



Economic and Social Council

Distr.: General
14 December 2022

Original: English

Economic and Social Commission for Asia and the Pacific

Committee on Trade, Investment, Enterprise and Business Innovation

First session

Bangkok and online, 22–24 February 2023

Item 2 of the provisional agenda*

Making trade in Asia and the Pacific more competitive, sustainable and inclusive

Making trade in Asia and the Pacific more competitive, sustainable and inclusive

Note by the secretariat

Summary

The coronavirus disease (COVID-19) pandemic and other crises in recent years have revealed weaknesses in international trade as countries grappled with disruptions to supply chains, volatile transport costs and difficulties in securing essential supplies. Looking ahead, as countries in Asia and the Pacific recover, it will be vital to address the vulnerabilities laid bare by the pandemic and to build preparedness against future crises, including rapidly rising inflation and the ongoing climate crisis.

The present document contains an examination of how trade, as a key means of implementation of sustainable development recognized in Sustainable Development Goal 17, can be made more competitive, sustainable and inclusive as the Asia-Pacific region moves forward and faces future challenges. It includes a discussion on the leveraging of emerging opportunities in the digital economy, trade digitalization and climate-smart trade, with a view to helping diversify the trade basket of developing countries, least developed countries and countries with special needs, and to integrating less advantaged groups into global and regional value chains.

The Committee on Trade, Investment, Enterprise and Business Innovation may wish to consider the issues discussed in the document, share national experiences and priorities, and provide guidance to the secretariat for the future work of the subprogramme.

* ESCAP/CTIEBI(1)/1/Rev.1.

I. Introduction

1. International trade has been a key engine of growth and development in Asia and the Pacific over the past decades, supporting economic growth and lifting over one billion people out of poverty. The coronavirus disease (COVID-19) pandemic and other crises in recent years, however, have revealed weaknesses in international trade as countries grappled with disruptions to supply chains, soaring transport costs and difficulties in securing essential supplies and medical goods.

2. Looking ahead, as countries in Asia and the Pacific recover, it will be vital to address the vulnerabilities laid bare by the pandemic and to build preparedness against future pandemics and other crises, including rapidly rising inflation and the ongoing climate crisis.

3. The present document contains an examination of how trade, as a key means of implementation of sustainable development recognized in Sustainable Development Goal 17, can be made more competitive, sustainable and inclusive as the Asia-Pacific region faces future challenges. The document also includes an overview of the landscape of, and emerging opportunities in, the digital economy, trade digitalization and climate-smart trade, and contains proposals on policy recommendations for the way forward. Following a brief overview of the state of play and recent developments in regional trade in the Asia-Pacific region (section II), there is a discussion on the building of trade competitiveness in an increasingly digital economy (section III). The document also contains an examination of how trade can be made more inclusive and sustainable (section IV) and an outline of issues for consideration by the Committee on Trade, Investment, Enterprise and Business Innovation (section V).

II. Regional trade in Asia and the Pacific

A. Regional trade trends

4. At present, trade in Asia and the Pacific is primarily intraregional. The Asia-Pacific market absorbed 54 per cent and 59.2 per cent of exports and imports, respectively, in 2020. In particular, China has continued to be the largest trading partner for most Asia-Pacific economies, absorbing 23.3 per cent of the region's exports, while sourcing 26.8 per cent of its imports in 2020. The European Union accounted for 19.4 per cent and 16.6 per cent of Asia-Pacific exports and imports, respectively, while the United States of America accounted for 16.3 per cent and 8.2 per cent, respectively.

5. Trade and its associated linkages within the region have progressed considerably. Until 2020, globalization and regional integration¹ in Asia and the Pacific had grown in tandem and had brought significant economic and development opportunities to large and small developing economies that participated in the regional value chains. However, after four years of increasing intensification of geopolitics that has been exacerbated by various

¹ Data on regional integration for Asia and the Pacific, based on the Economic and Social Commission for Asia and the Pacific (ESCAP) Digital and Sustainable Regional Integration Index (DigiSRII), are available at <https://riva.negotiatetrade.org/#/rioverview> (accessed on 28 November 2022). For details and methodology on the index, see *Regional Integration for Sustainable Development in Asia and the Pacific: ESCAP Digital and Sustainable Regional Integration Index and Indicator Framework – DigiSRII 1.0* (Bangkok, 2020).

types of security concerns, including on national, technological, health, and food security, there are more questions than answers for the future of Asia-Pacific intraregional trade.

6. In particular, the situation for regional value chains has regressed.² Part of the reason is that regional value chains have increasingly involved extraregional partners. For example, there are increasing links with highly specialized and value-added products – such as semiconductors – often produced outside the region. The short-term impacts of attempts at reducing the risks tied to single sourcing and import dependency are by no means all negative. Some countries in the Association of Southeast Asian Nations, specifically Viet Nam, have gained business opportunities from supply chain diversification due to their openness to foreign direct investment and cost competitiveness. From 2018 to 2020, the Association of Southeast Asian Nations' share in the value of United States imports rose by about 2 per cent.³ However, most Asia-Pacific economies cannot expect that the strong policy continuity toward supply chain diversification and domestication could increase total export demand in the long term, because overall trade slowdown in the long term will outweigh short-term positive trade effects.⁴ It is expected that Asia-Pacific countries that depend on the vigour of intraregional trade will find their long-term opportunities for specialization and for growth diminished.

7. Regional trade has also been threatened by nationalism in response to health and food crises. Trade policy measures are one of the tools used in the region to alleviate supply shortages during such crises. In the case of COVID-19 response measures, countries have been using a two-pronged approach: restricting exports of critical goods (mostly medical) while simultaneously liberalizing their import policies to facilitate access to essential goods. Trade restrictions have increased trade costs and risk premiums in the region. Research by the Economic and Social Commission for Asia and the

² The Digital and Sustainable Regional Integration Index reveals that from 2010 to 2021, the region's integration through regional value chains has regressed. However, it is yet to be seen how the longer-term dynamics of regional value chain integration will change in the period after the COVID-19 pandemic. The disruptions of global supply chains during the pandemic may result in incentives for reshoring, diversification and regionalization. Indeed, there is some speculation that global value chain shortening will occur in specific supply chains, particularly in health-emergency and national strategic supply chains, such as pharmaceuticals, communication equipment and semiconductors, while more industries may balance supply-chain robustness and efficiency by diversifying producers and locations involved in sourcing key inputs. Such developments could lead to stronger regional value chain integration in Asia and the Pacific. In particular, the “China+1” global value chain diversification strategy may create new opportunities for regional economies in South and South-East Asia to increase regional value chain participation with East and North-East Asian economies in selected industries. On the other hand, increased competition may result as countries vie for their share of the diversifying firms.

³ Based on data from the United States Census Bureau.

⁴ Satoru Kumagai and Kazunobu Hayakawa, “Economic impacts of the Regional Comprehensive Economic Partnership: analysis using IDE-GSM”, IDE Policy Brief, No. 147 (Chiba, Institute of Developing Economies-Japan External Trade Organization, 2021). Available at www.ide.go.jp/Japanese/Publish/Reports/AjikenPolicyBrief/147.html.

Pacific (ESCAP) found that overall trade costs in the Asia-Pacific region rose during 2020 by an average of 7 per cent.⁵

8. As with their COVID-19 response, Governments in the region and beyond scrambled to secure food supplies by implementing import liberalization and facilitation measures, while restricting their exports. Almost 30 countries, including from Asia and the Pacific, resorted to food and fertilizer export restrictions to ensure domestic food availability. While the pace of introducing such measures has recently slowed and many such measures have been reversed, restrictions still cover a non-negligible share of total calories traded internationally.⁶

1. Trade in merchandise goods

9. Following a global demand slowdown in the second half of the year, merchandise trade growth is expected to be timid in 2022.⁷ Moreover, the difference between nominal and real growth has been extremely high due to significant inflation. Exports from the Asia-Pacific region (excluding the Russian Federation) are estimated to grow in 2022 at 3 per cent in real terms and nominally at 10.2 per cent, with imports growing by 0.3 per cent in real terms and nominally by 13 per cent. Nominally, merchandise trade in the region is estimated to total \$19 trillion in 2022.

