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**DEVELOPING COHERENT AND CONSISTENT POLICIES FOR
TRADE AND INVESTMENT**

(Item 5 of the provisional agenda)

Note by the secretariat

SUMMARY

In the wake of plummeting exports and rising unemployment, the export-led growth model has come under pressure in Asia and the Pacific, revealing vulnerabilities and the exposure of the region to external shocks. While a case can certainly be made for stimulating domestic demand in the medium to long term, the immediate concern for policymakers is to restore trade as the engine of growth. In the present document, the secretariat briefly reviews the nexus between trade and development and calls for a review of government roles in making trade work for inclusive and sustainable development. In particular, given the many linkages between trade and development, there is a compelling need to: (a) mainstream trade; (b) forge consistence and coherence among trade and development policies; and (c) coordinate and consult with and among all institutions and stakeholders involved in trade policy formulation and implementation.

The Committee may wish to deliberate on the issues discussed in the present document and in particular on the role of the secretariat in addressing these issues.

CONTENTS

	<i>Page</i>
Introduction.....	2
I. TRADE AND DEVELOPMENT NEXUS	2
II. REVIEWING THE ROLE OF GOVERNMENT IN TRADE AND DEVELOPMENT.....	3
III. FORMULATING AND IMPLEMENTING INCLUSIVE AND SUSTAINABLE TRADE POLICIES	4
IV. PROMOTING COHERENCE, CONSISTENCY AND COORDINATION ..	5
V. ISSUES FOR CONSIDERATION.....	6

Introduction

1. The present document is based on chapter 1 of the *Asia-Pacific Trade and Investment Report 2009*, which focuses on trade policy for inclusive and sustainable development.¹ With the onset of the financial crisis in the United States of America and Europe, countries in the Asia-Pacific region have been hit hard by falling demand in their traditional export markets. This has resulted in sharp drops in exports and rises in unemployment, creating a backlash against trade. In the document, the secretariat argues that while trade remains an important element of development, there is a need to refocus trade policy formulation to enhance the contribution of trade to sustainable development and poverty reduction, in other words, to support trade for inclusive and sustainable development. In this regard, the secretariat reviews the role of government in promoting trade for development and the need to mainstream trade into development policies and objectives in order to ensure policy coherence and consistency. For a more detailed overview and analysis of the issues, see the *Report*.

I. TRADE AND DEVELOPMENT NEXUS

2. Trade has served the Asia-Pacific region well. The experiences of many Asian economies over the last few decades point to a strong relationship between exports (and trade in general) and economic growth (table 1). The dynamic rise in economic growth that occurred after various countries switched from import substitution to export promotion is illustrative of this experience.

Table 1. Export and gross domestic product growth, various subregions in Asia and the Pacific

(Percentage)

Subregion	1988-1997		1998-2007	
	Export growth	GDP growth	Export growth	GDP growth
East and North-East Asia	9.9	7.9	12.7	7.2
North and Central Asia	-10.1	-4.6	7.4	5.6
South and South-West Asia	8.3	4.7	8.6	5.4
South-East Asia	10.5	6.9	6.3	3.5
Developed ESCAP economies	5.3	2.8	4.9	1.3

Source: ESCAP calculations, based on data from the World Bank, World Development Indicators database (July 2009).

Notes: Export growth rates are expressed as the simple average of annual changes in export values (in 2000 United States dollars). Gross domestic product growth rates are expressed as the simple average of annual changes in gross domestic product values (in 2000 United States dollars).

Abbreviation: GDP, gross domestic product.

3. Exports contribute to employment generation, financial resources for development (both through taxes and profits for reinvestment) and increases in factor productivity. The empirical literature on the relationships between exports and economic growth and, more generally, between trade and poverty reduction is

¹ ESCAP, *Asia-Pacific Trade and Investment Report 2009* (United Nations publication, Sales No. E.09.II.F.19). Printed copies of the *Report* will be distributed at the Committee session. The *Report* will be available online at www.unescap.org/tid/aptir.asp as of 10 October 2009. Due to space limitations, investment policy is not comprehensively covered in the *Report*, although discussions related to coherence and consistency would apply equally to both trade and investment policy. Investment will be a theme topic of a future issue of the *Report*.

extensive. What has emerged from the discussions is that the linkages are complex, not straightforward, and influenced by many endogenous and exogenous factors. The most valid conclusion that can be drawn from all the research undertaken so far is that exports are important for economic growth and poverty reduction but only under certain conditions, such as the presence of supporting policies and institutions, macroeconomic stability, and development of supply-side capacities.

