, Pakistan and Sri Lanka. This approach to development took place despite or perhaps due to constraints on exports imposed under the multifibre arrangements (MFA).

The almost instant growth of textiles, clothing and footwear production in a number of regional economies during the 1990s mostly represented production relocation from the regional NIEs. This has been mediated largely, but not exclusively, by local partnership with TNCs at various stages of production, marketing and distribution (Smith, 1996:211-241). A major advantage of these manufactured products based on standard technology for latecomers to export-led industrialization is their labour-intensive features. They have the obvious advantage of employment generation, with the related multi-dimensional economic multiplier effects on the macroeconomy.

Developing countries' export earnings from textiles and garments, especially for countries in the Asian and Pacific region, are expected to increase substantially when the Multifibre Arrangement is phased out by January 2005, as envisaged by the Uruguay Round. However, in the first-tier NIEs and in some second-tier NIEs, clothing production becomes increasingly less profitable as a result of rapid rising wages, persistent labour shortages, an unstable workforce due to job hopping in the context of tightening labour markets, significant infrastructure bottlenecks and environmental problems. At the same time, there is more intensified competition from both producers in the region as well as from other regions. Social tensions and other difficulties have emerged in cases where foreign migrant labour is employed in order to relieve limited and exhausted local supplies. Together, these factors have created a number of valuable opportunities that could be exploited by more recent industrializing countries in the region.

It has often been pointed out that foreign partners are able to choose among the contending developing economies when they make their relocation decisions. This is seen as a crucial advantage in the distribution of the gains from trade in favour of TNCs, because they can break up the production chain into geographically-dispersed sites. When locations are networked in this way, skill content and the opportunities for learning and innovation at any one location may be more limited. On the other hand, cross-border linkages may be reinforced and strengthened at the expense of domestic linkages under complex relocation strategies developed by TNCs (UNCTAD, 1996a:113-114; and Ostry and Gestrin, 1993).

While these considerations are important, they should not be overemphasized for a number of reasons. First, there is a considerable degree of competition among TNCs when they carry out their strategic business relocation plans. Second, the beneficial spillovers and reinforcing linkages should not be underestimated, whether or not such positive externalities are derived largely from FDI or trading arrangements. When one garment exporter from the Republic of Korea enters Bangladesh, for example, this can induce the establishment of many other export-oriented businesses. The considerable export successes of Bangladesh in a product line came largely from the demonstration effects provided by the initial joint operations and the resultant learning-based adaptation and innovation by local entrepreneurs (Asian Development Bank, 1999:206). Third, the mandate for cross-sectoral coordination of structural upgrading and diversification properly belongs to the government and not to the foreign or domestic capital owners and investors. This should be the case because businesses have short-term horizons, rent-seeking behaviours and a tendency to free-ride. Four, it is the quality of FDI and not its quantity that counts.

The experiences of Asian NIEs with development through globalization and partnership are pertinent in several other aspects. In particular, industrial policies can be designed to encourage FDI selectively and systematically into a range of interdependent or complementary industrial activities, along with the associated business support services. The related subsectors are normally characterized by significant, but potential economies of scale and scope; multi-directional linkages which contribute to collective efficiency; and the potential for innovation. These are all major elements of long-term, dynamic comparative and competitive advantage. A selective approach is compulsory, because it helps concentrate, rather than disperse the limited financial, managerial and entrepreneurial resources available. Despite the perceived weaknesses and problems emanating from the public sector, the government still has a crucial and evolving role to play. One important government function is to coordinate and, as appropriate, guide the widening and deepening of the industrial base and its capabilities, at least during the initial stages. A similar role for government was also emphasized in the context of strengthening and diversifying the agricultural sector, which includes managing to reverse the transfer of resources.

Production of a range of high-technology exports has converged in the first-tier and second-tier NIEs of Asia, as noted earlier. East and South-East Asian economies have thus become more vulnerable to the risks and contagion caused by ripple or domino effects due to unstable or shifting demand, price fluctuations, price cutting and excess capacity. The vulnerability arises because export structures have become narrower while the geographical destination of exports have become more concentrated. More than 50 per cent of such exports are traded intraregionally. These were some of the major factors behind the export slowdown in East and South-East Asia during the mid-1990s. In part, these factors contributed to the financial and economic crisis and by extension its contagion effects (World Bank, 1998a: 22-28).

Subsectors with medium technology deserve renewed attention, not just because of the above considerations. There is evidence that over the last decade, world prices of skill-intensive manufactures have fallen relative to those embodying a moderate level of skill and technology. Another causal factor was the much faster growth in productivity in high-technology manufactures. This trend is readily apparent in the case of machinery and equipment embodying ICTs (refer to table 2). Medium-technology manufactures include consumer, intermediate and capital goods, such as iron and steel fabrication, metal and non-metallic products, non-electrical machinery and engineering equipment, sports and transport components and parts. Expanding production and export of these manufactures was strongly pursued by two East Asian NIEs, the Republic of Korea and Taiwan Province of China. They have generated sizeable export earnings from the 1960s to the early 1980s, before their relative importance was surpassed by high-technology goods (UNCTAD, 1996a).

The relative share in global consumption of medium-technology products originating in Asia is thus negligible for all practical purposes. This industrial subsector constitutes the so-called missing middle between the higher and lower ends of skill and technology that characterize the patterns of manufacturing production and exports in several second-tier NIEs, as indicated earlier. The scope for regional and interregional cooperation should be explored in order to strengthen and diversify this industrial segment. Significant economies of scale and scope and productivity gains can be expected if there are collaborative efforts to share research and development, product and process innovation, export marketing and commercialization under subcontracts or on the basis of original equipment manufacturing within the relevant regional or global chains.

The standard approach is to consider a suitable or desirable range of export-oriented, medium-technology industries; specific firms or clusters of enterprises that policies can target for encouragement, facilitation and coordination. An alternative for government action can be more generalized and functional nature. The main idea is to foster the acquisition, absorption and creation of the needed skills and technologies (including back-up facilities) as part of the subsector policy objectives. The policy combinations or configurations will depend on the specific situations and circumstances in each economy. There are, nevertheless, a few common denominators. Policy intervention should not be too extensive in scope or made without definite conditions about operational maturity or targeted export goals or be implemented without attention to limits of local absorptive capacities (Asian Development Bank, 1999:210).

In this context, it is worth noting that industrial widening and deepening is an evolving, ongoing long-term process. The Republic of Korea has been the first country after Japan to gain a global competitive edge in the automobile industry. The ancillary prerequisites in upgrading and deepening skills and technology (with external collaboration) required three decades of domestic production under import protection. Likewise in South-East Asia, the growing relative importance of high-technology exports, such as complex electrical machinery, semiconductors and telecommunications equipment from Malaysia and Thailand, emerged only in the 1990s. This was due, in part, to the initial low base of earnings from such exports in the previous decade. In general, an extended time frame is needed to mobilize and generate ancillary resources, manage technical lumpiness and indivisibility and establish complementary facilities and support services. The involvement of TNCs and the need for major imports of complex parts may help shorten, but not eliminate the gestation and capacity-building periods.

4. Policy challenges

An outward orientation to industrialization is both a process and a state of affairs to be achieved. An open trade regime requires some degree of policy neutrality about incentives for exports and imports. It does not necessarily imply active promotion of exports or facilitation of imports (Lal and Rajapatirana, 1987:197; and Lall and Latsch, 1998:449-451). In principle, an outward-oriented economy could be fully liberalized and yet employ exceedingly high tariffs to encourage import substitution (Krueger, 1978:26). Trade liberalization as such is but one of several elements of an outward-oriented policy reform package. However, by design or default, policy advocacy in this issue area has placed overwhelming emphasis on trade policy reform while ignoring other necessary reforms.

The transition from a controlled regime to an open trade regime is by no means smooth or free from problems. On the one hand, the scope, sequence, timing and pace of implementation for various sectoral policies are as crucial as they are complex. In addition, they remain far from identical or do not carry similar weights among diverse countries or sectors in each country. The importance and highly differentiated nature of these policy parameters have often been downplayed in the advocacy process or overlooked when implementing adjustment and reform.

The relationship between openness and economic growth is far from clear, both on theoretical and empirical grounds. External orientation is insufficient as a process or an objective in order to ensure sustainable globalization, converging integration and equitable development. Powerful and indispensable though they may be, economic openness and domestic policy liberalization are only intermediate levers and catalysts; they are not final outcomes themselves. As is the case in most economic interactions, the links between openness and growth through globalization and partnership are indirect and contingent rather than uniform or predictably deterministic. Their relative importance among interdependent economies also varies across space and through time.[31]

Challenges involved in making a policy transition towards greater global integration are obviously more involved and challenging for countries that are least developed or at the early stages of transition. Given the lack of resources, infrastructure and information, it is much more difficult for these countries to manage the process of globalization in several crucial areas. These include identifying emerging opportunities for trade and investment, appropriately coordinating the public and private (domestic and foreign) sector, creating ancillary infrastructure, setting up an appropriate regulatory framework to monitor private sector activities, developing human resources and promoting spillovers of benefits and other positive externalities across sectors.

The responsibilities in public governance do not just stop at initiating, maintaining and enhancing economic openness. There are other equally complex problems for constant policy attention. One set of issues concerns the equitable distribution of benefits and the sustainable sharing of transition costs and burdens between the winners and losers, both within and between interdependent nations. As economies grow and transform, they and the constituent sectors and industries within them move to different orbits of comparative and competitive advantage. The unavoidable processes of transitional adjustment, whether in the structure of production, employment, incomes or consumption, have not been cost free, timely or without unexpected reversals involving trading partners. They present continual difficulties in the calculus of domestic political economy; as the required restructuring has to be resolved satisfactorily among all involved stakeholders, domestic and foreign. Examples that indicate such complexity are various persistent frictions between developing and developed countries over standards and benchmarks concerning labour relations, conditions in the workplace and the environmental friendliness of production processes.

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[31] Key underlying forces include the nature of resource endowments; the extent of endogenous distortions and market fragmentation; the stage of development; the degree of vulnerability and the severity of external shocks; the availability of ancillary infrastructure and competent institutions; and the stability of policy. Recent empirical evidence on openness and growth are reviewed in Harrison,1996:419-447 and Mosley, 1999:157-174.

Market fragmentation, imperfections and failures (due to lack of information and knowledge and involving consumer protection) have to be redressed at different stages of development transformation. Such responsibilities in governance become more demanding and complicated with diversified and fast-paced economic growth. In particular, governments need to promote efficiency gains through competition that enhances welfare and is not destructive. This may include competition against the government itself, such as private provision of public facilities and services. However, such competition cannot be regarded as a natural and sustainable offshoot of economic liberalization and policy deregulation. It has to be complemented by an adequate regulatory framework to prevent abuse of a dominant position while guaranteeing adequate access for potential competitors and new entrants, among other considerations. The trade-off involves ensuring an acceptable, workable degree of competitive rivalry, which neither rewards prolonged inefficiency nor provides excessive collusive rents.

Likewise, liberalizing domestic and external financial transactions is a necessary step toward creating a more level playing field for economic players. If this is treated as an end in itself, however, the results can be counterproductive as demonstrated by the financial and economic crisis in East Asia. Proper timing and sequencing are crucial as is the prior availability of an established infrastructure and the capacity for transparent regulation, timely monitoring, and effective enforcement. Liberalization is more likely the result, rather than the basis of economic development and financial market integration.[32] Overall, there is no universal yardstick to determine the appropriate combinations or configurations of regulation, promotion and reliance on market forces; which means that the process has to be specific to the country and the situation.[33]

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[32] There is little evidence that convertibility of capital accounts leads to greater domestic capital formation, higher rates of economic growth or lower levels of inflation (Rodrik, 1998a:55-65).

[33] Liberalization and deregulation will be deficient, and possibly counterproductive, if the outcomes are left entirely to unleashed market forces. First, there will be under-investment in infrastructure facilities and services characterized by a large excess of social gains over private benefits. Second, the costs and burdens of transition will be unnecessarily heavy, including prolonged periods of gross capacity under-utilization. Third, the trajectories of dynamic comparative advantage will not be adequately fostered. Fourth, government regulation and intervention to safeguard public health and safety standards, maintain a minimum safety net for the disadvantaged, conserve resources and protect the environment is important to discourage free-riding, among other rent-maximizing behaviours (ESCAP, 1992a:197-199).

A conducive policy environment at the macroeconomic and sectoral levels will enable domestic industries and sectors to mobilize and allocate efficiently scarce productive resources. This applies regardless of whether outputs are exported, are based on high or medium technology, or are in the HIAP categories. However, intersectoral policy coherence, consistency and stability are crucial as well. The Asian financial and economic crisis has shown, in particular, that good macroeconomics and sound macroeconomic fundamentals cannot easily or sustainably offset bad microeconomics and inadequate industrial linkages and specific bad sectoral interactions.

Most dynamic and innovative industries and sectors are, as a rule, embedded in dense and expanding clusters of diversified, interactive linkages that are formal and informal; backward, forward, and lateral; local and distant within a country; and domestic and foreign. These are mutually supporting and beneficial relationships that must operate at all stages of the production and marketing chain. For example, suppliers, clients, and customers need mutually supporting and beneficial relations in order to obtain regular and informed feedback on design and feasibility, price and cost, quality and timeliness, delivery scheduling and distribution channels. Connections maintained with competitors would typically involve joint management of research and development risks, sharing technologies and infrastructure and collective sourcing of inputs and services. Evolving credit and other financing requirements, business facilitation, publicity and public relations can be better facilitated on a timely basis through close linkages with financial institutions and the providers of business support and marketing services. A network of interactive relationships is indispensable between business enterprises and among science and technology establishments, productivity and training centres and tertiary and research institutes. The mutual objective is to ensure more focused, dedicated and relevant research and development of product and process improvements, differentiation and innovation, and possibilities for commercialization.

An effective partnership is required between government and private enterprise at various levels of policy making, within institutions and support structures and in providing services.[34] Risks and uncertainties are greatly

[34] The appropriate levels, channels, modalities and types of interactive linkages are discussed in Knorringa and Meyer-Stamer, 1998:31-55.

reduced through cross-sectoral coherence and stability in policy stances, with better two-way flow of information so that lower transaction costs can be achieved in the process. On the demand side, interplay among private, government and semi-public actors will empower the industries and sectors and give them the necessary flexibility and resilience to meet the challenges from constant change and shifts in demand encountered as they restructure and globalize. On the supply-wide, these industries and sectors will be in much stronger positions to attract and absorb supplementary external resources, innovative technologies and cutting-edge knowledge as they make the transition to a higher trajectory of comparative and competitive advantage.

Competition is becoming increasingly crucial over time, whether it is considered in the aggregate or at the firm level. First, competitiveness has become increasingly related to human resources, as well as information and knowledge intensive. Ideas and information have become new factors of production as well as major determinants of business success or failure based on the new global competition. Second, non-material assets and capabilities are also easily traded and quickly disseminated across frontiers and firms. As a consequence, they have been more selective in their geographical destinations and possibly more volatile or footloose in their movements, given the fierce global competition for them.

A few crucial needs emerge from the above context. One, a large number of developing countries in the region, including those in South-East Asia, have not yet been able to create the ancillary infrastructure and service facilities that are crucial for developing their industrial base to be competitive, including the medium-technology subsectors of manufacturing. For example, this can be applied to forming and operating collaborative clusters and interactive networks of (lateral) firms, or between them and end-users (forward customers and backward clients). Two, there is an equally pressing requirement to initiate and promote dedicated research and development programmes to generate and enhance technological capabilities needed to upgrade or diversify processes. The tasks can be undertaken within firms or by public sector bodies, or as a collaboration of public-private entities. The latter form of cooperation is particularly relevant, because thus far there has been inadequate linkage between research, training and productivity (enhancing) institutions on the one hand, and domestic firms and other commercial end-users of research results and commercialization possibilities, on the other hand.

These inadequate linkages and lack of cooperation are reflected by the lack of an established, sustained track record of innovations and breakthroughs developed locally across a wide range of manufacturing activities and related services. In this regard, the second-tier NIEs' spending on research and development, an essential component of competitiveness, averaged 0.25 per cent of domestic output in the early 1990s; much below the level of the first-tier NIEs, particularly those in East Asia. At the same time, new patterns and modalities of industrial organization and location have not received the attention and promotion they deserve. Some pertinent issues and implications are examined in the following section.

F. International context for national policy making

National policy making in the context of rapid globalization cannot be examined realistically without referring to institutional developments related to the multilateral trading system. Three major events in the second half of the1990s will shape the patterns and characteristics of globalization and development for the Asian and Pacific region during the early decades of the new millennium. The three major events are (1) the establishment of the World Trade Organization (WTO) in January 1995, (2) the current re-examination of the so-called Washington consensus, and (3) the Asian financial crisis.

1. The new world trade regime

The creation of WTO at the conclusion of Uruguay Round trade talks was the completion of the final institutional pillar of the Bretton Woods institutions and serves as the centerpiece of a rules-based trading system that encompasses both developed and developing countries. It is a landmark development in world economic history. Prior to the Uruguay Round, which was launched in September 1986, developing countries did not have very strong interest in multilateral trade negotiations. They were, in effect, exempt from most disciplines imposed on the contracting parties to the General Agreement on Tariffs and Trade (GATT), but the Uruguay

Round changed all that. A much larger number of developing countries participated actively in the various negotiations. Membership in the WTO was now a prerequisite for access to trade liberalization benefits achieved thus far or to be negotiated. A total of 136 countries and territories are members of the WTO, with about 30 developing economies or economies in transition waiting for accession.

WTO membership involves signing a package of agreements related to trade in goods, including an updated GATT and 12 other agreements.[35] In addition, acceding countries must also sign the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Taken together these agreements are designed to provide a framework for global integration that helps member countries in a number of ways.

First, they provide significant trade liberalization in a number of areas in the form of further reduction in duties on developed countries' imports, reduced non-tariff barriers through the process of tariffication and expanding the scope of tariff bindings. Many of these concessions were not available to the Asian NIEs during the initial stages of their industrialization and export push. In particular, the greatly improved prospects for textile and clothing exports from the mid-1990s are a case in point. The estimated gains in annual exports could be several times greater than the value of gross FDI inflows and developing economies such as China, India and the Asian NIEs would be the main beneficiaries.

Second, there is now a rules-based framework which enables all members to participate in world trade in a more predictable and credible environment. The new rules apply generally to all countries, despite some special and differential treatment (S&D) accorded to least developed countries and to various categories of disadvantaged economies (including net food importers and those in transition to a market system).

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[35] The 12 agreements are on Agriculture; the Application of Sanitary and Phytosanitary Measures; Textiles and Clothing; Technical Barriers to Trade; Trade-Related Investment Measures (TRIMs); the Implementation of Article IV of the GATT 1994 (relating to anti-dumping); the Implementation of Article VII of the GATT 1994 (concerning customs valuation); Preshipment Inspection; Rules of Origin; Import Licensing Procedures; Subsidies and Countervailing Measures; and Safeguards. There are four other plurilateral trade agreements on civil aircraft, government procurement, dairy products and bovine meat, to which members can decline to accede. See Agosin *et al.*, 1995:1-34; Rodrik, 1995:35-60; Weston, 1995:61-96; and UNCTAD, 1996d.

Third, a longer-term perspective suggests that the multilateral disciplines imposed through the WTO can be an important catalyst for good governance, domestically and globally. Unilateralism has often been an attractive and frequent temptation for some trading partners who want to pursue self interest at the expense of multilateral security and predictability in trade. An issue of major relevance are perhaps the new disciplines embodied in the Agreements on Subsidies and Countervailing Measures, the single longest text of the Final Act. For the first time, subsidies are clearly defined. Those subsidies granted conditionally against export performance requirements or based on the use of local contents are prohibited. Drawbacks of import duties on inputs needed for exports are permitted, however. Subsidies provided to specific enterprises or industries can be actionable if they cause serious injury, directly or otherwise, to a member's industries. Non-actionable subsidies are those of a general nature. They include those disbursed for basic research and development, pre-competitive development of industries, backward regions, compliance with new environmental regulations, and in certain cases for privatization programmes in developing countries.

There are specific complex provisions, including a set of graduation criteria, for developing countries, least developed countries and economies in transition. The particular focus is on subsidies, which may be important for economic development but which, nevertheless, would otherwise be prohibited. For example, least developed countries and other countries with per capita income of less than US$ 1,000 (Annex VII countries) are exempted from export commitments to reduce export subsidies, provided export levels supported by subsidies are below a certain market share threshold (3.2 per cent of world trade in the relevant products for two consecutive years). Developing countries have eight years (extendable to 10 years) to phase out both categories of prohibited subsidies; two years are provided for their elimination if export competitiveness is reached in the meanwhile. For the least developed countries, phasing out applies only to subsidies conditional on the use of domestic inputs. On the other hand, several key subsidy programmes of certain developed countries belong to the non-actionable categories.

Beyond these generalized observations, a number of implementation problems and inherent weaknesses are becoming apparent within the multilateral trading system (Ricupero, 1999:5-9). Market access has not been widened to the extent initially anticipated for exports of developing countries' goods and services. After the Uruguay Round tariff cuts, developed countries still have tariff peaks, often exceeding 12 per cent, and escalating tariffs[36] on a range of products of export interest to developing countries. Such products include metals, textiles and clothing, leather and rubber goods, and to some extent, wood products and furniture. Constructive remedies have often not been tried before anti-dumping duties are imposed on developing countries' exports. At the same time, there is a proliferation of standards, technical regulations and sanitary and phytosanitary measures, which frequently are of an opaque scientific nature. This tendency has coalesced into a culture of litigation, entailing high levels of lawyer intensive, time-consuming negotiations to resolve disputes, another unexpected burden on many developing countries.

On the supply side, developing countries' earnings on agricultural exports remain hampered by persistent massive domestic support and export subsidies, plus tariff barriers and the system of tariff-rate quotas in developed countries. Moreover, various WTO provisions are perceived as imbalanced or biased against the interests of developing countries. Notable among these are the protection of intellectual property rights (IPRs) in relation to the interests of users of IPRs in the developing countries, the non-actionable use of industrial subsidies, and the inadequacy of special and differential treatment for fragile economies. Insufficient financial, human and institutional resources have prevented developing countries and least developed countries from participating more actively, complying with the many obligations and notification requirements in more timely ways and deriving more benefits from the multilateral trading system. The result has been relatively low rates of compliance by developing countries with the complex notification requirements of WTO. At the same time, the timely implementation of many specific obligations is both difficult and costly as domestic legislation and institutions have to be set up, restructured, revised and updated. This remains a constraint despite disseminating necessary information and initiating

[36] There are lower tariffs (average 0.8 per cent) for industrial raw materials and higher tariffs (average 6.2 per cent) for finished industrial products. Such tariff escalation obviously discourages further processing of primary intermediate products in their country of origin.

various training and education programmes for monitoring and enforcement purposes.[37]

2. Re-examining the Washington Consensus

The current re-examination of the so-called Washington Consensus is a second element of the international context for policy making linked to greater global integration. This is more than just an intellectual and ideological upheaval spearheaded by Stiglitz within the World Bank (Fine, 1999:1-2). In terms of process and outcome, it is likely to lead to a perception of development that is broader, more flexible, situation-specific, less technocratic and less hegemonic in a world becoming more separated by greater economic marginalization, and still mired in market fragmentation and imperfections. Likewise, a larger range of policy measures and incentives may be used to engender participatory development transformation, including welfare-enhancing competition and intervention, enlarged public and private sector interface for equitable wealth-creation and social capital formation.

The process had been initiated with some uncertainty as a directed response to the widespread controversies based on certain advocated assertions about neo-classical development strategy. The World Bank's comprehensive review culminated in the publication of its assessment of the East Asian economic miracle (World Bank, 1993). The document contains detailed information on patterns of economic and sectoral achievements among the eight Asian high-performing economies. It also examines at considerable length the evolution of policies and policy stances in these economies. Several important observations drawn from the analysis, however, met with massive criticism on both theoretical and empirical grounds.

It is interesting that there have been almost diametrically opposite explanations of the same miracle economies. The miracle was based on a developmental state and the (directed) profits-investment/investment-profits nexus that served as the invisible hand. Or the miracle emerged from relationships mediated largely through selective public-private sector interaction

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[37] UNCTAD, 1996d:7-19 gives quantitative details relating to market access provisions for industrial products, agricultural products and commercial services. The experiences of least developed countries under the current system and the elements of the new agenda for future negotiations are examined at some length in UNCTAD, 1998c:61-155.

and sweetened with large economic rents, rather than through market forces as such.

It was recently observed that only an ideologue would claim that but for their system of close government and business cooperation the East Asian economies would have grown even faster (Stiglitz, 1998a:26). On the other hand, the opportunity costs of such public-private interplay have not been adequately calculated, at least not in terms of various, alternative trajectories for development, capacity building, distribution and possible inter-generational considerations and priorities.

3. The Asian financial crisis

The financial and economic crisis erupted in mid-1997 in many parts of East and South-East Asia has set in motion a multi-faceted rethink about the policy orientation towards greater global integration. One concern relates to designing workable strategies for the least-cost and speediest resolution of financial crises driven by the private sector characterized by frequent instability and contagion resulting in serious socio-economic impact and far reaching ripple effects. The other issues involve searching for viable approaches to financial sector liberalization while strengthening, if not overhauling the international financial architecture in the face of mostly independent, highly volatile flows of massive amounts of short-term capital at real-time speed.

Opinions have diverged significantly with regard to the underlying assumptions, the extended scope and focus, the instruments and modalities and the impact of the International Monetary Fund (IMF) strategy for dealing with the crisis in Indonesia, the Republic of Korea and Thailand. The first component of this strategy built on the traditional approach of programmed demand contraction in order to restore confidence, reduce (formal) capital flight and stabilize the currency. The second component, meant to complement the first, involved far-reaching reforms of the financial and corporate sectors, in addition to ensuring significant improvements in governance, labour markets and competition policy.

In general, the East Asian crisis has served to alter views about the timing, pace, sequence and scope of the process, especially capital account liberalization, if not the eventual need for such liberalization at all. In addition, the adequacy of safeguard measures within the international financial system itself and the need for concerted international attempts to restructure the global financial infrastructure with a view to meeting the challenges posed by massive capital flows in a globalized age have become issues in their own right (Asian Development Bank, 1999; Bhagwati, 1998; Eichengreen, 1999; Feldstein, 1998; IMF, 1998c; Sachs, 1998; Stiglitz, 1998a; UNCTAD, 1998a; and Wade, 1998).

G. Concluding remarks

The salient features of the ongoing process of globalization and policy options for countries in the Asian and Pacific region have been examined with a focus on how to enhance developmental gains through greater global integration. The concluding remarks concentrate on a number of key inferences emerging from this discussion.

Linking the domestic economy to the global market in order to provide a vent for local surpluses is a critical building block for subsequent widening and deepening of the domestic supply base. Most developing countries in the Asian and Pacific region have gone through this early stage of economic opening and integration with the global economy. Other developing Asian and Pacific countries are in the process of opening and integrating. The surplus is typically exported in the form of primary and semi-processed commodities and subsequently light manufactured goods. Some countries, in particular the first-tier NIEs, have taken less than two decades for this phase before other more sophisticated export products became more important in their export structures. For many others countries, which are well endowed with natural resources, this phase could cover several decades.

Export-oriented specialization can lead to dynamic comparative advantage, but core competencies in manufacturing are significant in this context. Upgrading and diversifying industrial activities and services will broaden the scope for employment creation, create higher levels of value-added growth and build greater learning-based capacity. The process has to be tempered through greater competition with foreign producer, not through entrenched protection. Market discipline will have a cumulative impact on efficiency and flexibility as well as competitiveness.

In a world economy that is becoming increasingly integrated, comparative advantage and competitive advantage are now more human-made and knowledge-intensive. Such competitiveness is also driven more by quick and enhanced innovation for both process and product. Given their easy packaging and dissemination, wealth-creating assets and technologies are truly footloose across enterprises, sectors and economies. These push and pull factors imply, in turn, the growing importance of various nexus of cooperative linkages and collaborative networks at different levels of interaction for successful development through global integration. There is greater room for sizeable gains in collective efficiency, flexibility and capabilities through cooperation among firms, entities and institutions within and across borders.

Trade exposure, external policy orientation or domestic economic liberalization and deregulation are far from sufficient by themselves to ensure sustainable and equitable development transformation through globalization. Domestic absorptive capacity does matter, but it has to be nurtured through interplay of the policy environment, spearheading entrepreneurship and processes that generate and enhance skills.

The importance of FDI and other foreign private capital cannot be overemphasized. FDI often makes a difference between success and failure of firms, sectors and economies through the technologies, market access and ready mobility embodied in FDI. This is particularly important for late industrializing countries in the region. It is important to reiterate that foreign capital participation is not a substitute for local capabilities and resources. Foreign resources are important at the margin, but they usually assist rather than spearhead the development process. Such flows are normally channeled into a limited number of developing countries where there has been significant initial success.

The government's role is important and necessarily evolving in order to face the development challenge through globalization. The wide-ranging and often deep-seated market fragmentation and failures will require a proactive contribution in the form of policy incentives to compensate for the missing invisible hand in many countries at the early stages of development. It is now widely acknowledged that some of the present day NIEs correctly managed to get the prices wrong at the earlier stages of their development.

Such specific and extensive guidance by the government may not be feasible for many latecomer countries, because administrative and managerial resources are limited in the public sector. In addition, the room for extensive intervention has become increasingly limited as a result of the increasingly important disciplinary role of the multilateral trading system. Where relevant, however, policy assistance and support (and by extension, the beneficiaries and targeted industries and sectors) has to be framed and operated within clearly defined limits, with parameters on both the demand and supply sides clearly stipulated as well.

There is no dispute that taking advantage of trade and factor mobility is part and parcel of a good development strategy. It serves to bring the performance of domestic sectors and industries closer to their potential. Equally important, it contributes to widening and deepening the total opportunity space for all concerned through fuller mobilization and cross-border exchange of global resources and capabilities. Other things being equal, globalization and partnership can thus present countries and their governments with opportunities and resources for creative intervention (rather than inefficient and welfare-reducing interventions) and reform of policies and institutions. The process can help lock in changes and adjustment and render them irreversible. The long-run outcomes may include enhanced transparency, accountability, participation, and hence overall quality improvement of governance itself.