10. Owing to the region's slower trade growth, Asia and the Pacific's share of global nominal exports and imports is expected to decline slightly in 2022, to 39.4 per cent and 35.8 per cent, respectively, compared with 41.2 per cent and 37.9 per cent in 2021. Moreover, the region's trade surplus is expected to decline marginally, from \$700 billion to \$680 billion.

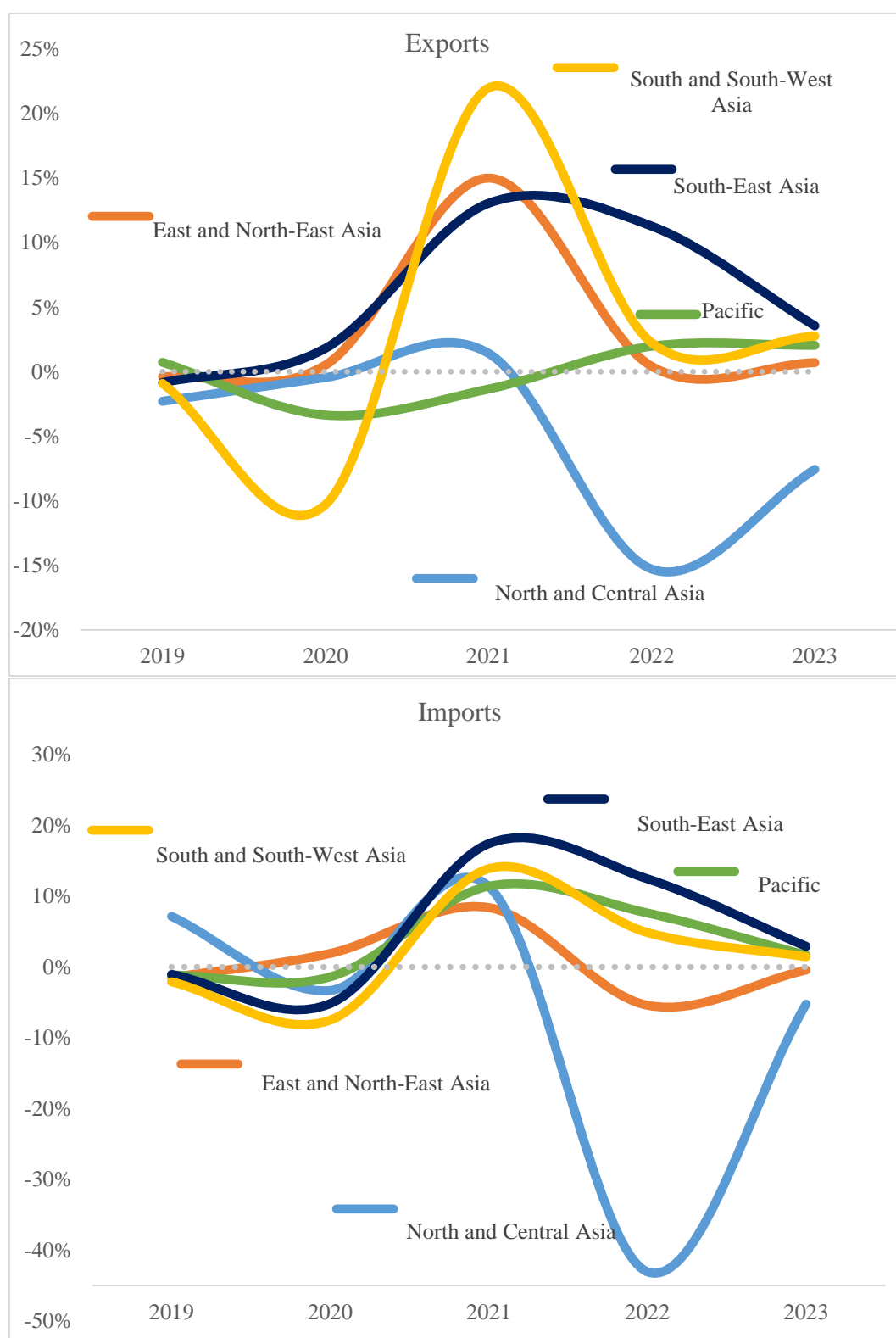
11. Subregional performances are estimated to vary considerably (see figure I). South-East Asia is the only subregion logging in strong growth in real exports and imports. South and South-West Asia and the Pacific subregion are also expected to see growth in exports and imports, albeit more modest. All remaining subregional performances are estimated to be negative, with North and Central Asia bearing the heaviest losses due to the influence of the performance of the Russian Federation.

⁵ *Beyond the Pandemic: Building Back Better from Crises in Asia and the Pacific* (United Nations publication, 2021).

⁶ Björn Rother and others, "Tackling the global food crisis: impact, policy response, and the role of the IMF", *IMF Notes*, vol. 2022, No. 004 (Washington, D.C., International Monetary Fund, 2022).

⁷ The discussion in this subsection is based on ESCAP, "Trade trends in goods and services in Asia-Pacific", *Asia-Pacific Trade and Investment Trends 2022/2023* (Bangkok, 2022).

Figure I
Subregional real merchandise trade performance in Asia and the Pacific
in the period 2019–2023



Source: ESCAP calculations based on World Trade Organization annual goods trade data, available at <https://stats.wto.org>; and data from the Economist Intelligence Unit, available at <https://data.eiu.com/login.aspx> (both accessed on 30 November 2022). Forecasts are based on available data for selected Asia-Pacific economies, covering 98.5 per cent of total regional exports and imports.

Note: Values for 2023 are projected.

12. In 2023, regional merchandise trade is expected to continue growing modestly. Export and import growth, excluding the Russian Federation, is forecast at 1.9 per cent and 2.5 per cent, respectively, in nominal terms, and at 1.6 per cent and 0.7 per cent in real terms. These estimates assume that monetary tightening measures put in place in 2022 will effectively curb inflation for 2023. However, downside risks such as the potential re-emergence of COVID-19 lockdowns, the evolution of the war in Ukraine and risks of a global economic recession loom and add a considerable amount of uncertainty to current estimates.

