ASIA-PACIFIC HUMAN DEVELOPMENT REPORT 2006

TRADE ON HUMAN TERMS

Transforming Trade for Human Development in Asia and the Pacific

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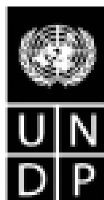

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The Asia-Pacific Human Development Unit (HDU), Regional Centre in Colombo (RCC)
The Asia-Pacific Human Development Report 2006 is the result of a collaborative effort. Other members of the HDU who worked on the Report include Susan Howes and Renata Rubian. The HDU administrative team who supported the preparation of the Report include Ruwanthi Senarathne and Rehana Cuttilan. Kay Kirby Dorji provided assistance for advocacy and media outreach.

Foreword

International trade has been the engine of growth for many countries of Asia and the Pacific. The 'economic miracle' of the East Asian 'tigers' is due in large part to their ability to export to global markets and to develop production at a scale, and with the technology, that allows for higher returns. Poverty has broadly declined in the region, and hundreds of millions of people have experienced significant improvement in the quality of their lives.

But some are being left behind. Several smaller countries in the region, especially the Least Developed Countries (LDCs), have not yet experienced significant gains from trade. The region's rural poor have languished from stagnation in agriculture, as the new riches of the global marketplace fail to reach the countryside, where most people live. Even in fast-growing countries, trade has led to widening disparities among regions, sectors and households. Many economies, especially in East Asia, are unable to create enough jobs for their growing populations, especially for young people and women.

The launch of the 2006 Asia-Pacific Human Development Report, ***Trade on Human Terms***, comes at a critical time, with only a few months left before the end-of-year deadline for the completion of the Doha Development Round. We are at the mid-point of the ten-year Brussels Programme of Action for Least Developed Countries, and have less than a decade to achieve the targets of the Millennium Development Goals.

As we see in the Report, daunting challenges remain. The link between trade, human development and poverty reduction has weakened. Incumbent WTO members have at times made it difficult for developing countries to gain a share in the benefits of globalization. China's stunning economic growth, in so many ways an inspiration to its Asia-Pacific neighbors, could be delivering reciprocal benefits to its regional trading partners. One of the messages of this report is that success in the global marketplace brings with it new opportunities and responsibilities as well, especially toward the least developed nations.

The Report examines from an Asia-Pacific perspective the changes required in the world's trading system, as envisioned in the Global Partnership for Development and the Millennium Development Goals. It draws on the diverse experience of the region to propose a comprehensive development strategy that effectively combines trade liberalization with the promotion of poverty reduction and human development.

Trade on Human Terms also identifies the types of national policies needed to ensure that all people realize the potential benefits of trade. Such policy recommendations include investments in infrastructure, higher education and R&D for competitiveness; adoption of strategic trade and industrial policies; a renewed focus on agriculture and rural development; and measures for combating "jobless growth." The ideas in this report can contribute to a better globalization – a globalization with benefits for all – both in the Asia-Pacific region and around the world.

The launch of ***Trade on Human Terms*** marks a turning point for UNDP too: the evolution of Asia-Pacific Human Development Reports into an annual series. We expect these annual regional Reports to provide continuing analysis of critical development issues that will prove highly relevant at both the national and international levels.

Kemal Dervis
Administrator, UNDP

The analysis and policy recommendations of this Report do not necessarily reflect the views of the United Nations Development Programme, its Executive Board or its Member States. The Report is an independent publication commissioned by UNDP. It is the fruit of a collaborative effort by a team of eminent experts, stakeholders, and the Human Development Unit team of the Regional Centre in Colombo.

Preface

In Asia and the Pacific, trade has proved that it can provide jobs and higher incomes for millions. At the same time, many people have yet to benefit, including poor farmers marginalized by trade barriers and distorted agricultural prices; workers who lose jobs in domestic industries due to the reduction of tariffs on competing imports; women, who deserve higher wages and better working conditions but face the risk of displacement following the withdrawal of textile quotas; and overseas workers, who leave their loved ones behind and face discrimination and exploitation in search of jobs that can lead to improved lives back home.

The Asia-Pacific Human Development Report 2006 is by and for the people of the Asia-Pacific region. It seeks to demystify trade-related issues, making them more accessible to a wider cross-section of people, thereby facilitating more informed debate and advocacy. In doing so, it hopes to promote human development in the region, focusing especially on the attainment of the Millennium Development Goals.

I am proud that this Report is the product of indigenous thinking by hundreds of people in the region; experts, scholars, government officials, representatives of non-governmental organizations, civil society and the private sector, and many people from different walks of life.

The Report not only draws on many issue- and country-based studies and papers commissioned by UNDP, it also benefits from the feedback on the approach and content obtained from a number of regional workshops, stakeholder consultations and technical meetings. Thus, the process of gathering inputs and ideas from diverse, informed sources in the region has been very full and rich.

Questions such as these provided the motivation for the Report: How does trade liberalization affect the conditions of the worse-off sections of the population? Is trade expansion contributing to higher employment and poverty reduction? The conclusion is that these links are not automatic, and will need to be engineered through favourable changes in the international trading regime and appropriate domestic policies.

World leaders at the recent Global Summit of the United Nations resolved to spare no effort to free their fellow human beings from the abject and dehumanizing conditions of extreme poverty. We can make an enormous contribution to fulfilling this pledge – and benefiting farmers, women, industrial labourers, overseas workers and others left out so far – by ensuring that trade is on human terms and promotes a better life for all.

Hafiz A. Pasha
Director
Regional Bureau for Asia and the Pacific
UNDP

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This Report is the outcome of a truly collaborative venture. Persons deserving acknowledgement are so numerous, and have contributed in so many different ways, that no attempt to fully recognize their contribution can ever do justice. Nevertheless, it is necessary to acknowledge the contribution of as many as possible. Hafiz Pasha inspired and guided the work, and also provided numerous substantive inputs. The Report also benefited from specific suggestions from Kemal Dervis, UNDP Administrator. Colleagues in RCC provided ongoing inputs and support to the process.

Contributors

Numerous background studies, papers, drafts and notes covering a wide range of issues contributed to the Report. The main contributors were: Ratnakar Adhikari, Homi S. Aibara, Anu Bhasin, Rupa Chanda, C.P. Chandrasekhar, Uttam Deb, Biswajit Dhar, Ramesh Gampat, Jayati Ghosh, Murray Gibbs, Komal Gopalani, Vu Quoc Huy, Sanath Jayanetti, Mumtaz Keklik, Mohan Kumar, Kamal Malhotra, Sebastian Mathew, Manuel Montes, Syed Nawab Haider Naqvi, Omar Noman, Pedro Ortega, Thangavel Palanivel, Hafiz Pasha, Minh Pham, Abdul Aziz Rahman, Mustafizur Rahman, Anuradha Rajivan, Miho Shirotori, Ruangrai Tokrisna, Lam Quoc Tuan, Tereso S. Tullao, Nguyen Viet Vinh and Swarnim Waglé.

Technical Consultations

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Minh Pham
Regional Manager
UNDP Regional Centre in Colombo

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Abbreviations

ACCEC	ASEAN-China Comprehensive Economic Cooperation
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AFTA-CER CEP	AFTA-CER Closer Economic Partnership
AGOA	African Growth and Opportunity Act
AICEP	ASEAN-India Comprehensive Economic Partnership
AJCEC	ASEAN-Japan Comprehensive Economic Cooperation
AKCCP	ASEAN-Korea Comprehensive Cooperation Partnership
AMS	Aggregate Measure of Support
AO	Appellation of Origin
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ARV	Anti-retroviral
ASCM	Agreement on Subsidies and Countervailing Measures
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN-China-Japan-Korea
ATC	Agreement on Textiles and Clothing
ATMI	American Textile Manufacturers Institute
BIMSTEC-FTA	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Area
BIS	Bank of International Settlement
BPO	Business process outsourcing
BTA	Bilateral Trade Agreement
CAFTA	Central American Free Trade Agreement
CARP	Comprehensive Agrarian Reform Programme
CBI	Caribbean Basin Initiative
CEPT	Agreement on the Common Effective Preferential Tariff
CER	Closer Economic Relations
CET	Common External Tariff
CITES	Convention on International Trade in Endangered Species of Wild Flora and Fauna
CU	Customs Union
DTIS	Diagnostic Trade Integration Study
DAFEL	Department of Administration of Foreign Employment Labour Force
DFID	UK Department for International Department
EAEC	East Asian Economic Council
EAI	Enterprise for ASEAN Initiative
EBA	Everything But Arms Agreement

ECO	Economic Cooperation Organization
EPZ	Export Processing Zones
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FAO-FISHSTAT	FAO Fishery Statistics
FAS/USDA	Foreign Agricultural Service/United States Department of Agriculture
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
G-77	Group of 77
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GCI	Growth Competitiveness Index
GDP	Gross Domestic Product
GI	Geographical Indications
GSP	Generalized System of Preferences
GSTP	Agreement on Global System of Trade Preferences Among Developing Countries
HACPP	Hazard Analysis and Critical Control Point
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HPLC	High Performance Liquid Chromatography
IATP	Institute for Agriculture and Trade Policy
ICFTU	International Confederation of Free Trade Unions
ICSF	International Collective in Support of Fishworkers
ICTSD	International Centre for Trade and Sustainable Development
IF	Integrated Framework
IGG	Inter-Governmental Group
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
IP	Intellectual Property
IPA	Integrated Programme of Action
IPN	Integrated production networks
IPR	Intellectual Property Rights
IS	Indication of Source
ISO	International Standards Organization
IT	Information Technology
ITCB	International Textiles and Clothing Bureau
LBD	Learning by doing
LDC	Least Developed Countries
LICs	Low Income Countries
MBA	Master in Business Administration
MDG	Millennium Development Goals
MEA	Multilateral Environmental Agreements