Achieving these outcomes is not cost free, and it is obvious that the flip side includes reduced policy autonomy and constrained flexibility with which the available policy incentives and packages can be deployed in support of national development priorities and aspirations. At the same time, there is greater exposure and vulnerability to exogenous shocks. Moreover, the persistent difficulties involved with ensuring equitable redistribution between winners and losers at various transitional stages have yet to be resolved with mutual satisfaction within and between countries. The rising tide of globalization will lift all boats, big or small, but the process will be far from smooth sailing. Some boats will move faster than other boats and others will drift away from the group or become stranded and marginalized among the submerged rocks.

II. INTEGRATION INTO THE MULTILATERAL TRADING SYSTEM: THE ROLE OF WORLD TRADE ORGANIZATION

A. Background

Some scholars have argued that today the global trading system is nearly as integrated as it was during the late nineteenth century golden era of free trade. There is an important difference between the two eras, however. Most of the present developing world (including much of the Asian and Pacific region) was under colonial rule in the earlier period which meant they had little say in international economic policy. However, developing countries today are able to exercise their own sovereign rights. This implies that developing countries now expect multilateral trading relationships to be formed on a fair and equitable basis. In fact, this would determine the extent of their actual integration into the global trading system.

The challenge for the WTO is thus to ensure that its rules and agreements are designed and implemented in ways that benefit developed and developing countries equitably. This means, firstly, not only reducing barriers to trade in goods and services for which developed countries have a comparative advantage, but also for those of export interest to developing countries. Second, there may be a need to create a level playing field for developing countries' participation in the international trading system by providing special concessions when trade reforms cause undue hardships initially. Third, for integration to be truly global, it would be necessary to ensure that all countries are given an equal opportunity to be on the same platform. This would mean applying the same yardstick for every country acceding to the WTO. Finally, the WTO would need to ensure that the world's most disadvantaged countries are given special assistance in their efforts to become integrated into the world trading system.

The Uruguay Round of trade negotiations concluded in 1994 and the formation of the WTO helped raise developing countries' hopes that the new trade rules and the institutional setting would enable them to accelerate their economic growth and increase their participation in the world trading system. However, five years since the conclusion of the Uruguay Round, developing countries, particularly the least developed, the Pacific island countries and other small economies continue to find it difficult to implement their Uruguay Round commitments and capitalize fully on the benefits expected from participation in the international trading system. Their comparatively weaker positions vis-à-vis developed countries has put these countries at a considerable disadvantage as participants in a multilateral trading system based on reciprocity and mutual benefit. The asymmetries and imbalances as well as the risk of increased marginalization pose new challenges to the development aspirations of many developing countries. These concerns and related issues for developing countries in the Asian and Pacific region are the focus of attention here.

The discussion will examine how the rule-based WTO system can help integrate developing countries into the global trading system. Progress to date in the implementation of the Uruguay Round proposals for removing tariff and non-tariff barriers to trade is considered along with the effectiveness of provisions giving special and differential treatment to developing countries. There is an evaluation of the process for accession to the WTO and of the special initiative for least developed countries under the "Integrated Framework". The achievements and failures of the WTO are summarized in order to arrive at some recommendations for ensuring that developing countries are integrated into the global economy on a fair and equitable basis.

B. Integration into a rule-based international trading system

The present interdependence among nations can be traced to the Bretton Woods Agreement signed in 1944 and the GATT signed in 1947. For the first time, an international institutional framework was created to promote economic cooperation among nations, including the promotion of international trade. Prior to that, the world economy had experienced three decades of political and economic instability, including mutual suspicions leading to autarchic economic policies, which had the potential to seriously imperil growth of international trade.

This did not happen and world trade continued to grow, was due mainly to these international agreements. In particular, GATT provided a set of rules that injected stability into the world trading system. It also provided a forum for dialogue where governments could resolve their differences and agree to forswear trade barriers. The first seven rounds of trade negotiations resulted in a considerable freeing of trade, most notably by reducing tariffs on manufactured goods. However, the country coverage of GATT rules was for the most part still limited. For example, the most successful of the non-tariff codes negotiated in the Tokyo Round, the Standards Code, was signed by only 47 countries. Most developing countries were not part of the so-called multilateral liberalization process of GATT.

Much of the blame can be placed on the weak enforcement mechanism of GATT under which the implementation of a decision by the dispute settlement body could be blocked by the offending government. Developing countries had an extra reason for wanting to join a rule-based system. If the rules applied equally to every nation, the economically powerful nations could not impose their will unilaterally on smaller trading partners. However, there was no incentive for joining an international trade agreement that lacked an effective mechanism to ensure that other parties kept their part of the bargain. Rules without a credible enforcement mechanism were clearly not enough to ensure integration.

The Uruguay Round agreements, leading to the formation of the WTO in 1995 as the successor to GATT, changed everything by obligating parties in a dispute to implement decisions of the dispute settlement body, unless the decision was unanimously rejected by WTO members. The current pre-eminence of the WTO as a world body is a direct consequence of this vastly enhanced authority to uphold and implement the rules. It has had a major impact on integrating nations into the global trading system. The WTO now has 136 member countries, including more than 100 developing nations, all of whom have agreed to the same set of trade liberalizing agreements that constitute the Uruguay Round package.

C. Fulfillment of commitments under various agreements

Most WTO rules are contained in about one dozen agreements that relate to market access for trade in goods. In addition to GATT, these include Agreements on Agriculture; Sanitary and Phytosanitary Measures; Textiles and Clothing; Technical Barriers to Trade; Anti-dumping; Subsidies and Countervailing Measures; Safeguards; Trade-Related Investment Measures; Customs Evaluation; Preshipment Inspection; Rules of Origin and Import Licensing Procedures. The two new areas of trade in services and intellectual property are covered by the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Intellectual Property Rights (TRIPs). There are also separate rules relating to establishing the WTO and dispute settlement. Most came into effect from 1 January 1995, when the WTO became operational. The following subsections describe the progress achieved with some traditional GATT concerns about tariffs and quantitative restrictions. Developments in other agreements relating to trade in goods are also considered.

1. Tariff reduction

Tariff reductions provide the most visible evidence of the level of integration of countries into a global trading system. Like the previous GATT rounds, the Uruguay Round led to significant cuts in tariffs. The applied average tariff rate is now just 13.3 per cent for developing countries and 2.6 per cent for developed countries. When looking at bound average tariff levels, the gap between developing and developed countries is wider: 25.2 per cent for developing countries compared to 3.5 per cent for developed countries. Among the developing ESCAP-member countries the average applied tariff varies between 3 per cent for the NIEs to 29.8 per cent for countries in South Asia, other than Sri Lanka where it was less than 10 per cent. The corresponding figures for East Asia and South-East Asia were 9.3 per cent and 15.6 per cent respectively (ADB, 1999, p. 186).

The low average tariffs of the developed countries, however, obscure tariff peaks in some sectors important to developing countries such as agriculture, textiles/clothing, leather and footwear, rubber and wood products. The average tariff on textiles and clothing remains at 15 per cent in the

United States and 9 per cent in the European Union. Similarly, the average tariff for leather, rubber and footwear is 8 per cent in Japan (ADB, 1999, p. 186). Tariff escalation also persists for a number of products of export interest to developing countries, including fish and fish products, leather, coffee extracts, cocoa pastes and crude vegetable oil. This situation discourages the processing industry for primary products in developing countries (UNCTAD, 1998a).

Nevertheless, the greater virtue of bound tariffs in the context of the new mechanism for rules enforcement is one way for the WTO to ensure that countries do not reverse the progress they have made in dismantling this traditional barrier to free trade. A second important development with regard to tariffs following the establishment of the WTO has been an attempt to eliminate tariffs in a specific sector rather than reduce tariffs across the board in each country. The most successful WTO negotiations in this area have involved information technology (IT) products (see box 1).

2. Quantitative restrictions

Quantitative restrictions are considered the most harmful traditional barriers to the integration of countries into the world economy. Apart from distorting trade, they tend to foster monopoly power and provide a conducive setting for rent seeking behaviour. GATT rules now prohibit the use of quantitative restrictions in all but very limited and closely monitored circumstances. Trade Policy Reviews undertaken by the WTO suggest that since the rules came into effect there has been a sharp decline in the number of quantitative restrictions in both developing and developed countries.

Developing countries have shown wide variations in the use of quantitative restrictions. In the Asian and Pacific region, the lowest incidence in the period after the Uruguay Round has been in high-income areas and countries such as Hong Kong, China (with none) and Singapore (with less that 1 per cent of exports subject to quantitative restrictions). Middle-income countries such as Indonesia (33 per cent), Republic of Korea (27 per cent), Malaysia (21 per cent) and Thailand (19 per cent) generally show a declining trend in the number of quantitative restrictions being used. Till recently, India had over 60 per cent items covered by quantitative restrictions.

Box 1. A new approach to tariffs

The period after the Uruguay Round has seen a new approach to tariffs that seeks tariff elimination in specific sectors rather than across-the-board tariff reductions. The biggest WTO negotiations have taken place for information technology (IT) products under the Information Technology Agreement (ITA), where 43 countries have agreed to reduce customs duties to zero on seven broad categories of IT products over a period from 1997 to 2005. China; Hong Kong, China; India; Indonesia; the Republic of Korea; Malaysia; Philippines; Singapore; Taiwan Province of China; Thailand and Turkey are signatories to the ITA.

Many other countries are wary of a sectoral approach, which they believe ignores their interests and circumstances, especially the impact on small and medium-sized enterprises (SMEs). The arguments are essentially of the infant industry type. Joining the ITA would effectively remove any future possibility of raising protective barriers in order to nurture a nascent IT product industry.

Table 5. Percentage shares of trade in IT products

Asia-Pacific region		*Rest of the world*	
1. China	2.8	15. Argentina	0.2
2. Hong Kong, China	4.3	16. Brazil	0.4
3. Taiwan Province of China	3.9	17. Canada	3.7
4. India	0.1	18. Chile	0.1
5. Indonesia	0.3	19. Colombia	0.2
6. Republic of Korea	4.9	20. Czech Republic	0.4
7. Malaysia	5.0	21. European Union	12.2
8. Philippines	0.6	22. Israel	0.6
9. Singapore	10.7	23. Mexico	2.4
10. Thailand	2.4	24. Morocco	0.1
11. Turkey	0.2	25. Norway	0.5
Total developing countries	**35.2**	26. Peru	0.1
12. Australia	1.1	27. Poland	0.2
13. Japan	15.7	28. Slovenia	0.1
14. New Zealand	0.2	29. South Africa	0.4
Total developed countries	**17.0**	30. Switzerland	1.3
Total Asia-Pacific region	**52.2**	31. Tunisia	0.1
		32. United States of America	24.7
		33. Venezuela	0.1
		World total	**100.0**

Source: WTO Secretariat, January 1997.

The relative rankings of groups within the region in terms of quantitative restrictions, or non-tariff barriers (NTBs), has followed the same pattern as tariffs. The lowest incidence is found in the NIEs, followed by South-East Asia. In China and South Asia, the incidence of quantitative restrictions is higher than the rest of the region and higher than developing countries average in other parts of the world.

The sharpest declines in developed countries' quantitative restrictions have been due to the tariffication of agriculture quotas (Norway) and the abolition of voluntary export restraints (the United States and the European Union). However, inflated tariff equivalents in agriculture, the persistence of quotas in textiles and clothing and in agricultural products in many major developed countries has meant that developing countries may not have gained much in terms of market access. The increased application of environmental standards, sanitary and phytosanitary (SPS) measures and subsidy investigations have emerged as new forms of NTBs, limiting the positive effects that the decline in quantitative restrictions may have had on integrating developing countries into the global trading system.

3. Anti-dumping measures

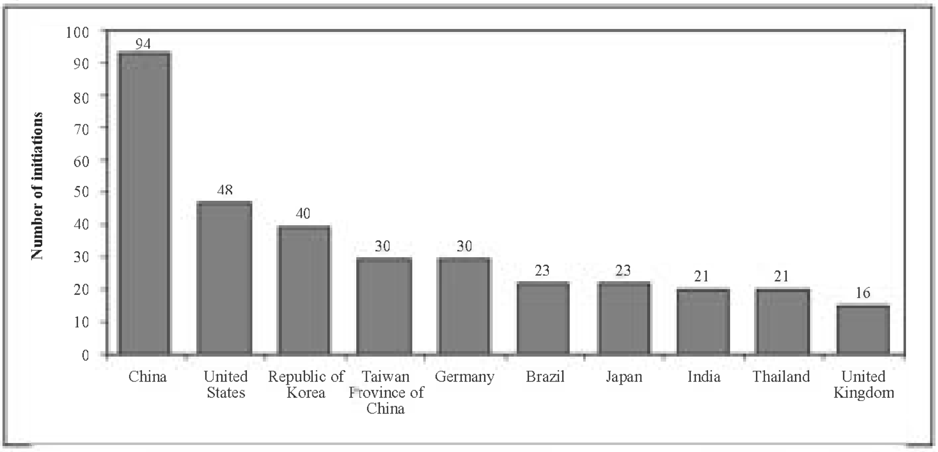
Though economists regard anti-dumping provisions as protectionist, they are often rationalized with the argument that countries in the process of liberalizing trade need to be reassured that dumping would not undermine their reform efforts. In practice, the most frequent users of anti-dumping measures have been countries and groups that have already substantially liberalized their trade, such as the European Union, the United States, Australia, Canada and New Zealand. Anti-dumping measures came to be regarded (along with voluntary export restraints) as major NTBs used by developed countries in the 1980s and early 1990s and major obstacles to the integration of developing countries into the multilateral trading system.

The Agreement on Implementation of Article VI of GATT 1994 (generally known as the Anti-dumping Agreement) attempted to tighten the rules and circumstances under which the measure could be used. Since coming into effect on 1 January 1995, about 30 countries have initiated anti-dumping measures. The broad picture is that there has been a decline in overall use of the measure from 1,072 initiations from 1991 to 1994, to 862 between

1995 and 1998. The largest users in the post-Uruguay Round period continue to be the European Union (122) and the United States (94). The proportion of anti-dumping initiations by developed countries has fallen from two thirds (1991-1994) to half (1995-1998). Among developing countries, there has been a decline in usage by countries that were previously major users (Mexico, Brazil). On the other hand, countries such as India, Republic of Korea and Argentina have significantly increased their use of anti-dumping measures.

The largest number of anti-dumping measures in the post-Uruguay Round period has been initiated against China (about 100), followed by the United States (about 50). Figure 1 shows that five developing countries (apart from China) are among the top 10 countries subject to the measure between 1995 and 1997.

Figure 1. Countries most affected by anti-dumping (1995-1997)



Source: WTO Secretariat, Rules Division.

Conducting investigations of dumping is not an easy task, because the Anti-dumping Agreement has a number of precise technical rules governing use of the measure. The danger from overlooking procedural requirements was illustrated in a recent case initiated by Mexico against Guatemala in the WTO. It is costly to send investigative teams (usually accountants) to the exporting country. Contesting the measure in the WTO Dispute Settlement Body is also expensive. Only the more resourceful developing countries have successfully faced an anti-dumping measure initiated against them (for example, Mexico's case against Guatemala, the Republic of Korea's case against the United States on semi-conductors and India's recent application against the European Union on cotton-type bed linen). The balance of convenience for an anti-dumping measure appears to favour the richer countries.

From a consumer's point of view, dumping is good because it makes products available at lower prices. For the exporting firm, dumping is not sustainable. Some trade administrations have explained that dumping takes place when firms in the exporting country have the ability to hide behind tariff barriers and use their monopoly profits to recover the losses incurred when dumping goods at a loss in a foreign market.

However, this does not quite explain the initiation of anti-dumping measures against Hong Kong, China, which is virtually a free trade zone. Such actions reinforce the viewpoint that anti-dumping measures have often been used as a convenient way to provide protection to a domestic industry. There are thus several compelling reasons to reconsider anti-dumping as a legitimate measure of the multilateral trading system, not least because it has served to divide more than to integrate the international trading community.

4. Agreements on countervailing duties and safeguards

Countervailing duties and safeguard measures, along with anti-dumping duties, are considered to be the trio of contingency or escape provisions from the WTO rules. They can be used by nations in the event that trade liberalization might inflict unjust damage on a domestic industry. However, if applied indiscriminately, like anti-dumping measures, they become serious NTBs that frustrate attempts to integrate globally.

The Agreement on Subsidies and Countervailing Duties appears to have successfully tightened the procedure and criteria for using countervailing duties. As a consequence, figures show that the overall use of this retaliatory measure has fallen to one quarter of what it was in the years immediately preceding the Uruguay Round agreement. In fact, no country in the Asian and Pacific region has made use of the measure since then, and the only country in the region subject to countervailing duty investigations during this period has been India.

Safeguard measures have been used even less. Only 19 such measures were initiated during 1995-1997, 14 by developing countries in the region, including six by India and three by the Republic of Korea. This is about the same level that existed in the two-year period prior to the Agreement on Safeguards. The low level of use can be attributed to the presence of a most-favoured nation (MFN) condition in the agreement, which prohibits the application of a safeguard measure on a bilateral basis.

A major accomplishment of the Safeguards Agreement has been the elimination of voluntary export restraints (VERs). Article 11 of the Agreement prohibits the use of these grey area measures, which had proliferated during the previous decade as a major form of protection. Trade Policy Reviews conducted by the WTO of major targets of VERs, such as Japan and the Republic of Korea, and information from the notifications issued by the major users of VERs, such as the United States and the European Union, suggest that VERs have just about disappeared. This is an area where WTO rules appear to have effectively helped integrate nations into the multilateral framework by doing away with an essentially bilateral arrangement between countries.

5. The Agreements on Technical Barriers to Trade, Sanitary and Phytosanitary Measures and Rules of Origin

Technical standards, standards of hygiene and rules that decide the origin of an imported good can sometimes hinder free trade. Lately, these have been considered as new forms of NTBs that could be obstacles to integrating developing countries into the world economy. This has stimulated the need for multilateral agreements in these areas.

The Technical Barriers to Trade (TBT) Agreement is an extension of an earlier code from the Tokyo Round. The Agreement on Sanitary and Phytosanitary (SPS) Measures is a creation of the Uruguay Round which attempts to minimize the use of SPS measures that were expected to increase once trade in agricultural products was liberalized under the Uruguay Round Agreement on Agriculture. Both the TBT and SPS Agreements elaborate upon Article XX (b) of GATT 1947 permitting countries to impose trade restrictions for the protection of humans, animals, plant life and health. On the other hand, the Agreement on Rules of Origin aims at harmonizing non-preferential rules of origin to prevent disparate rules of origin in different countries from becoming barriers to trade.

It is still an open question how far have these agreements succeeded in achieving their objectives. Developing countries argue that, in fact, they have not made much difference. For instance, two sectors where rules of origin have been frequently changed to adversely affect the exports of developing countries are coffee and textiles. Similarly, SPS measures based on the high health and hygiene standards of developed countries are being increasingly applied to primary products that remain the main exports for a large number of developing countries. The Agreement on TBT relates to manufactured goods which now constitute the largest sector of many developing countries' exports. The greatest obstacle for developing countries in this case arises from environmental requirements. Recent case studies indicate that environmental standards in developed countries focus particularly on fisheries and forestry, textiles and clothing, leather and footwear and certain consumer goods. This is a matter of serious concern for developing countries of the Asian and Pacific region, because these sectors account for nearly two-thirds of their manufactured exports value (WTO, 1999d).

6. The Agreement on Agriculture

Along with textiles/clothing, the liberalization of trade in agriculture has generally been seen as providing great potential to help integrate developing countries into the world economy. By focusing on an area of major export interest for developing countries, the Agreement on Agriculture is often cited as one of the biggest gains for developing countries from the Uruguay Round. However, the tough negotiations that preceded it made the final agreement weak. For example, although export subsidies are regarded as the most distortionary policies for promoting domestic production and were prohibited under WTO rules for manufactured goods, they were allowed in agriculture, if scheduled. In fact, 40 countries have listed a total of 428 agricultural products as eligible for export subsidies in their schedules. Studies have also shown that other unique provisions of the agreement such as tariff-rate quotas and special safeguards have also limited the scope of liberalization for agricultural trade (Hathaway and Ingco, 1996:88-124).

Perhaps the most obvious practice that has undermined the opening of agricultural trade relates to agricultural tariffs. The Agreement on Agriculture required that WTO-member countries convert all quotas on agricultural products into tariffs and reduce them according to a timetable (36 per cent over six years for developed countries and 24 per cent over 10 years for developing countries). A growing body of literature suggests that many countries took advantage of the non-binding nature of the conversion formulas to set the tariff equivalent at an inflated level (Ingco, 1995; Finger, Ingco and Reincke, 1996). The targeted tariff cuts thus became meaningless. As a result, according to recent studies, post-Uruguay Round tariff rates have been lower than the actual tariff equivalents of pre-Uruguay round quotas for only 14 per cent of agricultural products that underwent tariffication (Finger and Schuknecht, 1999).

The contribution of the Agreement on Agriculture to integrating developing countries into the global trading system has thus been marginal. Liberalization of trade in agriculture clearly remains an important unfinished business of the Uruguay Round. According to the WTO, "The Agreement on Agriculture is more important for its potential effects in future rounds of trade negotiations than for its effects during the implementation of the Uruguay Round" (WTO, 1999a, p. 205).

7. The Agreement on Textiles and Clothing

Estimates of the economic impact of the Uruguay Round vary based on methodology as well as on the assumptions, so there is no precise figure to quantify the likely welfare benefits of the WTO agreements. However, various studies are unanimous in their argument that the Agreement on Textiles and Clothing was a critical aspect of the Uruguay Round's market access commitments for goods, and the global benefits of the round were therefore contingent upon its implementation (WTO, 1999a, p. 205). For many developing countries whose major manufactured exports were textiles and/or clothing (mostly the latter), removing export barriers in this sector was critically important for their integration into the global economy.

The agreement is especially important for the Asian and Pacific region, which is the location of some of the world's biggest exporters of textiles and clothing. In 1997 for example, six of the world's 12 leading textile-exporting countries were from this region (Hong Kong, China; China; Republic of Korea; Taiwan Province of China; Japan and India). In that same year, six Asian economies (China; Hong Kong, China; Turkey; Republic of Korea; India and Thailand) were among the world's top 12 exporters of clothing.

The agreement aims to eliminate the quantitative restrictions that have existed under the MFA for more than 25 years. Specifically, the agreement provides for the progressive liberalization of quotas on a certain percentage of textile/clothing products in four stages during the period from 1995 to 2005, by which time all products should become integrated into GATT 1994. However, the choice of products to be integrated at each stage was left to the discretion of individual countries. Some major importing countries with textile/clothing quotas have integrated only those products (for example, yarn) on which there were no quotas. As table 6 shows, compared to a target of 33 per cent product integration by the end 1997, none of the original quota imposing countries, except Norway, had eliminated more than a small percentage of their actual MFA quotas.

Table 6. Number of MFA quotas notified and eliminated by country and grouping at the end of stage two (1 January 1998)

	Notified	Eliminated	
		Number	Percentage
United States	650	8	1
European Union	199	14	7
Canada	205	28	14
Norway	54	46	85

Source: Finger and Schuknecht, 1999.

A study that examined the welfare consequences of abolishing MFA as envisaged under the Agreement on Textiles and Clothing found that there were significant long-term welfare gains to efficient exporting countries, such as China, South Asian countries, Indonesia, Malaysia and Thailand. This would be at the expense of relatively inefficient exporting countries in Latin America, the Middle East, North Africa, Eastern Europe and the former Soviet Union (Harrison, Rutherford and Tarr, 1997). The latter group of countries have been able to maintain sales due mainly to quota protection under the MFA. This means that the longer the importing countries delay the elimination of quotas, the longer inefficient countries would benefit at the expense of efficient producers. The backloading of quotas by major importing countries has meant that the Agreement on Textile and Clothing has not yielded the expected benefits to the Asian and Pacific region, the location for nearly all the countries that have a genuine comparative advantage in these products.

Many studies on the implications of abolishing the MFA indicate that while the Asian and Pacific region as a whole may gain, some countries in the region could lose. This includes the NIEs, where the comparative advantage has already shifted to more capital and skill intensive sectors and least developed countries like Bangladesh and Lao People's Democratic Republic, which depend heavily on imported raw materials and fabrics for their clothing exports. They are also still producing in the low-end clothing categories. Such countries would find it difficult to remain competitive in a quota-free environment. Firms located in the NIEs have therefore been investing substantially in the textile and clothing sector of other developing countries in the region. The potential for expanding exports from the latter countries following the abolition of quotas should yield increasing returns to foreign investment firms from the NIEs.

D. Trade in services

The previous discussion has tried to evaluate how the integration of developing countries into the global economy has been affected by WTO rules regarding trade in goods. Attention should also be given to two areas of world trade, services and intellectual property rights, where multilateral rules have been applied for the first time in the Uruguay Round. A complete evaluation of the impact of WTO agreements in these sectors is limited by lack of data. However, the general impression is that while developing countries are likely to gain from the new rules covering trade in services, the present form of the new multilateral rules on intellectual property rights are likely to have the opposite effect.

Rules covering trade in services are contained in the GATS signed at the end of the Uruguay Round and in the protocols that emerged from subsequent sectoral negotiations, most notably in the areas of telecommunications and financial services. Initially, multilateral agreement to liberalize trade in services was not an agreed upon objective of the Uruguay Round (UNCTAD, 1994, pp. 145-157). One reason why GATS emerged was because a number of developing countries were disillusioned by the results of inward-looking policies and they had begun to look abroad for sources of essential infrastructure services. This coincided with the interests of service suppliers in developed countries who were interested to move beyond saturated domestic markets.

Nearly 160 service activities were covered by the GATS negotiations in principle. At the conclusion of negotiations in April 1994, developed countries had committed to liberalize about 80 per cent of these services and developing countries committed to about 20 per cent. There were variations among regions of developing countries. The most conservative were African and Caribbean countries, while Latin American countries had a middle position. Asian and Pacific countries and areas had the widest variation. Hong Kong, China; the Republic of Korea; Thailand and Turkey were most liberal and made commitments to open 71 to 80 per cent of service sectors. Malaysia, Singapore and the Philippines agreed to open from 41 to 70 per cent. Pakistan; India; Brunei Darussalam and Macao, China agreed to open 21 to 40 per cent of their service sectors, and Bangladesh, Fiji, Sri Lanka, Indonesia and Myanmar opened 1 to 10 per cent).[38]

The number of consultation requests, panels and appeals related to GATS under the WTO dispute settlement mechanism has been small compared

[38] Many countries have since submitted revised schedules of commitments. Malaysia has commitments in over 130 sectors, which now make it one of the world's leading countries in terms of GATS commitments.

to other agreements. Perhaps this indicates that WTO members have been generally fulfilling the commitments made in their national schedules.

One can ask how useful has GATS been for developing countries. Although it is not an investment agreement, one anticipated benefit for developing countries from GATS was that it would help attract FDI in the services sector. GATS introduced an innovation to multilateral rules by including commercial presence (Mode 3) within its scope. A large number of WTO members thus committed to allowing foreign firms to establish branch offices or agencies within their territory in that service sector which they agreed to open to foreign participation. In this way, the host country was committed to protecting the rights of a foreign firm that had set up local unit for the supply of a service. In the absence of any equivalent provision in GATT, this meant that foreign investors would see that FDI in services was now safer than FDI to produce goods.

One way then to evaluate the impact of GATS rules on developing countries is to see how successful they have been in attracting FDI to their services sectors. Comparable data on the flow of FDI into services sectors of developing countries are not available, but some idea of trends is shown in table 7. The table shows the extent to which FDI has been attracted to the public switched telephone network (PSTN) of developing countries that participated in the Basic Telecommunication Negotiations under GATS.[39]

Table 7 clearly shows that Latin America has been more successful in attracting FDI to the telecommunication services sector compared to Asia or Africa. For Asia, one reason for less flows of FDI is GATS commitments by many Asian developing countries to cap foreign equity ownership at conservative levels. This reflects a basic dilemma faced by developing countries, where a commitment that is too liberal may mean increased economic dependence on foreign suppliers.

Given the larger number of countries competing for FDI, those developing countries with conservative approaches to FDI will be challenged to make their services sector sufficiently attractive to foreign investors. On the other hand, a well-developed services sector is not only an end in itself, it is also

[39] Some countries divested ownership in telecommunication monopolies before the Basic Telecommunication negotiations. The table is useful nevertheless for illustrating general trends for FDI flows into the services sector of developing countries.

Table 7. Foreign ownership of public switched telephone networks in developing countries

	South and Central America	Asia and the Pacific	Africa
Majority foreign ownership	Argentina Barbados Bolivia Brazil Chile Colombia Dominica Dominican Republic El Salvador Grenada Guyana Jamaica Peru Venezuela		Côte d'Ivoire Uganda
Minority foreign ownership	Belize Cuba Mexico Panama Trinidad and Tobago	Bangladesh India Malaysia Mongolia Philippines Sri Lanka Thailand	Ghana Senegal South Africa
None	Antigua Guatemala Ecuador Nicaragua Suriname	Indonesia Republic of Korea Pakistan Papua New Guinea Turkey	Djibouti Gambia Kenya Lesotho Mauritius Morocco Nigeria Tunisia Zaire Zimbabwe

Source: Compiled using telecommunication survey results in "General Trends in Telecommunications Reform 1998", volumes I-VI, International Telecommunications Union, Geneva.

a crucial support for the goods sector. An inefficient services sector can slow the development of the goods sector. This appears to be a good reason for some developing countries of the region to review their cautious approach to trade liberalization in services.

There are indications that rethinking along these lines is taking place, especially in those countries affected by the recent economic crisis. For example, Thailand has reversed its policy of not allowing any foreign equity in telecommunication services and now permits 51 per cent foreign ownership. Similarly, the Republic of Korea has raised foreign ownership limits in telecommunication services from 33 to 49 per cent. Malaysia has gone even further by relaxing foreign equity limits in telecommunication services to 61 per cent from a level of 30 per cent before the economic crisis.