2. Trade in commercial services

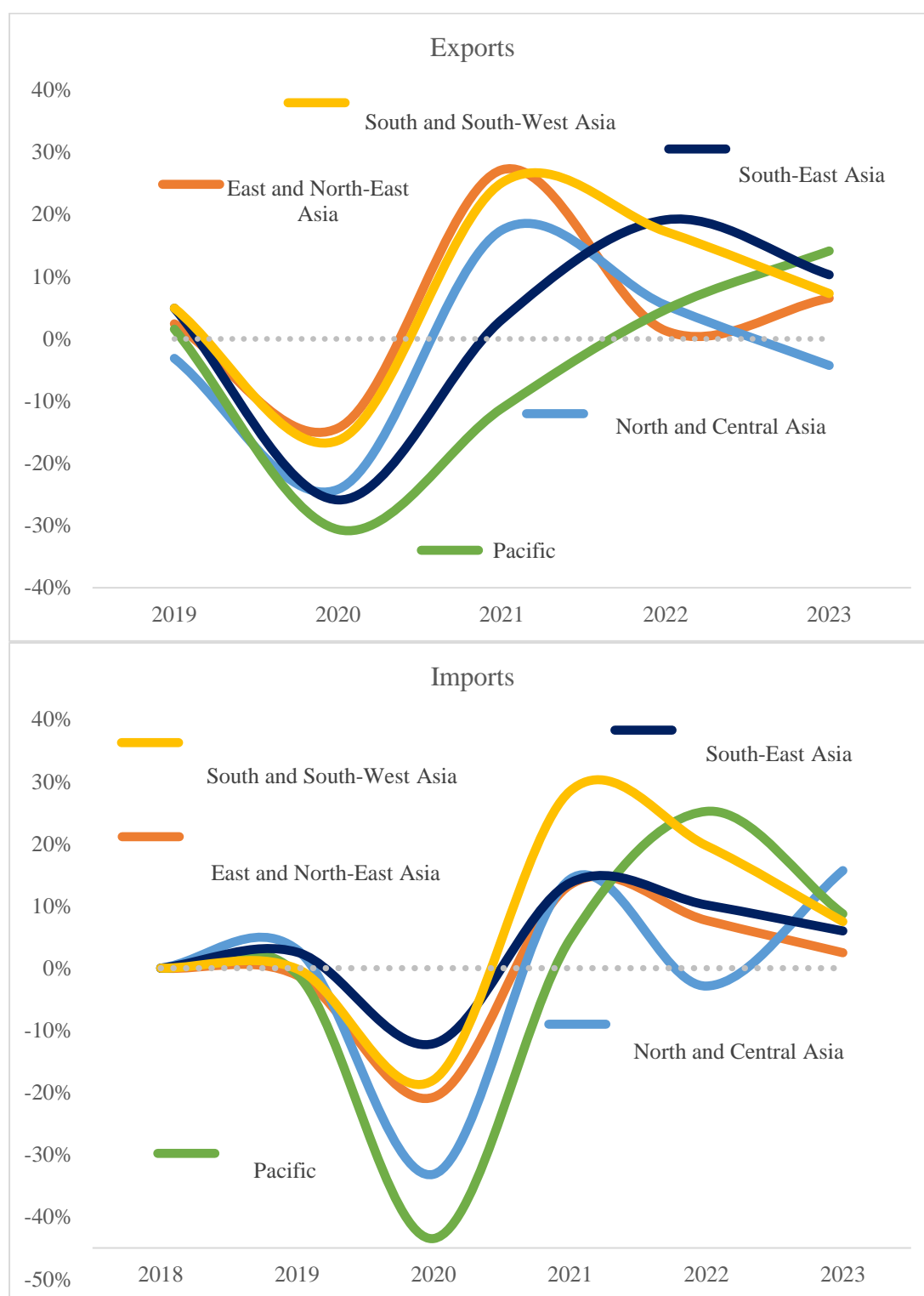
13. Despite continuing below real pre-pandemic trading levels, commercial services in 2022 have been supported by a vigorous travel sector, a heightened demand for information and communications technology (ICT) services and a less constrained transport sector.⁸ With the reversal of COVID-19 restrictions and the emergence of high inflation, commercial services are regaining prominence and resilience in what could point towards a reversal of the consumption patterns seen during the pandemic, which were characterized by high consumption of goods and low consumption of face-to-face services.

14. In Asia and the Pacific, export growth in 2022 is estimated at 8.7 per cent, despite some stricter and longer-lasting travel restrictions in the region, while imports are expected to grow 9.8 per cent. In 2022, the region's share in global service exports is expected to rise to 26.4 per cent from the previous year's 26.1 per cent, while that for imports will rise slightly to 30.4 per cent from 30.2 per cent. Moreover, 2022 marks a reversal of the improving trade balance deficit trend that has been evident since 2019, as the region becomes a net importer, although this trend may reverse again in 2023.

15. Across subregions, South-East Asia is expected to register the strongest export performance following the removal of travel restrictions (see figure II), while South and South-West Asia will also be performing positively. North and Central Asia and the Pacific will be posting similar positive export growth rates, while East and North-East Asian exports are expected to stagnate. In terms of imports, the Pacific subregion is estimated to grow the most, while the North and Central Asia subregion will be the only one experiencing a contraction.

⁸ The discussion in this subsection is based on ESCAP, "Trade in commercial services outlook in Asia and the Pacific", Asia-Pacific Trade and Investment Trends 2022/2023 (Bangkok, 2022). Available at www.unescap.org/kp/2022/trade-trends-goods-and-services-asia-pacific-20222023.

Figure II
Subregional nominal services trade performance in Asia and the Pacific
in the period 2019–2023



Source: ESCAP calculations based on World Trade Organization annual services trade data, available at <https://stats.wto.org>; and data from the Economist Intelligence Unit, available at <https://data.eiu.com/login.aspx> (both accessed on 30 November 2022). Forecasts are based on available data for selected Asia-Pacific economies, covering 98.5 per cent of total regional exports and imports.

Note: Values for 2023 are projected.

16. In 2023, the value of regional exports and imports is expected to grow by 7.5 per cent and 5.0 per cent, respectively, which is slightly below the pace in 2022. This growth is expected to be sustained by a further easing of international travel restrictions and by a slight increase in global merchandise trade. However, uncertainties surrounding the short-term performance of global merchandise trade and potential COVID-19 complications remain as the chief downside risks to the commercial services trade.

B. Bigger, deeper and more sustainable preferential trade agreements

17. Asia and the Pacific continues to be the largest contributor to the worldwide build-up of preferential trade agreements, accounting for about half of the 333 such agreements in force worldwide as of October 2022. Many of the agreements involve the same countries, resulting in a network of linkages among them that is known as the noodle bowl phenomenon.⁹ Asia-Pacific economies are actively seeking trade partnerships both within and outside the region, and nearly all agreements signed or initiated in 2022 have been with economies outside the region. As a result, 54 per cent of all preferential trade agreements entered into by Asia-Pacific economies are now with economies outside the region.

18. A notable trend has been the negotiation of mega-regional trade agreements. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership came into effect in December 2018, bringing together 11 trade partners,¹⁰ and additional partners may join.¹¹ Most recently, the 15-member Regional Comprehensive Economic Partnership Agreement entered into force on 1 January 2022, making it arguably the world's largest trade agreement.

19. At the same time, another form of less formal trade negotiation is growing, where memorandums of understanding, or mini free trade agreements, are signed between countries and specific cities or provinces in trade partner countries. The flexible nature of such agreements is especially suitable for smaller economies, as it makes it possible for smaller economies to participate in them, which could create a level playing field with advanced economies. These agreements are focused on strengthening cooperation – for instance, in information exchange and the organization of trade fairs – in specifically targeted industries. They do not provide for free or preferential trade, although they are indeed expected to create more trade.

20. One important development is that preferential trade agreements have become deeper over time (see figure III). Fifty-three per cent of preferential trade agreements in force, especially those negotiated within the past decade, go beyond liberalization of trade in goods to cover areas such as trade in services, trade facilitation, e-commerce and issues related to sustainable development. This trend also applies to existing agreements, several of which