MFA	Multifibre Arrangement
MNC	Multinational corporations
MOU	Memorandum of Understanding
MRA	Mutual Recognition Agreements
NAFTA	North American Free Trade Agreement
NAMA	Non-agricultural market access
NASSCOM	National Association of Software and Service Companies
NET	Natural Economic Territories
NFIDC	Net food importing developing countries
NGO	Non-governmental organisations
NIC	Newly Industrialised Countries
NIE	Newly Industrializing Economies
ODC	Other duties and charges
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PACER	Pacific Agreement on Closer Economic Partnership
PIC	Pacific Island Countries
PICTA	Pacific Island Countries Trade Agreement
PPB	Parts per billion
PPM	Parts per million
PPT	Parts per trillion
PTA	Preferential Trade Agreement
PVP	Plant Variety Protection
QR	Quantitative restrictions
R&D	Research and Development
RCD	Regional Cooperation for Development
REER	Real Effective Exchange Rate
ROO	Rules of origin
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAC	South Asian Countries
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trading Agreement
SARC	Declaration on South Asian Regional Cooperation
SARS	Severe Acute Respiratory Syndrome
SDT	Special and Differential Treatment
SIDS	Small Island Developing States
SISs	Small Island States
STD	Short-term debt
T&C	Textiles and Clothing
TBT	Technical Barriers to Trade
TED	Turtle Excluder Device
TFP	Total Factor Productivity
TIFA	Trade and Investment Framework Agreements

TNC	Transnational corporations
TPSEPA	Trans-Pacific Strategic Economic Partnership Agreement
TRIMs	Agreement on Trade Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TSE	Total Support Estimate
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNDP-RCC	UNDP Regional Centre in Colombo
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
UPOV	Union for the Protection of New Varieties of Plants
USITC	United States International Trade Commission
USSR	Union of Soviet Socialist Republics
USTR	United States Trade Representative
VAT	Value Added Tax
WDI	World Development Indicators
WTO	World Tourism Organization
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
$	refers to US dollars, unless otherwise specified
€	refers to the Euro, unless otherwise specified

Trade on Human Terms
Overview

The Asia-Pacific region has embraced free trade, but free trade will not embrace the poor unless countries pursue a bold new policy agenda harnessing economic growth to promote human development.

The Asia-Pacific region is at the forefront of globalization – with some of the world's fastest rates of growth in international trade. East Asia led the way, but now South Asia too is making its presence more strongly felt. Myriad goods, from shirts to footwear to computers, are criss-crossing the region – often in integrated international production systems – before being dispatched across the globe. Not just merchandise goods but services too: from Bangalore to Manila, hundreds of thousands of workers are assisting customers and clients in Europe or the United States or Japan as though they were sitting in an office just down the street. When the services cannot travel through the electronic ether, the service workers are taking to the air, travelling across the region and beyond – as domestic workers or nurses, construction workers or engineers, factory workers or accountants. Asia and the Pacific is thus rapidly becoming not just the workshop of the world, but the back office too.

The rest of the world is watching this process with some amazement and not a little concern. In the richer countries of the West, the Industrial Revolution of the nineteenth century created huge new centres of global economic concentration: now, in the twenty-first century, the balance of power is not so much shifting as being far more widely dispersed. This is raising huge new questions: who will produce what, where and how? Above all, what impact will this have on people's lives – on their incomes, their health, their levels of education and their future prospects, on who they are and what they can become? In sum: what will all this mean for human development? Looking at it from the other perspective, what contribution can higher standards of human development make to expanding trade and economic growth?

This Report responds to these questions from inside Asia and the Pacific. An extensive process of consultation among policymakers, academics, civil society groups, the private sector and other stakeholders has examined the most recent developments on trade and economic growth and tried to assess the impact on human development – more specifically, the effects on the region's poorest countries and on its poorest people.

This is no simple task. This is, after all, a huge region, accommodating more than 60 per cent of the global population. Asia-Pacific countries are also very diverse, ranging from third to 140th out of 177 countries ranked worldwide on the Human Development Index for 2003. Since the pace of social and economic change is so rapid and the processes so complex across one of the most dynamic regions in the world, it is hard to encompass all of these.

This Report, therefore, narrows the focus, for although it does consider patterns of trade and economic growth, it is primarily preoccupied with the effects these are having on human development in the developing countries of the region. But it goes further – emphasizing

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There are many examples from history that demonstrate what can happen when commercial gain takes precedence over human well-being. Trade has never been a matter for private industry alone; it has always been subject to active intervention from the state

that neither trade nor growth can ever be ends in themselves; instead, they are simply means towards the larger goals of expanded human development and combating poverty and deprivation.

Trade can certainly enhance human development – but it can also hinder it. Trade is, after all, a profit-driven activity, and there are many examples from history that demonstrate what can happen when commercial gain takes precedence over human well-being: slavery, colonialism and apartheid are some extreme forms. Today also, the drive to export and import more goods and services typically triggers a series of complex and dynamic processes that produce both winners and losers. For just as trade liberalization can increase the opportunities for exports, it also exposes local producers to foreign competition that, particularly in poorer countries, they may be unable to withstand. So as well as creating new opportunities, especially in the modern sector, it can also destroy the livelihoods of people working in simple manufacturing processes or in agriculture.

Faced with this potential damage, economic nationalists may argue for something close to autarchy – erecting higher trade barriers and aiming for national self-reliance; why depend on imports when you can make something very similar yourself? This has an emotional appeal but soon runs into practical limits. People in the twenty-first century have social and economic rights that can only be met through international trade: some exports will always be needed to generate the foreign exchange for essential imports, from pharmaceuticals, to food, to oil.

At the other extreme are the proponents of free trade who would opt for no barriers at all – letting the market dictate the most economically suitable production locations. This may seem more seductive and plausible, but this too is fallacious, for it involves trade between unequal partners, allowing the richest and most powerful countries and companies to set the terms and leaving the poorer and weaker participants to accept what they are offered, while risking further inequalities both between countries and within countries.

An Active State

It might be thought that the best solution would be a simple division of responsibilities: let free and liberal markets take care of economic growth while requiring governments to address market failure and take responsibility for the implications of rising inequality – for social concerns and for human development priorities.

However, this division ignores the fact that trade, economic growth and human development have a symbiotic relationship. Each needs the other. One direct link is through tariff revenue. Removing or reducing tariffs can have a damaging impact on human development since many countries rely on customs and other duties for a high proportion of government income – in some Pacific Island countries, up to 70 per cent. Trade liberalization may thus demand dramatic cuts in public services as revenues fall.

A second link concerns sequencing. Countries may need to achieve certain levels of human development to prepare the ground for liberalization. Boosting international trade requires not only capital and technology but also a capable labour force. For this the state needs to take responsibility – ensuring that the basic capacities are in place to enable the private sector to take full advantage of liberalization.

Trade has thus never been a matter for private industry alone; it has always been subject to active intervention from the state. Governments usually recognize the value of the private sector as the main engine for economic growth, but they also know that it needs to be harnessed or guided to some extent if it is truly to serve human development.

An Era of Rapid Growth and Trade Liberalization

Keeping track of trade and economic development is a challenging task. These are often fast-moving processes, and Asia-Pacific has been the world's most rapidly-growing region. During the period 1990–2003, GDP grew annually on average by more than 7 per cent. Governments can take some credit for this since much of this rapid economic growth has taken place during a period of steady trade liberalization. In East Asia and the Pacific, liberalization started in the 1970s, and by 2000 average tariffs had fallen to 8 per cent. South Asia was slower to start liberalizing, but did so rapidly during the 1990s so that by 2000 average tariffs had fallen to 18 per cent.

The lowering of tariffs has contributed to a rapid growth in trade. During the earlier periods, export growth was faster in East Asia and the Pacific than in South Asia, but in the 1990s it was dispersed more across the region. Thus, between 1990 and 2003, while East Asia and the Pacific continued to power ahead – and trade as a percentage of GDP increased from 45 to 81 per cent – the proportion in South Asia also increased: from 20 to 34 per cent. As a result, all Asian economies have become more open.

Accompanying the increases in volume of trade have been dramatic transformations in the structure of trade. Some countries have moved on from merchandise exports and are also selling more services. Those exporting primary products are now turning more to manufactured goods; and within manufacturing many enterprises are now climbing the technological ladder towards more sophisticated products, though this is a phenomenon more evident in East Asia than in South Asia.

What effect has the rapid increase in trade had on human development? One of the most disturbing outcomes is that for most developing countries in the region a greater engagement with international markets has been accompanied by a rise in income inequality. On a more positive note, however, there has nevertheless been a substantial decline in poverty: between 1990 and 2001, the number of people living on less than $1 a day dropped by nearly a quarter of a billion.

The slowest progress has been in the Least Developed Countries (LDCs). Despite increases in trade, many LDCs have had less success in reducing poverty. While in developing countries of the region the proportion of the population living below the $1-per-day poverty line is 22 per cent, for the LDCs it is 38 per cent.

Indeed, across the region there is still evidence of extreme deprivation. This is clear from data on food consumption. Liberalizing agricultural markets may have helped reduce the price of food – particularly of crops produced with the backing of agriculture subsidies in the US and the EU. But this does not seem to have led to any consistent improvement in food security. Many more countries now have food deficits, and Asia still has more hungry people than any other region of the world – over 510 million.

On the health front, the picture is generally positive. The period of trade-led growth has been accompanied by improvements in health, though these seem to have slowed in recent years. One looming problem, however, is that the WTO-induced agreements on intellectual property rights could start to restrict supplies of essential generic drugs.

Trade might have been expected to raise education standards by giving people greater incentives to improve their skills. But here too progress has been inadequate. The greatest problems are in South Asia, where one child in five fails to enroll in primary school.

Trade has also had a strong influence on gender relations. East Asia's export drive in the 1960s and 1970s relied heavily on the mobilization of female workers. By being able to earn an independent income, many women thus

obtained greater personal freedom – but only up to a certain point. Working women the world over are all too familiar with the double burden of housework and wage work outside the home. Within the workplace they are often second-class citizens when it comes to the management and organization of work, and can also find themselves exposed to sexual harassment.

Expanding the Employment Channel

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Indeed, for both men and women, the main channel for all these effects of trade on human development, for better or for worse, is through employment. Ideally, more trade should mean more jobs and less unemployment. Unfortunately, in recent years this has often not been the case.

Although Asian countries created jobs quite rapidly in the 1980s – 337 million in total – they created far fewer, 176 million, in the 1990s. This has not provided sufficient jobs for a rising population: between 1993 and 2003 in South-East Asia, unemployment increased from 3.9 to 6.3 per cent. Worryingly, the situation is often more serious in some of the most trade-intensive countries: China and Singapore, for example, have seen unemployment rates increase substantially. Most of this burden has fallen on young people: in 2004, while those aged 15 to 24 made up one-fifth of Asia-Pacific's labour force, they constituted nearly half of the unemployed. Women too have lost out: in most countries their unemployment rates are higher than men's.