Developing countries have been trying to persuade developed countries to abandon their reluctance to liberalize movement of natural persons (Mode 4) in view of the great efficiency gains likely to benefit everyone. Developed countries have placed little or no restrictions on access for business visitors and senior corporate personnel, but not for "self-employed service suppliers", a category that covers unskilled workers. In the past, such workers from labour surplus countries such as India, Turkey and the Republic of Korea, among others, have supplied their services for construction activities in the Middle East, Germany and other parts of the world (Krueger, 1998). Developing countries are compelled to ask why developed countries have made so few GATS commitments in this category compared to their interest in liberalizing movement of goods and capital where they have a comparative advantage. This clearly raises the question of equity in international trade negotiations.

Broader commitments from developed countries on the movement of natural persons is desirable not only for equity reasons, but also for reasons of efficiency. Just as a tariff barrier results in a good being produced relatively inefficiently domestically, barriers to the use of lower cost labour from abroad will likewise result in production inefficiencies. The overall gains to national welfare of a labour-scarce country by easing such barriers is equal to the welfare benefits from an increase in the endowment of a scarce factor of production, something often demonstrated by economists using simple factor market equilibrium models.

The main worry that seems to have guided restrictive policies towards foreign workers into developed countries has been the prospect of a decline in wages for unskilled domestic workers as a result of increased labour supply. However, recent work on the economics of migration suggests that the decline in wages usually tends to be localized (confined to some large cities or areas where construction activity is located). This negative impact may be compensated partly by a rise in the employment rate and wages of semi-skilled domestic workers, in view of increased supervisory requirements (Rivera-Batiz, 1998). In addition, the GATS commitments refer only to temporary work permits and not long-term migration, which means that the downward pressure on wages may also be temporary.

The GATS has great potential for integrating developing countries into the global trading community. It is particularly significant for the Asian and Pacific region, home to the biggest share of the world's population and thus the largest reservoir of natural persons. The recent financial crisis notwithstanding, it has also been the world's fastest growing region in economic terms. This means that there is likely to be a large demand for world-class services in the region during the next few years. This potential remains underutilized due to hesitation by both developed and developing countries to liberalize different modes of service supply. The built-in review of GATS due to begin this year in the WTO would be a good opportunity for both sides to take a hard look at what they might lose in terms of overall national welfare by limiting their commitments in this important sector of world trade.

E. Trade-related aspects of intellectual property rights

The subject of trade-related aspects of intellectual property rights (TRIPs) is surely the most controversial of the Uruguay Round agreements. Its role in the multilateral trading system continues to be a sensitive issue among developing countries. In view of the transitory periods granted to developing countries (until 2000 in general, and another five years for certain specific provisions; until 2006 for least developed countries) for implementation, it is too early to measure the extent to which countries have fulfilled their obligations under the TRIPs agreement. Instead, it is possible to look at some contentious issues that have surrounded the agreement from the start.

There are basically two broad arguments put forward by advocates favouring the agreement. One is that it encourages transfer of technology. For instance, under the Agreement applicants for patent rights are obliged to disclose the technical aspects of their invention. By promulgating laws to grant patents, developing countries thereby stand to benefit by dissemination of technology from at home and abroad. Second, the absence of intellectual property laws discourages inventions and innovations, so people have less motivation to work on new products or processes if they believe it will be copied and sold at a lower price that does not reflect the costs of the research and development.

On the other hand, developing countries question the proposition that the TRIPs Agreement will encourage transfer of technology. They argue instead that strict implementation of intellectual property laws would have the opposite effect and make the process of technological adaptation more difficult and costly. The basic question is whether the protection of a potential stream of income from an invention is more important than the ability of a society to gain its benefits quickly and inexpensively. The answer is not obvious and involves value judgements about private profit versus public good.

There is also skepticism about the proposition that the absence of intellectual property laws discourages innovation. There is strong empirical evidence that technological innovation in developed countries has occurred at a steady pace during this century, which implies that the process is not hampered by the lack of intellectual property right laws in developing countries. Growth accounting studies have shown that technological innovation accounted for 49 per cent of the increase in total factor productivity in the United States from 1948 to 1985. Similar calculations give a figure of 76 per cent for France, 78 per cent for Germany, 55 per cent for Japan, and 73 per cent for the United Kingdom (Boskin and Lau, 1992). More recent data on the United States' economy show that much of the current economic boom is due to technological change in the information technology sector. Significantly, the latter's most visible manifestation, the Internet, is freely available to countries worldwide.

Those who believe that TRIPs should remain in the WTO and not in the World Intellectual Property Organization (WIPO) argue that WTO has the legal authority to enforce the disciplines in the agreement while the WIPO does not. However, this contradicts the long-standing GATT principle of having one policy instrument for each policy objective.[40] Few economists would agree that the use of trade policy instruments to protect the intellectual property rights of citizens is an efficient solution. Furthermore, strict enforcement of intellectual property laws by all countries may mean that world welfare as a whole may fall. This would happen if the increase in private profits in one country (the inventor's home) is outweighed by welfare losses in the rest of the world as consumers abroad confront higher prices for the product. The upcoming review of the TRIPs Agreement could be an opportunity to reflect on some of these issues.

F. Effectiveness of special and differential treatment provisions

Special and differential treatment provisions in GATT seem to represent the most direct incentives given to developing countries to help integrate them into the multilateral trading system by softening the impact of trade policy reforms. Developing countries complain, however, that there is a difference between the provisions and how they are applied in practice.

There are two main types of special and differential (S&D) concessions given to developing and least developed countries under the various WTO agreements. First, there are mandatory concessions that other WTO members are bound to give to developing countries. These include (1) longer time frames for implementing the rules, and (2) fewer obligations under the rules. In fact, these two concession together account for 43 of the 97 S&D provisions contained in the Uruguay Round agreements (WTO, 1999b). Second, there are a large number of S&D provisions that are exhortative in nature rather than binding on WTO members. These include (1) provisions calling on developed countries to increase trade opportunities for products and services

[40] In fact, this principle has guided GATT initiatives such as the prohibition of export subsidies on manufactures and efforts to reduce tariffs and quotas designed to protect infant industries.

of interest to developing countries, and (2) provisions that expect WTO members to safeguard the interests of developing countries.

Mandatory concessions are commonly used by developing countries to suit their special needs and circumstances. For instance, India is one of several developing countries that has been actively making use of the longer time-frame concessions to phase in its trade policy reforms. Similarly, the right to delay implementation of provisions in the Agreement on Customs Valuation for five years has been invoked by 12 least developed countries (WTO, 1998). All WTO agreements, with the exception of GATS and the agreements on anti-dumping and preshipment inspection, provide transition periods for developing countries. For example, the Agreement on Trade Related Investment Measures (TRIMs) allows developing countries five years to phase out TRIMs. Other examples include TRIPs (four years for developing countries and 10 years for least developed countries) and the Agreement on Subsidies and Countervailing Measures (eight years). In some cases, however, developing countries have complained that the transition periods are too short. For instance, the SPS Agreement allows only a two-year transition period for developing countries to arrive at the higher standards of health and hygiene of developed countries. Not surprisingly, commodity exporters in developing countries have recently been complaining about the greater SPS barriers that they face.

Many developing countries have also had recourse to the concessions where WTO rules apply with less than full force. For example, the Philippines, the Republic of Korea, India, Bangladesh and Pakistan have maintained quantitative restrictions on balance-of-payments grounds, even in the absence of any imminent threat of a decline in reserves. This is a concession not available to developed countries. Developing countries have likewise made use of lower tariff and subsidy reductions permitted under the Agreement on Agriculture, the exemption from the prohibition of export subsidies for least developed countries and Annex VII countries under the Subsidies Agreement and the GATS provisions that allows developing countries to open fewer service sectors. Some of these concessions are subject to general provisions of the agreement that have in effect rendered them meaningless, however. For instance, least developed countries are not required to undertake reduction commitments related to their domestic support or export subsidies under the

Agreement on Agriculture. However, they are subject to the general requirement that the current aggregate measurement of support (AMS) should not exceed 10 per cent of the AMS of the base period (1986-1988). Most least developed countries did not provide domestic support or export subsidies during the base period and are thus unable to take full advantage of this concession (UNCTAD, 1998c).

The implementation of the non-mandatory S&D provisions has been the subject of major concern for the developing countries. Some problem areas are described here.

1. Increased trade opportunities in goods and services of interest to developing countries

Article XXXVII (a) of GATT 1994 requires developed countries to accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less developed contracting parties. It is well known that two areas of export interest to developing countries are agriculture and textiles/clothing. Developed countries could have helped their cause by expediting liberalization under the Agreements on Agriculture and on Textiles and Clothing.[41] As mentioned, developing countries complain that the opposite has, in fact, happened. Developed countries have effectively stalled the already drawn out liberalization process in these sectors through dirty tariffication in agriculture and backloading in textile and clothing. Dirty tariffication means setting the tariff equivalent of an existing quota at an inflated level. Backloading means delaying the elimination of the more significant quotas until near the end of the 10-year implementation period.

With regard to trade in services, GATS Article IV (1) C envisages increasing the participation of developing country members in world trade through the liberalization of market access in modes of supply of export interest to them. As stated, one mode of supply of export interest to developing countries is the movement of natural persons. From the beginning, the

[41] Developed countries are expected to reduce tariffs on agricultural product by 36 per cent over a six-year period. Textile quotas are scheduled for elimination by 2005. This is in contrast to a majority of WTO agreements in which developed countries are expected to comply with the rules from the beginning.

limited commitments offered by developed countries in this regard have neutralized much of the comparative advantage developing countries have in this area. Developed countries have persisted in using tests of economic need, cumbersome work permit and visa requirements and restrictive qualification requirements, even when the question was not about permanent migration but was limited to issuing temporary work permits. Developing countries believe that this area could have made a major contribution to their integration into the global trading system and at the same time would result in unprecedented efficiency gains for developed countries as well.

2. Recognizing and safeguarding developing country interests

Several provisions in the WTO agreements provide that members, especially developed countries, take into account the interests of developing countries before applying a trade measure. These provisions include Article 24:1 of the Dispute Settlement Understanding, Article 10.1 of the SPS Agreement, Article 6.6 of the Textiles/Clothing Agreement, and Article 12.2 of the TBT Agreement. For example, the SPS and TBT Agreements provide that countries must take into account the development, financial and trade needs of developing countries when applying sanitary and phytosanitary measures or related technical regulations.

Developing countries complain that developed countries have not taken these provisions seriously. The most frequent cause for concern has been Article 15 of the Anti-dumping Agreement, which requires members to explore possible constructive remedies before taking anti-dumping measures against exports from developing countries. As mentioned earlier, anti-dumping statistics for 1995 to 1997 showed that six of the top 10 countries subjected to new anti-dumping measures were developing countries, including five from the Asian and Pacific region.

A more vivid illustration shows how anti-dumping measures have been inappropriately applied to undermine developing countries' interests. Some countries affected by the financial crisis in Asia and the Pacific had more anti-dumping measures initiated against them in 1998 compared to 1997. (See table 8 for two Asian countries.) This happened when the countries' export competitiveness rose, which may have mainly occurred

Table 8. Recent initiations of anti-dumping against two countries affected by the regional economic crisis

Initiating country or grouping	Republic of Korea		Indonesia	
	1998	1997	1998	1997
South Africa	6	2	0	1
United States	5	4	2	2
European Union	3	5	1	1
India	3	1	2	0
Venezuela	0	1	0	0
Turkey	3	0	1	0
New Zealand	0	0	1	1
Colombia	2	0	0	0
Canada	2	0	0	0
Argentina	1	1	0	0
Australia	2	2	2	3
Total	**27**	**16**	**9**	**8**

Source: WTO Secretariat, Reports (G/L/268 and G/L/340) of the Committee on Anti-dumping Practices.

due to the steep fall of their currencies in the wake of the financial crisis, not from any manipulation of prices.

In sum, the experience of developing countries with S&D rules has been rather mixed. The greater flexibility and easier time frames have served as important shock absorbers for many countries that are restructuring their trade regimes to fit the WTO paradigm. However, many potential gains that developing countries can derive from joining the WTO depend on the willingness of developed countries to recognize and support these efforts. The exhortatory S&D clauses were meant to remind them of this responsibility. Unfortunately, experience has shown that S&D provisions that are non-obligatory serve almost no purpose in situations where the major trading countries are unwilling to look beyond the narrow interests of their own traders.

Some critics have periodically questioned the need for S&D provisions (Finger and Winters, 1998). They argue that if free trade promotes economic development, then any concessions that allow trade barriers to be perpetuated would be counter-productive for developing countries. The opposite and more universal view is that S&D rules are necessary for a variety of reasons.

First, drastic policy changes usually involve transaction costs. Any sudden opening of some sectors to free trade can lead to domestic conflicts as one interest group may be worse off (for example, workers in the protected industry) while others (consumers) may be better off. These costs are likely to be felt more in developing countries where safety nets are often weak and the lack of special concessions may fuel political and social opposition to the principles of free trade and even build pressure to withdraw from the multilateral trading system. Second, many developing and least developed countries suffer from real supply side constraints and would be unable to integrate into the global economy if made to compete without a level playing field. Third, if temporary S&D provisions can bring more countries into the world trading system, this enhances competition among members, and the fruits can be reaped by all nations, rich or poor.

G. Accession to the WTO

For those developing countries that have remained outside the membership in the GATT system, whether by choice or due to other historical reasons, membership in the WTO represents the first step towards integration into the world economy.

In April 2000, Jordan formally became the newest member of the WTO, raising membership to 136. WTO members together account for over 90 per cent of world trade and form the critical mass necessary for a legitimate administration of multilateral trading rules. Nevertheless, more than 50 countries, many of them among the world's poorest, remain outside the multilateral trading system.

The question becomes why is it important for developing countries to join the WTO? The most obvious reason is that a non-member is denied the MFN status that automatically comes with membership. This means that trading partners may apply discriminatory tariffs on that country's exports at levels higher than those applied to similar products imported from other countries. Specific WTO provisions (Article XXVII of GATT 1994 and GATS) allow members to deny benefits for goods and services originating in the territory of a non-member. Trade ties of many landlocked and small island economies are limited to bilateral trade agreements with few trading partners. For example, nearly 80 per cent of merchandise exports from Lao

People's Democratic Republic are directed to Thailand, Japan and the European Union (reflecting historical links with France). The bulk of Kiribati's exports go to Japan (fish), Denmark (seaweed) and the European Union (copra). WTO membership would bring an opportunity for trade creation, since WTO members that did not provide MFN access to their exports previously will now be bound to do so.

Acceding countries would get welfare gains from the reduction of tariffs and quotas, as well as the phasing out of trade subsidies. They will also have legitimate access to contingency trade policy instruments such as anti-dumping, countervailing duties, safeguard measures and the dispute settlement mechanism of WTO. The latter may be particularly useful for landlocked countries trying to resolve problems of transit rights.

Membership in the WTO also creates a favourable environment for attracting FDI, as foreign investors prefer to invest in countries that are bound by rules compared to those that are not. In the past, small island economies near the North American continent benefited considerably from this. In the new electronic world geographical barriers are becoming irrelevant, and there is no reason why island nations such as Vanuatu, Kiribati, Samoa and Tuvalu cannot become major offshore bases for back-office operations of American, Australian and Japanese corporations.

Finally, it is thought that joining the WTO can help expedite reforms for policy areas other than trade, such as domestic subsidies, standards, health and sanitation and intellectual property. Policy makers in some countries have successfully deflected public resentment against such reforms by saying they are unavoidable consequences of WTO membership. In other words, for developing countries that intend to expedite a broad spectrum of domestic economic reforms, membership of the WTO may be good economics as well as good politics.

If membership of the WTO is so beneficial, it is important to understand why more than half the countries in Asia and the Pacific are not yet members. (See figure 2). The answer can be given based on an examination of the current process for accession that has allowed only eight new members to join the WTO since its inception on 1 January 1995.[42]

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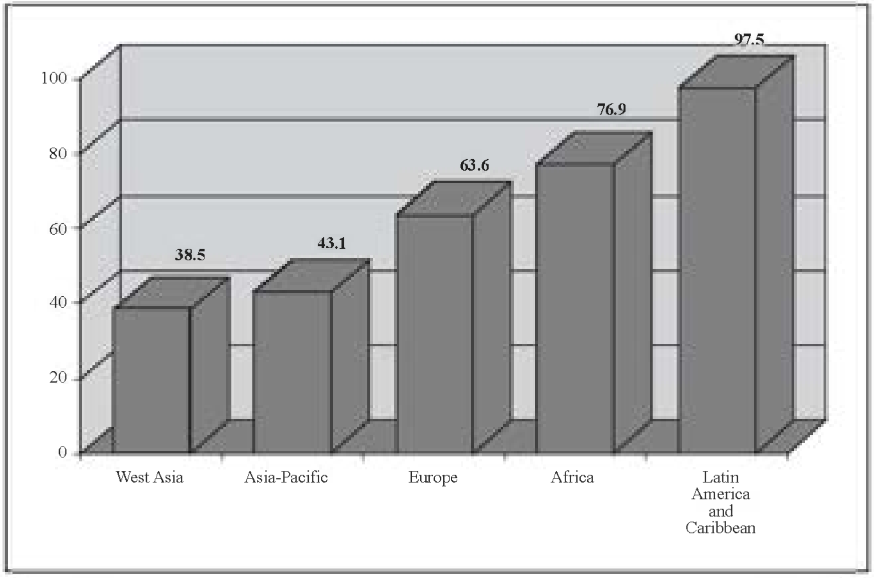
[42] The eight new member countries are Ecuador, Mongolia, Bulgaria, Panama, Kyrgyzstan, Latvia, Estonia and Jordan.

Figure 2. Distribution of WTO membership by region (percentage)



Among the 30 applications under consideration by WTO's Working Parties on Accession, 14 are from Asia and the Pacific, of which five are least developed countries, four developing countries and five economies in transition, including the Russian Federation. Table 9 shows that least developed countries have made the slowest progress in the accession process, while the accession process for developing countries has been slower than for countries with economies in transition.

One reason for slow progress in the accession process for developing and least developed countries is the additional requirement set for acceding countries beyond those fulfilled by the original WTO members (often referred to as WTO plus obligations). For instance, acceding countries are required to bind all their tariffs, although many original WTO members have not bound tariffs in several sectors. Tariffs are still an important source of revenue in many developing countries. In addition to this consideration, tariffs are the only trade policy instruments permitted under WTO rules in the normal course. Therefore, an acceding developing country would have to give a lot of thought before submitting a schedule that binds all of its

Table 9. Status of WTO accession by groups of countries

Least developed countries	Year[a]	Status[b]	Developing countries	Year	Status	Countries with economies in transition	Year	Status
Cambodia	1994	Preliminary	Tonga	1995	Preliminary	Azerbaijan	1997	Preliminary
Lao People's Democratic Republic	1998	Preliminary	Andorra	1997	Preliminary	Belarus	1993	Secondary
Nepal	1989	Preliminary	Macedonia	1994	Preliminary	Uzbekistan	1994	Secondary
Samoa	1998	Preliminary	Viet Nam	1995	Secondary	Moldova	1993	Secondary
Sudan	1994	Preliminary	Oman	1996	Secondary	Russian Federation	1993	Secondary
Vanuatu	1995	Secondary	Saudi Arabia	1993	Secondary	Kazakstan	1996	Secondary
			Seychelles	1995	Secondary	Ukraine	1994	Secondary
			Albania	1993	Secondary	Croatia	1993	Advanced
			Algeria	1987	Secondary	Estonia	1994	Advanced
			Taiwan Province of China	1992	Advanced	Georgia	1996	Advanced
			China	1987	Advanced	Lithuania	1994	Advanced
						Armenia	1993	Advanced

Source: Compiled from information in WTO Secretariat document WT/GC/W/100, September 1998. The situation has not changed substantially since.

Notes: [a] Refers to the year in which the Working Party was set up to look into the country's application.

[b] Preliminary status means that the accession process has not gone beyond the circulation of the Memorandum on the Foreign Trade Regime. Advanced status means that the process has at least reached the stage where the Working Party's Report is under discussion. Anything in between has been assigned secondary status.

tariffs. Recent estimates show that taxes on international trade transactions constitute 27.4 per cent of Nepal's total government revenues, for example. It is not surprising therefore to note that Nepal's accession remains at a preliminary stage even though it applied for GATT membership in 1989.

Similarly, developing countries in the process of acceding have been denied the automatic extension of S&D provisions under various WTO agreements. This can be a major delaying factor in the accession process. For example, least developed countries that are original WTO members have been given until 2006 to set up the complex legal mechanisms needed to enforce the provisions of the TRIPs Agreement. Acceding least developed countries, on the other hand, have to undertake to comply with all TRIPs obligations from the date of their accession. Other concessions denied to acceding developing countries include those on export subsidies, balance-of-payments consultations, the *de minimis* agricultural support commitments and the provisions of the Decision on Net Food Importing Developing Countries.

Finally, the experience of eight nations that have acquired WTO membership shows that acceding countries are expected to make a commitment on one or both of the plurilateral agreements (on Government Procurement and Civilian Aircraft), whereas acceptance of plurilateral agreements is not obligatory for WTO members. New members also have to make commitments to liberalize services comparable to those made by the world's most advanced nations.

The WTO Agreement does not specify any conditions for accession. Accession is simply on the terms agreed upon between the applicant and the WTO (WTO Agreement, Article XII:1). Some commentators on the accession process have explained that the idea behind ensuring drastic concessions and liberal commitments from acceding countries is to minimize the number of countries that depart from free trade principles, which is the ultimate goal of the WTO. Some people hold the view that the wording of Article XII:1 stating that accession shall be on terms to be agreed between (the applicant) and the WTO implies that acceding countries do not have the automatic rights of original members. In their opinion, accession of new countries should strengthen the system and not weaken it.

Such a view fails to see the limited impact that a minority of small acceding countries can have on strengthening (or weakening) the global trading system.[43] At the same time, this view is very insensitive to the internal adjustment shocks that an applicant may confront when complying with the new rules in the absence of reasonable transition concessions. It is not being argued here that acceding countries that might be substantial suppliers of a particular good or service should be extended S&D rights which could give them an unfair competitive advantage. What needs to be reviewed is the insistence on "WTO plus" obligations for countries that have no current or potential capabilities to become major players in the world market.

There may arguably be some merit in demanding a threshold level of commitments from acceding countries to GATS. As pointed out in this

[43] The 19 least developed countries waiting for accession account for less than 0.2 per cent of world trade.

chapter, some developing countries may have been too conservative when making commitments on trade in services. Similarly, the need to do away with high tariffs and distortionary export subsidies cannot be denied. It is wrong, however, to draw up a time schedule that would severely test the social and institutional capability of the acceding country. The early accession of the remaining non-member countries of the world is only the first step towards their integration into the world's trading system. Delays not only harm the credibility of the process but also risk further marginalizing some of the world's poorest economies.

H. The Plan of Action and the Integrated Framework for least developed countries

The 48 least developed countries identified by the United Nations have been marginalized historically from the mainstream world economy. Their share in world trade is disproportionately small and they have managed to attract only a small portion of the global flows of foreign investment. Clearly, the integration of these countries into the global economy represents a significant challenge for the WTO. It is important to examine how the WTO has discharged its responsibilities in this area.

The WTO Action Plan for Least Developed Countries was adopted at the first WTO Ministerial Conference held in December 1996 at Singapore. The aim was to improve trade opportunities in view of the marginal role of least developed countries have in international trade. This would be achieved by providing predictable and favourable market access conditions for products from least developed countries and by enhancing conditions for investment in those countries. A high-level meeting was held at the WTO in October 1997 organized jointly by the IMF, ITC, UNCTAD, UNDP and the World Bank as a follow up to the Action Plan.

The meeting created two main policy initiatives.[44] First, it was decided to pursue a policy of free market access for exports from least developed countries in view of the fact that 75 per cent of total exports from least developed countries comprised only 112 items (out of more than 5,000

[44] Two other recommendations were (1) assisting least developed countries in the accession proceedings, and (2) agreeing to requests for trade policy reviews on a priority basis.

products traded internationally). With the exception of Bangladesh, Lao People's Democratic Republic and Myanmar, the other Asian and Pacific least developed countries rely on only two or three products for their total export earnings. Until recently, only 21 countries (15 members of the European Union, United States, Canada, Switzerland, Turkey, Egypt and Mauritius) had issued notifications in this regard. A notable exception was Japan, one of the three main destinations for most exports of least developed countries. The European Union allows nearly all exports access duty free. On the other hand, only 20 per cent of exports from least developed countries enter the United States duty free. There is considerable scope for many more developing countries to offer concessions in this regard.

It should be noted that individual country notifications are not subject to WTO disciplines. As in the case of GSP, the concessions can be eroded by attaching social clauses (on child labour or human rights). This is why some least developed countries have argued that free market access for their exports can only be assured by adopting zero-bound tariffs by importing countries.

Second, it was decided to set up an Integrated Framework for Trade Related Technical Assistance to Least Developed Countries. This arrangement aimed to provide technical assistance to all 48 least developed countries (not just the 29 which are WTO members) by coordinating the efforts of six international agencies, including the WTO, IMF, World Bank, ITC, UNCTAD and UNDP. A basic philosophy of the Integrated Framework is that technical assistance should be demand driven. As a result, the least developed countries were first required to submit a needs assessment report. Most of the least developed countries of the region (except for Afghanistan, Tuvalu and Kiribati) have done so. In the next stage, the six international agencies were expected to draw up an integrated response to the needs assessment of each least developed country so that there was no overlap or duplication in the technical assistance.

Table 10 shows the progress with the implementation of the Integrated Framework in the Asian and Pacific region. It is clear that beyond the preparation of the joint response by the international agencies not much has been achieved. In the next stage, each least developed country was to call a trade-related donor meeting to discuss possible areas and projects for technical

Table 10. Integrated framework for trade-related technical assistance: implementation status for least developed countries of the Asian and Pacific region

WTO membership category	Country needs assessment (month and year completed)	Integrated response	Trade-related meeting	Multi-year programme
Members				
Bangladesh	October 1997	Published November 1997	Held on 22 January 2000 at Dhaka.	Draft document ready.
Maldives	September 1997	Published February 1998	General UNDP roundtable meeting held on 11 May 1999 at Geneva. Trade-related technical assistance was not discussed.	Not done yet.
Myanmar	October 1998	Published recently	Information not available	Information not available.
Solomon Islands	October 1997	Published April 1998	Joint regional trade-related meeting for the Pacific islands is being explored.	Not done yet.
Observers				
Bhutan	April 1998	Published September 1998	TRM scheduled for November 2000.	Not done yet.
Cambodia	June 1998	Published September 1998	World Bank Consultative Group Meeting was held on 25-26 February 1999 at Tokyo.	Not done yet.
Lao People's Democratic Republic	September 1997	Published March 1998	UNDP general roundtable meeting planned in mid-2000.	Not done yet.
Nepal	September 1997	Published October 1997	ITC sent a programming mission in February 1999.	Not done yet.
Samoa	September 1997	Published April 1998	Joint regional trade-related meeting for the Pacific islands is being explored.	Not done yet.
Vanuatu	September 1997	Published October 1997	Government and UNCTAD are consulting to organize the TRM.	Not done yet.

Table 10. *(continued)*

WTO membership category	Country needs assessment (month and year completed)	Integrated response	Trade-related meeting	Multi-year programme
Others				
Afghanistan	Not done yet	Not applicable	Not applicable	Not applicable
Kiribati	Not done yet	Not applicable	Not applicable	Not applicable
Tuvalu	Not done yet	Not applicable	Not applicable	Not applicable

Source: Website of WTO's Integrated Framework Administrative Unit, as of 26 April 2000.

cooperation. This would lead to the finalization of a multi-year programme, or portfolio of agreed projects for technical assistance, to be taken up over a period of time. The process thus far has not gone beyond the integrated response stage in nine of the 10 countries that had submitted their needs assessment. In the case of Cambodia, an informal meeting was held with trade partners and possible donors. Further progress was apparently stalled because the donor agencies were unable to provide additional funds for the integrated framework and the country was reluctant about proposals for diverting funds from existing programmes into support for the integrated framework. In summary, it may be possible to say that no country has received tangible benefits from the programme even two years after its adoption.[45]

Two other areas where least developed countries need concrete measures from the world community are legal aid and debt relief. It is now well accepted that making use of the dispute settlement mechanism of the WTO involves exorbitant expenses due mainly to the costs of hiring international legal consultants.[46] Despite the assistance provided by the WTO Secretariat under Article 27 (2) of the Dispute Settlement Understanding, legal costs can be particularly heavy for a poor country. There is an urgent need to find a way to make the use of the DSB financially viable for least developed countries.

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45 Internationally, the only least developed country that has managed to go through the entire process, Uganda, has been told at the end to further prioritize its requests for technical assistance.

46 Lawyers' fees can range from US$ 250 to US$ 1,000 per hour.

Second, allowing free market access for exports would be of little help given the domestic supply constraints in many least developed countries. In this context, least developed countries have argued for debt relief, especially from non-market related debt accumulated during the Cold War. This would relieve the pressure on their limited resources and allow them to focus on the supply constraints.

In summary, market access, faster technical assistance under the integrated framework, faster accession, legal aid and debt relief are some of the critical areas where least developed countries need a credible response from members of the global trading community. The incomplete measures taken thus far only help reinforce their sense of isolation and marginalization from the mainstream of the multilateral trading system.

I. Conclusions and recommendations

The Preamble of the Marrakesh Agreement which established the WTO states that its objective is to ensure that developing country members, especially the least developed countries, secure a share in the growth of international trade that is commensurate with their economic development needs. Five years after this goal was set, it appears to have been reached only in part. Good progress in certain sectors has been marred by disappointments elsewhere.

The important contributions made by the WTO to integrate developing economies of Asia and the Pacific into the multilateral trading system are as follows:

(1) It is for the first time in the history of international trade negotiations that so many countries have agreed to abide by the same set of rules covering the wide spectrum of trade-related issues covered in the WTO Agreements. Many of the agreements, such as those covering subsidies, customs valuation and technical barriers to trade existed prior to the Uruguay Round, but only as plurilateral agreements. Allowing the special transitory periods for developing and least developed countries has been one reason for their acceptance by many more countries as part of a multilateral package.