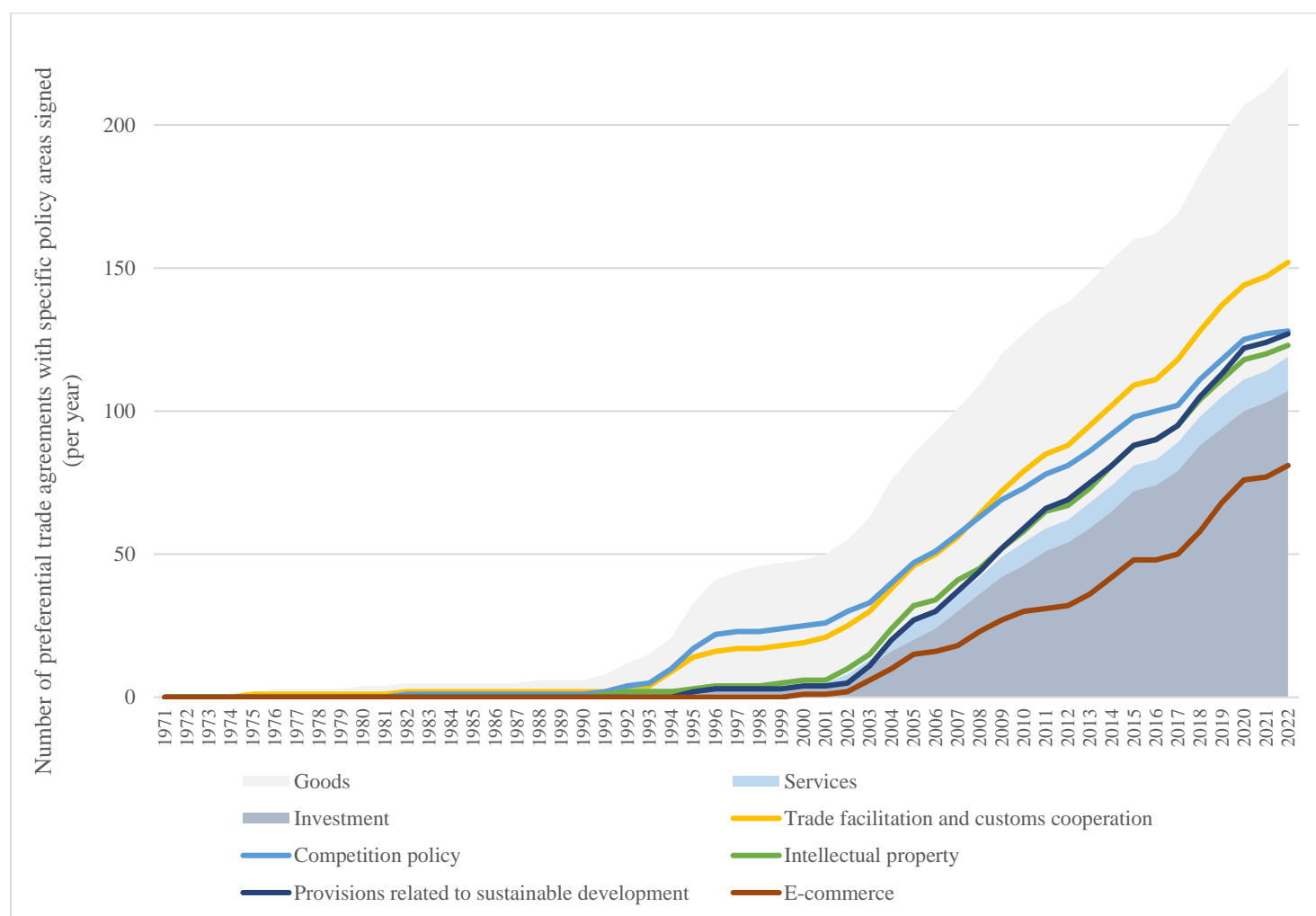
⁹ For a diagram of these linkages, please see figure I in ESCAP, “Trade agreements in Asia and the Pacific: bigger, deeper, digital and more supportive of sustainable development?”, *Asia-Pacific Trade and Investment Trends 2022/2023* (Bangkok, 2022). The discussion in the current subsection is based on this report.

¹⁰ Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam.

¹¹ China, Taiwan Province of China, the Republic of Korea and the United Kingdom of Great Britain and Northern Ireland have formally applied to accede to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

have been upgraded through the adding of new provisions or amending of existing provisions.

Figure III
Evolution in the policy coverage of Asia-Pacific preferential trade agreements in selected policy areas in the period 1971–2022



Source: Asia-Pacific Trade and Investment Agreements Database (accessed 17 October 2022).

21. Of these areas, Asia and the Pacific has been particularly active in engaging in e-commerce, as 81 of the preferential trade agreements in the region include e-commerce chapters or provisions. In parallel, a new type of stand-alone, narrow-focus preferential trade agreement has also emerged: digital trade agreements. The first digital trade agreement¹² entered into force in 2020, and all five existing agreements involve Asia-Pacific economies. These agreements typically address emerging digital economy issues, such as artificial intelligence and digital inclusion, that go beyond those addressed in typical e-commerce chapters in preferential trade agreements.

22. With respect to provisions related to sustainable development in preferential trade agreements, their coverage and level of commitment vary greatly. Health and environmental provisions are found to be the most common, but very few preferential trade agreements have specific substantive

¹² Signed between Japan and the United States.

provisions on the environment, and even less so on climate change. Provisions related to human rights, gender and labour protection are found in less than 20 per cent of the preferential trade agreements that have been signed and have entered into force. Among the recent mega-trade agreements, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership stands out in terms of its coverage of sustainable development issues, whereas the Regional Comprehensive Economic Partnership Agreement's sustainable development coverage is currently very limited and focused only on measures for small and medium-sized enterprises, although mechanisms exist for coverage to be improved.

23. While the links between sustainable development and trade are increasingly featured in preferential trade agreements, the extent to which the inclusion of such provisions are effective in ensuring that trade more directly contributes to achieving the Sustainable Development Goals remains to be seen. The provisions are typically formulated using non-binding language and are also excluded from the standard dispute settlement mechanism applicable to other provisions in preferential trade agreements. At the same time, deeper preferential trade agreements – particularly those including provisions on the treatment of essential goods and services, trade facilitation, technical measures and intellectual property – are found to be more resilient and provide for more stability in trade between partners during the pandemic.¹³ Some of the preferential trade agreements signed after 2021 have focused more on enabling health cooperation, though it remains unclear whether crisis-resilience provisions as a whole will be routinely incorporated in future preferential trade agreements.

III. Building trade competitiveness in a digital economy

24. The digital transformation was already under way prior to the COVID-19 pandemic, but its growth has since accelerated in an unprecedented fashion. The pandemic demonstrated the vital role that digital technologies played in the provision of essential goods and services when physical trade channels were hampered, and in conducting business both at home and across borders, with the proliferation of the digital economy opening up new economic and social opportunities for businesses and Governments worldwide. For international trade, digitalization entails several benefits, such as facilitating access to new markets and new customers, lowering the cost of engaging in cross-border transactions, and enhancing the ability to participate in global and regional value chains.

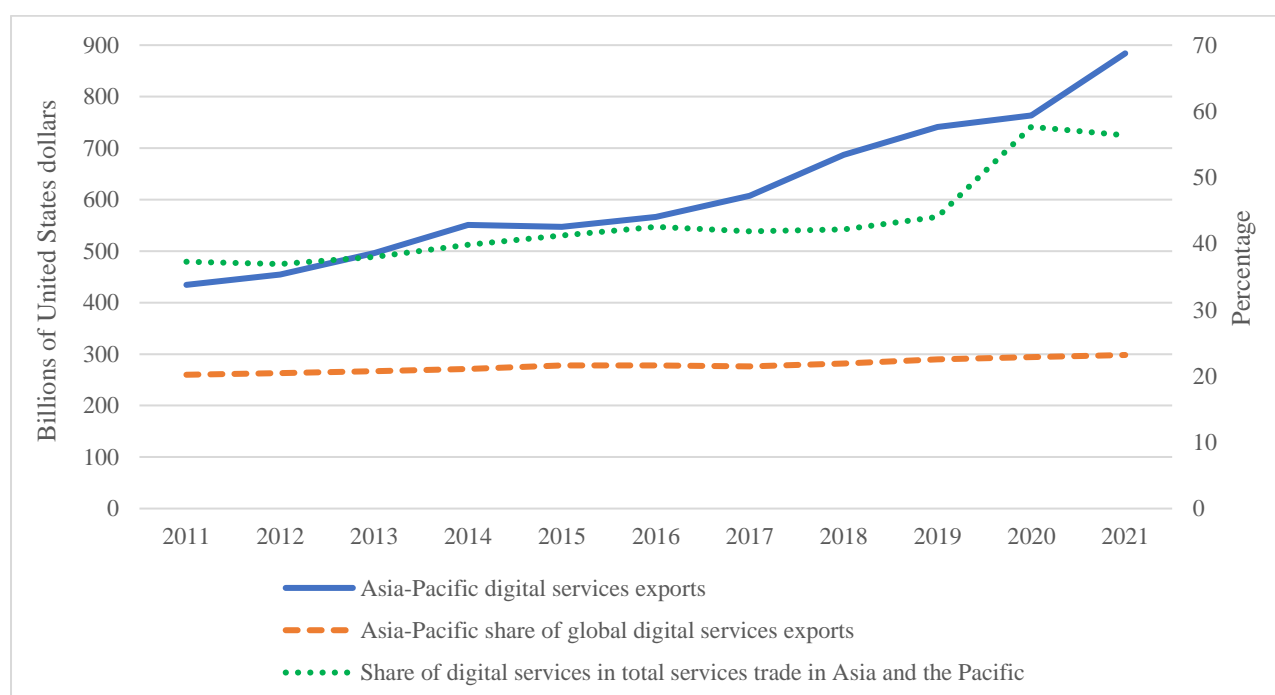
25. Besides digital trade in goods, one important component of the flourishing digital economy is the development of digital services trade. Eased by improved access and speeds of broadband Internet and advancements in ICT, especially cloud computing, more services are now digitally deliverable, and firms are increasingly turning to sourcing services virtually from foreign providers. With the range of tradeable digital services growing, there is scope for participation by a wide spectrum of developing countries in the region that can vary considerably in their mix of endowments and conditions. For instance, while countries with large markets are generally better equipped to support a wide range of digital services, small markets can provide opportunities for