4. The collapse in exports at the end of 2008 led to calls to reconsider the export-led growth model and focus on stimulating domestic (private) demand instead. While there is indeed potential for growth in domestic demand in some countries, this takes time. Moreover, in many cases, domestic markets are too small and shallow to compensate for exports. The best option for countries is to diversify markets and products and strive towards a sustainable balance between domestic demand and exports.

II. REVIEWING THE ROLE OF GOVERNMENT IN TRADE AND DEVELOPMENT

5. As mentioned, trade policy is important, but the implementation of trade policy alone will not achieve all development objectives. Supporting policies are required to make trade work for development. Furthermore, the global economic crisis has revealed that markets do not have all the answers either, and that government intervention is required to address market failure. The so-called Asian “miracle” already revealed that an activist government can play an important role in development success. A review of the interactive roles of government and business is required to make trade work for inclusive and sustainable development. Such roles can be defined and categorized in many ways; one way is shown in table 2. Of particular importance is the role of government in maintaining the stability of economic (for example, trade and financial) systems through prudential regulations and supervision while also maintaining the efficiency of such systems through properly phased deregulation and liberalization. The roles of government are elaborated in the *Asia-Pacific Trade and Investment Report 2009*.

Table 2. Roles of government and business in trade and development

<i>Government</i>	<i>Business</i>
Formulate, implement, monitor and evaluate national development plans in which trade is mainstreamed	Improve competitiveness
Intervene selectively: promote and guide economic and industrial restructuring	Improve productivity and development and adaptation of new technologies
Formulate and implement inclusive and sustainable trade policies	Interact with both regional and global markets
Prepare contingency plans to address external shocks and adjustment costs	Use resources efficiently
Create enabling environment for trade and investment	Build business partnerships
Consult and coordinate policy, build public-private partnerships	Practise principles of corporate social responsibility
Pursue regional and international cooperation	

Source: ESCAP, *Asia-Pacific Trade and Investment Report 2009* (United Nations publication, Sales No. E.09.II.F.19).

III. FORMULATING AND IMPLEMENTING INCLUSIVE AND SUSTAINABLE TRADE POLICIES

6. The first and arguably most important role of government in promoting trade for development is the formulation and implementation of coherent and consistent trade policies. This involves the identification and definition of the objectives of trade policy and the means to achieve those objectives. Governments must ensure that development objectives are mainstreamed into trade policy as it is being formulated. At the same time, the linkages of trade to other development areas need to be understood; trade can contribute to objectives as diverse as infrastructure development and the provision of affordable health care. In this regard, trade itself needs to be mainstreamed in national development plans to ensure the coherence and consistency of trade policy with other development policies. Finally, mainstreaming trade requires effective institutional coordination mechanisms for the formulation and implementation of trade policy as well as effective mechanisms for consultation with major stakeholders—business, in particular.

7. Trade policy objectives have been pursued under a combination of policies which seek to expand overseas (and/or restrict domestic) market access, policies which seek to directly promote exports, and policies which seek to strengthen export competitiveness through supply-side capacity-building. Traditionally, the greater emphasis has been placed on gaining market access abroad. Market access can be obtained through negotiations in the context of the multilateral trading system, regional and bilateral trade agreements and through the unilateral measures of trading partners. The multilateral trading system is believed to be the most effective international trade governance system and the most efficient modality for obtaining market access, as it comprises the only set of universal, non-discriminatory and enforceable rules. However, liberalization through multilateral trade negotiations has been relatively limited due to the complexity and limited nature of the commitments made under various multilateral trade rounds, of which the Doha Development Agenda,² or Doha Round, is the latest.

8. The secretariat supports the need to review trade policy and its contribution to inclusive and sustainable development. Trade can and will work for development if trade itself is inclusive and sustainable, that is, if it contributes directly to pro-poor, gender-neutral and sustainable growth and development. This is even more important in times when national and global coordinated action is needed to combat a host of environmental problems, such as climate change.

9. With regard to inclusivity, the overriding principle is that trade is promoted in goods and services in which the poor have a relatively larger stake and which would also help disadvantaged regions within countries. This requires active government intervention (in particular through public-private partnerships) within existing international commitments, as well as the adoption of measures which are least trade-distorting. Supply-side capacity-building is of the utmost importance in this regard. In terms of sustainability, trade policy must lead to the production and trade of goods and services in a sustainable manner. In other words, it must support a system in which: (a) natural resources and inputs used in the production process are managed efficiently and sustainably; (b) investment and production for trade takes place on the basis of least-polluting and energy-efficient processes and technologies; and (c) trade itself proceeds in an environmentally friendly manner.