(2) Two major interest areas for developing countries, textiles/clothing and agriculture, have become part of the negotiations for the first time in 50 years of international trade negotiations. Producers in many countries of Asia and the Pacific can hope to reap the benefits of these two Agreements.

(3) Traditional trade barriers, such as tariffs, have been reduced overall so that the average world tariff is now about 4 per cent. Traditional non-tariff barriers such as quotas have been prohibited, and apart from permissible exceptions, appear to be on their way out. Except for South Asia and China, average tariffs and the incidence of NTBs have become much lower in developing countries and areas in Asia as compared to the rest of the developing world.

(4) Non-traditional trade barriers such as VERs have been eliminated. This gives a more multilateral character to the trade policies of some leading trading countries in Asia and the Pacific.

(5) A stronger dispute settlement mechanism has started to function, giving small countries a chance to challenge unfair trade practices of large countries on an equal footing and not on the basis of economic power. India; Indonesia; Hong Kong, China; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Sri Lanka and Thailand are some developing countries that have been using the DSB to redress their grievances.

(6) Extending the coverage of WTO rules to cover services has created conditions to facilitate the flow of foreign investment into a sector that is increasingly important for developing countries. There are indications that the pattern of FDI in Asia and the Pacific has lately been characterized by an increased share going to the services sector (UNCTAD, 1998b, p. 16).

On the other hand, the WTO needs to do much more before the interdependence of nations can be considered fair and equitable. The poorer acceding countries, in particular, have been frustrated by the discriminatory standards used by the WTO for new applicants. As a result, none of the 13 least developed countries in Asia and the Pacific which are currently outside the WTO have been able to take this important first step for entering the global economic mainstream.

Developing countries that have already become members are nearly as skeptical about the ability of WTO rules to ensure their fair share in world trade. Their views stem from three general experiences. First, the outcome of WTO trade negotiations has favoured developed countries much more than developing countries. For example, while negotiations have been successfully completed in telecommunications services, information technology products and intellectual property rights, developing countries are still waiting for the benefits of free trade in labour services, primary products and textiles/ clothing. Second, while the GATT/WTO rounds have largely circumscribed the use of traditional trade barriers such as tariffs and quotas, they have not prevented the emergence of new forms of trade barriers that obstruct developing countries' access to developed country markets. Third, participating effectively in WTO negotiations, bringing cases to the DSB and implementing trade agreements are all costly activities,[47] and richer countries are better placed to use the WTO system to their advantage.

Despite the failure of international trade negotiators to launch a new round of trade negotiations at Seattle, the overall paradigm shift in development policy towards open economies makes it likely that WTO members will soon be sitting down to negotiate a new set of trade liberalizing commitments. Unlike the previous rounds where much time was spent blocking proposals, developing countries are likely to have their own positive agenda this time. Whether such an agenda would help raise their position to equal partners in the global trading system may depend largely on their ability to build a consensus among the WTO members on the following issues:

- ❐ Bring the Dispute Settlement Mechanism within the financial reach of all WTO members, say, by creating a fund for legal assistance to least developed countries and developing countries with annual per capita income below US$ 1,000.

- ❐ Implement non-binding special and differential provisions in letter and spirit and extend the transitory periods in sectors where developing countries have severe difficulties in meeting deadlines.

- ❐ Reduce tariff peaks and tariff escalation on exports from developing countries. All countries may also need to review the need to use anti-dumping measures as well as the methods adopted for tariffication of agricultural quotas.

- ❐ Make the liberalization of trade in agriculture and textile/clothing meaningful.

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[47] Recent research estimates that improving trade procedures and setting up the framework to implement IPRs and technical standards can cost more than a year's development budget for poorer countries. See *The Economist*, 25 September – 1 October 1999, p. 93.

- ❐ Expedite the harmonization of Rules of Origin and provide for flexibility in the application of technical and SPS standards for developing country exports.
- ❐ Expand developed countries' commitments on the movement of natural persons under the GATS. At the same time, developing countries may also need to liberalize their commitments, especially in infrastructure-related services sectors.
- ❐ Restore the balance between private profit and public good in TRIPs by reducing the period of exclusive ownership and create an institutional mechanism that oversees the actual transfer of technology from developed to developing countries.
- ❐ Do away with "WTO plus" conditions for accession and extend the S&D provisions automatically to developing countries in the accession process.
- ❐ Incorporate free market access for exports of least developed countries as a binding commitment in WTO schedules and incorporate debt relief into the integrated framework for least developed countries.
- ❐ Increase technical assistance to enable developing countries to improve their capability to comply with and benefit from new WTO rules and participate effectively in the WTO dispute settlement process.

The next round of trade talks should aim at ensuring the quality of integration of developing countries and economies in transition into the multilateral trading system. If negotiations follow historical patterns of hard bargaining motivated by special interests within developed countries and with too little attention paid to the interests of the developing countries, then the Round could strengthen the hands of those in the developing world who resist an outward orientation and market-oriented reforms.

III. REGIONAL TRADING ARRANGEMENTS, PARTNERSHIP AND THE INTERNATIONAL TRADING SYSTEM

A. Background

An integral part of the new policy emphasis on development through a greater outward orientation has led developing countries to attempt to enmesh themselves and the developed countries in a web of cooperative, mutually beneficial economic arrangements. The main strategy they have adopted is to participate in the process of multilateral trade liberalization within the regime created as the GATT and its successor since 1994, the WTO. As competitive liberalization has accelerated over the last decade, countries have turned increasingly to RTAs and non-reciprocal approaches to global integration. In fact, regional and multilateral liberalization initiatives have been mutually reinforcing throughout the past three decades. Regional and subregional approaches have the advantage of being less time-consuming and less complicated for working out mutually agreed upon arrangements with a few neighbours than with the full membership in the WTO, now comprising 136 countries.

These approaches to global integration are discussed here as they relate to countries and areas in Asia and the Pacific, with emphasis on modalities, achievements and challenges. There is a focus on RTAs and non-reciprocal trading arrangements by analysing their actual and potential contributions and limitations as vehicles for greater global integration for countries and areas in the region. The important issue of achieving greater private-public sector participation in the context of regional and subregional cooperation arrangements is also examined.

B. Regional trading arrangements

It has become the norm to view regional trading arrangements (RTAs) as a part of, or sometimes a first step in a broader strategy of trade liberalization. RTAs are also a way to combine trade liberalization with efforts to strengthen economic and political relations with neighbouring countries. Economic analysis indicates that RTAs can yield net economic benefits for their members in the sense that trade creation effects outweigh trade diversion effects. This will be the case if external barriers against non-members of the RTA are kept at moderate levels and these barriers are lowered over time in conjunction with phasing in the RTA. The formation of RTAs can serve as a useful stepping stone to more comprehensive, non-discriminatory liberalization.

As regional integration advances, it becomes increasingly apparent that there is much to gain from trade facilitation measures at the regional level. The costs of transacting business across international borders are reduced and non-border obstacles to international trade are removed. Over time, members may begin to see that there is the potential for further gains from improved resource allocation by forming a single market, involving not only free trade in goods but also free trade in services and factors of production. Ultimately, the process of regional integration may lead to the greater coordination of economic and monetary policy, and even to monetary union, although there is debate about whether such developments are inevitable.

Much of the political economy in recent years concerning competitive liberalization has played itself out in the dynamic interaction between regional and global initiatives to reduce trade barriers. The positive interaction between the two strategies accelerated sharply in the 1980s and 1990s, as competitive liberalization became the norm and countries searched for tactics to obtain the needed domestic support.

The United States reversed its traditional aversion to regionalism by embracing free trade agreements with Israel and Canada after the European Community (EC) blocked the launch of new GATT negotiations. The EC responded by dropping its veto and permitting the Uruguay Round to begin. When the Round faltered in the late 1980s, the three North American countries launched the North American Free Trade Area (NAFTA) and the Asian and Pacific countries initiated the Asia-Pacific Economic Cooperation (APEC).

This positive interaction also extended to the subregional level. In Asia, the ASEAN Free Trade Area (AFTA) has accelerated its timetable and substantially broadened its coverage to stay ahead of APEC. AFTA and Australia-New Zealand have discussed possible linkages between the groups. Overall, initiatives towards regional and global liberalization have been mutually reinforcing over the past three decades or longer. The fears of some observers that regionalism would derail globalism have apparently been overcome. Despite all of these developments, regionalism is still a pending issue.

1. Compliance with WTO obligations and "open regionalism"

Article XXIV of the WTO Agreement contains provisions that make RTAs acceptable within the WTO framework.[48] 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.[49] The Enabling Clause of 1979 is relevant to RTAs between developing countries. It is generally taken to mean that RTAs are exempted from the Article XXIV requirement that "substantially all trade" is covered.

In February 1996, the WTO General Council created the Committee on Regional Trade Agreements. Its purpose is to examine RTAs and assess whether they are consistent with WTO rules, as well as 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, the difference between an outward and inward orientation requires attention. 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" (Elek, 1996).

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48 Similarly, Article 5 of GATS provides for economic integration agreements in services.

49 Article XXIV of the 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 first definition is based on GATT Article XXIV, which permits exceptions from 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 GATT Article XXIV seems to be extremely weak, its implementation has been even weaker. Among the approximately 100 free trade agreements about which GATT has been notified, only one has been approved,[50] while none has been formally rejected. Now that regionalism is prevalent, the WTO is searching for stronger provisions and procedures to make sure that RTAs evolve in an open manner.

The second definition, a stronger version of Article XXIV, stipulates the condition that at the time of the creation of an agreement, the members commit to a programme of tariff reductions. For this reason, 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 border 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 of outward orientation rules out the creation of discriminatory arrangements and is sometimes called open regionalism. Some tend to see it as a prototype for a new edition of Article XXIV. Open regionalism can be defined by drawing on the work of the Trade Policy Forum of the Pacific Economic Cooperation Council with reference to trade in goods (and services) which set the following conditions:

❒ a movement towards free trade, that is, a reduction in barriers to trade compared to what might otherwise have been the case (binding existing tariffs would qualify);

[50] RTA between the Czech Republic and Slovakia.

- the reduction in barriers to trade stimulated and supported by a consensus among a group of countries located in the same region (for example, East Asia or the Pacific);
- the reduction in trade barriers is applied country by country in a non-discriminatory manner, but possibly not equally by every country in the group; and
- Reductions in trade barriers occur in a number of sectors at the same time.

Open regionalism is consistent with a narrower product coverage than the rules of Article XXIV. Its virtue is that it does not challenge Article I of the GATT, yet it still involves a concerted attempt to move towards freer trade. While the product coverage is not as extensive, it does involve a wider coverage 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 a more diffuse and general give and take.

3. RTAs and unfinished business from the Uruguay Round

An important issue is the ability of RTAs to successfully address the built-in agenda from the Uruguay Round. Two main items under the categories of unfinished business and new negotiations are trade in services[51] and agriculture. RTAs, which include liberalization of trade in services as part of their agenda, may have the potential to make progress on such issues. However, this is generally true only of RTAs that are relatively advanced. Significant progress has thus been made within AFTA under the ASEAN Framework Agreement on Services in seven priority service sectors identified at the Fifth ASEAN Summit.[52]

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[51] More specifically, financial services, basic telecommunications services and maritime services.

[52] The priority sectors are: air transport, business services, construction, financial services, maritime transport, telecommunications and tourism.

In the case of agriculture, the same factors which make agriculture a sensitive issue in multilateral negotiations, namely, domestic support, export subsidies and minimum access commitments with the accompanying danger of increasing prices, are also likely to make agriculture a sensitive issue in RTAs. More rapid progress on this issue may be difficult to achieve in RTAs whose membership includes countries where agricultural trade liberalization presents serious political difficulties. Even in these cases, however, negotiations among a small group of neighbouring countries closely associated with each other may make it easier to reach the necessary understandings for making progress, particularly if membership in the RTA does not include the most competitive international suppliers of sensitive products.

The desire of developing countries to redress the power imbalance in their trading relations with developed countries has led them to look for opportunities to form RTAs among themselves and to establish preferential trading arrangements with developed countries on a non-reciprocal basis. There are difficulties with both approaches. The potential for mutually beneficial trade between developing countries may be limited by similarities in economic structure and by the relatively small size of the countries involved. Preferences granted under non-reciprocal preferential arrangements could trap developing countries into inappropriate patterns of industrial development.

Disadvantages from an imbalance of power may be especially likely in hub and spoke arrangements, where a developed country forms the hub, and the spokes consist of various developing countries or groups of developing countries. Each is linked to the hub by a separate preferential trading arrangement.

4. RTAs and other regional economic integration initiatives in Asia and the Pacific

Generally, RTAs have four stages of development. In the first stage, agreements generally contain a positive list, the approach to liberalization is cautious and experimental and negotiations proceed on a product-by-product basis. In the second stage, there is a switch to the negative list approach, which signals that members accept that it is desirable to move to full liberalization of trade in goods between the partner countries. In the third stage, steps are taken towards the creation of a single market involving trade facilitation measures and liberalization of trade in services, plus movement of labour and capital. The fourth stage involves some form of policy coordination on macroeconomic and other economic matters. RTAs in Asia and the Pacific are at different stages in this development process. Annex 1 provides a list of the member countries and areas in each RTA.

a. Australia New Zealand Closer Economic Relations Trade Agreement

The Australia New Zealand Closer Economic Relations Trade Agreement (CER) was launched in 1983 as a negative list agreement, which replaced an earlier positive list agreement, thus marking the transition to the second stage of RTA development. CER has been an example of a positive inter-action between preferential and non-discriminatory liberalization. It can be regarded as a successful case of a RTA used as a stepping stone to more comprehensive liberalization. Having achieved liberalization for trade in goods ahead of schedule, the focus of CER has shifted towards a single market, with extensive facilitation initiatives and progressive liberalization of trade in services, which complements the long-established free movement of labour between the two countries. While Australia has not been willing to contemplate complete liberalization of investment, taxation issues rather than investment restrictions are now recognized as the main impediment to increased investment flows between the two countries.

b. ASEAN Free Trade Area

The ASEAN Free Trade Area (AFTA), established in 1992, has succeeded in moving beyond tentative efforts at regional economic integration. AFTA has successfully accelerated and widened the coverage in its timetable for tariff reductions under its Common External Preferential Tariff (CEPT) arrangement. The eventual inclusion of unprocessed agricultural products in the CEPT, with minimal exceptions, was a particularly notable achievement. AFTA has established frameworks for trade facilitation initiatives, liberalization of trade in services, and investment promotion. It has recently added four new members, each at a much lower level of development than the original six members. AFTA has responded to the Asian economic crisis by deciding to accelerate rather than reverse the tariff reductions under its CEPT scheme. Members have also shown increasing interest in cooperation that involves macroeconomic and monetary policy.

c. SAARC Preferential Trading Arrangement

The SAARC Preferential Trading Arrangement (SAPTA) is one of a number of initiatives developed under the umbrella of the South Asian Association for Regional Cooperation (SAARC) to promote cooperation among countries in South Asia. A positive list approach was adopted and only a very limited range of products was initially covered. Trade preferences take the form of reductions rather than removal of tariffs. Three rounds of negotiations have seen a gradual broadening of the positive list. High external barriers suggest, however, the risk of significant trade diversion unless these barriers can also be brought down. The unsettled political situation in the region has been a major constraint on progress with trade liberalization and economic cooperation under SAPTA.

d. Economic Cooperation Organization

The Economic Cooperation Organization (ECO) has a protocol providing for tariff preferences to be established among its members. So far, these have covered a very limited range of products, and ECO is still in the early stages of subregional cooperation.

e. Melanesian Spearhead Group

The Melanesian Spearhead Group (MSG) trade agreement is the trade arm of the MSG political initiative. It is a positive list agreement and initially covered a small range of products, which has since been expanded somewhat. Recently, there have been indications that a switch to the negative list approach is being considered.

f. Pacific Regional Trade Agreement

The South Pacific Forum recently developed a proposal to create a Pacific Regional Trade Agreement (PARTA), which would be open to membership of all Forum island countries (FICs), including the MSG members.

It has been designed from the outset as a negative list agreement, which would carry the FICs directly into the second stage of RTA development. In view of the low level of trade and lack of much trade complementarity between the FICs, it is clear that PARTA only makes sense if it is conceived as a stepping stone to wider liberalization.

In fact, the FICs face an intricate problem in managing their preferential trading arrangements with their main developed country trading partners. The FICs have trade relationships with Australia and New Zealand through the Forum and through the non-reciprocated preferences under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). Eight countries which are FICs also belong to the group of African, Caribbean and Pacific (ACP) states which enjoy non-reciprocated preferential access to the EU market under the Lomé Convention. The EU has signalled that after the current version of the Lomé Convention expires in 2000, it envisages replacing this arrangement in part by new reciprocal preferential trade arrangements called Regional Economic Partnership Agreements (REPAs). The EU is proposing to then negotiate with regional subgroups of the ACP States. The EU has further indicated that ACP subgroups, which consider negotiating a REPA with the EU, would find it more convenient to first form a free trade area among themselves. PARTA would provide the FICs with a suitable vehicle for this purpose, although the MSG Trade Agreement has also been suggested in this context.

Three FICs are WTO members (Fiji, Papua New Guinea and Solomon Islands) and three more (Samoa, Tonga and Vanuatu) are in the process of accession. Therefore, WTO obligations would also have to be kept in mind in all matters relating to the establishment of PARTA.[53]

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[53] The FICs recognize that Australia and New Zealand and the EU are each unlikely to tolerate granting the other party preferential access to FIC markets, if access is not simultaneously available to them. The FICs will thus likely have to consider granting preferential access to both simultaneously. The situation is further complicated by the fact that three FICs have a Compact of Association with the United States, under which they receive substantial financial assistance, which includes a provision that no country will be given preference over the United States in their markets. If these three FICs join PARTA, and PARTA becomes the vehicle for a REPA with the EU, it is likely that the preferences for the EU and for Australia and New Zealand will become entwined with the issue of preferential access for the United States.

g. South Pacific Regional Trade and Economic Cooperation Agreement

SPARTECA is a non-reciprocal RTA which provides the FICs with duty-free, unrestricted access to the Australian and New Zealand markets for virtually all FIC products, subject to compliance with the relevant rules of origin. From the FICs' perspective, this market access would be more valuable if Australia and New Zealand would agree to relax the rules of origin.

h. Asia-Pacific Economic Cooperation

APEC now has 21 members and is committed to achieving free and open trade and investment in Asia and the Pacific by 2010 in the case of developed economies and by 2020 for developing economies. To reach these targets the members follow an agenda consisting of trade and investment liberalization, trade and investment facilitation, and economic and technical cooperation. Action plans have been developed for the parts of the agenda covering liberalization and facilitation, which includes 15 separate policy areas. APEC has a unique approach to liberalization based on voluntarism, where commitments are non-binding and each member is free to determine its own path to the 2010/2020 goals. The collective aspect of the APEC endeavour is seen as valuable by relying on encouragement through peer pressure and by the scope provided for sharing experiences. Concerted unilateralism has been coined as the term to describe this process. An experiment with sectoral liberalization based on developing a negotiated package of commitments across the APEC membership is known as the Early Sectoral Voluntary Liberalization (EVSL).[54] EVSL has involved a significant shift in APEC's modality, away from the voluntary, consensus-

[54] EVSL involved an essentially political selection process, although it intended to achieve a balance of interests among members for 15 sectors where APEC would try for accelerated achievement of APEC goals. A set of liberalization measures (including tariff and non-tariff elements), facilitation, and Ecotech measures were to be developed in each sector for approval by the APEC leaders with a complete package of measures for nine sectors initially (the "front nine"). This would be followed by a package for the remaining six sectors (the "back six"). The front nine are: environmental goods and services; fish and fish products; forest products; medical equipment and instruments; telecommunications mutual recognition arrangement (MRA); energy sector; toys; gems and jewelry; chemicals. The back six are oilseeds and oilseed products; food sector; natural and synthetic rubber; fertilizers; automotive; and civil aircraft.

based approach and towards a more adversarial, negotiated approach, much closer in style to the reciprocal negotiations conducted in the WTO. The EVSL approach has recently proved less than successful, and the EVSL tariff package has been referred to WTO under the name of Accelerated Tariff Liberalization Initiative (ATLA), which involves efforts to seek support from other WTO members. Meanwhile, implementation of the remaining elements of the package is expected to continue within APEC.

i. The Bangkok Agreement

The Bangkok Agreement, the only regional trade agreement in the region, is a preferential tariff arrangement that aims at promoting intraregional trade through exchange of mutually agreed concessions by member countries. Until now, the Bangkok Agreement has not been effective due to limited coverage of product categories, lower margins of preference and limited membership. However, the recent accession of China to the agreement is expected to have a significant impact on regional trade relations in Asia and the Pacific. Several other countries have indicated their desire to join the Bangkok Agreement.

5. RTA membership and intra-group trade in Asia and the Pacific

Each of the conventional RTAs in Asia and the Pacific has been clearly grounded in regional political alliances, political strategies and/or in strong cultural affinities. Trade and other forms of economic cooperation have been seen as useful for building stronger political linkages. APEC, on the other hand, was established on the basis of strongly established trade and economic linkages across a group of countries with no collective tradition of political linkage or cultural affinity.

When measured according to GNP, the CER, SAPTA and ECO groups comprised potential markets of comparable size and corresponding in size approximately to the economy of the Republic of Korea or the Russian Federation. The AFTA market was somewhat larger, but quite below the market size of China or Japan. On the other hand, APEC accounted for 57 per cent of gross world product (GWP), and the Asian and Australasian members accounted for 28 per cent of world GWP (IMF, 1998a).

An analysis of trade flows within the conventional RTAs does not suggest that any of them could be regarded as natural trading blocs, in the sense of countries that would trade intensively with each other even in the absence of preferential trading arrangements. On the other hand, the trade flows suggest a greater economic logic behind the groupings that have already developed than among any possible alternative groupings.

Generally, trade within a regional grouping accounted for a relatively small share of each country's total trade, as shown from the data in annex 2. This was especially true for the larger countries in each grouping: for the Islamic Republic of Iran, Pakistan and Turkey within ECO; Bangladesh, India, Pakistan and Sri Lanka within SAPTA; and Australia within CER. In each case, intra-group trade accounted for less than 10 per cent of total trade. However, intra-group trade shares were higher for the smaller members in each grouping (for Maldives and Nepal in SAPTA; New Zealand in CER; and the Central Asian republics in ECO). Intra-group trade was still under 25 per cent in the case of the smaller members, except for Azerbaijan, Kyrgyzstan and Tajikistan, which appeared to have achieved a significant degree of trade integration with their fellow members of ECO, despite considerable obstacles (IMF, 1998a).

A similar differential in intra-group trade shares between larger and smaller members was also apparent within AFTA, although the shares for each type of country tended to be higher than in ECO, SAPTA, and CER. Within AFTA in 1997, they ranged from 13 to 25 per cent for the larger economies (Indonesia, Malaysia, Philippines, Singapore and Thailand) and from 21 to 36 per cent for three of the smaller economies (Brunei Darussalam, Myanmar and Viet Nam). Lao People's Democratic Republic was at the outer limit at 66 per cent. Nevertheless, these figures were quite a bit less than the levels observed within highly integrated trade groupings elsewhere, such as NAFTA and the EU. It is also noteworthy that a significant proportion of intra-AFTA trade consisted of trade between Singapore and its fellow AFTA members, which tends to represent something of a special case.

At the other end of the spectrum, intra-group trade clearly remained minimal among the small countries comprising the MSG trade agreement. However, a significant proportion of their trade was with the two CER countries, with which they are linked through the SPARTECA arrangement.

A very different picture emerged from the data on APEC trade linkages. (See annex 3.) Since APEC is a very large group in economic as well as geographic terms, accounting for almost 50 per cent of world trade, it was expected that it would account for a substantial share of many countries' trade. However, if APEC's share of world trade is taken as a norm, it is clear that APEC's share of the trade of its individual members in 1997 was above the norm in every case except one. In fact, the share exceeded 70 per cent for nine of the twenty-one current members of APEC. The exception was the Russian Federation, which conducted only 16 per cent of its trade within the APEC membership. This suggests that the admission of the Russian Federation to APEC may have been one case in which political considerations took the lead over economic considerations.

6. Actual and potential linkages

Although trade data does not suggest the existence of any natural trading blocs, it does suggest a certain logic to the groupings that have developed. (See annex 2.) For most countries, their trade with members of the group to which they belong accounted for a significantly higher share of their total trade than their trade with members of the other groups. The main exceptions were (a) the MSG members, which trade more intensively with both the AFTA and CER countries than among themselves, and (b) the SAPTA group, where India, Maldives, Pakistan and Sri Lanka trade more intensively with the AFTA countries as a group than with their fellow SAPTA members. Other exceptions were Afghanistan, which trades more intensively with the SAPTA and AFTA groups than with its ECO partners, and Australia, which had a higher share of its total trade with the AFTA group than with its CER partner, New Zealand. Apart from these exceptions, trade linkages between the various groups have been very weak.

It is also noteworthy that while the AFTA countries accounted for more than 5 per cent of the total trade of 13 countries in the other groups in 1997, there were only two cases in which one of the other groups accounted for 5 per cent or more of an AFTA country's trade. Those two cases were the 6 per cent share of Myanmar's trade accounted for by the SAPTA group and the 5 per cent share of Indonesia's trade conducted with the two CER countries. In all other cases, the share of AFTA countries' trade accounted for by other groupings was in the range of 0 to 3 per cent (IMF, 1998a).

If APEC's share of non-members' trade is also assessed using its share of total world trade as the norm, the data in annex 3 shows that APEC's trade share was well above the norm in the case of the MSG countries, approximately normal on average for the SAPTA countries and well below the norm for most of the ECO countries. The Russian Federation and China are two APEC members, which figure prominently in the trade of the central Asian members of ECO.

There is little or no evidence to suggest that the same political motivations that helped create the existing conventional RTAs in Asia and the Pacific might also provide the stimulus to develop linkages between them. Thus the motive for any such development will almost certainly have to be economic rather than political. The linkage between RTAs that has been most fully explored so far is between CER and AFTA, based on suggestions that began to emerge soon after the birth of AFTA in 1992. Agreement to pursue the AFTA-CER linkage was reached at ministerial level in 1995.

There has however been little or no enthusiasm for the creation of a free trade area joining AFTA and CER, despite a number of studies suggesting potential benefits from doing so. Most of the studies also point out that expected economic benefits from such an arrangement would accrue to the two groups anyway as a result of the liberalization needed to achieve APEC targets. Therefore, the case for pursuing a separate AFTA-CER free trade arrangement would not be strong unless it was believed that APEC liberalization would not proceed.

In practice, the AFTA-CER linkage has been guided by a series of relatively low-key informal consultations aimed at fostering cooperation between the two groups mainly in the area of trade and investment facilitation. A Memorandum of Understanding on cooperation with reference to standards and conformance issues was signed between the two groups in 1996. A handbook on customs procedures in the two groups of countries has been produced and joint consultation between private sector organizations from the two groups has been encouraged. A principal motivation from the AFTA countries' side for pursuing the linkage has been to learn from the experiences of an RTA which is somewhat more advanced than their own.

Similar initiatives are being pursued by ASEAN with other regional groupings such as NAFTA, the Mercado Comun del Sur (MERCOSUR), the European Free Trade Association (EFTA) and the Southern African Development Community (SADC).

Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC) is an arrangement that aims to liberalize and facilitate trade between two subsets of economies from ASEAN and SAARC. A cooperative work programme has been established which includes developing trade among the member countries through liberalization and facilitation measures.

Basing itself on the principle of open regionalism has helped APEC resist the suggestions so far that it should develop into a conventional preferential trading bloc. This approach has enabled APEC to act as a broad umbrella for regional economic cooperation, which at least in the short term can readily co-exist with the several conventional regional trading arrangements within its boundaries. These include not only CER and most of AFTA (among whose members only Cambodia, Lao People's Democratic Republic and Myanmar are not APEC members), but also NAFTA and the separate free trade areas that Chile has established with Canada and Mexico. These existing arrangements under the APEC umbrella are likely to stimulate the formation of many other similar arrangements. Proposals are being explored for a P-5 free trade arrangement linking the United States, Australia, New Zealand, Singapore and Chile. Japan and the Republic of Korea also appear to be abandoning their earlier aversion to participation in preferential trading arrangements, with a free trade area being considered between the two countries. Japan and Mexico, the Republic of Korea and Chile are also exploring possibilities for similar arrangements. Malaysia and Singapore have proposed an East Asian free trade zone, which would be based geographically on the concept of the East Asia Economic Caucus.[55]

[55] Press Secretary to Prime Minister of Singapore, Goh Chok Tong, Statement at APEC Economic Leaders' Meeting, Auckland, September 1999. Joint Statement, Prime Minister of Singapore, Goh Chok Tong and Prime Minister of New Zealand, Jinny Shipley. Press Release, Announcement for Negotiations between Mexico and Japan to Protect Investment, Auckland, 11 September 1999.

C. Non-reciprocal trade liberalization

1. Generalized system of preferences

There are now 15 GSP schemes operating in the world. They are offered by 29 preference-giving countries (including the 15 member countries of the EU). The EU, Japan and the United States continue to account for the majority of GSP imports, with the EU being the largest market by far.

The GSP and other non-reciprocal trade preferences are being applied increasingly in a world economic setting, which is experiencing an expansion in reciprocal trade arrangements at interregional, regional and bilateral levels. The implementation of the Uruguay Round Agreements and unilateral cuts in MFN tariffs by preference-giving countries have begun to erode preferential margins enjoyed by GSP beneficiaries as well as other non-reciprocal trade preference schemes.