¹³ Alessandro Nicita and Mesut Saygili, "Trade agreements and trade resilience during COVID-19 pandemic", United Nations Conference on Trade and Development (UNCTAD) Research Paper, No. 70 (Geneva, UNCTAD, 2021).

experimenting with niche solutions and applications for targeted export markets.

26. Although valuation can be challenging given differing definitions of digital services, it is estimated that digital service exports in Asia and the Pacific more than doubled from \$434 billion in 2011 to \$884 billion in 2021 (see figure IV). This growth reflected the region's increasing importance in the global digital economy, as its share of global digital service exports rose from 20.2 per cent to 23.2 per cent. Progress in digital transformation can also be seen by the fact that the share of digital services in the total services trade in Asia and the Pacific increased from 37.3 per cent to 56.4 per cent over the 2011–2021 period, during which tremendous growth was seen from 2019 to 2021. Overall, this evolution has been driven by increased online penetration, the rise in e-commerce and the use of e-payment systems, increased adoption of digital technologies and the growing service transformation of the goods trade.

Figure IV
Trends in the digital services trade in the Asia-Pacific region in the period 2011–2021



Source: United Nations Conference on Trade and Development (UNCTAD), UNCTADstat. Available at <https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx> (accessed on 14 November 2022).

27. The potential of the digital economy to support inclusiveness has also been widely recognized. Digital trade offers a springboard to foreign markets for disadvantaged or underserved population groups within a country, in particular women and small businesses. For instance, e-commerce marketplaces with verification systems made possible through digitally enabled services help to establish trust – an issue that was challenging and that disadvantaged small businesses in the past. By linking suppliers and service providers in remote locations to a wider pool of consumers, e-commerce platforms enable market inclusion and can help to boost rural incomes. Digital technology not only improves women entrepreneurs' access to international markets and external finance but can also enhance their ability to handle both

domestic and cross-border business by reducing administrative costs and enhancing efficiency and productivity, such as through online back-office tools. Online job platforms have also enabled firms of all sizes to access and employ human resources from around the world.

28. At the same time, with the pace of digitalization continuing to pick up, economies are faced with obstacles, not least in regulatory fragmentation, increasing barriers to digital trade, and challenges in ensuring that trade procedures and processes are keeping up. In this regard, supportive policies – including in digitalizing trade procedures and fostering an environment conducive to digital trade – will be more important than ever for the Asia-Pacific region to build trade competitiveness in the digital age.

A. Simplifying and digitalizing trade procedures

29. The simplification and digitalization of international trade procedures, or digital trade facilitation, is essential to reduce trade costs – which have surged during the pandemic – and enable economies to better participate in global and regional supply chains, as well as in the digital economy.

30. According to the United Nations Global Survey on Digital and Sustainable Trade Facilitation of 2021, significant progress has been observed towards more efficient trade facilitation since 2019, despite the grave impact of COVID-19 on global trade. Paperless trade systems have helped to keep trade flowing, and the crisis has accelerated regional integration and implementation of some regional single-window initiatives. Yet, implementation rates of trade facilitation and paperless trade measures vary widely among countries in Asia and the Pacific, ranging from below 30 per cent for low-income economies to above 90 per cent for advanced economies. Even though implementation of cross-border paperless trade in the region has improved by 7.4 percentage points during the period 2019–2021, it remains low at 38.5 per cent, with bilateral and subregional paperless trade systems mostly at the pilot stage or yet to begin in many developing countries in the region.

31. Full implementation of digital trade facilitation, which goes beyond the measures in the World Trade Organization (WTO) Agreement on Trade Facilitation,¹⁴ could cut average trade costs in the region by more than 13 per cent. Moreover, digital solutions can aid sustainable trade facilitation by lowering barriers, especially for marginalized stakeholder groups in international trade, including women traders and micro-, small and medium-sized enterprises. In fact, ESCAP research indicates a highly positive correlation between digital and sustainable dimensions of trade facilitation.¹⁵

32. Given the large potential benefits of digital trade facilitation, countries in the region should build on the digitalization momentum generated in recent years, and work together to develop the legal and technical protocols needed for the seamless exchange of regulatory and commercial data and documents along supply chains. In this regard, the Framework Agreement on Facilitation

¹⁴ The Agreement is aimed at expediting the movement, release and clearance of goods, and is currently the only multilateral agreement on trade facilitation. It contains provisions relevant to the digitalization of trade, but that only touch on limited aspects of it.

¹⁵ ESCAP, “Digital and sustainable trade facilitation in Asia and the Pacific 2021” (Bangkok, 2021).

of Cross-border Paperless Trade in Asia and the Pacific,¹⁶ a United Nations treaty that is aimed at accelerating the implementation of digital trade facilitation measures for trade and development, could support countries by providing a dedicated and inclusive intergovernmental platform that is focused on capacity-building. The treaty entered into force in February 2021, and 10 ESCAP members had already signed or ratified it as at November 2022. The first session of the Standing Committee of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific was held from 12 to 15 December 2022, marking the beginning of the implementation of the treaty.

33. The secretariat has provided significant technical assistance and capacity-building support to ESCAP members in this area, in cooperation with other international organizations. It has supported 18 countries in the region in completing national readiness assessments for cross-border paperless trade and developing initial action plans. It has also organized online and in-person capacity-building events, such as the webinar series on accelerating cross-border paperless trade facilitation,¹⁷ organized by ESCAP in cooperation with the International Chamber of Commerce and the Asian Development Bank, which attracted over 1,000 participants; the Asia-Pacific Trade Facilitation Forum 2022 and capacity-building side events,¹⁸ held in Singapore from 29 August to 1 September 2022; the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific/World Customs Organization Masterclass,¹⁹ held in Seoul from 19 to 28 September 2022; and the webinar series on next generation trade facilitation, held from 4 to 14 December 2022, co-organized with other United Nations regional commissions. The work done by the secretariat and ESCAP members in this area is increasingly being used as a global reference, as exemplified by the cross-border paperless trade toolkit jointly released by WTO, the United Nations Commission on International Trade Law and ESCAP in August 2022, which is based on the legal and technical gap readiness assessment checklists developed at ESCAP by the Interim Intergovernmental Steering Group on Cross-border Paperless Trade Facilitation. The secretariat continues to undertake and support research in this area, in support of its intergovernmental and capacity-building activities and with increasing attention to making trade facilitation more sustainable.

B. Fostering an enabling digital trade environment

34. The benefits of digitalization will not manifest automatically. Attaining them and ensuring they can be shared inclusively requires not only access to ICT infrastructure and a workforce with relevant skills, but also an enabling digital trade environment that facilitates secure and efficient cross-border digital transactions. This entails reducing policy ambiguity and restrictions and finding common ground with a wider practice of international standards to increase interoperability of digital-trade regulatory approaches across different

¹⁶ The treaty is open for accession to all countries regardless of their current state of implementation of paperless trade. It addresses the lack of an intergovernmental coordination mechanism to support the adoption of common international standards, harmonize legal frameworks, fill capacity gaps and build understanding and trust between countries so that all relevant stakeholders can effectively exchange data across borders in a reliable and safe environment.