² See A/C.2/56/7, annex.

10. Under a pro-poor trade policy, sectors which require special attention are agriculture and services. Agriculture, because most of the region's poor live in rural areas and face both market access and supply-side constraints. Services, because they: (a) tend to be less polluting; (b) have the potential to be major sources of employment; and (c) can have indirect benefits, as they build supply-side capacities (such as transport, information and communications technology and energy-related services) and improve their efficiency. Furthermore, businesses in services can usually be started more easily, and with less investment, than those in manufacturing. With regard to manufacturing, the promotion and support of export-oriented small and medium-sized enterprises remains the most crucial aspect of a pro-poor trade policy.

11. In particular, an inclusive and sustainable trade policy requires the promotion, adoption and practice of principles of corporate social responsibility by all businesses. This will increase the competitiveness of the private sector as well as the contribution of business to inclusive and sustainable development. Policies also need to be implemented so that that trade benefits both men and women as well as society at large. For this purpose, the welfare benefits generated by trade need to be distributed more equitably through government intervention, for example in the form of fiscal and social protection policies.

IV. PROMOTING COHERENCE, CONSISTENCY AND COORDINATION

12. Much broader in scope than they were decades ago, trade rules and regulations now apply in a complex variety of new policy areas, including agriculture, services, investment, trade facilitation, intellectual property rights, competition, environment, labour standards, immigration, mutual recognition, government procurement and electronic commerce. In particular in the area of trade in services, a multitude of sectors, such as telecommunications, banking, health, education and tourism are involved, and thus also different ministries and agencies that have not been routinely or closely involved in international trade and investment policy issues, leading to a lack of coherence, coordination and policy predictability in these sectors.³ For example, trade agreements and investment treaties are negotiated by different ministries. This may lead to inconsistencies between the agreed commitments. While the link between trade policies and other policies is probably stronger with regard to supply-side capacity-related policies (even in the case of market access), the negotiation and implementation of multilateral, regional and bilateral trade agreements require the involvement of most Government ministries and agencies as well as other stakeholders. The concept of the single undertaking at the World Trade Organization has made such coherence and coordination even more important, and has therefore been an instigator of domestic institutional reform.

13. Trade policy formulation has economic, social and environmental linkages. Thus, to ensure that trade is an effective tool for achieving inclusive and sustainable development, it must be mainstreamed into development policies and objectives. In this regard, trade policy formulation and implementation require appropriate levels of consultation and coordination among the institutions and stakeholders involved, such as business and civil society.

14. In order for coordination to be effective, strong institutions and political will are essential, not only at the central Government level but also at the subnational

³ Yann Duval, Debapriya Bhattacharya, Tilani Jayawardhana, Dilli Raj Khanal, Tazeen Tahsina, and Prakash Kumar Shreshtha, "Trade and investment linkages and policy coordination: lessons from case studies in Asian developing countries", Asia-Pacific Research and Training Network on Trade (ARTNeT) Policy Brief No. 15 (Bangkok, ESCAP, 2008), available at www.unescap.org/tid/artnet/pub/polbrief15.pdf.

level. These two requirements are often lacking. Institutions often do not have the resources and skills to function effectively, let alone engage constructively in appropriate levels of consultation and coordination. Central and local governments often do not communicate effectively, and rules and regulations established at the central level are not always duly implemented and enforced at the local level. The lack of such coordination, in turn, prevents coherent and consistent trade and development policies.

V. ISSUES FOR CONSIDERATION

15. The secretariat has been actively involved in promoting trade for development, with a focus on market access and supply-side capacity-building, and in analysing the development implications of both multilateral and regional/bilateral trade agreements and negotiations. However, less has been done in the areas of making trade inclusive and sustainable and promoting coherence and consistency through the mainstreaming of trade in development policies and activities. Through various projects in trade and environment and trade and transport facilitation, the secretariat has strived to highlight the linkages of trade with other development areas and to promote synergies.

16. The issues highlighted in the present document can be summarized as follows:

- (a) The trade-development nexus and restoring trade as an engine of growth;
- (b) Exports versus domestic demand in generating economic growth;
- (c) The role of government in promoting trade for development;
- (d) Making trade policy inclusive and sustainable in order to achieve inclusive and sustainable development;
- (e) Promoting coherence and consistency between trade and development policies and mainstreaming trade in development policies for that purpose;
- (f) Strengthening coordination and consultation among the institutions and stakeholders involved in trade policy formulation and implementation.

17. The Committee may wish to deliberate on the above-mentioned issues and in particular on the role of the secretariat in addressing these issues.

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