The implementation of APEC is bound to supersede all unilateral preferences, including the GSP offered by Australia, Canada, Japan, New Zealand and the United States. Australia and New Zealand are already phasing out their GSP benefits for most developing countries in the context of their progressive trade liberalization programmes for most developing countries, except the least developed countries. The EU is considering the possibility of longer transition periods for least developed countries and other structurally weak and vulnerable economies in the process of establishing free trade areas, as well as more limited product coverage in free trade agreements for these countries, leaving some scope for non-reciprocal trade preferences.

The overall examination of GSP performance reveals continuing concentration of GSP benefits on a relative few major exporting developing countries and low utilization rates. This casts doubt on the effectiveness of graduation measures as a means to promote an equitable distribution of benefits among beneficiaries and suggests that a fair amount of GSP trading opportunities have yet to be seized by beneficiaries. The concentration of GSP benefits on very few least developed countries has been a matter of particular concern as it indicates that the rest of these countries scarcely benefit from the GSP.

A wider range of products of export interest to developing countries are affected by product-country graduations whereby GSP coverage is withdrawn from a beneficiary country for specific products or sectors. In addition, full country graduations are applied increasingly to terminate GSP coverage altogether for developing countries that are economically more advanced. In general, graduation carries an element of uncertainty that often discourages long-term planning and investment strategies by exporters and importers in particular, as graduation policies are based on criteria that can differ widely among GSP schemes.

The wide-ranging, non-trade-related conditionalities applied by major schemes to curtail GSP benefits introduce elements of uncertainty and reciprocity into the GSP. Preference-receiving countries have characterized these conditionalities as inappropriate when in effect they are attached to a trade assistance programme that in essence traditionally requires no reciprocal action by beneficiaries.

Restrictive rules of origin continue to limit GSP benefits considerably. In particular, they may work against the further integration of production in preference-receiving countries into the international value-added chain. Few preference-giving countries offer full and global cumulation that extends to suppliers from all beneficiary countries, nor is the allowance of donor-country content a standard feature of schemes. Expanding the opportunities for full and global cumulation would help encourage trade among these countries by enabling complementarities in production capabilities to be exploited and give greater advantages for international specialization. At the same time, the adoption of donor-country content provisions would encourage trade and industrial cooperation between enterprises in preference-giving and preference-receiving countries.

In order to enhance GSP benefits for least developed countries, it is essential to adapt origin requirements to their production capabilities. Thus, "double jump" or even "triple jump" requirements to establish the origin of garment exports seriously constrain such exports from those least developed countries that have no adequate supply capabilities for production inputs such as yarn or fabric.

A number of preference-giving countries have amended their GSP schemes in various ways since the conclusion of the Uruguay Round, in order to adapt them in part to the results of the Round. In particular, new initiatives have been taken to enhance trade preferences for least developed countries. Some GSP schemes have thus significantly expanded their product coverage for all beneficiary countries. For instance, progress has been made to expand the coverage of agricultural products and processed food. Moreover, a few GSP schemes have removed quotas and ceilings on GSP benefits in general or for a range of products. In the course of implementing a fundamentally new GSP scheme, the EU has replaced such restrictions by a modulation of GSP preferences according to the import sensitivity of production sectors.

A few GSP schemes have lowered their preferential rates to lighten the impact of declining MFN rates on GSP benefits. Under the GSP scheme of Japan, a greater number of GSP tariff reductions have been introduced on agricultural products, including all tropical and fishery products in order to maintain the preferential margin following the MFN tariff cuts of the Uruguay Round.

Nearly all schemes have designated new countries as GSP beneficiaries. In particular, schemes have added member countries of the Commonwealth of Independent States. Preference-giving countries have made efforts to improve trade preferences for least developed countries both within and outside the framework of the GSP. As a rule, least developed countries have now been granted duty-free market access for products covered under the existing GSP schemes. A number of preference-giving countries have relaxed stringent GSP rules of origin in favour of least developed countries through derogations and the simplification of certification requirements.

The European Council has announced that as an immediate measure to improve market access for least developed countries, the Community will promote regional cumulation facilities in order to benefit these countries and to respond positively to their requests for derogations from the applicable rules of origin. In this context, the EU has favoured some Asian least developed countries by introducing derogation from its “double jump” provision with respect to certain clothing articles. Owing to this derogation, these Asian least developed countries may now use woven fabric and yarn imported from a country belonging to ASEAN (except Myanmar), SAARC or the Lomé Convention. Likewise, Japan has relaxed its GSP rules of origin requirements so that imported fabrics may now be used in the production of certain clothing articles classified in Harmonized System (HS) chapter 62. However, exports that benefit from these relaxations in the rules of origin by the EU and Japan are subject to quantitative limitations.

Some problems, such as exporters' insufficient knowledge about GSP schemes, inadequate managerial and institutional capabilities in using GSP and following its procedures and, more specifically, the high transaction costs that result from such inadequacies and work against enhanced utilization, may be addressed by the beneficiary countries themselves. These problems are especially pronounced in the case of some least developed countries. Insufficient export supply capability can be another problem, which is more fundamental in nature.

A few major developing countries have efficient support services in place to help their exporters make use of GSP preferences, especially when the expansion of GSP exports became an important objective of national trade policies. For example, the Trade Development Board of Singapore or the Philippines Customs Bureau have actively facilitated GSP export operations through their advisory services, identification of GSP trading opportunities, monitoring changes in GSP schemes and keeping records of GSP textile exports subject to quotas. A number of countries have also established one-stop procedures to ensure that exporters deal with one authority only. Their experience may provide some guidance for other beneficiaries that have been less successful in exploiting GSP benefits.

2. Globalized system of preferences and other non-reciprocal arrangements among developing countries

Developing countries are increasingly taking initiatives to provide least developed countries with preferential access to markets. Within the framework of the Global System of Trade Preferences among Developing Countries (GSTP), many of its members grant some special access conditions to least developed countries participating in the arrangement. However, despite some expression of interest, only a few least developed countries have joined the GSTP to date.

Several developing countries have announced that they were ready to introduce a GSP for least developed countries or further extend special concessions in favour of least developed countries within the framework of GSTP. The Republic of Korea, Malaysia, Singapore and Thailand have made such announcements. Indonesia is also examining the possibilities of establishing special concessions. India is considering special measures in favour of least developed countries within the regional integration grouping relevant to Indian trade.

Details of the various concessions such as product coverage or preference margins still have to be communicated by the preference-giving developing countries. Turkey has introduced selective concessions according to duty-free entry for 556 products (on a 12-digit basis) in favour of least developed countries until such time as Turkey takes the GSP scheme of the EU.

In a longer-term perspective, the GSP and other unilateral trade preferences will lose their relevance for beneficiary developing countries when these countries enter into reciprocal trade arrangements with preference-giving developed trading partners. Such trade arrangements will ultimately offer developing member countries relatively more favourable and, in many cases, completely free access to the markets of developed country partners.

The changing international trading environment calls for new, more differentiated and flexible approaches towards S&D treatment. These new approaches should support the gradual integration of developing countries into the international trading system in accordance with individual country development, financial and trade needs, as well as administrative and institutional capabilities. For instance, more flexible provisions could authorize asymmetrical free trade areas, which would not require full reciprocity, thereby promoting the integration of least developed countries and other structurally weak economies into the expanding web of regional and interregional trade arrangements. Such arrangements would then be important vehicles to save these countries from marginalization. Such provisions would facilitate the conclusion of differentiated post-Lomé arrangements with a tailor-made mix of non-reciprocal and reciprocal concessions that respond to particular development needs. More flexible provisions could also provide a legal base for unilateral trade preferences offered by developed countries to regional subgroupings of developing countries.

3. The Lomé regime after the year 2000

The future of the Lomé regime[56] is largely predetermined by two factors: globalization and the WTO process. As a result of globalization, the supply of the raw materials now has less to do with the state and more with private firms in a market. This is a momentous development that makes agreements such as Lomé, which have been founded on the supply of inputs, increasingly anachronistic. As far as the WTO process is concerned, the limited derogation granted to non-MFN-consistent parts of the Lomé Convention and the difficult passage even this derogation received is witness to the difficulty that the new multilateral trade framework will pose for those countries benefiting from Lomé trade preferences.

It is important to realize that the ACP economies of the region to a large extent have been shaped by agreements such as the Lomé Convention, and certain sectors have become dependent on trade preferences. The loss of these trade preferences, either through the WTO or as a result of unilateral expansion of the EU's preferential arrangements and free trade regime will have serious repercussions for Solomon Islands and Fiji. Moreover, some of the countries in the region, including Fiji and Papua New Guinea, have already undergone many structural adjustment reforms and have been making substantial progress in recent years.

A Green Paper issued by the EU has presented a quasi-formal position on the future of its relations with the ACP countries once the Lomé Convention expires in the year 2000. The EU offers four options to the APC States: (a) status quo, (b) status quo with bilateral agreements, (c) break-up of Lomé into regional agreements, and (d) agreements with less developed economies.

Under the *status quo* scenario, the present situation would be maintained with the ACP group continuing to exist, but there would be differentiation in

[56] An agreement signed in 1975 and renegotiated in 1990, between 71 African, Caribbean and Pacific (ACP) countries and the European Economic Community (EEC), giving duty-free access to exports from ACP States to the EEC.

the treatment for aid as well as trade. The *status quo* with bilateral agreements is similar to the first option, but with national or regional agreements as opposed to differentiation with regard to procedures. The third option would lead to breaking up the ACP into three subgroupings of the Caribbean, sub-Saharan Africa and the Pacific. Interestingly, for the Pacific the EU advocates *rapprochement* with APEC. The final option proposed is to have agreements with less developed economies on a global basis. This would include the least developed countries of Asia and Latin America.

The Uruguay Round agreements will bear directly upon the Lomé regime by focusing on the rules of the GATT/WTO, in particular MFN,[57] by strengthening the dispute settlement mechanism of the WTO, and by changing commodity prices. The EU has a number of choices for reformulating its relationship with the ACP States in the WTO context.[58] The first would be to create a generalized system of non-reciprocal preferences under Part IV, which was introduced to assist in the provision of trade preference to developing economies.

Another option would be to convert the Lomé Convention into a free trade area. There may be problems with this approach as the EU has argued that one of its objectives is to have the Pacific countries trade increasingly with, and presumably join, APEC. There is, however, the more immediate problem that discrimination would not only be unacceptable to the EU, but also to the other GSP-granting countries.

The baseline scenario is, of course, to seek a renewal of the WTO waiver (granted to the Lomé Convention in 1994) every five years or even on an annual basis as may be necessary after the year 2000. This would be difficult, however, given the greatly tightened waiver conditions.[59] Seeking limited derogation for a range of goods where a trade preference is of

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[57] MFN requires equal treatment for all members of the WTO, except in the event of a free trade area (Article XXIV), trade preferences in favour of all developing economies (Part IV) or a waiver.

[58] The debate over the GATT and the Lomé Convention in the Working Party on Lomé IV consistently argued quite clearly for either generalizing the system of preferences found in the Lomé Convention to all developing economies, or converting the trade aspects of the Convention into a free trade area.

[59] Moreover, this is not even a desirable outcome, because once investors become aware that the trade preference for ACP is under regular threat, the benefit in terms of stimulating investment in export sectors would be lost.

crucial importance may be one way to proceed that might be successful inside the WTO Council with a minimum of expenditure of political capital.

One possibility that has been raised by the EU is to create a "two-tier" or *á la carte* approach to the trade provisions. This would create two groups of countries. The first would be those that are sufficiently developed to be able to consider movement towards granting a reciprocal free trade agreement to the EU (and remain consistent with Article XXIV). The second group would generally be the least developed countries, who would maintain a non-reciprocal arrangement within the EU. In the latter case, the EU would generalize the preferences to a wider group of nations of similar development status, but possibly maintain geographically based association agreements with identical trade terms (and hence remain consistent with Part IV). However, these trade preferences would then become global for a group of countries that are defined by their development status. This option would not only be GATT-consistent but would also be consistent with the EU's policy objective of broadening the coverage of the ACP group to include more countries.

The Forum island countries (FICs) are considering the creation of an open regional trade agreement, the Pacific Free Trade Area (PAFTA). It would serve as an interim measure prior to subsequent and greater economic integration into APEC, possibly by means of a "semi-bilateral" protocol with the CER. The EU has said specifically that it wishes to see the Pacific members of ACP integrate into APEC. Papua New Guinea is already a member of APEC and the other FICs participate as observers. The leaders of the South Pacific Forum have already said that they consider the APEC relationship to be an important one.

D. Private-public partnership in the context of regional and subregional cooperation arrangements[60]

The private sector has played an instrumental role in fostering regional and subregional economic arrangements in recent years. Their role obviously

[60] Based on a discussion paper prepared by the Brooker Group Ltd., Bangkok, "Promoting government-private sector partnership" presented at ESCAP, Ad hoc Expert Group Meeting on BIMST-EC: Promoting Government-Private Sector Partnership, Bangkok, March 1998.

differs from group to group, ranging from formal structured inputs to informal ad hoc consultations. While the private sector has played a supportive role in the development and success of regional economic groupings, it has generally been the governments that have put the cooperative frameworks in place. A number of these cooperative arrangements involving countries and areas of Asia and the Pacific are discussed here in terms of the role of the private sector and the scope for private-public partnership.

1. APEC

Since its formation in September 1992, APEC has sought inputs from the private sector at all levels. The APEC Business Volunteer Program, Management and Strengthening of Small and Medium Enterprises, facilitation of trade and investment activities in member economies and participation in the various APEC Working Groups, are all examples showing that the private sector plays an integral support and implementation role.

In 1994, the Pacific Business Forum (PBF) first recommended establishing a permanent APEC Business Advisory Forum to act as an independent voice of the business community. The APEC Business Advisory Forum would have direct input to economic leaders, review progress with regional trade and investment liberalization and recommend future work to improve the business environment in the region. Responding to the business community's call for a business/private sector body to advise the economic leaders, the APEC Ministers established the APEC Business Advisory Council (ABAC) in November 1995.

The Joint Statement of the APEC Ministerial Meeting in Osaka said that ABAC has two key functions: (a) provide advice on the implementation of the Action Agenda and on other specific business sector priorities, and (b) respond to various APEC requests for information about business-related issues or the business perspective on specific areas of cooperation. Each APEC economy appoints at most three representatives to ABAC from the private sector. These representatives reflect the interests of a broad spectrum of the private sector and should include representatives of SMEs. ABAC is tasked with finding ways to engage other regional private sector organizations in APEC activities. In general, the ways in which APEC has solicited private sector representation and perspectives offers one of the stronger models for formal private sector input in regional economic groupings.

2. ASEAN

Article 6 of the Framework Agreement on Enhancing ASEAN Economic Cooperation, January 1992 spells out the role of the private sector in ASEAN. The Agreement says that member States recognize the complementarity of trade and investment opportunities and, therefore, encourage among others, cooperation and exchanges among the ASEAN private sectors and between ASEAN and non-ASEAN private sectors and the consideration of appropriate policies aimed at promoting greater intra-ASEAN and extra-ASEAN investments and other economic activities.

The private sector has often been referred to as the engine of growth and has been strongly urged to participate actively in the ASEAN economic cooperation process. Against this backdrop, various channels have been established for regular consultations between the Senior Economic Officials and the representatives of the ASEAN Chambers of Commerce and Industry (CCI). Consultations between the high-level ranking private sector representatives and the ASEAN Economic Ministers are held on an annual basis.

The permanent secretariat of the ASEAN CCI has very recently been established at the ASEAN Secretariat in Jakarta to ensure more effective functioning and interface with ASEAN activities. It is also expected that the establishment of the permanent ASEAN-CCI secretariat will help foster greater communications and linkages between the policy-making bodies and the private sector.

In reality, the ASEAN CCI has not been very effective representative body for the private sector. It has dialogues primarily with other CCIs around the region, which do not necessarily reflect common business views. Lack of funds and a minimal staff have severely constrained the ability of ASEAN to organize and implement programmes.

3. SAARC

The SAARC Chambers of Commerce and Industry (SCCI) was recognized by SAARC in December 1992. It is headquartered in Karachi and has national units in all seven SAARC countries. SCCI was established to promote regional cooperation in trade and economic relations, and subsequently to facilitate tourism. To date, the SCCI has been instrumental in disseminating information about the content, scope and potential of the Framework Agreement on SAARC Free Trade Agreement among the business communities in the region. Business missions are held and seminars organized on a regular basis.

4. BIMST-EC

Arrangements for the promotion of private-public partnership in BIMST-EC date back to an *ad hoc* expert group meeting organized by ESCAP at Bangkok in March 1998. There were 96 participants representing the governments and the private sector of BIMST-EC members who attended to discuss new and innovative forms of cooperation and establish a framework for private sector involvement in the BIMST-EC process. One of the recommendations from the meeting concerns the establishment of a BIMST-EC economic forum to create a second or parallel track for BIMST-EC, and thereby solicit inputs from the business and academic community. Five parallel working groups were established during the meeting and this offered the participants an opportunity to share their perspectives on trade promotion in selected priority sectors: textiles and clothing; drugs and pharmaceuticals; gems and jewellery; horticultural and floricultural products; information technology products and services.

In institutional terms, the most significant outcome of the process was set in motion by the meeting to establishment a Business Forum as a vehicle for cooperation between business promotion organizations, including chambers of commerce, in BIMST-EC member countries. It was also envisaged that once the economic forum was established, it would meet annually back-to-back with the ministerial meetings hosted on a rotational basis among BIMST-EC members.

5. ASEM

The Asia-Europe Meeting (ASEM) is a relatively recent initiative, but it has established two major channels to solicit private sector inputs. The first channel is the ASEM Government and Private Sector Working Group that has met twice to formulate the ASEM Investment Promotion Action Plan. In principle, the Working Group comprises one public and one private sector representative from each ASEM member country plus representatives from the EU.

The second channel is the ASEM Business Forum, called for by the ASEM leaders to consider the appropriate modalities for fostering greater cooperation between the private sectors of the two regions. In principle, five private sector representatives from each country attend the Forum, along with a similar number of public sector representatives with observer status. The Forum is designed to consider a number of key issues, such as infrastructure, SMEs, finance and so forth. The Forum reports back to the senior officials meetings and provides business networking opportunities. Since the ASEM process is very much in its formative stage, it is not possible to fully evaluate the success of mechanisms for private sector involvement to date .

6. Indonesia-Malaysia-Thailand Growth Triangle

From the outset, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) initiative was designed expressly to facilitate trade and investment activities. The IMT-GT Joint Business Council, created to facilitate business and economic development activities in the growth triangle, has been very active in the process of regional cooperation. The Council provides a forum at which progress in policy reforms and concrete joint-venture projects is tracked and pushed forward. Additional relevant information on regional development issues can also be monitored.

7. Brunei Darussalam, Indonesia, Malaysia, Philippines East ASEAN Growth Area

The Brunei Darussalam, Indonesia, Malaysia, Philippines (BIMP) East ASEAN Business Council is the official representative of the private sector in the Brunei Darussalam, Indonesia, Malaysia, Philippines East ASEAN Growth Area (BIMP-EAGA). It was created in November 1994 in the Philippines through the Resolution of the First East ASEAN Business Convention and Exhibits.

The concept was to have a private sector organization to be a catalyst for the private sector of EAGA in order to undertake economic cooperation activities in the region and play a lead role in the region's economic development. A secretariat was formed in November 1996 with offices in Brunei Darussalam.

8. Greater Mekong subregion

The Asian Development Bank (ADB) initiated the Greater Mekong subregion (GMS) under a regional technical assistance programme. ADB has organized a number of high-level seminars to solicit private sector inputs about the development prospects of the countries in the GMS. The main goal is to seek foreign support for various infrastructure projects that are included in the GMS scheme. The ADB has also been considering a project to foster the regulatory reforms required to facilitate private sector investments in major infrastructure projects.

Given the importance of private sector in economic development and prosperity in the GMS, ESCAP in close coordination with ADB, other donor agencies and the GMS business sector, has been working to enhance private sector development in the GMS under three different frameworks, namely, the Forum for the Comprehensive Development of Indo-China, the Advisory Assistance to Industry for Export Promotion and the GMS Trade Facilitation Working Group. Under those initiatives, ESCAP has formulated a comprehensive approach to business sector development in the GMS, which is called the Hi-Fi Plan. The approach involves 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 the creation of a GMS Business Support Center.
- ❐ F – facilitation measures, especially in the area of trade and related procedures.
- ❐ i – investment promotion through increased interface between the foreign and domestic business communities and creation of a stronger enabling environment for investment.

9. South Pacific Forum island countries

No formal mechanism has been established to date among the South Pacific Forum island countries. However, member countries consult with State enterprises and others in the private sector to obtain informal input on regional matters.

10. World Economic Forum

The World Economic Forum (WEF) has among its activities regional economic summits in key regions of the world, including high-profile annual events in Asian countries such as China and India. The WEF has played a role in reflecting the opinions of the private sector to many regional groupings. It has played an active role in initiating or supporting many of them, in particular, ASEM and GMS.

E. Conclusions and recommendations

Regional trading arrangements should be viewed by the member countries and areas of ESCAP as stepping stones within a broader trade liberalization strategy that ultimately leads to removing all trade barriers on a non-discriminatory basis. Given the important role that these arrangements can play in the process of multilateral trade liberalization, it is a worthy goal for ESCAP-member countries and areas to pursue membership in existing arrangements such as the Bangkok Agreement, rather than starting fresh initiatives.

While WTO members in the region are bound by their obligations under GATT Article XXIV, in practice these are not likely to be a major factor in determining the future path for developing RTAs in Asia and the Pacific. A possible exception involves the FICs and negotiations for a possible regional economic partnership agreement with the EU. However, in this context the EU has raised WTO-compatibility as an issue.

Four stages in the development of a conventional RTA have been identified and existing RTAs in the region can be located at various points in these stages. A critical step in the development of a successful outward-looking RTA is the transition from the first to the second stage, involving a switch from the positive list to the negative list approach, because this reflects acceptance of the benefits from taking a more comprehensive approach to trade liberalization. Two regional trading arrangements, CER and ASEAN, have already successfully made this transition. The plan for the creation of PARTA proposes moving directly to the second stage. The ECO, SAPTA and MSG groups remain at the first stage, with varying distances to travel in order to reach the second stage. The member countries and areas of these regional arrangements would need to recognize that finding ways to advance beyond this stage is critical to the long-term development success of their RTAs as part of an outward-looking trade strategy. Experience suggests that reaching agreement to move from the positive list to the negative list approach is an important practical step that can facilitate the transition.

Once liberalization of trade in goods has been securely established, it becomes more worthwhile to turn attention to the possibility of developing and enhancing trade facilitation measures and introducing other elements of a single market. Among the latter elements, liberalization of trade in services and investment is likely to offer the best immediate prospects. Mobility of labour can be considered to the extent that political constraints allow.

There may be some potential for cooperation between RTAs in trade facilitation. However, this potential can be effectively explored only when each RTA is sufficiently advanced for facilitation to become a significant issue. In any case, the potential benefits from cooperation in this area are crucially dependent on the size of the potential trade flows among the member countries. Beyond this, the motive of learning from each other's experiences could conceivably provide some basis for cooperation between SAPTA and AFTA, given that an important rationale for economic cooperation for both groups is the contribution it can make to the management of political issues.

The analysis shows that non-reciprocal schemes such as GSP have not been effective owing to various limitations of such arrangements. For example, one major limitation of GSP is the continuing concentration of benefits on a relatively few exporting developing countries and low utilization rates. This casts doubt on the effectiveness of graduation measures as a means to promote equitable distribution of benefits among beneficiaries and suggests that many GSP trading opportunities have yet to be seized by beneficiaries. The concentration of GSP benefits on very few least developed countries is a matter of particular concern, because it indicates that most of these countries hardly benefit from the GSP, if at all. At the same time, GSP schemes and other non-reciprocal arrangements have had diminishing relevance for the international trade diplomacy of countries and areas in the region (and presumably all developing countries) in recent years. The reasons are related to the context of rapidly increasing RTAs and the ongoing process of multilateral trade liberalization.

Finally, private-public partnership as part of subregional arrangements has played an important role in fostering subregional cooperation and it has been identified as a crucial factor for the success of such arrangements. The role of private sector varies from group to group, however, ranging from formal structured inputs to ad hoc consultations.

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IV. TRADE FACILITATION AND ELECTRONIC COMMERCE AS CATALYSTS FOR INTEGRATION

A. Background

The role of trade facilitation in the integration of developing countries into the global trading system needs to be understood in its historical perspective. For about the first three decades of the post-war period, the basic tenet of development policy in developing countries emerging from the colonial era (with a few exceptions) was import substitution. An elaborate framework of rules and procedures for controlling foreign trade was erected to support this policy, providing customs authorities with vast discretionary powers. At the same time, many developing countries regarded foreign capital participation in the national economy as a form of economic imperialism that was inconsistent with achieving national economic aspirations. In this policy environment, trade facilitation measures were inevitably ignored.

An increasing number of developing countries began to make a significant shift away from import substitution towards an outward, export oriented policy mind set from about the mid-1970s. As a result, the very instruments that sustained import substitution regimes became major obstacles to growth and economic transformation. Openness to trade and foreign direct investment became part of the norms for the new outward-oriented paradigm. Trade facilitation measures in the form of harmonizing and simplifying the detailed, micro aspects of individual trade transactions have, therefore, necessarily had to accompany wider, macro-level trade policy reforms under this policy orientation. It is important that a country develops a coherent trade policy, which emphasizes the macro and micro aspects of international transactions equally. An essential element of that policy should be to ensure that trade procedures are made as simple and transparent as possible.

Information technology, with techniques such as electronic data interchange (EDI), the Internet and the World Wide Web, allows a fast and efficient exchange of data and permits automating of many administrative processes. It therefore has the potential to change the environment in which trade facilitation measures have been operating.

Box 2. Procedural trade barriers – a story of a slow death

Much early work on trade facilitation was inspired by a 1959 study: "Merchant Shipping on a Sea of Red Tape" undertaken by the San Francisco Marine Exchange. The report found, for example that "Manila required 34 documents to accomplish what may take 19 documents to accomplish in Bangkok, and only 11 in Rotterdam; yet the information sought is often identical in each port. In one port the documents total 44 and the copies total 213... some must be presented with an accompanying letter, two printed in red ink, two in black, and so on in a never ending stream of paperwork."

Not much appears to have changed since then in some parts of the region. In 1993, a workshop on standardization of international trade and transport documents held in Beijing found that to import or export consignments in parts of South Asia, firms were required to undertake an enormous amount of paperwork:

	India	Nepal	Pakistan
Types of documents	29	83	15
Number of copies	118	102	108
Number of signatures required	256	113	56
Manpower required	7	22	11
Estimated cost of procedures:	10 per cent of consignment value		

The purpose of this chapter is to make a case for treating micro and macro issues in an integrated manner in trade policy. It includes a discussion of why trade facilitation is an important micro issue. The discussion also considers the significance of trade facilitation for integrating national economies into the global trading system. The role of electronic commerce as a catalyst for trade facilitation is also examined at length.

B. The need to consider micro and macro policy trade issues in an integrated manner

There has been considerable progress in the GATT multilateral rounds of trade negotiations to abolish NTBs and to lower import tariffs worldwide. However, these policy initiatives at the macro level may not yield the anticipated increase in trade if individual firms continue to face a multitude of procedural obstacles to exports and imports. The links between macro and micro aspects of barriers to international trade have been emphasized increasingly in various international forums for some time. For instance, the Columbus Ministerial Declaration on Trade Efficiency[61] in 1994 noted that efforts made to secure an open trade environment (by signing the WTO Agreement earlier that year) would not bring full benefits unless the enterprises of all nations can import and export efficiently and that delegates had gathered at the Conference to find solutions to these micro-economic issues of international trade.

Trade procedures encompass activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods (and services) in international trade (WTO, 1999a). These procedures obstruct trade when they are based on arbitrary methods for determining the customs value of goods or when rules require firms to have the goods certified by costly inspection firms before export. Importers may be required to provide detailed evidence about the country of origin for a finished product as well as for the intermediate products. Exporters may be expected to label their products based on a number of technical, environmental and sanitary and phytosanitary standards applied in different countries. Likewise, a decision to open particular service sectors to foreign competition under the GATS would be ineffective if various procedural barriers for new entrants continue to remain intact. These barriers include complicated and non-transparent licensing requirements, permits granted by a multiplicity of supervisory agencies, customs obstacles in the import of plant and machinery from abroad and various outmoded business practices not in harmony with those in the rest of the world.

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[61] UNCTAD, United Nations International Symposium on Trade Efficiency, October 1994. The Symposium was held at the ministerial level at Columbus, Ohio.

In effect, facilitating trade by simplifying and harmonizing trade procedures at the micro level is as important as liberalizing trade policy at the macro level. Neither can be truly effective in expanding trade volumes if it is implemented in isolation from the other.

C. Trade facilitation as a major issue of micro policy

Much remains to be done before a truly open world trading system is established, but as indicated before, governments have worked collectively to reduce traditional trade barriers. For example, during 50 years of GATT/WTO, weighted tariffs in major industrialized countries were reduced by more than 80 per cent. In addition, there has been a significant decline in the use of quantitative restrictions since the end of the Uruguay Round. However, procedural barriers continue to obstruct international trade. Importers and exporters from both developed and developing countries have long complained about the vast amount of red tape that still exists when moving goods across borders. UNCTAD has estimated that the average customs transaction involves 20 to 30 different parties and about 40 documents. Furthermore, the cost of complying with customs formalities has been reported to exceed the cost of duties paid in many instances.

In fact, there is evidence that the reason why many SMEs do not participate in international trade has more to do with procedural obstacles than with tariff barriers. For enterprises that do not ship large quantities regularly, exporting is not an attractive option mainly because of the time and resources needed to tackle an unsupportive administrative environment (WTO, 1999c).

Procedural barriers to trade are unquestionably harmful, because they benefit no one, except a few service providers who specialize in assisting clients navigating through the sea of red tape. Domestic producers may be protected from competition, but only temporarily. Unlike tariffs, governments do not earn any additional revenues from procedural barriers. Economists, therefore, regard the costs arising from such barriers as deadweight losses to society. Conversely, trade facilitation measures that eliminate such obstacles benefit everyone – consumers through lower prices; exporters and importers through savings in time and money; governments through effective control over illicit trade, higher customs revenues and better trade statistics; and domestic producers through better access to less expensive intermediate products. Trade facilitation is, indeed, an important issue at the micro policy level.