Why is the region experiencing 'jobless growth'? Most of the problems are in East Asia and especially in manufacturing, for although manufacturing output increased by almost 180 per cent in the 1990s, the associated employment increased by only 3 per cent. This is principally because manufacturing has been moving from low-tech, labour-intensive industries, such as garments, to high-tech and more capital-intensive ones such as electronics – and even within more labour-intensive manufacturing, companies have continued to invest in labour-saving equipment.

The employment situation is different in South Asia. Here, despite a slight deceleration in the rate of economic growth, employment has continued to rise, if only modestly. This is because South Asia has yet to experience widespread structural change – continuing to rely on traditional labour-intensive and natural-resource-based industries. This may have led to slower growth, but has at least spread the benefits more evenly.

The experience of the Asia-Pacific region has thus clearly demonstrated that trade by itself cannot address inequalities; indeed, it may well make them worse. Governments are increasingly recognizing that they must devise complementary policies to ensure that increased engagement with international markets also generates jobs and promotes human development.

Making Agricultural Trade Work for the Poor

These jobs cannot be confined to the modern urban industrial or service sectors; they must also be generated in the rural areas and in agriculture. While setting their sights on international trade, many governments in the region have been neglecting agriculture and investing far less in rural development. In fact, trade liberalization itself has often undermined national food production by allowing imports of cheap food; these will benefit low-income consumers, but they can also threaten the livelihoods of poor farmers and fishing communities, with serious implications for equity.

The most striking evidence of rural neglect has been a serious deterioration in the balance of agricultural trade. In the early 1960s, the developing countries had an overall annual agricultural trade surplus of almost $7 billion, but since the beginning of the 1990s they have

generally been net importers of agricultural products, with a deficit in 2001, for example, of $11 billion.

Countries in the Asia-Pacific region have contributed to this rising imbalance. True, in global markets they have never been major players. Indeed, of the truly successful Asian exporters only China has earned that success even partly through agricultural exports – though countries like Malaysia and the Republic of Korea have used surpluses from agriculture to invest in their export sectors. Even today, Viet Nam has agricultural exports as an important source of foreign exchange.

More worrying, however, is that a number of countries are not just exporting less. They, and particularly China, are likely to become major importers. As a result, global food supplies could become much tighter. This raises questions of food security. Food is not like any other tradable commodity, and most countries prefer something closer to national self-sufficiency. This will mean, therefore, putting more emphasis on local production and giving greater protection for farmers who find it difficult to compete at world prices, especially when these are distorted by subsidies in the US and the EU that have enabled them to export below the cost of production.

Asia and the Pacific has much to gain by promoting equitable agricultural trade generally, but this is particularly true in fish trade. Countries in the region account for more than one-third of global exports of fish and fish products. China is now the world's largest exporter of fish, while Japan is the world's largest importer, but the fish trade is important throughout the region. Indeed, the Asia-Pacific region is home to 85 per cent of the world's fishers and 95 per cent of its fish farmers.

In some respects, fishers are in a stronger position than farmers because they sell a larger proportion of their output on a regular and consistent basis. In other respects, however, they can be more vulnerable, whether as a result of natural factors such as variations in the fish catch, bad weather, and exposure to cyclones, or as a result of economic factors such as price fluctuations and variable access to markets.

Many fishing communities already have low incomes, but their situation could get worse as stocks are exhausted. Intense competition in open-access fisheries is leading to overfishing in several commercially important fisheries. The Asian fishing sector also faces problems accessing markets in developed countries where there are increasing demands for higher standards of food safety.

Developing countries face some complex choices for policies on agricultural trade – deciding to what extent they can rely on imports. Some have chosen to invest outside agriculture, or even within agriculture, but have concentrated on exportable commodities. This may seem rational from the point of view of economic efficiency, but it may be irrational from the perspective of human development. For while increasing agricultural trade might boost economic growth and benefit poor consumers, it is also likely to depress local prices and undermine the livelihoods of poor farmers.

Adjusting to a New Era for Textiles and Clothing

Another area of critical importance to many poor households is the textiles and clothing industry, which in so many countries has served as the launching pad for industrial development. In this case the Asia-Pacific region finds itself in the midst of a potential upheaval now that the elaborate quota system under the Multifibre Arrangement (MFA) has come to an end. The MFA deliberately constrained imports from the region's larger producers, notably China and India, but offered quotas to many other countries such as Bangladesh and Nepal, which used them as the basis for new industries. The outcome was a highly dispersed textiles and

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clothing industry across the region, providing employment for hundreds of thousands of disadvantaged and lower-skilled workers, most of whom were women – 90 per cent in both Bangladesh and Cambodia and 87 per cent in Sri Lanka.

Since that era concluded at the end of 2004, many of these new producers are struggling to adjust to direct competition, particularly with China. Thus far, the outcome for some countries has not been as bad as had been feared. Indeed, Asian producers overall have fared better than those in other regions and have increased their share of exports to the US and the EU. But, as expected, the benefits were unequally shared. The main winners have been China and India; the main losers have been Nepal, Philippines, Thailand and Pakistan. Nevertheless, it is notable that a number of countries that had also relied on quotas have been able to maintain or even increase their shares – Cambodia, Viet Nam, Indonesia, Sri Lanka and Bangladesh.

Even now, however, it is difficult to envisage the future shape of the textiles and clothing trade, since the developed countries have been defending themselves against rising imports with temporary restrictions. What is clear, however, is that the only way to survive in a competitive global market is by upgrading the industry and increasing both the quality and quantity of output. This will also mean improving working conditions, not least because exporters are coming under pressure from fair-trade organizations to guarantee that their goods are not produced under exploitative conditions. Higher levels of trade in textiles and clothing can promote human development, but only if governments and employers take the necessary action.

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Selling Services Across Borders

Asian countries continue to rely on the international trade in goods. But over the last three decades they have been taking advantage of the opportunities to boost the trade in services, and international trade has consequently become much more complex. Three forms of cross-border services are discussed: either the seller moves, as in international labour migration; or the work moves, as with business outsourcing; or the buyer moves, as with international tourism.

All three types of movement have increased significantly. For migration, millions of lower-skilled workers continue to travel abroad on short-term contracts: an estimated 10 per cent of the Philippines labour force and 12 per cent of the Sri Lankan labour force now work overseas. Many labour migrants have improved their standard of life, and even some of the poorest have earned enough to lift their families out of poverty. But they can also work under exploitative conditions and have their home lives severely disrupted. Both source and destination countries can make migration a more productive and fulfilling experience: source countries can ensure that migrants are well-informed, financed and trained before they travel, and destination countries can make migration processes simpler and more trans-parent.

Asia has also been a pioneer in the off-shoring of IT and business process services: in some cases IT workers continue to travel overseas on short-term assignments in developed countries, but advances in information and communications technology, and falling internet connectivity costs, have allowed more and more of these services to be delivered remotely – providing jobs for highly educated young people as well as drawing into the workforce other groups such as retirees. However, this too has human costs: for example, long night shifts can lead to adverse health effects and preclude a normal social life, isolating workers from their communities. Moreover, the rapid growth of the outsourcing industry is also widening regional disparities. Governments will also be concerned that they are not producing enough skilled

people to keep expanding the industry. They do, however, have a range of policy options that can ensure outsourcing makes a stronger contribution to human development, including building infrastructure, training the workforces and ensuring the best regulatory and fiscal environment.

In tourism too, the Asia-Pacific region is one of the global leaders – increasing its share of global traffic from less than 10 per cent in the 1950s to 40 per cent in 2004. Tourism can offer new sources of employment even to the remotest regions. But here too there are potential costs, for example, of cultural dislocation, and of environmental destruction. Many of the problems can be resolved or minimized with proper planning and management – for example, building the appropriate infrastructure, providing training to people working in smaller enterprises, and ensuring better economic links between larger tourist operators and poor communities.

Trade Opportunities for the Least Developed Countries

All of these trade issues have a particular resonance in the Least Developed Countries (LDCs). For many LDCs, trade represents a significant proportion of economic activity. In fact, their trade-to-GDP ratios are often higher than those in many developing countries, or even developed ones. They also tend to have very open trade regimes, with low tariff or non-tariff barriers.

Unfortunately, integrating with international trade does not seem to have produced a commensurate reduction in poverty. When it comes to integrating into international trade, the LDCs are in a very vulnerable position – typically they have small economies, difficult topographies, and are located far from international markets in which they are minor and weak players.

In these circumstances, why would LDCs want to gain access to the World Trade Organization and the further liberalization that this implies? Because the likely alternative is worse – marginalization or bilateral control by one or two major powers. With all its limitations, the multilateral WTO is still a better option if it offers some basic and consistent ground rules.

However, later entrents have found the process of accession to the WTO very arduous. They lack the trained people needed to understand the implications of trade agreements. And because the rules for accession to the WTO are vague, the incumbent members have been able to exploit acceding members by imposing onerous conditions – generally narrowing their freedom of action on issues not just of tariffs but also intellectual property rights, and even on how they should run their economies, for example, on the pace and extent of privatization.

The LDCs of the region can engage more fruitfully with the international trading system, but this will need more determined action at both national and international levels. This will mean, for example, giving a higher priority to trade issues, increasing investment and building stronger alliances. But above all, both the LDCs and the developed countries should ensure that trade initiatives and negotiations are based less on reciprocity and more on a human development perspective, taking advantage of opportunities for 'aid for trade'.

An Eight-Point Agenda

How should the countries of Asia and the Pacific respond in a demanding new environment for international trade? Clearly, there can be no standard blueprint, especially for such a huge and diverse region. Nevertheless, there is a way of encompassing this diversity by viewing trade issues through a human development lens. The analysis in this Report suggests eight priorities that have a degree of general application:

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1. *Invest for Competitiveness*

In a globalizing world, public investment needs to take into account both national and international considerations. Generally the type of investment will remain much the same, but it may need adjusting with an eye to international competitiveness. Thus, when looking at basic infrastructure, governments will need to ensure that they have the roads, railways, ports and telecommunications systems that align with national needs and also with the requirement of getting goods and services quickly and cheaply to international markets.

The most successful trading countries have invested heavily in the basics of human development

But just as important as the physical infrastructure is human capital. The most successful trading countries have invested heavily in the basics of human development – generating a healthy and well-educated workforce that has the stamina, the skill and the flexibility to cope with a changing trading environment. Education has to start with strong and universal primary schooling, but nowadays all countries need to make sure they have sufficient people with technical and managerial skills. People with good primary or secondary education can only make use of their potential for international trade if they have the support of others with higher levels of education, for example, in engineering, telecommunications, or accountancy.