¹⁷ See www.unescap.org/event-series/paperless-trade-2022.

¹⁸ See www.unescap.org/events/2022/asia-pacific-trade-facilitation-forum-2022.

¹⁹ See www.unescap.org/events/2022/wco-unescap-5th-unnext-masterclass-facilitating-cross-border-paperless-trade-using.

jurisdictions, which will lower the costs of regulatory compliance and promote trade in goods and services related to the digital economy. Such compliance costs tend to be fixed costs, which impact small firms disproportionately; hence their reduction would also bring about disproportionate benefits to such firms and lead to more inclusive, diverse participation in digital trade.

35. With respect to the digital trade policy ecosystem, based on data collected from 21 sample economies,²⁰ the regional digital trade integration index,²¹ a common index used across several United Nations regional commissions, finds that the Asia-Pacific region tends to have relatively liberal traditional trade policy measures, while behind-the-border measures are more restrictive. Economies tend to have less regulatory integration with respect to Internet intermediary liability, telecom regulations, data protection and online sales than that related to traditional measures such as tariffs, quotas, licensing, and standards and procedures.

36. Advanced and small emerging economies generally have a less complex digital trade regulatory environment than other economies. Such an environment can facilitate the participation of smaller firms in the region in digital trade with these economies. However, in small emerging economies, including least developed countries, the less complex regulatory environment may also be due to a lack of sufficient regulatory oversights (i.e. absence of regulation), which may affect the overall development of digital trade and the associated benefits.

37. Promoting policy and regulatory convergence across economies can help to reduce trade and business costs increasingly dependent on digital technologies, digital services and data flows. Regulatory cooperation within the region, as well as internationally, can also enhance digital trust and the security of digital trade transactions. Given the diverse policy stances from different cultures, norms and priorities in the region, a practical approach is to engage in cooperative dialogue and share good practices, starting with areas where some consensus exists, to build momentum toward harmonization in more challenging domains.

38. Based on the commonality of policy approaches in the region and the level of existing restrictions in the Asia-Pacific region, cooperation on addressing non-tariff trade restrictions and the harmonization of technical standards may be particularly fruitful. The greatest challenges for regional cooperation appear to be in new “digital governance” areas of domestic regulations as well as investment and telecom regulations. The diverse policies in these areas may reflect cross-economy differences in ideologies, as well as advantages based on the size of the economy, wherein large economies may be able to maintain heavy regulations, while the same actions carried out by small economies may dampen investor interest.

²⁰ Australia; Brunei Darussalam; Cambodia; India; Indonesia; Japan; Kazakhstan; Lao People’s Democratic Republic; Malaysia; Nepal; New Zealand; Pakistan; Philippines; Republic of Korea; Russian Federation; Singapore; Thailand; Türkiye; Vanuatu; and Viet Nam; as well as Hong Kong, China.

²¹ For details and methodology of the index, see ESCAP, *Regional Digital Trade Integration Index (Version 1): A Guide* (Bangkok, 2022), available at www.unescap.org/kp/2022/RDTII. For analysis based on the index, see ESCAP, *Asia-Pacific Digital Trade Regulatory Review 2022* (Bangkok, 2022), available at www.unescap.org/kp/2022/asia-pacific-digital-trade-regulatory-review-2022.

39. A global approach for finding common ground on digital governance rules would be an ideal solution, but this may be difficult to achieve given current institutional arrangements and differences in views and priorities across economies. There is a lack of international rules or consensus on digital trade, with WTO rules touching on the issue tangentially. Instead, economies increasingly turn to regional trade agreements to negotiate contentious issues, such as data flows, data localization and data privacy. Boosting the negotiating and policymaking capacity of smaller countries is thus necessary to create a level playing field. At the same time, open dialogues for sharing experiences can help economies in the region to better understand and promote the alignment of their general objective, where possible, in the long run.

40. Additionally, countries can seek to lower barriers to trade for ICT goods and services, which could yield substantial benefits in supporting digital trade development and lower costs for firms that provide services across borders. Multilateral trade rules and open commitments on goods and services can lock in these benefits and provide certainty to firms seeking to access foreign markets. Partnerships between Governments and regional and international bodies can also contribute to building platforms and tools for evidence-based policy discussions, which would enhance the capacity of policymakers to make informed policy decisions. Such collaboration can clarify the trade-offs at stake and the possible policy responses to offset negative impacts. Differences between economies or groups of economies should also be thoroughly explored and recognized.

41. The secretariat has been developing tools and will continue to provide knowledge products and targeted capacity-building support to ESCAP members in the areas of digital trade and the digital economy, in collaboration with partners. In cooperation with other United Nations regional commissions, international organizations and the academic community, the secretariat has developed databases on digital trade regulations. Based on the common analytical framework of ESCAP, the Economic Commission for Africa and the Economic Commission for Latin America and the Caribbean on the regional digital trade integration index, in 2022 ESCAP published the *Asia-Pacific Digital Trade Regulatory Review 2022*. The report covers the digital-trade policy circumstances of 21 economies for which ESCAP has collected data and performed analyses, in collaboration with other international organizations and academic institutions.²² Information-sharing and such knowledge products produced help to build awareness and understanding on new policy areas for officials in ESCAP member States, as the first step for providing capacity-building support. On the basis of the knowledge products, ESCAP has provided technical assistance and capacity-building on digital-trade policy formulation to national think tanks of two pilot countries: Pakistan²³ in 2021; and Philippines²⁴ in 2022. From 2020 to 2022, more than 300 participants have had opportunities to participate in a series of online capacity-building

²² See www.unescap.org/events/escap-oecd-initiative-digital-trade-regulatory-analysis.

²³ ESCAP, “National action plan promoting Pakistan’s digital trade integration in the Asia-Pacific region” (Bangkok, 2021).

²⁴ ESCAP, “National action plan promoting the Philippines’s digital trade integration in the Asia-Pacific region” (Bangkok, 2021).

workshops offered by ESCAP in this area.²⁵ The secretariat will continue collaborative research efforts in this area in support of its intergovernmental and targeted capacity-building activities, with increasing attention to assisting member States in making digital trade yield inclusive and sustainable development.

IV. Making trade more inclusive and sustainable

A. Promoting climate-smart trade

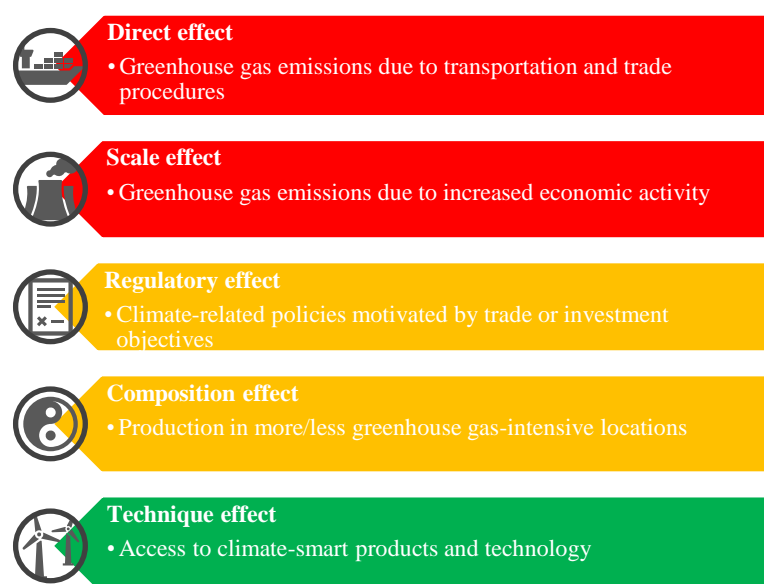
42. Trade has a complex relationship with climate change, including through its various effects on greenhouse gas emissions (see figure V).²⁶ While transportation and increased economic activity due to trade tend to increase greenhouse gas emissions, trade is also crucial for spreading technologies to attain green economies and reduce emissions. The Asia-Pacific region has become the largest emitter of greenhouse gases in absolute terms and, in the journey to making trade more inclusive and sustainable, there is much room for all economies in the region to ensure that trade becomes more climate-smart.²⁷

²⁵ For more information, see www.unescap.org/events/2022/webinar-exploring-digital-trade-regulations-promote-inclusive-and-sustainable-regional; www.unescap.org/events/2021/capacity-building-workshop-trade-and-trade-policy-analysis-post-covid-19-recovery; www.unescap.org/events/asia-pacific-regional-integration-measuring-monitoring-and-improving-performance-sustainable; www.pids.gov.ph/details/event/paving-the-road-to-the-philippines-digital-integration-with-the-asia-pacific-available-on-facebook; and www.unescap.org/events/national-consultation-workshop-toward-achieving-sustainable-regional-integration-pakistan.