Trade facilitation is also a major micro policy issue because it affects all three critical features of a successful business transaction, namely, price, timely delivery and quality. For instance, assume that simplification of trade procedures results in a 10 per cent reduction in the export price owing to lower built-in customs clearance costs. This amounts to an equivalent improvement in a firm's competitiveness in the international market without any actual investment in measures to enhance productivity. Similarly, if automation can reduce by half the time taken for customs clearance of a cargo consignment, this is identical to doubling cargo-handling capacity without building any new physical infrastructure. If all containers or a large proportion of them are opened and physically inspected by customs authorities, as is frequently the case, the loss and damage to the goods increase proportionally, thereby affecting the quality of goods.

Trade facilitation measures are thus relatively low cost ways to enhance the international competitiveness of domestic firms as well as the capacity and performance of the national trade infrastructure. They are particularly important for developing countries where SMEs often operate on narrow profit margins and where governments frequently lack resources for upgrading and expanding infrastructure like seaports and airports.

There is a considerable body of international conventions and recommendations related to the facilitation of procedures and standards in international trade and transportation. Some of these are summarized in Box 3.

However, the trade facilitation conventions listed in the box are either voluntary or do not have provisions for sanctions in the event they are not adhered to. This is in contrast to the binding nature of WTO agreements where there are clearly specified sanctions that can be applied if a government violates its commitments.

Thus, even though various WTO agreements already contain provisions that relate to trade facilitation (as shown in table 11). Given the growing importance of trade facilitation as an integral part of trade policy, some

Box 3. Trade facilitation conventions

Convention on the Facilitation of International Maritime Traffic, 1965 (International Maritime Organization) – Contains measures to facilitate the arrival, stay and departure of ships by simplifying and reducing to a minimum the formalities, documentary requirements and procedures required by customs, immigration, health and other public authorities as related to the ship, its passengers, baggage, crew, cargo and mail.

Convention on International Civil Aviation, 1944 (International Civil Aviation Organization) – Contains provisions for the faciliatation of arrival and departure of goods and other articles. Includes standards and recommended practices designed to facilitate international movement of goods by air.

Customs Convention on Containers, 1972 (World Customs Organization) – Lays down standards for the construction of dontainers, as well as an approval system, and provides for temporary import and repair for containers with minimum of formalities.

Customs Convention on the International Transport of Goods under cover of TIR Carnets 1975 (UN/ECE) – Applies to the transport of goods in road vehicles, a combination of vehicles or in containers, across one or more frontiers, provided that some portion of the journey is made by road.

International Convention on the Harmonization of Frontier Control of Goods, 1982 (UN/ECE) – Aims at reducing requirements for completing formalities as well as the number and duration of controls.

International Convention on the Harmonized Commodity Description and Coding System, 1983 (World Customs Organization) – Provides a standard for the description and coding of goods in order to facilitate customs procedures as well as the collection, comparison and analysis of trade statistics.

International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto), 1973 (World Customs Organization) – The Kyoto Convention is designed to overcome barriers to international trade that could be created by the diversity and complexity of customs procedures and documentation in various countries.

Box 3. *(continued)*

Multilateral Agreements on Trade in Goods, 1994 (World Trade Organization) – Contain recommendations on customs valuation, import licensing, preshipment inspection, rules of origin, technical barriers to trade, and on the application of sanitary and phytosanitary measures.

United Nations Commission on International Trade law (UNCITRAL) – UNCITRAL has a number of conventions and model laws related to international trade and electronic commerce.

United Nations Centre for the Facilitation of Procedures and Practices for Administration, Commerce and Transport – **UNCEFACT** is a worldwide forum for intergovernmental cooperation on trade facilitation. Adopted a number of recommendations related to trade, as well as publication of the United Nations Trade Data Elements Directory and the United Nations Trade Data Interchange Directory.

In addition to the above conventions and recommendations by intergovernmental organizations, a number of international industry associations, such as the International Chamber of Shipping, the International Chamber of Commerce and the International Air Transport Association have issued recommendations and best practices that are designed to facilitate international trade and transportation.

Source: UNCTAD, *Compendium of Trade Facilitation Recommendations*, 1994.
http://www.unece.org/trade/comp/cmp_home.htm

countries now favour incorporating trade facilitation measures at the next round of WTO trade negotiations.

It should be noted, however, that although most governments have come to recognize the importance of eliminating administrative red tape related to international trade, some governments question the need for a binding WTO agreement in this area. They argue that such an agreement would add to the implementation burden of developing countries, since they lack the necessary resources to modernize customs administrations. Instead, they have called for a comprehensive technical assistance programme on trade facilitation by the WTO and other international organizations.

Table 11. List of WTO provisions related to trade facilitation

Article/Agreement	Subject
GATT 1994, Article V	Freedom of transit
GATT 1994, Article VII	Valuation for customs purposes
GATT 1994, Article VIII	Fees and formalities connected with import and export
GATT 1994, Article IX	Marks of origin
GATT 1994, Article X	Publication and administration of trade regulations
Agreement on Implementation of Article VII of the GATT 1994	Customs valuation
Agreement on Rules of Origin	Rules of origin
Agreement on Import Licensing Procedures	Import licensing
Agreement on Pre-shipment Inspection	Preshipment inspection procedures
Agreement on Technical Barriers to Trade	Rules relating to technical standards
General Agreement on Trade in Services	Rules relating to facilitating trade in services

Source: WTO, *Trade Facilitation, A background note by the Secretariat*, G/C/W/80, Geneva.

D. Role of trade facilitation in realizing the goal of integration

The goal of trade facilitation is to simplify, harmonize and standardize international trade transactions in order to achieve simple, transparent and effective processes for global commerce. Simplification means that government agencies involved in authorizing or clearing international trade transactions will eliminate processes and data requirements that are not absolutely required or which duplicate other processes or data already collected by the same or some other agency. Harmonization means aligning procedures, processes and data requirements with international conventions and recommendations, such as the Kyoto Convention for simplified and harmonized customs procedures or the International Maritime Organization's Convention on the Facilitation of International Maritime Traffic. Standardization means that international standards are applied for data and information exchange, such as standards developed by the International Organization for Standardization (ISO) for country names and currencies, or the Harmonized System for goods description and coding developed by the World Customs Organization.

The use of international standards facilitates comprehension in the presence of language barriers and also allows the automatic electronic processing of trade data.

There are several ways that trade facilitation measures can help developing economies integrate into the global economic system.

1. Lowering the transaction costs of trade

Although estimates vary, experts agree that trade facilitation measures can substantially reduce the costs of trade transactions. Obstacles to trade at the border may be in the form of obsolete technology at the port of entry/ exit and can also involve complex customs procedures, irrational documentation requirements, unfair customs valuation or unnecessary inspections. Such obstacles may mean that foreign markets are usually less important in the business strategies of firms in developing countries when compared to their counterparts in developed countries. The inability to predict costs and delivery time can be a major disincentive to doing business internationally. Simplification, automation, harmonization and greater transparency in customs procedures could lead to savings, which could represent a considerable portion of the value of the goods traded, often exceeding the value of the tariffs and other charges.

2. Improving the climate for foreign direct investment

There is evidence that the period following an inflow of green field FDI is often marked by a short-term rise in capital imports. This is usually due to the fact that an investing firm has to import equipment and intermediate goods in order to establish its plant and machinery and begin production. Procedural barriers to such imports act as a major disincentive to potential foreign investors as much as obstacles to the passage of finished goods through customs controls. It is thus not surprising that most FDI takes place between developed countries as foreign investors can choose a destination with superior infrastructure for carrying out trade. Given the worldwide competition for FDI, a developing country successful in attracting foreign investment would be one that has streamlined its customs and other facilities essential for the smooth conduct of international trade.

3. Strengthening revenue collection

Customs revenues still comprise the largest source of government revenues for many developing countries. The fear that this revenue source will decline is often one reason for being reluctant to wholeheartedly commit to trade liberalization under the multilateral trading system. The use of automated and transparent trade procedures can reduce revenue leaks through evasion and fraud or through corrupt practices. Increases in net customs duty collections through trade facilitation measures can offset some of the revenue losses from trade liberalization measures that reduce tariffs. Offsetting revenue losses would enable developing countries to better integrate into the global trading system.

Some developing countries in Asia and the Pacific have witnessed rising customs revenues following reforms in customs procedures. For instance, an evaluation was undertaken in 1994 for the implementation of Phase 1 of the Automatic System for Customs Data project (ASYCUDA).[62] The project involved computerization of Sri Lanka's customs headquarters and the port of Colombo. It was revealed that in the first year, customs revenue increased by 7 per cent, by about US$ 60 million. A 1997 study also showed that customs reform in the Philippines led to a 20 per cent (US$ 200 million) increase in the collection of duties and taxes during the first year of implementing ASYCUDA at the port of Manila. The study also revealed that clearance time went down from an average of four days to four hours for shipments in the green lane, and that the project had been implemented successfully despite protests from staff and brokers.

E. Electronic commerce as a catalyst for trade facilitation

Electronic commerce, or e-commerce, has been defined as the distribution, marketing, sale or delivery of goods and services by electronic means. This definition includes commercial transactions that involve electronic

[62] ASYCUDA is a programme for modernizing and computerizing customs procedures developed by UNCTAD. It currently operates in 10 countries of the Asian and Pacific region, including Bangladesh, Fiji, Mongolia, Maldives, Nepal, Papua New Guinea, the Philippines, Samoa, Sri Lanka and Vanuatu. A regional support and training centre is located in Kuala Lumpur.

transmission of products, services, commercial information, commercial documents or funds, as well as electronic catalogues, marketing and advertising. It encompasses trade applications of the newer technologies of the Internet, the Web and more established technologies such as electronic data interchange (EDI). Some of these electronic instruments of commerce have been in use for decades. However, the advent of the Internet promises to significantly change the volume, nature and speed of electronic transactions for enterprises in both developed and developing countries. Much of the focus here will be on the manner in which the Internet can improve the ability of firms in developing countries to participate in the international economy.

Box 4. The Internet and the Web versus EDI

Until recently, EDI was the preferred way of conducting electronic business between larger companies of the developed world. Though available for 20 years, the use of EDI has been limited to about 2 per cent of the business world. This low penetration level can be partially explained by the high cost of establishing EDI and the structured nature of its content. The Internet on the other hand, combines the advantages of flexibility, wider access as well as lower costs. While EDI has been limited to business-to-business transactions, the Internet has extended electronic transactions to business-to-consumer transactions.

In a sense, the Internet and EDI are complementary technologies. The Internet, including the WWW, provides a network, an interface and an information repository, while EDI is a technique for structuring and tagging data that computers can interpret. This allows for processes to be automated based on data exchanged between independent computer systems. It is in fact likely that the Internet, being flexible and ubiquitous and based on open standards will make EDI more accessible to SMEs.

The United States is by far the dominant player in e-commerce, but growth projections for other regions of the world are very positive. However, e-commerce transactions as a share of international trade are still very small. According to one estimate for 1998, e-commerce accounted for not more than US$ 10 billion. Most e-commerce transactions take place within countries.

In fact the International Telecommunication Union (ITU) estimated that in 1998 only 10 per cent of e-commerce revenues in the United States came from exports. There could be a number of reasons for this, including uncertainties about the legal jurisdiction for an international electronic trade transaction or the absence of internationally standardized payment formats.

These critical issues affecting the cross border sale of goods and services over the Internet are likely to be sorted out in multilateral forums over time. There are, however, a number of ways in which e-commerce and the Internet can indirectly influence international trade by providing a medium that permits simplification and improvement of trade procedures. The automation of key trade transactions is also facilitated. This gives rise to a number of opportunities. These are discussed below in the context of six areas considered by the Columbus Ministerial Declaration as the most critical for facilitating international trade.[63]

1. Customs

Delays at the border are the most obvious procedural obstacle to international trade. These are caused by, among other things, outdated customs clearance procedures, the multiplicity of paperwork, lack of transparency about customs rules and cumbersome risk assessment methods. There are a number of ways in which e-commerce can alleviate and sometimes eliminate these customs bottlenecks.

First is electronic customs clearance. One distinguishing feature of electronic commerce is the opportunity it offers for borderless trade. E-commerce is sometimes classified into three categories: (a) where the good or service is merely advertised over the Web but is delivered and paid for in the normal manner; (b) where the good or service is advertised and paid for electronically but delivered physically (online sale of computer hardware); and (c) where the good or service is advertised, paid for and delivered electronically (online sale of newspapers and magazines, movies, software and many kinds of services).

[63] The Columbus Ministerial Declaration on Trade Efficiency, 1994 identified customs, transport, banking and insurance, information for trade, business practices and telecommunications as areas for trade facilitation.

This third category of business transaction is perhaps the most distinctive feature of e-commerce and constitutes the borderless trade referred to above. It is easy to see that by enabling the electronic delivery of orders, the Internet effectively eliminates the stage of customs clearance in an international trade transaction. This clearly facilitates trade for individual trading firms.

The majority of e-commerce transactions in goods, however, involves physical delivery and must cross customs checkpoints. This leads to the question of what contribution the Internet can make in this case. The benefits of automation for customs clearance have been known for quite some time. The use of EDI when submitting transportation documents and customs declarations has made it possible for customs authorities in several developed countries to analyse and pre-clear cargo before it has even landed. The result has been an almost instantaneous clearance of the cargo, while at the same time the accuracy of customs' risk assessment has improved due to faster and better data analysis. As a result, in turn, requirements for physical inspection of cargo have been reduced without an adverse impact on enforcement.

UNCTAD's ASYCUDA has existed since 1983. It is a software programme designed to simplify and automate customs procedures and has been employed by a number of customs administrations in Asia and the Pacific. Developing countries, however, sometimes complain about the high costs of installing such automated systems. Internet-based solutions could help save on the start-up costs for traditional automated systems so that developing countries that have not yet introduced automation can leapfrog over other expensive systems currently used in many countries.

Singapore is one example of a country in the region that has taken a lead in using e-commerce to streamline its customs clearance procedures, as described in box 5.

Second is facilitation of the single point information feed. The number of different agencies to which almost the same information has to be submitted in different documentary form before a consignment is cleared for export or import is another important source of delay for traders. According to one estimate, in some cases 100 documents and 20 different organizations are involved in supervising an international trade transaction. Often up to

80 per cent of the information contained in these documents is the same, but individual documents have different layouts.

Electronic documentation using a layout with a common structure with Internet connectivity among the supervisory departments can reduce the entire process to a one-time keying in of information. It would, of

Box 5. Singapore's TradeNet

TradeNet is an example of Singapore's electronic system for trade operations. It is used by the Government of Singapore to reduce costs and turnaround time for preparing, transmitting and processing trade and customs declarations. A local network operator, Singapore Network Services (SNS), administers the system, which has about 2,600 subscribers. In 1997, the system administered over 8 million trade declarations.

TradeNet operates basically as a post office. An approved trader submits his declaration form on the computer in his office and transmits it electronically via the Internet for Customs approval, which can be obtained in a matter of minutes. Depending on the type of goods, however, sometimes as many as 20 agencies may be involved. TradeNet routes the information to the relevant agencies for the appropriate approvals. Once the TradeNet declaration is approved by the Customs and Excise Department, the trader prints at his own office a copy of the Cargo Clearance Permit, which has a bar-coded permit number.

Machine bar-code readers at Customs checkpoints are used to scan Cargo Clearance Permits. They retrieve permit information from the central computer banks and they also input clearance information. Payment of customs duties and the goods and services tax (GST) are done automatically through the inter-bank giro system. All approved traders in the TradeNet system have to maintain a direct debit account with their bank that is wired to the interbank clearing system. This electronic clearinghouse is also managed by SNS. This system obviously has enormous scale and scope benefits by providing the complete TradeNet and interbank systems.

TradeNet has allowed labour cost savings and expedited goods movements from ship to shore and vice versa. The efficiency offered by TradeNet has been increased by a fully automated port management system operated by

Box 5. *(continued)*

the Port of Singapore Authority (PSA). The system allocates cargo loading and unloading schedules based on arrival and type of cargo well before the ship arrives in port. This streamlined procedure allows ship turnarounds to occur within 10 hours while the TradeNet system ensures fast customs clearance.

The net impact is a significant reduction in storage costs, docking charges and labour requirements. The Singapore Government estimates these efficiencies to be more than 1 per cent of GDP.

course, be more beneficial if the various government agencies could cooperate and share the information being collected, as in the case of TradeNet in Singapore. An innovative lead appears to have been taken by the Group of 7 (G-7) countries and the European Union which have undertaken a project that aims to establish a common set of data items for customs clearance using EDI. This project is scheduled for completion in 2000 and will reduce the number of data items from 800 to about 125.[64] A by-product of the interconnectivity between different trade administrations would be more accurate trade statistics, an essential part of any reliable assessment of trade trends and for good policy-making decisions.

Third is transparency. Corruption in customs administrations is often a common complaint of exporters and importers, especially in developing countries. Trade rules selectively applied on uninformed traders is a major source of corruption for customs officials. The use of the Internet to make national customs laws, regulations and rulings available online can significantly increase transparency in customs dealings. However, demystification of the rules alone may not provide a lasting solution to this problem. In many developing countries this may have to be combined with incentives for customs officials, including better pay and rewards for effective enforcement.

Fourth is electronic risk assessment of cargo. The need for facilitating trade has to be balanced with a need for restricting illegal trade in order to have effective trade administration. Screening consignments for illicit goods

64 http://www.wcoomd.org/frmpublic.htm

is therefore a legitimate duty of customs authorities. A growing volume of trade transactions in virtually every country means that the screening can be done only by using well-designed sampling methods. Electronic customs documentation can contribute, not only by enabling prior identification of potentially illegal cargo or suspect shippers, but also by providing a more refined sample that would mean fewer but better targeted physical inspections and less delay for honest traders and better returns on staff time.

2. Transport

It is not just delays at customs checkpoints that matter for the individual trader. A standard international trade transaction involves goods travelling some distance from the place of manufacture to the place of consumption. Goods are first transported from the factory to the port of export, then carried by ship or plane to the import destination, from there to the distribution centre and finally to the consumer. Goods in transit are non-performing assets and speedy transport is thus an important objective of trade facilitation.

It is obvious that e-commerce can eliminate transportation problems in the case where goods can be digitized. In such a case, delivery is almost instantaneous as digitization eliminates the need for physical transportation of the goods. There is another important area where the advent of the Internet has reduced the need for physical supply. A great amount of e-commerce takes place in the services sector, including communications services, financial services and various kinds of consultancy services. The electronic delivery of mail means that there is no need for a document to be physically transported from the sender to the recipient. Likewise, the advent of dematerialized trading in stocks implies that paper share certificates do not have to travel from the premises of the issuing company to the shareholder. Instead, they can be electronically credited to a shareholder's account. For many types of consultancy services, the Internet has eliminated the need for specialists to move physically from one country to another. This is of particular significance for many developing countries where constraints such as qualification requirements, visas and work permit restrictions may have been limiting the movement of specialized consultants abroad. Special mention needs to be made about services being supplied over the Internet by software consulting firms in some developing countries in the region to clients in other parts of the world, as described in box 6.

Box 6. India's software exports

Software exports from India increased exponentially from about US$ 100 million in 1989-1990 to more than US$ 2.5 billion in 1998-1999 and are now the largest foreign exchange earner for the country. India's software export business began when migrant engineers were sent to work on projects in the United States for computer companies. As this trend grew, the corporations sought affiliates that could do the programming in India at lower costs. This industry also received a big boost as a result of concerns about addressing the year 2000 (Y2K) problem.

As knowledge about their capabilities spread, Indian companies were asked to do more sophisticated programming tasks until they became prominent programme designers on their own, capable of doing work for markets in different parts of the world. The table shows the rapid growth of India's software exports over the past decade.

Table 12. Growth in the value of software exports from India, 1989-1999[a] (value in US$ million)

	Value of software exports
1989/90	105.4
1990/91	131.2
1991/92	173.9
1992/93	219.8
1993/94	314.0
1994/95	480.9
1995/96	668.0
1996/97	997.0
1997/98	1,650.0
1998/99	2,600.0 (estimate)

Source: Richard Heeks, *India's Software Exports*, Sage Publications. www.man.ac.uk/idpm/isiexpt.htm

Note: [a] Figures represent gross exports, including those services provided by software professionals travelling abroad. Software exports through the Internet are currently estimated to be about 40 per cent of the gross figures.

Most general cargo, however, is physically transported in containers that are part of a multimodal transportation system. Increasingly, suppliers demand better speed, efficiency and reliability in this system. Here information technology can be helpful in at least two ways. Major transportation companies can now use the Web to provide scheduling information and for making reservations and booking. Also EDI can be used to transmit container stowage information, bill of lading information, cargo tracking, vessel arrival and departure information, as well as for electronic payments and almost any other activity that involves high volume exchange of information with clients and partners such as customs and port authorities.

3. Payment systems

The Columbus Declaration on Trade Efficiency identified the financial sector as one of the six major focus areas for trade facilitation. Delays in payments for international transactions can increase the final cost of a product, because interest charges can be added to the price. Delays in payment also hold up bills of lading and letters of credit, documents that are essential to clear a consignment. Much of the delay occurs because bank operations are obsolete and payment documents are not standardized internationally.

The advent of electronic banking and payment systems presents a good opportunity for setting new standards and harmonizing disparate payment systems. One application of the Internet in the financial sector is telebanking, where charges are substantially lower than normal banking charges. This could translate into significant savings for firms in developing countries when compounded over a period of time. For international transactions, electronic money transfers increase the speed of payment considerably. However, many electronic payment systems require the use of a credit card, and questions are sometimes raised about their appropriateness given the very low level of credit card use in developing countries.

Studies indicate that the low level of credit card use is because the profits of credit card companies seem to rely on high interest charges levied on delayed payments. This strategy has sometimes been found to be ineffective in the low-income developing countries where the average consumer is relatively payment conscious. Electronic payment systems based on cash cards appear to be more relevant for facilitating trade in developing countries.

4. Information for trade

Like any other business, international trade is driven by information about market opportunities, potential buyers and sellers, prevailing market prices and so forth. Providing better trade-related information is thus a major goal of trade facilitation and promotion. The Web is emerging as the world's biggest repository of information, with millions of Web Pages that offer text and visual information about business organizations, products, price lists, annual corporate reports and marketing opportunities. The Internet and the Web are appropriately regarded as an information superhighway capable of disseminating trade information unlike any other method in the past.

Firms in developing countries have the potential to gain from the superior access to business information in a variety of ways. For instance, virtual shops and contact points on appropriately selected Internet sites can help businesses from developing countries find clients abroad when they would otherwise find it difficult to reach customers in other countries. The Internet can also help exporters in developing countries in a completely different way. For some time now, exporters of primary products in developing countries have suffered from a long-term decline in prices and wide fluctuations of prices that have adversely affected their export earnings. In recent years, commodity hedging in the futures market has emerged as a way to shield exporters from such risks. However, participation in the futures market is feasible only for exporters located in cities where commodity exchanges exist. Internet connectivity and the promotion of online trading facilities can mean that commodity producer/exporter associations in the hinterland can track commodity price movements on a daily basis and take the required steps to protect the interests of their members.

5. Business practices

Trade facilitation measures also focus on eliminating those practices that do not add value to the business process. This is an area where electronic commerce is recognized to have already made a significant impact. One frequently cited effect of e-commerce has been to modify the traditional concept of a business premise. E-commerce allows firms to operate without formal business premises creating considerable savings in fixed costs. Anyone can now start a business at the cost of a personal computer and a Web browser. Firms in developing countries can now participate in the world market at very low costs of entry.

Another major way in which e-commerce is affecting business practices is through the elimination of the traditional middleman. One well known success story is the online sale of plane tickets by airlines directly to customers, thus saving on the commissions paid to travel agents. Another interesting example is the demise of the Tea Brokers Association, located in London, which had functioned as the tea capital of the world for 200 years. Today, online trading in tea means that buyers can deal directly with plantations in China, India and Sri Lanka without paying large commissions to brokers in London.

6. Telecommunications

The availability of an efficient and inexpensive telecommunications infrastructure is widely regarded as a prerequisite for effective participation in the global trading system. The gap between the teledensities of developed countries and many developing countries is immense. The Internet is capable of closing this gap by its packet switching technology, which increases capacity exponentially at no extra cost. According to one estimate, the cost of sending a 42-page document from New York to Tokyo by e-mail is 74 times cheaper than if was sent by airmail. It is also 3,600 times faster to transmit the document electronically. Similarly, Internet telephony, though not perfect yet, is estimated to be 95 per cent less expensive than regular telephony.

The ability to communicate efficiently and inexpensively across borders has affected the manner in which firms organize their production chain. The major development has been the tendency to outsource various production activities to firms in different countries instead of locating them all under one roof. Alcatel, the French telecommunication equipment giant, reportedly has its production and assembly units spread over 26 countries. This tendency to outsource production is not confined to the manufacturing sector. It is increasing rapidly in the services sector where the Internet has brought forth a whole new industry of remote processing, which has provided new opportunities for firms in developing countries. The phenomenon of remote processing is considered in box 7. This fast-growing activity is a good example of how e-commerce helps developing countries integrate into the global trading system.

Box 7. Remote processing

An important outcome of the vast improvements in telecommunications technology in recent decades has been the greater reliability and efficiency of international telecommunication services. A much more liberalized regulatory enviroment has also contributed to the introduction of competition in the supply of telecommunication services. The result has been a sharp decline in telephone call charges in many parts of the world.

Combining these developments with the emergence of the Internet as a versatile, interactive medium has led many firms in the West to outsource some of their routine operations to affiliates in other countries. These operations include data processing tasks, routine maintenance of software, running customer service call centres or carrying out back-office jobs like maintaining accounts and medical transcribing.

For example, doctors in some hospitals in the United States get access to an affiliate company in another country through a toll free number and dictate information about their patients' diagnosis and treatment. This message is transcribed on a computer by the affiliate company's employees who have been trained to recognize medical terminology. The processed information is sent over the Internet back to the hospital in the United States on the same day.

Such outsourcing saves time and money. Likewise, an airline headquartered in Zurich may use the Internet to get its daily financial statement balanced by a firm in Sri Lanka as this is less expensive than doing the job in-house. An Australian Bank may contract out its customer service call centre to a firm in Fiji which would handle customer complaints and inquiries using information on the bank's operations received online continuously at a much lower cost.

Box 7. (*continued)*

One of the first countries to become a centre for such remote processing was Ireland, where dozens of call centres have been set up for companies from different countries. This arrangement takes advantage of lower wage levels, greater tax concessions and a well trained, English speaking workforce. Among developing countries of the region, India has similar advantages of low wages, a pool of English-speaking educated people and fairly good telecommunications services and Internet connectivity, at least in the larger cities. Remote processing activities are rapidly taking root there with a number of firms doing back office accountancy and medical transcribing. Increasingly, customer service call centres of major international airlines and banks are also being opened in India.

Despite the scope that exists for using e-commerce as a catalyst for facilitating trade, and despite the presence of success stories, developing countries in Asia and the Pacific have to make more progress before they can translate this potential into reality. The first step for successful use of e-commerce is to have a critical mass of Internet users. Recent ITU estimates showed that while the number of Internet hosts world wide has grown from 1.3 million in 1993 to 43.2 million in 1999, most are located in developed countries. Specifically, the United States and Canada have 64.1 per cent; Europe 24.3 per cent; Australia, Japan and New Zealand have 7 per cent; the rest of Asia and the Pacific 2.9 per cent; Latin America 1.2 per cent and Africa 0.5 per cent.

The level of Internet usage in countries has been found to be inversely related to (a) the cost of information technology hardware, and (b) the level of Internet access charges (Bhatnagar, 1999). In the case of the former, even though the cost of a personal computer remains beyond the purchasing power of an average family in a low-income developing country, technological innovation and competition have been driving hardware prices down all over the world. Internet access charges, on the other hand, are related to telephone tariffs and a variety of considerations in many developing countries have prevented the introduction of competition in the supply of telephone services that could otherwise have driven charges down.

Creating a pool of Internet users does not guarantee that e-commerce will take place. Paperless trading needs to be recognized as legally valid. At the same time, enforceable sanctions against electronic crimes must exist in order that buyers and sellers are confident of the integrity of the rules of the game. The international standard is the UNCITRAL Model Laws on e-commerce, which have so far been adopted in the region only by the Republic of Korea and Singapore. A few other countries, such as the Philippines and India, have made some progress and initiated preliminary legislation in this regard. Most developing countries that wish to promote e-commerce clearly need to make major legislative reforms that recognize electronic contracts and signatures and deal with electronic crime.

Countries need to find ways to improve their information technology infrastructures in order to take advantage of opportunities offered by the Internet. Internet access is primarily through the telephone system, which means that the quality of telecommunications services in a country is a major determinant of the number of Internet users in a country. Upgrading the telecommunications infrastructure to world class standards is an expensive programme that may often be beyond the domestic financing capacity of many developing countries. Countries in Asia and the Pacific with strict limits on the amount of FDI allowed in the telecommunications sector might have to review their policies. Furthermore, Internet usage will ultimately depend on the costs for Internet access. Upgrading telecommunications infrastructure needs to be accompanied by the introduction of competition in basic telecommunication services (including leased lines) as well as between Internet service providers. Table 13 shows that a number of countries in the region have not yet introduced competition in these areas.

A second determinant of Internet usage is the cost of computer hardware. While technological innovation has been driving down the prices of personal computers, developing countries must contribute to the process of making them affordable to the common man. This means that they may have to carefully evaluate the real benefits in terms of customs revenue and protection of domestic industry before imposing tariffs on the import of hardware from abroad. An initiative has been taken by a number of developing countries in the region, including Malaysia; Thailand; Indonesia; Republic of Korea; Philippines; Taiwan Province of China; Singapore; Hong Kong, China and

India. These countries and areas have agreed to completely eliminate customs duties on computer hardware under WTO Information Technology Agreement.