At the same time, many countries will need to invest more in research and development that raises productivity and specifically addresses the needs of poor people – continually assessing the most appropriate technologies that can capitalize on national strengths. Some of this can be carried out through public-private partnerships, though most of the research into opportunities specifically for the poor is likely to take place in the public sector.

2. *Adopt Strategic Trade Policies*

In a world of giant global players and fierce competition, no developing country now has the luxury of entering global markets and hoping for the best. Instead, states have to identify a few sectors and industries that have both short- and long-term potential in international markets and guide enterprises towards them. The chosen industries will vary from country to country but should be those with the greatest potential linkages with other industries so that they can also train more people in essential skills and thus offer important spillover benefits for the rest of the economy.

Picking 'winners' is not, of course, a simple task. The aim should be to achieve a transparent policy compact between government and the private sector that uses a carrot-and-stick approach. The carrot will include the opportunity to operate behind tariff walls until companies are strong enough to compete internationally. The stick is that such industries will be closely scrutinized to ensure that they are living up to their side of the bargain and are developing steadily more competitive products and services for export. Enterprises should also be subject to a domestic competition policy designed to prevent them from abusing a monopoly position.

The essential requirement for engagement in international trade, however, is that the process should be strategically planned and carefully sequenced. Thus, higher tariffs should be rigidly time-bound: in order to avoid creating cosy monopolies that never mature into vigorous export enterprises, tariffs should automatically be scaled down after a predetermined period.

3. *Restore a Focus on Agriculture*

A trade strategy based on human development has to have agriculture at its core. This is not because agriculture offers export opportunities, but because in many countries farming is still the primary source of income for the poor; so no trade strategy that undermines rural livelihoods can claim to be promoting human development. For food-importing countries in particular, it will

often, make sense to maintain tariffs on food imports so as to protect poor producers. If this results in higher prices that cause hardship for the poorest consumers, governments will need to prepare appropriate social safety nets. This also has the strategic advantage of preserving national food security in a world that in just a few years could be moving towards higher food prices. As well as protection, farmers also need progress. In many countries investment in rural development has been on a steep downward curve. This has to be reversed – particularly through investment: for example, in irrigation, in village electrification and in farm-to-market roads.

4. *Combat Jobless Growth*

Most countries that embark on industrialization typically do so with labour-intensive production in industries like garments, textiles and footwear that take advantage of ample supplies of low-cost labour. But as industrialization proceeds, they tend to move higher up the value chain and also become more capital-intensive. As a result, the most successful trading countries, primarily in East Asia, are now creating jobs far more slowly – the phenomenon of 'jobless growth'.

To some extent this process is understandable. Less comprehensible, however, is why governments should exacerbate this trend by maintaining low interest rates – effectively giving capital preference over labour. This may seem like the best strategy for rapid growth but it is storing up problems for the future. By all means allow enterprises to choose the lowest-cost option for production, but this choice should not be biased away from labour: interest rates should, therefore, reflect the real price of capital, not the rate that industrialists would prefer. In a similar vein, states should phase out fiscal incentives to enterprises since these raise the return on capital and again encourage capital-intensive investments.

Another reason why enterprises may be reluctant to take on new workers is that labour contracts can be too rigid. This creates a persistent duality – a small and protected group of 'insiders' with secure employment influenced by national regulations, and a large casual, and often exploited, workforce employed on piece rates. Instead, more workers should steadily be absorbed into formal employment but on contracts sufficiently flexible that they can readily be deployed to other sectors or companies as trading conditions change. Governments can assist in this process by providing some support for workers through health insurance and social security and by active labour market policies to encourage retraining and redeployment.

5. *Prepare a New Tax Regime*

Liberalization is a common prescription for economic success, but it has a debilitating side effect – it means foregoing a predictable and easy-to-collect source of government revenue. Instead governments need to have an alternative tax regime in place before embarking on liberalization.

Care will need to be taken, however, to ensure that these new taxes are progressive and do not hurt the poor. Customs duties, for example, are often quite progressive since they are typically highest on the luxury items that are of greater interest to the rich. Corporate taxes too can be levied progressively, though many people escape the net since the lawyers of the largest corporations are skilled at techniques of tax planning, while most enterprises in the informal sector simply evade tax collectors altogether. Much the same is true for income tax, which tends to be paid more by middle-income workers in government or the formal sector.

Garnering more income from corporate or income tax will mean overhauling the tax codes to close loopholes and also considering other options such as 'withholding taxes'. In addition,

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governments can consider taxes on real estate or on capital gains. And the more advanced can adopt value added tax (VAT) – though this assumes a thoroughly documented economy and needs to be developed with care; in any case, it should exempt food and other necessities of the poor.

The key point is that these new sources of revenue should be up and running prior to liberalization or countries face the risk of severe cuts in public services that will harm human development.

6. Maintain Stable and Realistic Exchange Rates

One thing that hampers international trade and discourages investment is a volatile exchange rate that makes it difficult for states or enterprises to plan ahead. But it is important too that the rate is realistic: too high and it will jeopardize employment prospects for the poor by penalizing exporters as well as farmers and other local producers who will face increased competition from imports; too low and it will raise the domestic price level and affect the cost of living of the poor.

Exchange rates are likely to fluctuate, especially in small and open economies that are powerless against the rise or fall in international commodity prices. With floating exchange rates, these economies are also susceptible to the 'Dutch disease' in which inflows of capital without sufficient investment opportunities to absorb them can appreciate the exchange rate to unrealistic levels. This may happen as a result of rising commodity prices as, for example, with the oil price for Timor-Leste. But it can also be the result of inflows of aid, say, or of the arrival of funds for disaster relief as with the tsunami.

Most of the successful Asian trading countries have benefited from long periods of relative exchange-rate stability based on active currency management. For this purpose, during the initial process of liberalization, rather than having freely floating exchange rates, countries that are becoming more involved with international trade can consider 'managed floats' that permit their currencies to depreciate gradually – since in the early stages of liberalization imports typically rise faster than exports. The overall priority, however, is to ensure that the exchange rate remains stable and realistic.

7. Persist with Multilateralism

The slow pace of progress in the Doha round of multilateral trade negotiations has discouraged many developing countries. They can see this 'development round' running into some familiar impediments, especially the resistance from the developed countries over agricultural subsidies. This is leading at best to pessimism and at worst to a crisis of falling expectations that could cause the developing countries to abandon multilateralism altogether.

Despairing of the WTO negotiations, many countries are also seeking bilateral trade agreements with the developed countries. Some would argue that in trade terms these are better because they give preferential access. But in human development terms they may impose high costs: bilateral agreements typically involve much deeper tariff concessions from the developing countries and make demands on issues like intellectual property rights that go far beyond what WTO members require of each other, and can threaten the health and livelihoods of the poor.

Better to resist the immediate temptations of a bilateral embrace and build up slower but ultimately more productive multilateral relationships

Many countries of the region would do better to resist the immediate temptations of a bilateral embrace and build up slower but ultimately more productive multilateral relationships that can lead to more durable human development outcomes.

8. Cooperate with Neighbours

Another good alternative is to seek trade and other agreements with other countries in their

region or subregion. These could include regional pacts such as the South Asian Free Trade Agreement, the ASEAN Free Trade Agreement, or the Pacific Island Countries Trade Agreement. These have the advantage of being quicker to negotiate than multilateral agreements while posing less of a risk to human development than bilateral ones. In addition, they dovetail well with the region's many integrated cross-national production systems and lead to trade creation.

Regional trade agreements can also be complemented by other forms of cooperation, particularly in the financial area. Many countries in the region have accumulated vast foreign exchange reserves – $1.9 trillion in total, half of which is in China – partly to protect themselves against another Asian financial crisis. These funds could be put to better use if they were pooled so that countries facing sudden balance of payments crises caused, say, by a spike in oil prices could draw on this shared Asian resource. Governments can also consider using the reserves to expand the Asian Development Fund, which could put resources to work for investment in large-scale infrastructure and in human development priorities such as health and education.

Reaching a Different Frontier

With or without new multilateral agreements, globalization will continue to power ahead. And millions more workers in the Asia-Pacific region will find themselves producing goods for people on the other side of the globe as well as buying at lower prices goods their parents could scarcely have dreamed of.

The main hazard, however, is that millions of others will fall by the wayside – abandoned in rural areas whose agricultural economies have drifted into decline, or scratching a living on the fringes of Asia's megacities as a permanent underclass. Even those currently in work may find themselves later discarded from ever-more sophisticated production systems. This not only denies people their basic rights to decent work and a reasonable standard of living, it also heightens the risk of future unrest: globalization does not just distribute products; it also disseminates new ideas and information that change people's expectations.

The countries of the Asia-Pacific region are renowned for the speed at which they have developed economically. Now they find themselves at a different frontier – trying to combine accelerated trade-driven economic growth with equally rapid poverty reduction and, more broadly, human development. In many ways this is a more complex and difficult task, and just as before, they will need to work out their own solutions. Some of these are highlighted in this Report; others will only emerge in the light of experience. One thing is certain – that Asia and the Pacific will remain at the forefront of global development and will offer fresh lessons to the rest of the world.

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Chapter

Using International Trade to Promote Human Development

Deeper integration with international markets can boost economic growth and generate millions of new jobs. But it also brings new risks – of further marginalizing the Least Developed Countries and undermining the most vulnerable communities. The challenge is to build a trading regime that is not just more balanced and equitable but also actively combats poverty and promotes human development.

Trade need not be – indeed, should not be – an end in itself

The early years of the new millennium have witnessed a robust expansion in world trade. In 2004, global merchandise trade recorded its best performance since 2000, growing in volume by 9 per cent and in value by 21 per cent.[1] Manufacturing took the lead: although global manufacturing output grew by only 4 per cent, an increasing proportion of this output is traded internationally, and as a result the volume of manufactured exports rose by 10 per cent.

Nevertheless, trade in agricultural products also grew in value, by 15 per cent. At the same time, there was a substantial increase in trade in commercial services, which increased in value by 18 per cent. These figures build on an already creditable growth performance for 2003.