²⁶ The discussion in this subsection is based on *Asia-Pacific Trade and Investment Report 2021: Accelerating Climate-smart Trade and Investment for Sustainable Development* (United Nations publication, 2021).

²⁷ “Climate-smart” trade policies are government regulations that are aimed at reducing or limiting net greenhouse gas emissions that can affect foreign trade.

Figure V
Effects of trade (and investment) on greenhouse gas emissions



Source: *Asia-Pacific Trade and Investment Report 2021: Accelerating Climate-smart Trade and Investment for Sustainable Development* (United Nations publication, 2021).

43. According to ESCAP research, within Asia and the Pacific, both tariff and non-tariff barriers to trade are more prevalent for environmental goods than for carbon-intensive fossil fuels. More concerning is that, on average, economies in the region have increased the share of carbon-intensive fossil fuels in their trade since 2015. Wasteful and regressive fossil fuel subsidies continue to contribute to greenhouse gas emissions in the region, which accounts for 75 per cent of the global coal-fired generation capacity.

44. At the same time, many economies in the region have a large share of renewable energy in electricity generation, a share that has increased since 2015. While many countries in the region have already set mandatory emissions standards on imports of vehicles, require energy ratings labels and ban trade in chlorofluorocarbons (which are potent greenhouse gases), more should consider doing so, as well as taking additional steps to address trade in illegal timber (which contributes to deforestation).

45. As the region ramps up its efforts in this area, climate-smart considerations need to permeate activities and decisions by all actors, including through regional cooperation. The key is to maximize the benefits offered by trade in addressing climate change, while minimizing its risks and costs. Some recommendations are outlined below.

1. Liberalizing trade in climate-smart and other environmental goods and services

46. While trade can contribute to global greenhouse gas emissions, it is also essential for the diffusion of technologies to address climate change. Priority must be accorded to liberalizing and otherwise facilitating trade in climate-smart and other environmental goods and services by reducing tariffs and other trade barriers. This can be done unilaterally or as part of regional or multilateral initiatives, possibly building on initiatives already being implemented by Asia-Pacific Economic Cooperation members or the parties negotiating the agreement on climate change, trade and sustainability, or by revitalizing related

efforts at WTO. Asia-Pacific countries may also actively consider how to prioritize removing tariffs on such goods and services under regional trade agreements that they are negotiating or to which they are a party.

2. Phasing out fossil fuel subsidies

47. Fossil fuel subsidies constitute barriers to trade, as they alter relative prices of related products, hampering adoption of more climate-smart technologies. In addition, economies and industries that utilize them face an increasing risk of punitive carbon tariffs as part of carbon border adjustment systems. Asia-Pacific economies should, therefore, prioritize phasing out expensive, inefficient, regressive and environmentally damaging fuel subsidies, which would generate fiscal space for addressing other aspects of sustainable development. Importantly, the phasing out of initiatives should be accompanied by action to ensure that the most vulnerable segments of society that rely on such subsidies are supported in other ways, such as through direct cash transfers.

3. Adopting climate-smart non-tariff measures

48. Governments may consider implementing non-tariff measures to regulate the technical characteristics of traded goods so that their contribution to climate change during use and disposal is limited. Such measures can include requirements pertaining to high energy performance of household appliances, less polluting emissions from motor vehicles and fuel-powered equipment, restrictions to imported goods containing or emitting powerful greenhouse gases, and certification of legal and sustainable sourcing of timber and forest products. Relevant goods can be required to carry appropriate labelling. Importantly, such regulations should comply with the WTO Agreement on Technical Barriers to Trade and Agreement on the Application of Sanitary and Phytosanitary Measures and be put in place after careful sustainability impact assessments to avoid unintended consequences. In addition, or as an alternative to non-tariff measures, Governments may want to encourage adoption of relevant voluntary sustainability standards, such as eco-labelling of emission-intensive goods and food products.

4. Accelerating trade digitalization

49. Streamlining trade procedures reduces trade costs and makes trade more inclusive, and it also significantly lowers carbon dioxide emissions associated with a given trade transaction. The adoption of paperless trade procedures is particularly promising, especially if trade-related data and documents can be exchanged and legally recognized across borders. As discussed earlier, Asia-Pacific Governments may actively seek to accelerate customs and trade digitalization and adoption, including by leveraging tools and solutions available across the United Nations system and acceding to the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific.

5. Transitioning to climate-smart transport

50. Transport comprises the largest share of emissions associated with any given cross-border trade transaction. Governments should, therefore, support a transition to cleaner or more resource-efficient transport systems, including by instituting policies to support investment in modes of transport that support high volumes of trade and operate with lower emissions. Digitalization of transport processes also holds great promise for reducing emissions by optimizing utilization of existing logistics infrastructure. Existing regional

frameworks, such as the Intergovernmental Agreement on the Trans-Asian Railway Network, should be used as a platform to test and develop more interoperable and digitalized climate-smart transport systems. Regional cooperation is also important to ensure that new policies and regulations are put in place to support the transition to more climate-friendly international transport systems that do not unduly affect the ability of smaller and more remote economies to engage in international trade.

6. Incorporating climate considerations in regional trade agreements

51. Regional trade agreements can be a powerful tool for bilateral and plurilateral climate action. Governments in the region should explore how such agreements can be used to incorporate precise, replicable and enforceable environment- and climate-related provisions that help to mitigate the negative impacts of trade on climate change and boost the positive impacts. Aside from cutting tariffs on environmental goods, regional trade agreements could incorporate provisions related to most of the recommendations mentioned above, including binding commitments on fossil fuel subsidies. Importantly, keeping in mind the costs involved in implementing climate-smart policies, regional trade agreements could also be used to provide adequate technical assistance and other resources to developing country trade partners.

7. Preparing for carbon pricing

52. There is a clear need to put a price on carbon, so that stakeholders internalize the environmental costs of carbon emissions when deciding whether to engage in a particular trade activity. Global action aside, coordinated regional action will deliver more efficient results, reduce risks of carbon leakage and be more acceptable to the public, especially if the revenue collected is effectively redirected to those most affected by the carbon pricing. Economies in the region with low carbon emissions embedded in their products can potentially reap the benefits of border adjustment taxes, but those with high carbon emissions must redouble their efforts when transitioning to more carbon emission-efficient production. This includes increasing the share of renewables in energy generation and considering internalizing costs of emissions through pricing mechanisms, particularly in export-related and emission-intensive sectors.

8. Incorporating climate considerations in COVID-19 recovery

53. Fiscal spending as part of COVID-19 recovery measures should be aligned with climate action and the circular economy to the extent possible. Recovery packages could support sectors and activities that can help to reduce greenhouse gas emissions after the crisis, for example, by supporting the renewable energy industry or the adoption of more efficient and cleaner transport technologies. Notably, some of these support measures may be seen as discriminatory in nature and inconsistent with current multilateral trade rules. Governments should, therefore, strive to make further progress at WTO in aligning multilateral trade regulations with climate action, and environmental protection in general.

B. Making trade more resilient in times of crisis

54. Given the trade disruptions and challenges experienced during the COVID-19 pandemic and other recent crises, a key aspect of making trade more inclusive and sustainable is to ensure that it is resilient in times of crisis. Crisis situations usually lead to demand shocks on certain essential goods and services, such as medical products, food and fuel.