These steps will have to be accompanied by institutional reforms to validate the new way of conducting business. This includes recognition of

Table 13. Structure of competition in telecommunication services in selected developing countries

Competition in fixed local telephone services		Competition in private leased lines for Internet service providers		
Partial/full competition	**Monopoly**	**Full**	**Partial**	**Monopoly**
Bangladesh	Indonesia	Malaysia	India	Bangladesh
India	Mongolia	Philippines	Republic of Korea	Indonesia
Republic of Korea	Pakistan		Sri Lanka	Mongolia
Malaysia	Papua New Guinea			Pakistan
Philippines	Thailand			Papua New Guinea
Sri Lanka	Turkey			Thailand
				Turkey

paperless transactions, electronic payment systems and electronic signatures. Governments may have to set an example by allowing, for example, the use of e-mail for internal government correspondence, electronic payment of taxes and filing of tax returns and direct debit payments for government services.

This is only part of the solution, however. The private sector, especially banks, has an important role in changing the habits of individuals and business when conducting monetary transactions. In developing countries, credit card coverage remains poor and the use of direct debit systems thus remains considerably limited. Introducing cash card systems for purchases can form the basis of change in business habits. There are promising signs that developing countries can absorb new technologies fairly rapidly. In Fiji, for example, transactions of a foreign commercial bank at its automated teller machines (ATMs) in Suva increased three-fold in three years to reach 21,000 transactions a month, compared to 8,000 in Australia.

F. Conclusions and recommendations

Trade in both goods and services is a primary vehicle for realizing the benefits of globalization. Exports enlarge foreign markets, benefit local businesses and create employment, while imports bring additional competition and a variety of goods and services to domestic markets. Trade also exposes domestic firms to the best practices of foreign firms and to the demands of discerning customers, thus encouraging greater efficiency. It is, therefore, important that a country develops a coherent trade policy where macro and micro aspects of international transactions are emphasized equally. An essential element of that policy should be to ensure that trade procedures are made as simple and transparent as possible.

Information technology, with techniques such as electronic data interchange, the Internet and the Web allows a fast and efficient exchange of data and permits automation of many administrative processes. It has the potential to change the environment in which trade facilitation measures have operated thus far. Developing countries first need to find ways to improve their information technology infrastructure in order to take advantage of the opportunities offered by the Internet. In particular, since Internet usage will ultimately depend on the costs for access, efforts to upgrade telecommunications infrastructure need to be accompanied by the introduction of competition in basic telecommunication services (including leased lines) as well as between Internet service providers. A second determinant of Internet usage is the cost of computer hardware, and this would require efforts to lower the cost by reducing import duties. These steps will have to be accompanied by institutional reforms to validate the new way of conducting business. A combination of government initiatives and private sector cooperation can bring about a threshold level of participation in electronic commerce that can benefit developing countries in a number of ways.

First, applying the new technology to major bottlenecks in trade procedures can save time and costs considerably. Singapore's savings from the application of electronic trade procedures have been estimated to be 1 per cent of its GDP. A globalized marketplace where a successful business transaction depends on price, quality and delivery time gives opportunities to firms in developing countries to become internationally competitive. Second, digitized delivery of goods brings efficiency benefits of free trade to developing countries to the extent that using traditional trade barriers is prevented. Most economists believe that the elimination of tariffs and quotas benefits small open economies. The practical difficulties of imposing tariffs and quotas on electronic commerce transactions thus enhances welfare for developing countries, most of whom are small, open economies.

Third, enabling the electronic supply of services by e-commerce provides new opportunities for firms in developing countries in areas such as software consultancy and back-office operations. They may have a comparative advantage in these sectors but cannot utilize it due to cost considerations or barriers to the movement of natural persons. Evidence from India's recent experience provides a good example.

Fourth, the enormous amount of information about business opportunities available on the Internet offers an almost cost-free way for firms in developing countries to launch their products and services in the world market. Cost savings are also possible when the need for business premises as well as traditional middlemen are eliminated in an electronic trade transaction. These are only some of the ways in which e-commerce enables individual firms in developing countries to increase their role in world trade, thereby contributing to the wider goal of integration into the world economy.

There is one point of caution to keep in mind, however. Developing countries risk being excluded from the global mainstream unless their private and public sectors embrace modern information technology. However, countries that are only beginning to use computers need not wait until the entire infrastructure to support information technology has been set up before initiating trade facilitation measures. These countries need to begin work immediately to make existing trade procedures simple and transparent. This is an important first step for firms to participate in the global marketplace. It is also a precondition for the successful automation of trade-related procedures using information technology as a tool, because it can contribute to trade facilitation if it is preceded by procedures that simplify and harmonize.

V. ROLE OF TRANSPORT IN INTEGRATING ECONOMIES INTO THE MULTILATERAL TRADING SYSTEM

A. Background

The role of transport in economic development is usually discussed in relation to its contribution to the development of domestic trade. Globalization has changed this perception. The ability of a country, and particularly the more isolated communities within a country, to participate in trade depends on the quality of transport and communication infrastructure that allows them access to the world trading system. If liberalization of trade can open new markets for developing countries, then efficient transport systems and transport routes will be needed to connect domestic producers with these markets. Appropriate transport costs, timely delivery and the quality of services[65] provided are essential elements in calculating and assessing the competitiveness of products for global markets.

A range of infrastructure and institutional barriers still inhibit competitiveness of the Asian and Pacific products in the global market. Provision of truly cost effective transportation linkages therefore remains a policy priority in an era of rapid globalization. The role of transport is examined here in the context of globalization and the multilateral trading system from two perspectives: (1) transport as a service to trade, and (2) transport as a service that is tradable. However, the discussion is not subdivided into separate perspectives, because some developments taking place in the transport sector have an impact on diversification, expansion and competitiveness of trade, as well as development of transport services as a value-added service industry. The discussion focuses on evolving transport issues in the Asian and Pacific region and how resolving these issues can assist developing countries to integrate further into the multilateral trading system on a more equitable and fair basis.

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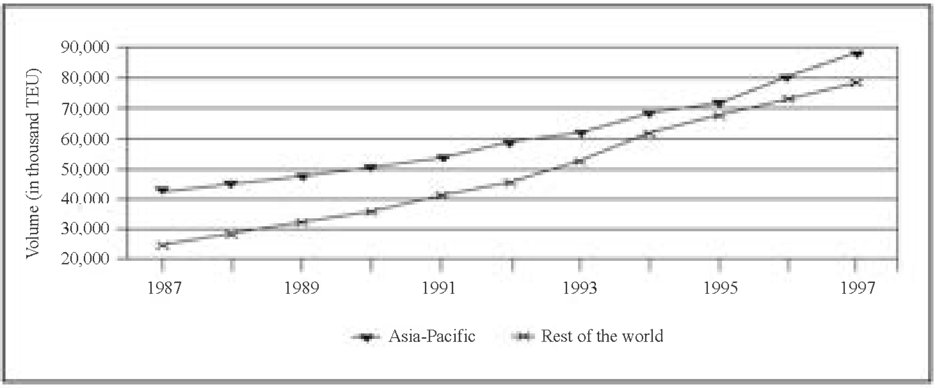
[65] Quality of services includes reliability, punctuality, security/pilferage and additional services including the level of information provided to customers.

B. An overview of challenges in the transport sector

To date, the maritime sector has been the principal facilitator of the globalization process. Massive increases in ship size, with oil tankers of up to 500,000 tons deadweight and dry bulk carriers of up to 370,000 tons, have reduced the unit costs of transport, shrinking economic distances between raw material suppliers and processing facilities. The advent of the container and the development of containerization, which has brought global manufacturers and consumer markets together, have further aided the process. In 1997, container traffic handled at Asian ports represented more than 47 per cent of the world port container throughput, as shown in figure 3.

Figure 3. Port container throughput



Source: Containerisation International.

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 international 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.

Unfortunately, in many member countries and areas of ESCAP institutional and infrastructure bottlenecks have meant that economic development has been largely confined to urban areas and along 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, which have access to a wider domestic hinterland.

Until recently, conditions were not conducive to the development of intraregional and interregional land transport linkages. Civil wars in a number of countries, subregional conflicts and the Cold War caused considerable damage to land transport infrastructure in many countries and created barriers to international land transport. These unfortunate events prevented the transport networks from being organized in line with commercial and trade considerations. Since the early 1990s there has been a notable increase in cooperation among nations in Asia and the Pacific. In addition to the activities of ESCAP, a number of initiatives are being taken at the subregional level in ASEAN, ECO and SAARC to extend maritime links and facilitate the movement of vehicles and goods across borders.

C. Transport and trade

The transport sector of the Asian and Pacific region already has much to its credit. Natural sea routes have been enhanced with a network of ports with 12 of the worlds 25 busiest container ports located in Asia. Countries of the region own more than 40 per cent of the world's fleet. In addition, 80 per cent of the world's new shipping tonnage is built in Asia and 83 per cent of all maritime shipping containers are manufactured in Asia (UNCTADb, 1999). ESCAP-member countries supply 65 per cent of the seafarers employed with the world's maritime fleet.

The Asian Highway and the TAR networks demonstrate the commitment of the mainland countries in the region to open routes that would facilitate intraregional trade and provide easy access to massive hinterlands, many of which remain almost untouched by economic development. The planned transport corridors between the countries will also enhance links and further integrate Asia with the markets of Europe and North America through integrated land-cum-sea routes.

Globalization and economic liberalization have led to a marked shift in production to countries, which have a significant comparative advantage.

This development has been a major determinant in the rapid industrialization and economic growth in some parts of the Asian and Pacific region. The new prosperity, however, has not been equally distributed across economies in the region or among various locations within individual countries.

1. Developments in maritime transport

World sea-borne trade stood at 5,064 billion tons in 1998, accounting for over 90 per cent of world trade (UNCTADb, 1999). Bulk cargo constituted over 75 per cent of sea-borne trade with general cargo accounting for the balance. While on the demand side, there has been a steady annual growth of overall sea-borne trade, on the supply side substantial investment in new tonnage has contributed to an oversupply of ships in the liner, bulk and tanker markets. With the increase in tonnage and the resultant downward pressure on global freight rates, shipping lines have followed various strategies to reduce costs and improve levels of efficiency. The desire to achieve economies of scale, particularly in the liner-shipping sector, has seen a remarkable increase in the size and capacity of container vessels over the last three decades.

Although liner shipping carries less than 25 per cent of the world's sea-borne trade, its influence on the development of the global market continues to be far greater than bulk trade. This influence is particularly strong in the case of containerized transport.

When shipping lines began to change to containerization in the late 1970s, vessels of about 1,000 ten-foot equivalent units (TEU) were the norm. By 1985, vessels of 2,500 or more TEU were already common. At present, new vessels with a capacity of 6,000 TEU have come on stream, the majority of which are deployed on routes serving the Asian region, resulting in a high average vessel size, as displayed in figure 4. This development alone has had a substantial beneficial impact for shippers and economies in general by enhancing competitiveness and giving Asian products access to the world market. It has also made it increasingly difficult for developing country ship owners to compete with the major international shipping operators in all but niche markets. In the port sector, the situation has called for huge new investments in infrastructure and equipment.

Figure 4. Average size of container ships by route

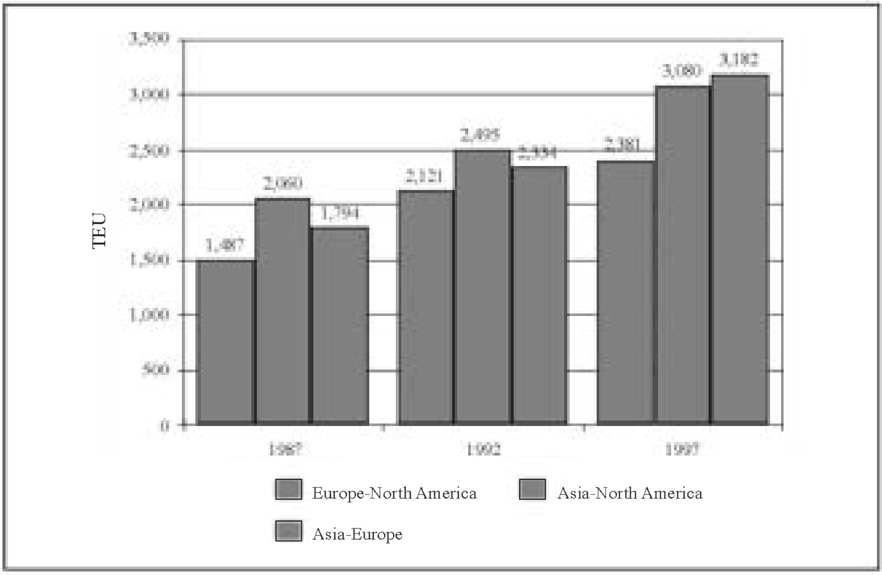
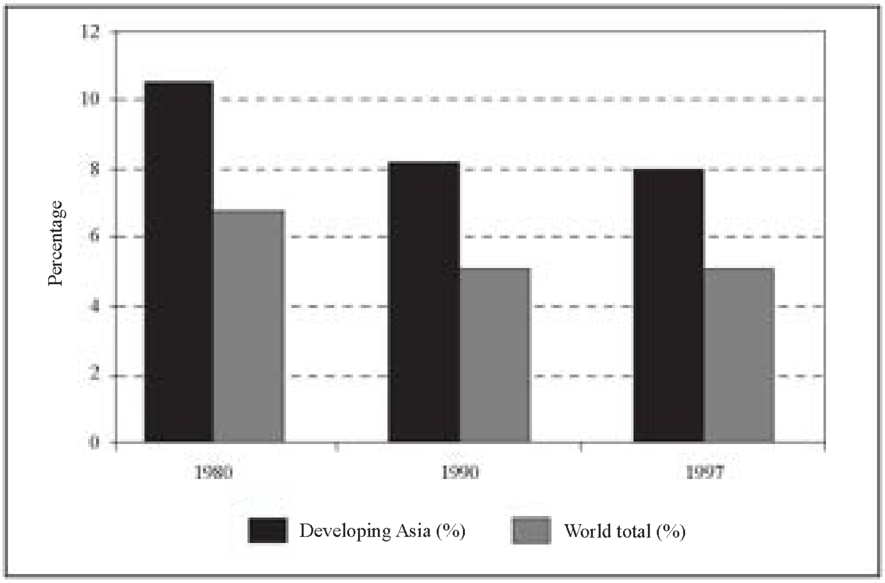


Figure 5 provides estimates of maritime freight payments as a percentage of import values for the world and for developing Asian countries. As a result of increasingly efficient shipping services, the tariff rate (percentage of freight rate payments in CIF value of imports) in developing Asia declined from 10.41 per cent in 1980 to 8.19 per cent in 1990.[66] However, the 1997 tariff rate, which is the current rate, is still high when compared to the average world freight rate of 5.2 per cent. This may partly reflect the difference in the value of goods traded, particularly with higher value commodities and finished manufactures representing a larger percentage of trade between developed countries. But it would also appear to indicate inadequate regional infrastructure facilities, distribution and management systems, all of which add to freight cost. The impact of more influential and organized shipping strategies of shippers from developed countries,

[66] Among major importing countries in this group, the Republic of Korea and Singapore paid relatively low levels of freight costs at 5.22 and 5.58 per cent of import value respectively. Malaysia and Thailand paid costs as high as 9.36 and 9.60 per cent respectively. India and Indonesia paid high freight costs of 10.32 and 10.55 per cent respectively, and estimates for the Pacific island countries are higher freight rates on the order of 12.36 per cent (UNCTAD, 1999b).

Figure 5. Freight rate as percentage of import values



Source: UNCTAD Review of Maritime Transport, 1999.

many of whom control massive cargo volumes, may have also contributed downward pressures on freight rates through their negotiations with shipowners or liner operators and conferences.

2. Concentration and competition in maritime services

Two opposing forces are moulding the evolving structure of Asian container shipping services. On the one hand, economies of scale are encouraging the use of larger vessels, which call only at hub ports and a limited number of other ports that can offer significant cargo concentrations. On the other hand, increased container volumes at secondary ports, combined with the ability of global shipping lines to offer multiple string services on key routes, is selectively encouraging direct port calls where the efficiency of the ports permits.

Globalization of production has led to the creation of demand for competitive global shipping services. Shippers have become increasingly conscious of the benefits from logistics management on a global scale.

Shippers now require a service that would ensure the right product in the right place at the right time and at the right price, with one operator assuming responsibility for the delivery of goods from door-to-door. Shippers have thus begun to build partnerships with reliable carriers who can provide global transport networks. Leading carriers have had no option but to develop operating philosophies that would enable them to cope with the intense competition and expand their service networks to meet these changing needs of the market place and offer fixed day/weekly services at a global level. The necessity to consolidate the number of containers required to fill large container ships and provide the frequency of service required by shippers has led liner shipping companies to form alliances and mergers which have increased the concentration of control in the liner container sector.

While such vertical and horizontal cooperation may bring benefits in meeting consumer needs, they may also have anti-competitive effects in the provision of shipping services, whose regulation lies outside the jurisdiction of individual countries. Consequently, there is a need, perhaps within the context of the WTO working group on interaction between trade and competition policy, to monitor developments in the international liner shipping market.

The principal change in operating philosophies for the liner sector relates to the emergence and consolidation of the mainline-feeder system. The fleets of China, Republic of Korea, Singapore, Taiwan Province of China and to a lesser extent Malaysia participate in the mainline operations. However, most developing country fleets cannot match the economies of scale or investments of the major alliances. Inability to invest in capital intensive container shipping or to provide extensive market networks required to fill large container ships has meant that several developing countries' shipping lines face a reduced presence or volume share in all but niche markets.

3. The maritime-land transport interface

The concentration and competition witnessed in maritime shipping is, to some extent, being reflected in the ports sector. The massive investments being made by international shipping operators in new larger container ships and the tight scheduling of services demands consistently high levels of port productivity and substantial concentrations of traffic. In turn, this requires major new investment in infrastructure not only at the hub and major ports but also at smaller ports, which provide the only linkage for many developing economies to feeders with the trunk line shipping services. For many regional ports and related agencies, considerable improvements in logistics and management capabilities are essential if they are to meet the expectations and demands of shippers. Most countries in the region do not have adequate resources to address these issues. The lack of modern port facilities and cargo handling equipment, lengthy and complicated procedures, inadequate integration of electronic processing capabilities have all led to extended dwell-time of cargoes,[67] resulting in increased costs and reduced competitiveness in international trade markets. This frustrates further effective participation in the multilateral trading system.

One approach taken by many countries, which appears to have been successful in overcoming some of these problems, has been to involve the private sector in the management and ownership of port facilities. Several international terminal operators, including Hutchinson Port Holdings (Hong Kong, China), International Container Services, Inc. (the Philippines), P&O Ports (Australia) and PSA Corp. (Singapore) as well as international shipping lines and domestic private sector companies, have already invested and started operating regional terminals in Australia; Brunei Darussalam; China; Hong Kong, China; India; Indonesia; Malaysia; Myanmar; New Zealand; Pakistan; the Philippines; the Republic of Korea; Singapore; Sri Lanka and Thailand. However, despite the declared political commitment of many countries in the region, including some of the countries and areas mentioned, most have so far failed to increase the level of uptake for projects by the private sector. There is thus a need for these countries to review and address outstanding issues.

4. Developments in land transport

A striking feature of transport systems in countries of Asia and the Pacific is the dominant focus of the network to serve economic and industrial development in the vicinity of international seaports. While this has led to

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[67] While international container ships can discharge and load in a matter of hours, it is common for cargo to remain in some regional ports for two weeks.

considerable growth in these areas and migration from rural areas to coastal cities, the vast majority of the population in these countries still lives in rural areas. If these people are to fully participate in the globalization process, and if problems associated with the development of megacities are to be avoided, there is a need to rehabilitate and develop transport links from inland origins to seaports.

The most significant developments in the land transport sector in the ESCAP-member countries and areas are the Asian Highway and the Trans-Asian Railway (TAR), which together provide a web of domestic transport networks across the region. The Asian Highway network extends over 90,000 km of roads spanning 25 countries. The network is composed of five international routes (40,000 km) and 37 subregional routes (50,000 km). The formulation of the Asian Highway involved the identification and survey of major roads, road classifications, and design standards. It required the consent of national governments to first identify and then agree that the identified roads would be international highways linked to road networks in other countries.

The TAR network cuts across the entire Asian continent and offers a land transport alternative to connect Asian markets with markets of the Europe and the EU. In addition, the TAR network offers connections allowing intraregional and interregional movements within the various subregional and/or economic groupings on the Asian continent (for example, the South Asian subcontinent, the region comprised mostly ECO-member countries and Central Asia).

Furthermore, the TAR network also connects landlocked countries to the nearest ports. Thus, countries of Central Asia have access to ports in the Islamic Republic of Iran, Pakistan and Turkey, while Mongolia can have access to ports in China. The Asian Highway plays a similar vital economic role for such countries as Bhutan, Lao People's Democratic Republic or Nepal where rail transport is not extensively developed. The Asian Highway network gives Bhutan and Nepal access to ports in Bangladesh and India, while the Lao People's Democratic Republic can have access to ports in Thailand, Viet Nam and China and possibly, Myanmar at a later stage.

In addition to ESCAP, a number of organizations and bodies are making efforts to develop Europe to Asia land bridges. The International Union of Railways has set up a number of working groups headed by the railways concerned to develop land bridges between, Japan/Republic of Korea – China – Central Asia – Europe; China – Middle East – Europe, South Asia – Central Asia (via Middle East), among others. At the same time, a Special Working Group has been established with a view to developing efficient container movements along the route of China-Kazakhstan-Russian Federation-Belarus-Poland-Germany. The Coordination Council for the Trans-Siberian Railway is developing similar efforts for the route connecting Russian Federation ports on the Pacific to Europe.

5. Bottlenecks in the land transport system

Although the TAR is already defined, operationalization over the entire system still needs to take place. Containerization has largely overcome the problems caused by break of gauge, although some missing links in the network still remain. Within the Asian Highway network, less well-developed sections still constrain transport movement. In the coming years operationalization and integration of the entire domestic and international transport network will be a priority if it is to effectively compliment and extend maritime shipping.

The development of domestic and inter-country land transport linkages provides the opportunity for countries to promote their integration into the multilateral trading system through the development of economic corridors and growth poles which are located away from the traditional coastal cities. However, compared with the enormous potential, 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 logistics practices. At the domestic level there are delays, imbalances in transport capacity and a lack of cooperation/coordination between the transport modes. This prevents shippers from exploring the benefits of intermodal systems, which focus on just-in-time delivery, competitive pricing and the smooth, efficient flow of transport.

Improvement of the transport infrastructure and provision of services is a necessary, but very evidently, not sufficient condition for the smooth movement of vehicles and their cargoes. There is now a fast-growing awareness of the equally important need for facilitation measures to minimize unnecessary delays and increase efficiency at transfer points, border crossings and ports. Within this process, formalization of the Asian Highway and TAR networks would be an important contribution to ensure unhindered access to the routes and promote coordinated development.

6. Through transport

It is difficult to estimate through transport costs of goods from origin to destination due to the variability of land transport costs. However, box 8 provides an example of the cost contribution of various modes of transport to the international movement of goods between Lao People's Democratic Republic to Europe at the port of Rotterdam).

This illustration clearly demonstrates the comparative disadvantage faced by shippers in a landlocked country and the obstacles they face with respect to price and time competitiveness in the international market. The identification of the contributing costs of the various modes of transport and other contributing factors, as illustrated in box 8, could be applied by other countries to identify critical areas to be addressed in the transport process.

D. Issues and challenges in the transport sector

In order that the transport sector can fulfil its role of supporting integration of Asian and Pacific economies into the multilateral trading system, several urgent issues need to be addressed:

(1) Removal of non-physical barriers along sea-cum-land routes including at border crossings;

(2) Improving logistics capabilities and multimodal transport;

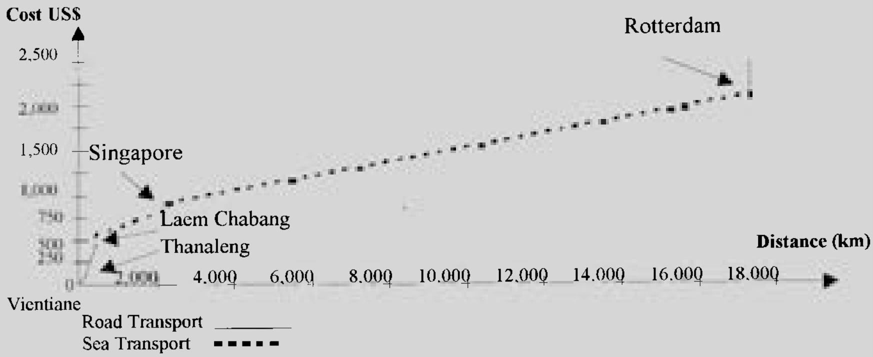
(3) Undertaking preparatory reforms to set the stage for the liberalization of trade in transport services; and

(4) Upgrading human resource capabilities and institutional capacities.

Box 8. Transport costs and distance for movement of one loaded twenty-foot equivalent container unit from Lao People's Democratic Republic to Rotterdam, the Netherlands

The transport costs in this example are based on offers that were obtained from transport service providers, that operate on export routes of Lao People's Democratic Republic. Prices quoted relate to the shipment of one twenty-foot container at a Freight All Kind (FAK) rate. It is also assumed that the shipment is leaving Vientiane, the capital of Lao People's Democratic Republic on a Monday (day 1).

For containers that are transported by road through Thailand and loaded on board ship at Laem Chabang port, (the lowest cost route passing through Thailand) the total price is US$ 2,435 per TEU, and the total transit time to Rotterdam is 31 Days.



Road transport represents 17 per cent of the total transport cost, while road transport distance represents only 4 per cent of the total journey. The port charges at Laem Chabang are 12 per cent of the total inland transport cost from Vientiane. The transit charge, including customs and document charges, at Thanaleng/Nongkhai, the transit locations on the border represent about 17 per cent of the total inland transport cost.

Source: PhD Thesis being prepared by Mr Ruth Banomyong, University of Wales, Cardiff College.

1. Improving transport infrastructure and facilities

The issue that needs to be addressed is the ways in which inadequate transport infrastructure capacity constrains the flow of goods and vehicles, increases delays and costs and inhibits the integration of developing economies into the multilateral trading system.

The theme topic study for the fiftieth session of ESCAP provided estimates of the financial resource requirements for infrastructure development in the developing countries of the region (ESCAP, 1994). According to these estimates, lending by World Bank and the Asian Development Bank amounted to less than 10 per cent of requirements. Given other competing demands, it was found that government funds were grossly inadequate to fill the gap.

In order to overcome this constraint, two other ways of addressing the issue of providing additional infrastructure capacity were proposed: (a) using existing assets more efficiently, and (b) encouraging a greater involvement of the private sector. Experience has already shown that the private sector can successfully finance, develop, manage and operate infrastructure that would traditionally have been within the domain of the public sector. However, countries in the region which have been most successful in establishing public-private sector partnerships to develop infrastructure have been the countries where considerable ground work had been undertaken prior to initiating the privatization process. This included clear identification of objectives, legislative and institutional changes, selection and prioritizing specific project opportunities, parallel public sector investment in supporting infrastructure, upgrading of existing in-house management, demonstration of political commitment and importantly, support of the population at large for change as expressed by public opinion. Where an existing operating entity has been privatized, the preparatory work has also sometimes involved reducing the number of people working in the sector prior to the privatization process and not as a result of it.

Although there is a mix views on private sector involvement in infrastructure development, regional examples are witness to the significant progress that would either not have been achieved without the private sector, or alternatively, could have been achieved only at the expense of other competing investments. In addition to the projects for developing new infrastructure, governments have encouraged the private sector to take over the operation of existing public sector infrastructure and facilities. The aim has been to increase capacity through efficiency gains while ensuring a future stream of private sector investment for expansion and modernization (ESCAP, 1999a).

With few exceptions, even in countries that have succeeded in attracting private sector funding, the progress has been much slower than originally anticipated. In hindsight, this is perhaps not surprising, considering the scale and complexity of the projects and major changes in philosophy that governments are required to institutionalize in the privatization process. Similarly, the learning curve for the private sector when implementing commercial infrastructure projects has been steep in terms of understanding the pressure that governments and the public sector have to accommodate in their national decision-making processes.

In addition, it has now become clear that there is a substantial ongoing role for government in safeguarding the interests of all stakeholders, including investors, users and labour.

The challenges related to a number of issues that need to be addressed by developing countries if they are to encourage infrastructure development and operations by the private sector as an approach to promoting integration into the multilateral trading system. One major obstacle identified by the private sector as inhibiting their involvement in regional projects relates to the need for an appropriate legal framework that would encompass:

- ❐ Ownership and the establishment of legal ownership which may include retained domestic or government ownership if foreign investors are involved;

- ❐ Corporate law and a review of the definition of juristic persons to encompass foreign-owned companies within the national law and to specify the formation of such companies;

- ❐ Arbitration and the role of national courts of law in arbitration arrangements;

- Status of foreigners, including the provision of work and stay permits for employees and representatives of overseas private sector investors;
- Repatriation of funds and the ability to convert profits and cash flows into hard currencies and their transfer out of the country;
- Accounting practices, including adoption of international accounting practices, for example, in the area of depreciation which can have a significant effect on project returns;
- Pricing to provide the private sector with adequate freedom and flexibility in setting prices; and
- Taxation by setting relevant taxes (corporate, value-added and personal tax levels), including details of tax holidays at internationally competitive levels.

In addition to the need for an appropriate legal framework, considerations of equitable risk sharing between public sector project sponsors and the private sector require careful consideration if projects are to be attractive to potential investors.

A number of countries have already implemented measures to address some of these issues in ways which have thus far found greatest success in the ports sector (ESCAP, 1999b). However, the Asian economic crisis has combined with issues related to governance and transparency and may have frustrated many efforts to attract private sector participation.

A number of actions can be taken. Private sector participation may only be a partial solution to problems in the infrastructure sector. This may also involve, for example, introducing funds external to the government budget, changes to improve efficiency and transfering technology and management. However, beyond project viability, a prerequisite to such participation is a favourable investment climate composed of many elements. When inviting private sector participation, governments would be required to address those elements and make clear what type of regulatory body would oversee the ongoing performance of the project.