An increasingly integrated world has clearly been expanding the opportunities for global trade. But what contribution can trade make to development? The dominant view has been that engagement with international markets is not just unavoidable but also beneficial: that trade can facilitate, promote and sustain the development process. Indeed, for individual nations trade is seen as a prerequisite for sustained growth. Governments taking that view have therefore devised policies to promote trade, and to shape the nature and degree of national engagement with the international economy. The larger developing countries in the Asia-Pacific region (Box 1.1) have also made the greatest impact, but the smaller ones too have been exploiting new opportunities for trade in services, through tourism, for example, the migration of workers and the outsourcing of business processes.

This Report argues, however, that trade need not be – indeed, should not be – an end in itself. Rather, it should realize a broad range of human development objectives, and especially in the poorest and Least Developed Countries (LDCs) it should help to alleviate poverty and reduce human deprivation. Human development in this sense refers to expanding people's choices and enabling them to lead longer and healthier lives: by ensuring that they are well-nourished

BOX 1.1

Country Classifications Used in this Report

This Report gathers data from a range of sources that often use different groupings for regions and subregions. For consistency, the following classification has been used in this Report. Overall, the region is referred to as Asia and the Pacific or, for stylistic purposes, the Asia-Pacific region. The main subregions are South Asia, the Pacific, and East Asia. Where appropriate, East Asia is subdivided into South-East Asia and North-East Asia. The countries within these subregions are as follows.

North-East Asia. China, Democratic People's Republic of Korea, Mongolia, Republic of Korea.

South-East Asia. Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Timor-Leste, Thailand, Viet Nam.

South Asia. Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan, Sri Lanka.

Pacific. Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu.

and have access to safe drinking water, sanitation facilities and shelter; by providing them equal opportunities to participate in economic activity through education and decent work; and by affording them the freedoms to exercise these choices and fulfil their potential.

Trade can certainly enhance human development but it can also hinder it. There is a two-way causation: from trade to human development and back

Trade can certainly enhance human development, but it can also hinder it. Trade is, after all, a profit-driven activity, and there are many examples from history that demonstrate what happens when commercial gain takes precedence over human well-being – for example, slavery, colonialism and apartheid. Today too the drive to export and import more goods and services typically triggers a series of complex and dynamic processes that produce both winners and losers. For just as trade liberalization can increase the opportunities for exports, it also exposes local producers to foreign competition that, particularly in poorer countries, they may be unable to withstand. So as well as creating new opportunities, particularly in the modern sector, it can also destroy the livelihoods of people working in basic manufacturing or in agriculture.

These implications and the links between trade and human development are summarized in Figure 1.1. There are three basic building blocks in the diagram: trade, human development and the links between the two. The hypothesized chain is: trade → growth → human development → trade. There is thus a two-way causation: from trade to human development and back.

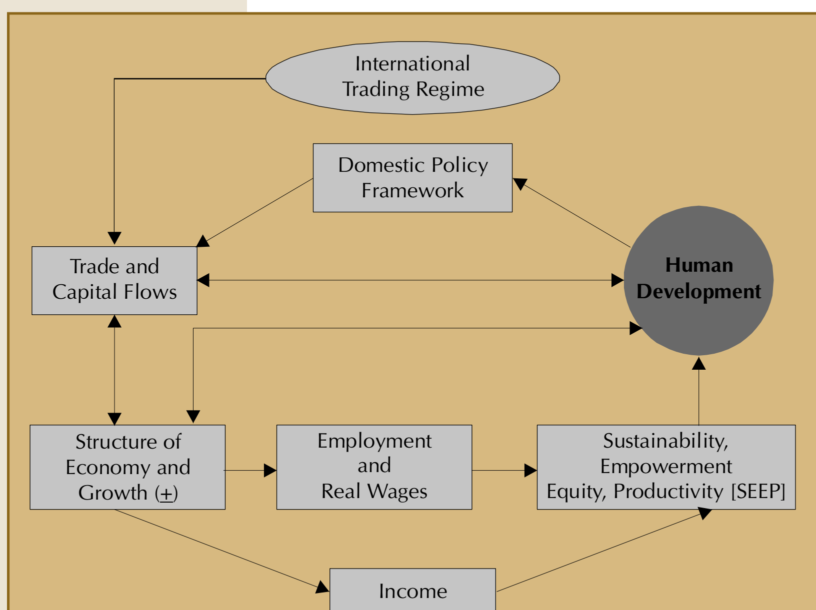

Figure 1.1: Trade and human development – a schematic view

Trade changes the structure of the economy as well as the rate of growth, which, in turn, has implications for employment both of labour and capital. Trade tends to reward skilled labour more highly than unskilled labour and can lead to the adoption of capital-intensive technologies and thus deepen inequality. However, public policy can be used to ensure that trade benefits human development. There is also a feedback loop from human development to trade, which operates directly or is mediated through the domestic policy framework. Feedback affects work through higher income, higher technical competence and skills or through the power of advocacy on policymakers. Finally, human development can also have a direct influence upon the structure of the economy, the rate of growth and trade itself.

Balancing Growth and Human Development

Trade can fulfil its potential for alleviating poverty and advancing human development, but only if economic structures, domestic and international, are refashioned and governments of both developed and developing countries show the necessary determination and commitment.

One of the main tasks is to shape the character of economic growth. Experience has shown that growth can translate into higher levels of human development. But not necessarily. Much depends on the nature of growth. In some cases the human development outcomes may be limited, or even negative. Indeed, some Asia-Pacific countries that have had high growth driven by trade give cause for concern: industry and services are growing much faster than agriculture; agricultural workers are being displaced on a large scale; rural-urban and interpersonal inequalities are widening; manufacturing growth is not creating enough new jobs, and much of the existing work is becoming more casual or informal.

Most policymakers who seek to change these patterns know that they are not dealing with a static environment. The relationship

between growth and human development is dynamic, and it works both ways. On the one hand, economic growth provides the resources to permit sustained improvements in human development; on the other hand, human development improvements raise people's capacities to boost economic growth.

But there are two alternative paths – 'lopsided' and 'balanced'.[2] Lopsided strategies can prioritize either economic growth or human development. Neither strategy is sustainable. 'Human-development-first' strategies can run into fiscal constraints and balance of payments crises, while 'growth-first' strategies can be constrained by inadequate domestic supply of skilled labour or by political instability. Far better to take a more balanced approach. But of the two lopsided approaches, the 'human-development-first' is the least unsatisfactory, since societies pursuing this strategy at least have a much better chance of weathering economic crises and getting back on track.

Pursuing Growth through Trade

Even if policymakers accept the need for balanced growth, is boosting trade a good way to achieve this? The answer is typically: 'yes'. Proponents of trade liberalization argue that nowadays autarchy is not an option – that pursuing a growth strategy that relies on producing local substitutes for imports will eventually run into limits because for many products the national market will be too small to justify local manufacture.

Trade liberalization that involves reducing protective tariffs can therefore lead to a more efficient outcome – by delinking domestic supplies from domestic production. A country aiming for growth may find itself short of capital, for example, or of specific intermediate goods, or of skilled labour that it does not have locally. One way to overcome these bottlenecks is to import the requisite commodity from abroad. But doing so without triggering a balance of payments crisis will require sufficient foreign exchange. Thus, it may be crucial for a country to engage in trade merely to earn the foreign exchange to finance imports. Even China, which has seen rapid increases in exports over a long period, did not until recent years run a trade surplus – indeed, occasionally recorded deficits – because it used export revenue to finance its growing import bill, particularly for oil and machinery.

Trade liberalization should also enable the poorer developing countries to make better use of their comparative advantage – an abundant supply of unskilled and inexpensive labour. They can thus at the outset specialize in the production and export of agricultural products and simple manufactured goods such as textiles and clothing. This should also increase the demand and wages for unskilled workers and thus help to reduce poverty.

But beyond these 'static' gains from trade liberalization, there should also be more dynamic benefits that become evident over time. For example, enterprises that are more exposed to foreign competition and markets will be forced to increase their levels of efficiency. They can also benefit from foreign investment that might initially be attracted by cheap labour but will also bring with it new technology and production processes. Ideally, therefore, trade liberalization should help to boost productivity, increase exports, stimulate more rapid economic growth, and lead to increases in real wages, especially of unskilled workers.

Proponents of trade liberalization argue that nowadays autarchy is not an option

Unfortunately, many countries have fallen short of this ideal. Markets often fail, and in particular, in developing countries they may not be sufficiently flexible to reallocate workers or capital smoothly to the more productive sectors. As a result, liberalization will fail to create the hoped-for export enterprises while risking a flood of cheap imports that put local enterprises out of business.

Moreover, even if the new export industries emerge, there is a risk that these will become steadily less labour-intensive. Enterprises that want to enhance their competitive edge may try to do this by shedding excess labour and use automation to produce high-quality products to international standards. Thus, rather than employing more unskilled workers the export industries may instead further polarize 'dual labour markets' – consisting of a small formal sector where wages are influenced by government regulations and collective bargaining, and a much larger informal economy where wages tend to be linked to a subsistence level of income.

The Potential for State Action

It might be thought that a balanced approach that would enable trade to promote human development could be achieved by a clear division of responsibilities: let free and liberal markets take care of economic growth while governments address market failure and take responsibility for social concerns and human development priorities.

However, this ignores the symbiotic relationship between economic growth and progress in human development, and in particular, that policies aimed at maximizing growth may also constrain the potential for public action. Trade liberalization, for example, will reduce trade-related taxes, which in many countries account for a significant share of government revenue. In South Asia overall, as a proportion of revenue, taxes on trade fell between 1990 and 2003 from 27 to 19 per cent.[3] Pakistan is a striking example. During the 1990s, import taxes fell by almost 4 per cent of GDP. This was partially offset by a rise of 1 per cent of GDP in revenue from income tax; nevertheless, the overall loss in tax revenue of 3 per cent of GDP clearly has adverse implications for human development. In the Pacific Island countries customs and other duties can provide up to 70 per cent of government revenue.[4] Bangladesh, on the other hand, has been able to offset losses, from reduced tariff rates by rising volumes of imports and by introducing new sources of tax revenue such as VAT (Box 1.2).