55. WTO trading rules provide exceptions or exemptions allowing countries to implement necessary export restrictions on essential goods for societal and environmental objectives, such as protecting public health and morals, or preventing or relieving critical shortages. Many countries have sought to strengthen these provisions, facilitate supply chains and enhance transparency in such policies in response to the COVID-19 pandemic. Nearly all preferential trade agreements incorporate similar exceptions or exemption provisions. However, such provisions were crafted in consideration of exceptional circumstances in one country. They provide little guidance for regional or global crises, which require coordinated and collaborative responses. Regional cooperation is thus necessary for the development of specific crisis-mitigation provisions in trade agreements, for instance, to identify essential goods and services under different crises and prescribe specific treatments accordingly, and to provide crisis management and coordination mechanisms.

56. With respect to health, the pandemic has highlighted that greater regional collaboration is needed to secure access to essential medical products, along with the necessary convergence or harmonization of relevant regulatory standards and controls. Part of such efforts comprises the lowering of tariffs and the easing of import and export restrictions, including for inputs to the production of essential medical goods and the coordination of transportation and cross-border logistics, such as ensuring cold chain integrity of trade and distribution routes. These lessons can be applied in the region to strengthen trade resilience for emergencies in different domains, including in food and energy crises, with a view to better utilizing trade as a means of ensuring equitable access to essential supplies.

57. Overall, better coordination and predictability can be built into trade agreements, with a view to keeping trade flowing and minimizing the impact of trade disruptions during crises. These improvements, such as in the treatment of essential goods and services mentioned above and in the areas outlined below, can be effected by amending existing chapters of trade agreements to incorporate new provisions, or by introducing a separate stand-alone chapter in existing and future preferential trade agreements. For the latter approach, the secretariat has developed a model chapter that could be adopted or modified for use in trade agreements,²⁸ as part of the Initiative on Model Provisions for Trade in Times of Crisis and Pandemic in Regional and Other Trade Agreements, which is coordinated by ESCAP and implemented jointly with UNCTAD and the other United Nations regional commissions, and in cooperation with WTO, CUTS International and other partner organizations. Under the initiative, the secretariat has supported the capacity-building of policymakers through the organization of courses on the negotiation of regional trade agreements for trade in times of crisis and pandemic, and the development of a handbook and self-paced course on the topic.²⁹

1. Trade facilitation

58. In attempting to facilitate the import of essential goods and services to ensure supplies in response to the COVID-19 pandemic, countries have adopted measures including expedited customs procedures and electronic and automated customs. It would be beneficial to normalize such trade facilitation measures by consolidating them in preferential trade agreements. Parties to

²⁸ For further details, see ESCAP/CTIEBI(1)/3.

²⁹ See ESCAP, *Handbook on Provisions and Options for Trade in Times of Crisis and Pandemic* (Bangkok, 2021); and www.unescap.org/training/rta-ttcp.

trade agreements could incorporate provisions that enhance and promote, inter alia, the interoperability of electronic customs systems; border agency cooperation; the development of electronic single-window systems; the exchange and mutual recognition of trade-related data and electronic documents; and technical support and assistance.

2. Sanitary and phytosanitary measures and technical barriers to trade

59. Sanitary and phytosanitary measures and technical barriers to trade are often necessary to protect human, animal and plant life or health, and to ensure quality of products. Nevertheless, unnecessary restrictions to trade could be reduced, while provisions on mutual recognition, equivalence and harmonization could be used to promote regulatory cooperation in this area. Preferential trade agreements could foster the compatibility of sanitary and phytosanitary measures and technical barriers to trade by including more binding obligations on mutual recognition, equivalence and harmonization; and by increasing the engagement of international organizations such as the World Health Organization and other related stakeholders.

3. Transparency

60. Transparency is especially pivotal for trade in times of crisis. Here, preferential trade agreements can enhance transparency by incorporating specific provisions that require the timely disclosure of trade measures taken during emergencies, or that require the disclosure and prompt updating of information on changing crisis situations that could impact trade. Additionally, preferential trade agreements can incorporate provisions to promote information-sharing mechanisms such as regional online resource libraries and databases, and interconnected online trade information portals.

4. Sustainable development provisions

61. WTO rules include health and environmental concerns mainly in the following exceptions: the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement). However, these agreements do not address other sustainable development concerns such as labour and gender issues. By contrast, preferential trade agreements increasingly cover such issues, as discussed earlier, but there is room to promote deeper preferential trade agreements with more provisions dedicated to sustainable development. One option is to incorporate or refer to agreements and initiatives, including on labour, climate, gender, and micro-, small and medium-sized enterprises, in preferential trade agreements.

C. Enhancing support to countries with special needs

62. As Asia and the Pacific moves forward, it is necessary to enhance support to countries in the region with special needs, including least developed countries, landlocked developing countries and small island developing States. These countries face a number of connectivity barriers and capacity challenges and were disproportionately impacted by COVID-19 mitigation measures and associated export restrictions. Attention must be paid to providing technical assistance and building up capacities, including in trade negotiation, the digitalization of trade processes, climate readiness and epidemic resilience, in order to foster the participation of countries with special needs in inclusive and sustainable trade.

63. In particular, regional initiatives and those at the multilateral level must continue to emphasize special and differential treatment, such as provisions in trade agreements that grant special rights and support to developing countries, including least developed countries. This should include longer time periods for implementing commitments of trade agreements, recognizing that these countries face technical, financial or administrative constraints in doing so; and the rendering of technical assistance from other countries to help build domestic capabilities.

64. For some of these countries, a key challenge is the loss of trade preferences after their graduation from least developed country status. Given their generally low involvement in preferential trade agreements, such transitions bring significant ramifications as they now compete with countries that have built up extensive trade agreement ties over the years. Support will be vital to prepare them for this new playing field and to facilitate their continued and increased involvement in trade. Bringing in enabling digital trade policies will allow them to mitigate their high trade costs after graduation.

65. The secretariat has been conducting a range of activities of relevance and benefit to member States with special needs. Besides the aforementioned activities on trade facilitation and trade in times of crisis, capacity-building support has been provided through workshops and courses, such as on trade policy analysis for recovery after the COVID-19 pandemic; on sustainable development provisions in free trade agreements; on non-tariff measures and sustainable development in collaboration with UNCTAD; and on trade negotiations, including national workshops for Bangladesh and Mongolia. In addition, analysis and monitoring are essential for least developed countries and other countries with special needs to understand the gaps in their current regulatory infrastructure; their digital trade readiness; and the implications of future regional trade agreements, or plurilateral or multilateral agreements in WTO. ESCAP has developed an online tool known as the Trade Intelligence and Negotiation Adviser³⁰ that assists policymakers and stakeholders in carrying out analytical tasks associated with trade agreement negotiations, including the evaluation of trade impacts stemming from graduation from least developed country status. The secretariat will continue to build upon efforts in these areas to better support member States with special needs in navigating the trade landscape and better utilizing trade for sustainable development, including through targeted capacity-building on understanding gaps in the digital trade ecosystem, and the scope and implications of regional trade agreement commitments with provisions on digital trade.

V. Issues for consideration by the Committee

66. The Committee may wish to consider the issues included in the present document, share national experiences and priorities, and provide guidance to the secretariat for the future work of the subprogramme, particularly in furthering analytical research, capacity-building and technical assistance efforts in relation to digital trade, trade digitalization, trade agreements, climate-smart trade, trade resilience in times of crisis and graduation from least developed country status.

³⁰ See <https://tina.trade/>.

67. The Committee may also wish to discuss and advise on strengthening cooperation among member States in the following areas:

(a) Building trade competitiveness in the digital economy through simplifying and digitalizing trade procedures and fostering an enabling digital environment;

(b) Making trade more inclusive and sustainable by promoting climate-smart trade, reinforcing trade resilience in times of crisis and enhancing support to countries with special needs;

(c) Identifying new and potential policy areas through which trade can be made more competitive, sustainable and inclusive, including through regional integration.