2. Removal of non-physical barriers along sea-cum-land routes including at border crossings

In this case, the issue involves increasing the efficiency of existing infrastructure and equipment through facilitation measures, because this will continue to be a critical issue if transport is to support the integration of economies into the multilateral trading system.

The provision of adequate transport facilities is one of the necessary conditions for supporting a country's trade. Of equal importance, however, is the requirement that goods and transport vehicles are able to utilize the facilities efficiently in order to meet the demands of price-conscious and time-sensitive markets.

In the case of landlocked regions and countries, transport equipment and cargoes may have to cross several national boundaries to reach an ocean port. Facilitating the movement of transport through international transit agreements thus forms an important aspect in the development and integration of transport in the region. In order to facilitate the smooth movement of goods and the development of intraregional trade, the international community has worked for over 50 years to put a series of international instruments relating to land transport in place. These conventions have been ratified and are widely used in Europe to facilitate efficient land transport movement between countries. Since these agreements have their origin in Europe, there is a tendency to believe that they may not be suitable for adoption by countries in Asia and the Pacific. However, a close examination would reveal that this is not the case as most of the conventions have been developed within the framework of the United Nations for wider application.

Transport facilitation and transit agreements have been a subject considered by some subregional groupings within the region.[68] These agreements could make a significant contribution to the process of removing non-physical barriers to the movement of vehicles and goods across borders within the subregional groupings. There is, however, a danger that inconsistencies in wording and definitions between the individual agreements may cause confusion and conflict in interpretation when transport is provided

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[68] ASEAN Framework Agreement on the Facilitation of Goods in Transit, 16 December 1998, Hanoi, Viet Nam and the ASEAN Framework Agreement on the Facilitation of Inter-state Transport.

between countries of adjacent groupings. This problem also arises in cases where the same countries are signatories to two different agreements through their membership in overlapping groupings, for example, in ASEAN and the Greater Mekong subregion (Yunnan Province of China, Cambodia, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam).

The challenge is to smooth the flow of transport and goods over intermodal transfer points and across borders through the implementation facilitation measures.

The possibility of seamless transport movement, similar to that between member countries of the EU is still only a vision in the Asian region. Until all countries are in a position to accede to the international facilitation conventions, bottlenecks at border crossings will remain and add to transport costs and reduce the competitiveness of delivered products in international markets. Unfortunately, many governments have not been able to quantify the costs that can be attributed to the various elements of the transport chain or the losses due to unnecessary delays on each of the main corridors. Such an approach would provide a focus on the most cost-effective action for smoothing the flow of transport and goods.

An intermediate alternative prior to ratification and implementation of the international conventions can be considered. A strategy for groups of neighbouring countries could be to enter into specific agreements and adopt uniform procedures among the members. Any regional or subregional transit transport facilitation agreement (TTFA) could provide workable solutions only as long as transport operations are confined to countries that are members of such agreements.

Among actions to be taken are corridor studies at both the domestic and international level to identify physical and non-physical barriers and suggest remedies. This is an essential step in smoothing the flow of transport and goods. Countries that have not already done so may want to consider acceding to the IMO Maritime Facilitation Convention (the FAL Convention, 1995 as amended) and the seven land transport conventions identified in ESCAP resolution 48/11 on "Road and rail transport modes in relation to facilitation measures". In addition to these conventions, the Committee on Transport, Communications, Tourism and Infrastructure Development at its second session held in Bangkok from 24 to 26 November 1999 recommended that further conventions dealing with work of vehicle crews, the temporary importation of private vehicles, the transport of perishable goods and dangerous goods, and conventions related to railways be considered for inclusion in an expanded version of resolution 48/11.

3. Improving logistics capabilities and multimodal transport

The issue concerning logistics and multimodal transport focuses on the availability of efficient, reliable and cost effective door-to-door transport services as an essential factor in today's multilateral trading system. A comprehensive, integrated and ideally global approach to the planning and delivery of transport services is required.

Containerization is a technological advance, which can increase the efficiency of the transport sector. However, in many countries the full intermodal potential of containerization has not been incorporated into the logistics of international production and distribution. In the same way that transport infrastructure and services continue to undergo a technology-driven revolution, the management of the transport sector is confronting a parallel revolution driven by user demands for improved, integrated services and the opportunities provided by newly-developing information technology.

The expansion of geographical markets has forced manufacturers to focus on integrated production and transport logistic strategies in order to reduce costs and, at the same time, provide higher service standards. The need to control transport costs has become as important as the need to keep down other production costs. The emergence of reliable, competitive and time definite door-to-door freight forwarding and multimodal transport services can contribute to and foster new trading opportunities as well as increase competitiveness.

Freight forwarding and multimodal transport take advantage of developments in container-based transport logistics to offer better and more cost-effective services for shippers and consignees. For example, new and more competitive sea-rail-road multimodal alternatives to traditional unimodal sea options, and the level of efficiency of both conventional and block-train services have enabled ocean carriers to achieve better utilization of their fleets.

By managing these potential improvements within an integrated transport approach, synergy can be created and result in sometimes unexpected trading opportunities for both local traders and transport service providers to the benefit of the national economy. Such a coherent integrated transport approach can bring short-term benefits to local traders and transport operators, as well as long-term structural changes in transporting the country's international trade.

Unfortunately, many developing countries in the region have outdated legislation that fails to encourage or, in some cases, even recognize freight forwarders or multimodal transport operators and the important role they can play in the transport process. Leading multinational transport operators are making large investments in technically advanced; streamlined and more accessible communications systems to increase their market share and reduce the challenge from smaller operators. The exploitation of information technology has increased their market power and in the not too distant future will make it very difficult for transport services providers from developing economies to compete unless they can offer comparable services.

The challenges, therefore, is for developing economies to integrate into the multilateral trading system and effectively participate in the provision of global transport and logistics services. Partnership may be the best option available when confronted with strong global competition and the need for a global network.

Transport and distribution-related activities, which were originally considered subordinate 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.

For the majority of countries in Asia and the Pacific there is an urgent need to update legislation in order to ensure appropriate recognition of freight forwarders, multimodal transport operators and the role of e-commerce within the transport sector. In the case of multimodal transport, the ASEAN Framework Agreement on Multimodal Transport,[69] as the basis for the

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[69] The First Official Draft was developed at the Fifth Meeting of the ASEAN Working Group on the Development of Multimodal Transport and Trade Facilitation, 12-14 March 1998, Phuket, Thailand.

harmonized upgrading of legislation in each of the ASEAN-member countries provides a useful and constructive starting point for other subregions.

With respect to e-commerce and the relatively small share that developing economies have of the world's transactions, there is a need to review the way limited access is constrained by lack of infrastructure, especially Internet connections and the relatively high user charges for telephones. In the majority of countries there is also a need to review existing legislation to ensure that e-commerce can play its full role in the transport process.

Action to be taken can start with the idea that freight forwarders and multimodal transport operators are the architects of transport, as has been described in Europe. In order for them to fulfil their role in the Asian region and contribute to streamlining the transport process, governments need to ensure that facilitating legislation is in place to enable them to fulfil their functions efficiently and to provide the platform for effective partnership with international players. Similarly, urgent review of potential capacities and legislative hurdles needs to be undertaken for countries to enable them to explore the benefits of e-commerce.

4. Preparatory work for the liberalization of trade in transport services

Transport services have traditionally been protected from foreign competition. Liberalization in the maritime sector has already resulted in developing economies having to face intense competition in the carriage of their country's foreign trade, however. Anticipated liberalization of road and rail services as well as postal services (a potential transport competitor and service user) will expose them more to competition from foreign operators offering fast, door-to-door services.

Maritime transport services have a long history of protectionism and in the past countries have adopted direct and indirect measures to establish, develop and sustain their national shipping industry. With some exceptions, the most obvious and directly protectionist measures have been adopted by the developing countries.

The drafting of the United Nations Liner Code in 1974 appears to have encouraged interventionist policies in developing countries. Ironically, the coming into force of the United Nations Liner Code in 1983 saw a marked change of climate towards protectionism. The developed countries of Western Europe whose ratification brought the Convention into force expressed clear reservations or made declarations that the code should only apply to liner conferences and not to all liner cargo. They also stated that measures taken by developing countries to restrain access to cargo, and which were not in conformity with the convention, would give rise to retaliatory action.

In parallel with the international diplomatic pressure on developing countries to abandon restrictive regulations, several domestic factors within developing countries have accelerated the pace of shipping liberalization. There has been a recognition that:

- Cargo reservation schemes were restricting the shipping opportunities available to exporters and importers and hampering the expansion of exports.
- Relatively high freight rates charged by national shipping lines operating in a protected market were adding to the cost of exports and imports.
- National lines were not being subject to forces of outside competition and technological change and thus gradually became operationally inefficient.
- In many cases government-owned national shipping lines were running at a loss and required subsidies instead of being a revenue earner for the state.

As countries in the region move into the twenty-first century, there will be a renewed commitment to the liberalization of maritime services. Commitments on the presence of natural persons (mode 4 of GATS) is one area which could have a direct benefit to developing countries that supply maritime manpower to the world fleets and have the potential to provide human resources to the shore-based maritime industries (ESCAP, 1999c). Projections of a global shortage of seafarers to work on the world's merchant fleet are a matter of grave concern. Insufficient maritime manpower has already seriously affected developed countries outside the Asian and Pacific region. It is now also an issue for some of the countries in the region, including Japan, the Republic of Korea and Singapore. Developing countries in the region are the largest providers of seafarers to the world's fleet, with the top five ranked in order of importance being the Philippines, Indonesia, Turkey, China and India. In the Pacific island subregion, Kiribati is the largest provider of seafarers to the international fleets. However, even in Tuvalu with a population of only 10,000, remittances from seafarers make an important contribution to the economy.

In the port sector, extension of GATS negotiations could result in the further dismantling of market access restrictions in cargo handling and terminal operations. It is likely to propel governments further down the path of privatization for all port-related services. The extension of GATS coverage to multimodal transport and the onward intermodal transport and delivery of international goods is a matter to be resolved in the years to come. However, governments concerned that progressive liberalization could lead to the entire inland transport sector being exposed to GATS coverage may resist this extension.

The challenges for developing economies are to be adequately prepared for the negotiations and liberalization of trade in transport services. Liberalization of transport services and the intense competition among maritime service providers have resulted in exporters and importers enjoying unprecedented low freight rates for much of the past decade. Market forces alone, however, cannot ensure the long-term stability of freight rates or the scope of the transport services required by exporters seeking new markets. An increasing trend towards concentration of market power in the maritime transport sector and the recent upward trend of freight rates on some routes along with the imposition of special charges by shipping lines have alerted the trade and transport industry about the need to monitor the behaviour of national and foreign transport providers.

In this context, consideration should also be given to whether any anti-competitive behaviour or abuse of market power could be effectively dealt with by anti-trust or competition policy at a national level. Two schools of thought have emerged on this matter. One view is that competition is within the purview of domestic policy and should be dealt with by national governments and not multilateral organizations. Cross-border disputes could be dealt with bilaterally or under bilateral cooperation agreements. These bilateral agreements could take the form of those concluded between the United States and Canada and the voluntary bilateral cooperative action of the member countries of the Organization of Economic Cooperation for Development (UNCTAD, 1997b). A second view is that a multilateral agreement on minimum competition standards should be negotiated. In the case of WTO, this could be achieved by strengthening GATS article IX or by including competition rules in each sectoral annex of GATS (UNCTAD, 1999c).

Action to be taken is premised on the reluctance of major maritime nations to make commitments in the area of maritime transport services. This demonstrates the need for careful consideration and reciprocity in the negotiation process and in the final outcome of the GATS negotiations. To optimize the opportunities that will come from liberalization, developing countries will need to prepare and may require assistance in bringing together not only the views of government policy makers but industry participants as well.

5. The need to upgrade human resource capabilities

The issue that needs to be addressed is how to optimize the new opportunities brought about by liberalization of the global market place. Developing countries in Asia and the Pacific will need to upgrade their skill base and develop institutional capacities in order to take advantage of new opportunities.

Successful development of infrastructure facilities through private sector funding requires that those involved in national planning and implementation are in a position to bring about the change in ideology and deal with the complex range of issues to be resolved. It is unrealistic to expect that senior officials in the public sector and private sector of developing economies in the region would automatically develop these skills.

The need to improve the efficiency of the existing infrastructure and new infrastructure is well documented. Such improved efficiency can only be brought about through skills development, however. To achieve a high degree of operational efficiency, workers at all levels need to be aware of developments taking place outside national boundaries, because this would enable them to understand the meaning of being internationally competitive and what is their contribution to the development process. In order to motivate the operational staff and meet new service demands, all levels of supervisory staff need training in basic management skills and services marketing.

Countries and areas in the region are at different stages of development in the provision of multimodal transport and logistics services. In some countries shippers only have access to basic freight forwarding services while in other countries national and foreign operators provide sophisticated logistics services to international standard. The development of multimodal and logistics services requires knowledge and information at both the policy and operational level.

The challenge is to enable developing countries in the region to have access to a sustainable and cost-effective programme of training for the transport sector. Effective human resources development strategies and programmes to upgrade skills need to be fully integrated into the whole infrastructure development process. The planning, design, operation and maintenance of infrastructure facilities all rely equally on the appropriate skills being available. Investment in human resources development is recognized as one of the most fundamental and cost-effective factors contributing to economic growth. Countries could consider concentrating resources on improving educational and training opportunities to enhance capability in the infrastructure sector and provide opportunities for mobility of labour, thereby harnessing the strength of often-abundant human resources.

Action to be taken should be based on the fact that the region has many national institutions active in education, training, research and policy formulation in the area of transport infrastructure, facilities and services. International agencies have also contributed to skills development. In spite of these activities, many of the countries in the region still lack access to a sustainable and affordable programme of human resources development in the transport sector. To help overcome these critical problems collaboration among training and education institutions, with the assistance of international agencies, should be further promoted.

E. Conclusions and recommendations

In the transport sector, the changing nature of cargo handling, in particular containerization and technological advances in shipbuilding, has led to several unique developments such as the hub port, feeder services, global carriers and multimodal transport. These developments have all facilitated the integration of Asian and Pacific economies into the multilateral trading system. However, international sea routes and ports alone cannot facilitate the development of the hinterlands, which provides a great potential for future growth in most developing countries. Growth will only be achieved when adequate road and rail transport infrastructure is developed, the process of intermodal (sea-land) transport is fully integrated and institutional bottlenecks are removed.

Under the prevailing circumstances where significant global developments are shaping the transport sector, a number of issues need to be addressed urgently if the developing economies are to become further integrated into the multilateral trading system. The following recommendations can help address the issues and resolve some of the problems faced by ESCAP-member countries and areas:

- ❐ integrating land and sea transportation to provide the potential to open-up wider hinterlands and more effectively integrate economies into the multilateral trading system.

- ❐ establishing a favourable investment climate to encourage private sector participation in transport financing and operation through the provision of an appropriate legal framework, the implementation of trade facilitation measures, defining equitable risk sharing strategies and clarifying the role of any regulatory body.

- ❐ undertaking corridor studies, at both the domestic and international level, to identify physical and non-physical barriers and suggest remedies as an essential step in smoothing the flow of transport and goods.

- ❐ formalizing the Asian Highway and Trans-Asian Railway to ensure unhindered access and operationalization of major land bridges.

- acceding to the IMO Maritime Facilitation Convention (the FAL Convention 1995 as amended), the land transport conventions contained in ESCAP resolution 48/11 and other conventions of direct relevance.
- enacting facilitating legislation, which will recognize and encourage freight forwarders, multimodal transport operators and the use of e-commerce.
- encouraging the development of logistics services and supply chain management for the benefit of trade.
- optimizing opportunities that will come from liberalization by involving government policy makers and industry participants in establishing negotiating positions.

ANNEXES

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Annex 1

Regional trading arrangements and their membership in the Asian and Pacific region

Economic Cooperation Organization (ECO)

Afghanistan
Azerbaijan
Islamic Republic of Iran
Kazakhstan
Kyrgyzstan
Pakistan
Tajikistan
Turkey
Turkmenistan
Uzbekistan

South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement (SAPTA)

Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

Association of South East Asian Nations (ASEAN) Free Trade Area (AFTA)

Brunei Darussalam
Cambodia
Indonesia
Lao People's Democratic Republic
Malaysia

Annex 1 *(continued)*

Myanmar
Philippines
Singapore
Thailand
Viet Nam

Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER)

Australia
New Zealand

Melanesian Spearhead Group Trade Agreement (MSG)

Fiji
Papua New Guinea
Solomon Islands
Vanuatu
(New Caledonia's application to join MSG was accepted at the group's annual meeting in 1999).

Pacific Regional Trade Agreement (PARTA)
(Proposed membership)

Cook Islands
Federated States of Micronesia
Fiji
Kiribati
Marshall Islands
Nauru
Niue
Palau
Papua New Guinea
Samoa

Annex 1 *(continued)*

Solomon Islands
Tonga
Tuvalu
Vanuatu

South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)

Australia
Cook Islands
Federated States of Micronesia
Fiji
Kiribati
Marshall Islands
Nauru
New Zealand
Niue
Palau
Papua New Guinea
Samoa
Solomon Islands
Tonga
Tuvalu
Vanuatu

Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMST-EC)

Bangladesh
India
Myanmar
Sri Lanka
Thailand

Annex 1 *(continued)*

Bangkok Agreement

Bangladesh
China
India
Lao People's Democratic Republic
Republic of Korea
Sri Lanka

Asia-Pacific Economic Cooperation (APEC)

Australia	Papua New Guinea
Brunei Darussalam	Peru
Canada	Philippines
Chile	Republic of Korea
China	Russian Federation
Hong Kong, China	Singapore
Indonesia	Taiwan Province of China (participates in APEC as "Chinese Taipei")
Japan	Thailand
Malaysia	United States of America
Mexico	Viet Nam
New Zealand	

Annex 2

Trade with trade groupings as share of total trade for members of RTAs in Asia and the Pacific

Economic Cooperation Organization (ECO)								
ECO member trade with ECO group and other trade groupings as share of total trade (percentage)								
ECO	**Trade with ECO**		**Trade with SAPTA**		**Trade with AFTA**		**Trade with CER**	
Members	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**
Afghanistan	4	16	12	14	13	23	0	0
Azerbaijan	28	35	0	0	0	0	0	0
Iran (Islamic Republic of)	1	2	2	3	3	5	0	2
Kazakhstan	0	8	0	1	0	1	0	0
Kyrgyzstan	32	40	0	1	0	1	0	0
Pakistan	2	2	5	2	7	7	2	3
Tajikistan	0	51	0	1	0	0	0	0
Turkey	2	3	1	1	1	2	0	1
Turkmenistan	0	12	0	0	0	0	0	0
Uzbekistan	0	20	0	1	0	1	0	0

Source: *IMF Direction of Trade Statistics Yearbook 1998.*

SAARC Preferential Trading Arrangement (SAPTA)								
SAPTA member trade with SAPTA group and other trade groupings as share of total trade (percentage)								
SAPTA	**Trade with SAPTA**		**Trade with ECO**		**Trade with AFTA**		**Trade with CER**	
Members	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**
Bangladesh	7	9	3	2	8	7	2	1
India	2	2	3	2	7	9	3	3
Maldives	16	10	0	1	56	38	1	2
Nepal	16	24	1	1	11	7	5	3
Pakistan	5	2	2	2	7	7	2	3
Sri Lanka	8	7	5	3	11	9	2	3

Source: *IMF Direction of Trade Statistics Yearbook 1998.*

Annex 2 *(continued)*

ASEAN FreeTrade Area (AFTA)								
AFTA member trade with AFTA group and other trade groupings as share of total trade (percentage)								
AFTA	**Trade with AFTA**		**Trade with SAPTA**		**Trade with CER**		**Trade with ECO**	
Members	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**
Brunei Darussalam	30	36	0	0	2	1	0	0
Indonesia	12	13	1	2	4	5	1	1
Lao People's Democratic Republic	55	66	0	0	4	0	0	0
Malaysia	25	25	2	2	3	2	1	1
Myanmar	31	41	8	6	2	1	2	1
Philippines	8	13	1	0	3	2	1	0
Singapore	21	25	2	2	2	2	1	1
Thailand	13	17	1	1	2	2	1	2
Viet Nam	26	21	0	1	1	3	0	1

Source: *IMF Direction of Trade Statistics Yearbook 1998.*

Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER)								
CER member trade with CER partner and other trade groupings as share of total trade (percentage)								
CER	**Trade with CER**		**Trade with AFTA**		**Trade with SAPTA**		**Trade with ECO**	
Members	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**
Australia	5	6	11	13	1	2	1	1
New Zealand	20	23	6	7	1	1	1	1

Source: *IMF Direction of Trade Statistics Yearbook 1998.*

Annex 2 *(continued)*

Melanesian Spearhead Group (MSG) Trade Agreement								
MSG member trade with MSG group and other trade groupings as share of total trade (percentage)								
MSG	**Trade with MSG**		**Trade with CER**		**Trade with AFTA**		**Trade with SAPTA**	
Members	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**	**1992**	**1997**
Fiji	1	1	39	53	10	9	1	0
Papua New Guinea	0	0	45	38	12	11	0	0
Solomon Islands	1	2	15	23	11	20	0	1
Vanuatu	3	1	24	19	0	5	0	0

Source: IMF Direction of Trade Statistics Yearbook 1998.

Annex 3

Share of trade with APEC in total trade of ESCAP-member countries and areas, 1992 and 1997

APEC		
Intra-APEC trade of APEC members as percentage share of total trade		
APEC members	**1992**	**1997**
Australia	72	71
Brunei Darussalam	80	66
Canada	83	87
Chile	46	51
China	81	76
Hong Kong, China	75	76
Indonesia	74	73
Japan	67	65
Republic of Korea	70	67
Malaysia	79	78
Mexico	84	89
New Zealand	70	72
Papua New Guinea	85	74
Peru	53	53
Philippines	74	73
Russian Federation	21	16
Singapore	64	75
Thailand	70	67
United States of America	61	63
Viet Nam	67	67

Source: *IMF Direction of Trade Statistics Yearbook 1998.*

Annex 3 *(continued)*

SAPTA, MSG and ECO members		
Trade with APEC as percentage share of total trade		
	1992	**1997**
SAPTA		
Bangladesh	49	49
India	37	42
Maldives	65	53
Nepal	47	46
Pakistan	44	44
Sri Lanka	52	55
MSG		
Fiji	73	82
Papua New Guinea	85	77
Solomon Islands	84	85
Vanuatu	56	75
ECO		
Afghanistan	47	54
Azerbaijan	28	26
Iran (Islamic Republic of)	27	30
Kazakhstan	64	52
Kyrgyzstan	47	35
Pakistan	44	44
Tajikistan	26	24
Turkey	22	24
Turkmenistan	26	12
Uzbekistan	31	43

Source: *IMF Direction of Trade Statistics Yearbook 1998.*

Annex 4

Key economic indicators

	Population (millions)	GNP (US$ billion)	Average annual growth rate, 1996-1997 (percentage)	GNP per capita (US$)	Average annual growth rate, 1996-1997 (percentage)
ECO					
Afghanistan	25				
Azerbaijan	8	3.9	3.1	510	2.6
Iran (Islamic Republic of)	61	113.5	3.2	1 780	1.2
Kazakhstan	16	21.8	1.3	1 340	2.2
Kyrgyzstan	5	2	5.1	440	4
Pakistan	137	67.2	2.8	490	0
Tajikistan	6	2	2.2	330	0.7
Turkey	64	199.5	8.1	3 130	6.4
Turkmenistan	5	2.9		630	
Uzbekistan	24	23.9	2.2	1 010	0.3
Total	351	436.7			
SAPTA					
Bangladesh	124	33.2	5.4	270	3.7
Bhutan	0.7	0.3	5.7	400	2.8
India	961	373.9	5	390	3.2
Maldives	0.3	0.3	6	1 150	3.3
Nepal	23	4.8	2.7	210	0
Pakistan	137	67.2	2.8	490	0
Sri Lanka	18	14.8	6.9	800	5.8
Total	1 264	494.5			

Annex 4 *(continued)*

	Population (millions)	GNP (US$ billion)	Average annual growth rate, 1996-1997 (percentage)	GNP per capita (US$)	Average annual growth rate, 1996-1997 (percentage)
AFTA					
Brunei Darussalam	0.3	7.1		25 090	
Cambodia	11	3.2		115	
Indonesia	200	221.9	4.4	1 110	2.8
Lao People's Democratic Republic	5	1.9	6.5	400	3.8
Malaysia	21	98.2	7.5	4 680	5.2
Myanmar	47				
Philippines	73	89.3	5.8	1 220	3.6
Singapore	3	101.8	8.8	32 940	7.2
Thailand	61	169.6	-0.4	2 800	-1.3
Viet Nam	77	24.5		320	
Total	498.3	717.5			
CER					
Australia	19	380	2.9	20 540	1.8
New Zealand	4	60.5	1.9	16 480	1
Total	23	440.5			
MSG					
Fiji	0.8	2	1	2 470	-0.5
Papua New Guinea	5	4.2	-14	940	-15.9
Solomon Islands	0.4	0.4	1.5	900	-1.5
Vanuatu	0.2	0.2	3	1 310	0.4
Total	6.4	6.8			

Annex 4 *(continued)*

	Population (millions)	GNP (US$ billion)	Average annual growth rate, 1996-1997 (percentage)	GNP per capita (US$)	Average annual growth rate, 1996-1997 (percentage)
APEC					
Australia	19	380	2.9	20 540	1.8
Brunei Darussalam	0.3	7.1		25 090	
Canada	30	583.9	5.2	19 290	2.6
Chile	15	73.3	7.6	5 020	6.1
China	1 227	1 055.4	8.9	860	7.8
Hong Kong, China	7	164.4	5.2	25 280	2.1
Indonesia	200	221.9	4.4	1 110	2.8
Japan	126	4 772.3	0.5	37 850	0.2
Republic of Korea	46	485.2	4.8	10 550	3.8
Malaysia	21	98.2	7.5	4 680	5.2
Mexico	95	348.6	8	3 680	6.2
New Zealand	4	60.5	1.9	16 480	1
Papua New Guinea	5	4.2	-14	940	-15.9
Peru	25	60.8	1.7	2 460	-0.1
Philippines	73	89.3	5.8	1 220	3.6
Russian Federation	147	403.5		2 740	
Singapore	3	101.8	8.8	32 940	7.2
Taiwan Province of China	22	283		13 070	
Thailand	61	169.6	-0.4	2 800	-1.3
United States	268	7 690	3.8	28 740	2.9
Viet Nam	77	24.5		320	
Total	2 471.3	17 077.5			

Sources: World Bank, *World Development Report 1998;* APEC Secretariat, *Key Indicators of Member Economies.*

Annex 5

Private sector inputs into selected regional groupings

Name of grouping	Member economies	Formal inputs/ mechanisms	Informal inputs/ mechanisms
Asia-Pacific Economic Cooperation (APEC)	Australia Canada Brunei Darussalam Chile China Indonesia Hong Kong, China Japan Republic of Korea Mexico Malaysia New Zealand Papua New Guinea Philippines Singapore Taiwan Province of China Thailand	The APEC Business Advisory Council (succeeded the Pacific Business Forum in 1995, and also built on the work of the APEC Eminent Persons Group).	Private sector input solicited through participation in numerous working groups, and other international forums.
Association of South East Asian Nations (ASEAN)	Brunei Darussalam Indonesia Lao People's Democratic Republic Malaysia Myanmar Philippines Singapore Thailand Viet Nam	ASEAN Chambers of Commerce and Industry (coordinates with member countries CCIs as the formal channel for private sector inputs).	ASEAN Business Forum and other ASEAN private sector meetings informally contribute inputs at various levels.
South Asian Association for Regional Cooperation (SAARC)	Bangladesh Bhutan India Maldives Nepal	SAARC Chamber of Commerce and Industry (coordinates	Private sector informally contributes input; SCCI is officially recognized by

Annex 5 *(continued)*

Name of grouping	Member economies	Formal inputs/ mechanisms	Informal inputs/ mechanisms
	Pakistan Sri Lanka	with member country CCIs).	SAARC.
Asia-Europe Meeting (ASEM)	ASEAN China EU Japan Republic of Korea	ASEM Business Forum (meeting annually); ASEM Government and Private Sector Working Group (now inactive).	Little informal input to date.
Indonesia Malaysia Thailand Growth Triangle (IMT-GT)	Indonesia Malaysia Thailand	IMT-GT Joint Business Council (IMT-GT-JBC)	Informal private sector input into IMT-GT through the various governments.
Brunei Darussalam Indonesia Malaysia Philippines East ASEAN Growth Area (BIMP-EAGA)	Brunei Darussalam Indonesia Malaysia Philippines	Brunei Darussalam Indonesia Malaysia Philippines East Asian Business Council (BIMP-EABC)	Informal private sector input into IMT-GT through the various governments.
Greater Mekong subregion	Cambodia Yunnan Province of China Lao People's Democratic Republic Myanmar Thailand Viet Nam	ESCAP facilitates joint meeting of individual country chambers of commerce and industry; Forum for the Comprehensive Development of Indo-China.	Many private sector meetings providing informal input and facilitated by ADB and other multi-lateral/bilateral cooperation initiatives.

Annex 5 *(continued)*

Name of grouping	Member economies	Formal inputs/ mechanisms	Informal inputs/ mechanisms
BIMST-EC	Bangladesh India Myanmar Sri Lanka Thailand	ESCAP facilitates meeting of government officials and private sector representatives from the five priority sectors. BIMSTEC Business Forum was established. Establishment of a BIMSTEC Economic Forum is under consideration.	*Ad hoc* meetings of trade officials and business people in priority sectors, e.g. textiles and clothing, tourism etc.
South Pacific Forum	Australia Cook Islands Fiji Kiribati Marshall Islands Micronesia New Zealand Niue Papua New Guinea Solomon Islands Tonga Tuvalu Samoa Vanuatu	No formal mechanism for private sector involvement.	Informal inputs from State enterprises and private sector solicited periodically.

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