A second objection to this clear-cut division concerns sequencing – since human development may be needed to advance economic growth. In the short run, countries may have to devote resources to human development, even at the expense of growth, because they believe that higher capabilities will, in the longer term, lead to more sustainable growth. Successful industrialization requires not only capital and technology but also a capable labour force – one that can manage that capital and technology and display the discipline demanded by factory production. That capability is directly related to literacy, education, and status of health. In the now-advanced countries, for example, social programmes in health and education helped to buttress industrial development and raise productivity. If growth limits or reverses human

BOX 1.2

Recovering Revenue Losses from Trade Liberalization in Bangladesh

Bangladesh undertook trade liberalization in the early 1990s and over the decade virtually halved its effective rate of import duties. But revenue losses were limited to less than 0.5 per cent of the GDP. There were two reasons for this. First, because as import duties fell the volume of imports increased – 17 per cent annually over the decade, in local currency – on the back of fast-growing exports, especially of textiles. Moreover, the tax base widened as export industries expanded. Second, Bangladesh developed VAT and supplementary excises which, given a broader tax base, produced rapidly growing revenues. Also, special efforts have been made in recent years to raise revenues from taxes on income and profits, primarily by curbing evasion (Table 1).

Table 1: Tax to GDP ratio in Bangladesh (%)

	1993-94	1999-2000	2003-04
VAT and supplementary excise	3.1	3.6	4.2
Customs duties	2.2	1.8	2.1
Tax on income and profits	1.3	1.0	1.4
Other taxes	0.6	0.4	0.6
Total tax revenue	7.2	6.8	8.2

Source: IMF 2006.

development gains, then growth itself may not be sustainable.

Most governments have, therefore, felt the need to intervene in order to achieve trading success – a process with deep historical roots (Box 1.3). A good outcome from international trade is thought to depend on three kinds of State action. First, the State must create the capacity to engage successfully in trade: enhancing the quality and competitiveness of the domestic labour force; easing the cross-border movement of commodities and services; and investing in the market development that allows for the entry and growth of competitive players.

Second, the State needs to protect the vulnerable. Enhanced trade generates both winners and losers: those who get left behind may lose their livelihoods or see their incomes drop or suffer from greater food insecurity. This erosion of human development is not only unacceptable in itself, it may also undermine the social consensus needed to pursue a strategy of enhanced trade engagement. The State must, therefore, also create the safety nets needed to protect the vulnerable.

Third, the State should be able to guide industrial strategy. With its broader vision, it should be able to assess the international context and changes in the global production system. It should therefore be able to identify niche areas, encourage entry into these and invest in the Research and Development (R&D) needed to build competitiveness in emerging sectors.

These three functions are indeed crucial. But they may not be sufficient. In a developing country, the State may also need to find ways of counteracting the imbalances in international markets. It will need to take account, for example, of the sharp differences in national trading capabilities, the substantial disparities in the size, market presence and reserves of competing partners, and the control exercised by a small group of players from a few developed countries on various frontline technologies.

Faced with these imbalances, some governments experiencing 'export pessimism' have retreated from the unequal struggle and concentrated on producing for the home market behind high tariff barriers. This may have been understandable, but it is unsustainable; no country can successfully pursue capitalist industrialization while insulated from world markets. Instead, as part of the strategy of growth, developing countries must consciously engage with those markets.

Most governments have felt the need to intervene in order to achieve trading success

A Proactive Approach

Engaging with international trade does not mean passively integrating. To address the inequalities in the world trading system, developing countries need to take a more proactive stance. But to do so they need to distinguish between overall policies aimed at a 'greater involvement in trade', such as reduce transport costs, and those concerned simply with 'openness', such as reducing tariff barriers. These pose two different questions. The first is: 'does international trade boost economic growth?', to which the answer seems to be generally 'yes'. The second is: 'do countries that reduce trade barriers grow faster than others?' – a question on which there is considerable controversy over the evidence.[5]

This suggests a more complex package of measures – and a more deliberate and less

BOX 1.3

State Intervention in Trade – An Age-old Phenomenon

In around AD 60, a trader coming from what is now Dhaka, Bangladesh, arrived in Rome from Jeddah carrying fine muslin. He provoked a near-riot and was plied with coins, gold and silver and was even offered equally valuable horses. The Emperor, Tiberius, became worried because the demand for these goods was annually depleting the Roman coffers by almost 50 million sesterces, the trading bullion. So he banned the sale of 'woven air' – the finest muslin. Indeed, he was so concerned that he deployed soldiers to keep the fabric out of Rome. The flow of commerce across national borders is an age-old phenomenon – but so too are State policies to control trade for public purposes.

Source: Bandyopadhyay 2005.

haphazard approach to removing trade barriers (Box 1.4). One of the most important objectives should be to encourage and protect domestic producers in certain strategic sectors – affording them the time and space to expand production for the domestic market while strengthening their capacity to compete internationally. This strategy, which is essentially the one previously followed by Western countries, will typically mean limiting the import of some finished goods while allowing imports of crucial capital, raw materials, and intermediate goods that will allow local producers to match the foreign competition. Countries pursuing this type of strategy will, therefore, need to resist pressures to converge their tariffs, either across commodity groups or between themselves and the rest of the world. At the same time, the State can apply appropriate antidumping duties and ensure that, wherever possible, it procures its own requirements from national producers. It will be important, however, to ensure that such protection does not simply breed slothful domestic monopolies geared to skimming the domestic market.

Then the State needs to encourage exporters. Exports cannot constitute the only basis for growth, but in an interdependent world they are vital for financing essential imports. Initially countries will look to fairly simple manufactured goods that take advantage of lower wage costs – and perhaps of a less codified legal framework or where labour rights are more restricted, as in export trade zones (Box 1.5). All the successful late industrializers, including the 'newly industrialized economies', pursued this kind of 'mercantilist' strategy – pushing out exports at whatever cost to establish footholds in international markets.

Measures to promote national industries also need to be accompanied by a degree of discipline. When offering industrialists incentives, the State must be in a position to enforce compliance and, where appropriate, to be able to influence the choice of product – for example, the technology used, the scale of production and the prices of goods.

The Need for Investment

Gradually, however, industrialists can start to move up the value chain. This will require substantial investment, not just to expand

BOX 1.4

Strategic International Integration in a Globalizing World

The global environment within which developing countries must upgrade the productivity of their people is radically different from the time when 'industrial policy' was successfully applied in the now-industrialized countries. Developing countries must contend with new forms of industrial organization, rapid technical change, and diminished economic distance. Lall (2005) lists the following elements that are critical in the current context:

- *Selectivity* – Picking on a few sectors at a time to develop, as opposed to indiscriminately promoting all industrial activities.
- *Technology and linkages* – Emphasizing activities that have the greatest technology spillovers and linkages with other industries.
- *Early entry into world markets* – Assisting enterprises to participate in international markets early.
- *Private sector lead* – Assigning the lead role to private enterprises with support from public enterprises.
- *Skill creation and infrastructure* – Investing in skills demanded by sectors which have been selected for promotion.
- *Selective use of FDI* – Encouraging foreign direct investment to help build local capabilities and to gain entry into high-technology value chains and foreign markets.
- *Good governance* – Strengthening the ability of public agencies to adapt public policies to changes in international markets and to technological advance, by working closely with the private sector.

Each country will have a different industrial development strategy consistent with its inherited natural and factor endowments, geographic location, and governance capabilities. The heavy hand of the government of the Republic of Korea in imposing export obligations on favoured enterprises is well known. Singapore relied heavily on FDI, but never tied its development to the performance of any particular multinational. Successful countries applied strategic liberalization of imports at specific phases of development to improve access to intermediate inputs and technology and to create competitive pressures. Some countries directed the allocation of credit and inputs to the preferred sectors.

BOX 1.5

Export Processing Zones

Export processing zones (EPZs) have played a significant role in creating productive and remunerative employment in several Asian economies, including Taiwan (China), Republic of Korea, Indonesia, Malaysia, Thailand and the Philippines, and more recently in China, Viet Nam, Bangladesh and Sri Lanka.

In China, EPZs account for more than 55 per cent of total exports and have created 40 million jobs (Fong 2006). In Bangladesh and Sri Lanka, EPZ-created employment now accounts, respectively, for 6 per cent and 10 per cent of manufacturing employment.

In January 2006, UNDP undertook a primary survey of three of the largest EPZs in India – Mumbai, Noida and Chennai – interviewing 229 workers. The survey and related secondary data indicate the following (Aggarwal 2006):

Women. Women constitute only about 46 per cent of the workers in Indian EPZs, a share that is on the decline as EPZs embrace more advanced technologies.

Training. Indian EPZs have already evolved into the second phase, where there is a greater demand for skilled workers. Nevertheless, only half the respondents had been given any formal training.

Labour Laws. Labour laws say that no worker shall be required to work in a factory for more than 48 hours in any week or for more than nine hours on any given day. In general, this has been found to be the case.

Health Facilities. Over 90 per cent of the firms surveyed reported that they provided health facilities some 70 per cent said they had been given equipment to protect themselves from hazards.

Working Conditions. Most workers said they joined the zones for better working conditions and higher salaries, and 70 per cent were satisfied with the conditions. In general, employers do not provide accommodation for their workers, but most firms in the zones allow their workers casual, medical and earned leave.

Wages and Incomes. Wages in EPZs are not higher than those outside the zones, according to the survey, but incomes, which includes perks, are – and most workers said they were satisfied with these.

Poverty. While living conditions of workers in EPZs have improved, the impact on poverty reduction has been marginal because backward linkages with the rest of the economy were very weak.

Surveys in Pakistan and Sri Lanka in 2006 had broadly similar findings (Kemal 2006; Marga Institute 2006).

output but also to restructure and modernize the production base. A convenient measure of progress in this direction is the 'investment rate', which is the ratio of investment to national income; higher investment should lead to a higher rate of economic growth.

One analysis of the experience of 25 developing countries over the period 1968-88 found a close correlation between the investment rate and the growth in output.[6] In addition, the same study found a close correlation between the investment rate and the growth in exports.[7] Why should greater investment lead to a higher volume of exports? For developing countries, this is primarily because they can use investment to reform the structure of production and exports – moving from commodities, in which world trade is fairly stagnant, to manufactured goods, in which trade is growing more rapidly. The higher the investment ratio, the faster the transformation of the production – structure and hence, the greater the ability to participate in the more dynamic end of world trade.

As well as encouraging investment, however, the State also needs to act as a coordinator, ensuring that investment is directed to priority areas where it can be used to increase levels of technology and achieve economies of scale, and thus enhance international competitiveness. Economies like Japan, the Republic of Korea and Taiwan (China), though in different ways, followed this type of strategic industrial policy – anticipating future opportunities and guiding investment in the most promising directions. Interestingly, it was only when they were dismantling these industrial policy frameworks that they ran into financial crises.

As well as encouraging investment, the State also needs to act as a coordinator ensuring that investment is directed to priority areas

Macroeconomic Policies and Exchange Rates

Strategic intervention may also be required in the realm of macroeconomic policy, and in

particular for managing the exchange rate. The world is now experiencing rapid cross-border flows of capital. In periods of economic boom, rapid capital inflows can push up the exchange rate and undermine competitiveness, while rapid outflows, even if they do not lead to a full-fledged currency crisis, can result in a liquidity crunch.

In the initial stages of liberalization, the balance of trade is likely to worsen because, typically, imports rise faster than exports. Trade liberalization should, therefore, be supported by a number of complementary reforms, including management of domestic demand and the exchange rate. Rather than having a freely floating rate, developing economies are more likely to benefit from a managed float.

In the early stages of liberalization, the rate should, if necessary, be allowed to depreciate. This will curb demand for imports and stimulate exports; it also forestalls a precipitous fall in government revenue and can broaden the tax base, even if it lowers the effective tax rate. This should improve the trade balance – though the overall effect on the economy will depend on other factors such as the export supply response, structural rigidities and sound fiscal and monetary policies. The exchange rate experience of a number of countries in the region is summarized in Box 1.6.

Multilateral, Regional and Bilateral Action

Governments can take many of the choices on trade liberalization unilaterally: ultimately, the

BOX 1.6

The Real Effective Exchange Rate: Regional Experiences

In the initial stages of liberalization, the balance of trade is likely to worsen because imports typically rise faster than exports. Trade liberalization should, therefore, be supported by management of the exchange rate. In fact, the empirical evidence suggests that, rather than having a freely floating exchange rate, developing countries are more likely to benefit from a managed float. A number of countries in the region have followed a variant of this strategy.

South Asia. Based on the data in Annex Table 4.4, it appears that the real effective exchange rates of most South Asian countries have, more or less, moved in synchrony with each other, but the cycles seem to be getting shorter – that is, the real effective exchange rate (REER) has moved up or down more frequently. Thus, the REER for Bangladesh, Pakistan and Sri Lanka appreciated during the first half of the 1990s and then depreciated until 1998. Thereafter, cycles appeared shorter: the REER depreciated during 2000 and 2001and then appreciated during the next two years. India is an exception, with a real depreciation of the currency for most of the decade of the 1990s. Fluctuations in the REER appear to be a reflection of underlying changes in the balance of payments position. Averaging over the cycles, the long-term trend is one of depreciation of the REER in India, Nepal and Pakistan, appreciation in Sri Lanka, and stability in Bangladesh.

East Asia. During the financial crisis of the late 1990s, most countries in East Asia witnessed significant depreciation of their currencies except Malaysia, which implemented a fixed exchange rate regime in the post-crisis period. Nevertheless, since trade fundamentals remained sound, depreciation quickly improved the trade balance, stabilized the balance of payments and enabled countries in the subregion to recover in a relatively short time from the financial crisis. The subsequent switch to a managed float has allowed the currencies of these countries to depreciate at a faster rate compared to previous periods. The upshot was that East Asian countries have built up massive foreign exchange reserves and are now showing symptoms of the "Dutch disease" currency appreciation resulting from the massive accumulation of foreign exchange reserves. Between 2001 and 2003, the extent of appreciation in REER was 7 per cent in China, 34 per cent in Indonesia, 10 per cent in Malaysia and 15 per cent in Thailand.

The relatively limited appreciation of the Chinese yuan in the presence of a massive buildup in foreign exchange reserves has raised the question: Is the Chinese currency undervalued? In July 2005, China ended its hard peg to the US dollar. The yuan immediately appreciated by 2.1 per cent, and since February 2006 has been appreciating (against the US dollar) at an annual rate of 4 per cent. At this rate, the currency could attain a realistic and sustainable level by the end of 2008.

Accumulating reserves too rapidly carries certain risks. It raises the fiscal costs of sterilizing the implied increases in money supply, fuels speculation in real estate and may exacerbate weakness in the banking system. Steady appreciation, on the other hand, will prevent a continuing large increase in foreign exchange reserves while avoiding shocks to employment if exports fall too drastically.

decision to raise or lower tariff or other barriers to trade is a national one. Indeed, the majority of liberalization measures from developing countries have been the product of unilateral action, even if under the aegis of IMF-led or other programmes of structural adjustment.

Nowadays, however, most of the attention has shifted to reciprocal relationships – as countries agree multilaterally or bilaterally to reduce trade barriers to their mutual advantage. The principal multilateral forum is the World Trade Organization (WTO) and its ongoing Doha Round of negotiations. Initially there were grounds for optimism since the developed countries appeared to recognize the specific needs of developing countries and duly characterised this as the 'Doha Development Round'.

Since then, ambition seemed to have been scaled down substantially. Many people feel that the WTO has not proved as favourable to poor countries as promised[8] – indeed, that it puts greater demands on developing countries and narrows their options for pursuing their own human development objectives.

Faced with the potential failure of the Doha Round, a number of developing countries have been looking for alternatives. In many cases they have reached bilateral agreements, typically with the developed countries. Thailand, for example, has signed bilateral agreements with Australia, Japan and New Zealand, and has also been conducting lengthy negotiations with the United States. Whether bilateral agreements are superior to multilateral ones from the point of view of human development is open to doubt since they often demand even greater concessions than multilateral ones while providing greater access.

At the same time the countries of Asia and the Pacific have been promoting trade between themselves through a series of regional trade agreements (RTAs). This is part of a global phenomenon: nearly all countries in the world belong to at least one type of RTA (Box 1.7). Between 1990 and 2005 the number of agreements notified to the GATT/WTO increased from 27 to more than 180 and the figure seems likely to rise further. Both bilateral trade agreements (BTAs) and RTAs are likely to become increasingly important, for a number of reasons:

Doubts about Multilateralism. Many countries are looking for alternatives to multilateral agreements. Regional ones are easier to achieve, and they and BTAs may also serve as a threat to force unwilling parties to negotiate in earnest at the multilateral level.

The Domino Effect. Once an RTA starts to become effective, neighbouring non-members will be attracted to join, so as not to be excluded from trade flows.

Market Access for Developed Countries. The developed countries are competing for market access in developing countries. The European Union (EU) was the first to do so and has already signed several agreements with Eastern European, Mediterranean, African and Asian countries. Now the US too is expanding Free

Many people feel that the WTO has not proved as favourable to poor countries as promised

BOX 1.7

Varieties of Regional Trade Agreements

Depending upon their level of integration, the basic form of regional cooperation, viz., Regional Trade Agreements (RTAs), can be broadly divided into five categories: Preferential Trade Agreements (PTAs), Free Trade Agreements (FTAs), Customs Unions (CUs), Common Markets, and Economic Unions. A PTA is a union in which member countries impose lower trade barriers on goods produced within the union, with some flexibility for each member country on the extent of the reduction. An FTA is a special case of a PTA where member countries completely abolish trade barriers (both tariff barriers and non-tariff barriers) for goods originating within the member countries. It should be clarified here that in most cases countries do not abolish trade barriers completely even within FTAs. Most agreements tend to exclude sensitive sectors.

A Customs Union is seen as ensuring deeper integration than an FTA because unlike FTAs, where member countries are free to maintain their individual level of tariff barriers for goods imported from non-member countries, in a CU member countries also apply a common external tariff (CET) on goods imported from outside countries. The CET can vary across goods, but not across union partners. Overall, however, PTAs, FTAs and CUs are identified as 'shallow integration' arrangements in the trade literature.

Both bilateral trade agreements (BTAs) and RTAs are likely to become increasingly important. However, the consensus seems to be that regionalism and multilateralism could be complementary

Trade Agreements (FTAs) rapidly – and has a foothold in Asia through the Asia Pacific Economic Cooperation (APEC) agreement. Developing countries are also contributing to this by seeking asymmetric deals with onerous commitments, for example in IPRs, in return for preferential treatment for limited export interests.

Reactions to Regionalism Elsewhere. Asian exporting countries worry that they are becoming increasingly vulnerable to the discriminatory practices of trade agreements in other regions – in the EU, for example, or the proposed Free Trade Area of the Americas. They are thus responding with greater integration within their own region.

Opportunities for Deeper Commitment. Developed countries can use BTAs to achieve greater influence over partner countries than is possible with the WTO. They can thus both choose their partners and also require higher investment, labour, environmental and competition standards.

Some people argue that RTAs form the building blocks for subsequent multilateral agreements. Since RTAs can be negotiated more quickly, they offer government officials the opportunity for 'learning by doing' and pioneer new ideas that can later appear in multilateral treaties. Others see them more as stumbling blocks that do not promote additional trade but simply divert existing flows, strengthening protectionist lobbies that will then oppose multilateralism. They can also divert the energies of overstretched officials who have to cope with a 'spaghetti bowl' of overlapping tariff schedules and rules. However, the consensus seems to be that regionalism and multilateralism could be complementary.

BOX 1.8

Established Regional Trade Agreements Involving Asia-Pacific Countries

RTA	*Name, and year of enforcement*	*Member countries*
AFTA	ASEAN Free Trade Area (1993)	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.
SAFTA	South Asian Free Trade Area (2006)	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
PICTA	Pacific Island Countries Trade Agreement (2001)	Cook Islands, Fiji, Kiribati, Nauru, Niue, Pappua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu

The ASEAN Free Trade Agreement (AFTA). This has sought to reduce intra-regional tariffs on all manufactured items of ASEAN countries to 5 per cent or less and to remove quantitative restrictions and non-tariff barriers. This did strengthen intra-ASEAN trade, particularly during the 1990s. Between 1990 and 1995, for member countries the share of their exports going to ASEAN-10 countries increased from 20 to almost 26 per cent, though following the Asian crisis had fallen to 24 per cent by 2002.

South Asian Free Trade Area (SAFTA). Regional trade cooperation in South Asia has been slow to develop. It was not until 1995 that the ministers agreed the SAARC Preferential Trading Arrangement (SAPTA). This was very limited and gave only minor concessions so that by 2001 intra-regional trade still accounted for less than 5 per cent of the members' total trade. In January 2006, SAPTA was effectively replaced by the South Asian Free Trade Area (SAFTA). SAFTA's Trade Liberalization Programme calls for a reduction in import duties to 20 per cent by 2006 and to 0-5 per cent by 2013, or 2015 for the Least Developed Countries. This too is limited and may not offer much more than the WTO.

Pacific Island Countries Trade Agreement (PICTA). This is a free trade agreement that should lead to the establishment of a free trade area. Over a period of 10 to 12 years following its ratification in 2001, PICTA envisages tariffs on all 'originating goods' falling to zero – with more rapid concessions for the two largest countries, Papua New Guinea and Fiji. PICTA should bring a number of advantages; creating a market of some 7 million people, it will permit economies of scale and encourage investment.

Regional organizations in a region as vast and heterogeneous as Asia-Pacific tend to be based on subregions. These include the ASEAN Free Trade Area (AFTA), South Asian Free Trade Area (SAFTA) and Pacific Island Countries Trade Agreement (PICTA) (Box 1.8).

The Human Development Imperative

Many countries in the region are thus deeply engaged in trade issues. But too often the discussions are restricted to the economic implications. Instead, the countries of the region need to consider trade through a wider-angle, human development lens. Decisions on trade need to be considered not just on economic criteria but on what the implications are for human development – for improving people's lives and widening their choices. Some questions of interest are:[9]

Are the benefits *sustainable?* From the viewpoint of their environmental implications, to what extent, for example, does trade increase the pressure for marketization of agriculture and fisheries? Could this lead to intensive cultivation and mono-cropping? More broadly, to what extent can the benefits be sustained over time, in view of, for example, technological change, dynamic comparative advantages or intergenerational considerations?

Are the benefits *equitable?* Do some have more opportunities than others? Which groups benefit more than others? Are there losers, and if so, are they the relatively worse off? Does trade contribute to reducing or widening of inequalities? How do Least Developed Countries and those that face trade-related vulnerabilities fare? When people and countries at different starting points engage in trade, do the better-off benefit more? Do policies and institutions have to be 'unequal' to promote equity, for example, through special and differential treatment provisions?

Are the implications *empowering*? Does the 'agency' of some groups get compromised or enhanced? Can people lead more dignified and empowered lives, say, through better or new employment opportunities, for example, through the offshoring of business processes? To what extent does more open trade destroy jobs, say, for farmers or garment workers of Asia? Are the new ideas and experiences empowering?

Are there *productivity* effects? Does the exchange of goods, services, money and ideas contribute to technology improvements? Does this happen more in the already more profitable sectors, as against in sectors that employ lower-end workers? Does more income in people's hands lead to better health, with less absenteeism, less down-time? Do people invest more in education as they see its benefits? Are educational choices influenced by market opportunities?

Sustainability – Equity – Empowerment – Productivity. Does human development 'SEEP' to the bottom? There are also tradeoffs, between productivity, for example, and equity. While these dimensions do not encompass all of human development, they serve as a tool to assess international trade on human terms.

In these circumstances, the market alone cannot deliver a trade regime that promotes human development. The State needs to inform, guide and protect. But this should not just be a matter for ministries of trade or commerce; trade should receive close attention from most departments of government: First, because more productive trade will require stronger human capabilities – hence, the need to involve social sector ministries, such as health or education. Second, because the repercussions of more liberalized trade are felt across all sectors and will demand actionfrom different ministries, whether to provide safety nets for those who lose their livelihoods or to reshape education and training systems to meet the needs of a new economic structure.

At the same time, the State needs to gather broad public support from both the private

sector and from civil society. Governments need to build a stronger political consensus for trade reform. Many individuals and organizations, at both national and international levels, have become more aware of the implications of new trade regimes and will oppose measures that disadvantage the poor.

The Contours of the Report

The following chapters in this Report examine these and related issues in greater depth – looking at the evidence and identifying the kinds of policies that promote a positive relationship between trade and human development, while also protecting those who are likely to lose out from the disruption caused by new trade regimes.

Chapter Two. This chapter looks at the evidence from 20 years of trade liberalization – its impact on economic growth, and particularly on how it has affected human development through employment.

Chapter Three. Agriculture accounts for a high proportion of employment in developing countries and is one of the most contentious areas in multilateral trade negotiations. This chapter looks at the impact of the expansion of international agricultural trade on poverty and explores the policies that can be adopted to ensure that such trade advances human development goals.

Chapter Four. Another sector of direct interest to the poor is textiles and clothing. This chapter examines how the abolition of quotas is affecting some of the poorest exporting countries, such as Bangladesh and Cambodia.

Chapter Five. This chapter looks at the trade in services and specifically at the international migration of workers, digital outsourcing, and the flows of international tourists. It examines the potential of these activities and the actions governments can take to ensure that they best fulfil their promise.

Chapter Six. The rapid expansion of international trade affects all countries in the region, but some of the greatest concerns are for the Least Developed Countries. This chapter considers their best path to trade integration.

Chapter Seven. The final chapter presents an eight-point agenda that developing countries of the region could consider in order to use trade integration to achieve human development gains.

Trade and Human Development
The Asia-Pacific Experience

2
Chapter

Globalization is leading to a rapid expansion in international trade – and one of the engines of growth has been the Asia-Pacific region. This has helped boost economic growth and offered employment to millions of people, but the only real test of success or failure is its impact on human development. This chapter identifies the main trends in international trade and examines what it has meant for some of the region's poorest people.

Over recent decades, Asia-Pacific has been the world's fastest-growing region. As indicated in Table 2.1, during the period 1990–2003 Gross Domestic Product (GDP) grew annually on average by more than 7 per cent. As a result of population expansion, growth of per-capita GDP was somewhat slower – around 5 per cent – but still far higher than the 3 per cent in the OECD countries.

Over recent decades, Asia-Pacific has been the world's fastest-growing region

Trends in International Trade

Much of this rapid economic growth has taken place during a period of steady trade liberalization – initially transforming import quotas into tariffs, and then consolidating tariff rates into narrower ranges. At the same time, most countries in the region have reduced or removed subsidies and export taxes.

In East Asia and the Pacific, liberalization started in the 1970s; by 1990, the average import tariff in these countries was already down to 20 per cent and by 2000 had fallen to 8 per cent (Figure 2.1). In Malaysia, for example, most goods can effectively be imported duty-free. In the Pacific Island countries, however, the rates remain high (Table 2.2).

South Asia was slower to liberalize. In the early 1980s, average import tariffs were around 60 per cent, and were still around 47 per cent by the end of the decade. But during the 1990s they fell more rapidly, and by 2000 average tariffs in South Asia had fallen to 18 per cent – with the process having gone furthest in Sri Lanka. Except for India, the tariffs are lower for primary commodities than for manufactured

TABLE 2.1

Regional Growth Performance

	GDP growth (average annual %)		GDP per capita annual growth rate (%)
	1980-1990	*1990-2003*	*1990-2002*
East Asia & Pacific	7.90	7.60	5.4
South Asia	5.50	5.40	3.2
Europe & Central Asia	..	0.60	–0.9
Latin America & Caribbean	1.50	2.70	1.3
Middle East & North Africa	1.30	3.20	..
Sub-Saharan Africa	1.70	2.80	..

Sources: World Bank 2005; IMF 2004.

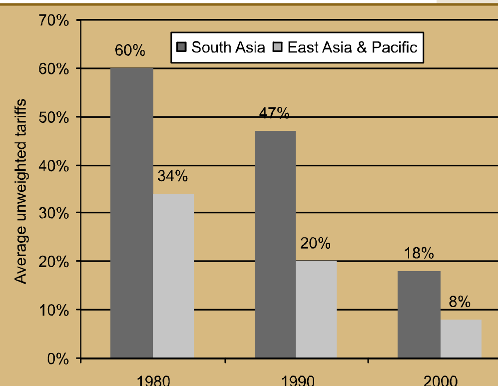

Figure 2.1: Import tariffs, 1980–2000

Source: World Bank 2005.

TABLE 2.2

EFFECTIVE IMPORT DUTIES FOR SELECTED COUNTRIES, 1990 AND 2000 (%)

Countries	*1990*	*2000*
China	4	4
Fiji	15	11
Indonesia	4	3
Malaysia	6	1
Papua New Guinea	10	16
Philippines	17	6
Viet Nam	14	6
East Asia & Pacific	*5*	*4*
India	45	20
Nepal	10	9
Pakistan	25	11
Sri Lanka	14	4
South Asia	*34*	*14*

Note: Effective import duties = import duty revenues ÷ value of imports
Source: World Bank 2005.

The lowering of tariffs has contributed to a rapid growth in trade

goods, and within manufactures these tariffs are lower for intermediate capital goods than consumer goods.

Rapid Growth of Trade

The lowering of tariffs has contributed to a rapid growth in trade. Available evidence indicates that the share of Asia-Pacific in world trade nearly doubled over the period 1990-2003. Sub-Saharan Africa and the Middle East and North Africa's participation in international trade fell sharply in the last two decades, while Latin America saw its share fall in the 1980s but recovered in the 1990s, only to lose again in recent years. This phenomenon, which reflects the fact that both exports and imports of the Asia-Pacific region are growing at a faster rate than that of other regions of the world, showed the success of Asian countries in international trade after liberalization.[1]

During the earlier periods, export growth was faster in East Asia and the Pacific than in South Asia. Indeed, prior to and during the 1980s it was restricted mainly to the first- and second-tier newly industrializing economies (NIEs). As a result of two decades of high growth, in 2003 East Asia and the Pacific saw its total GDP rise to $2,000 billion – surpassing that of Latin America and the Caribbean. South Asia, on the other hand, which ranks next in terms of

BOX 2.1

ASIA, THE EMERGING FACTORY OF THE WORLD

The Asia-Pacific region has steadily increased its exports of manufactured goods. The region now accounts for around 30 per cent of world exports and in 10 years time could account for 50 per cent. Of this around 97 per cent comes from East Asia. Asia now accounts for 55 per cent of world trade in office and telecommunications equipment, 45 per cent in textiles, 47 per cent in clothing and 35 per cent in personal and household goods. The largest single category of exports is office and telecommunication equipment, which is also the fastest growing group of products in international trade.

Asia's Share of Global Manufactured Exports (%)

	Share in world exports	*World market growth rate*	*Asia's share*
	2004	*1990-2004*	*2004*
Iron and steel	4	6	25
Chemicals	15	10	17
Office & telecom equipment	17	11	55
Transport equipment	18	7	21
Textiles	3	4	45
Clothing	4	7	47
Other machinery	6	8	27
Personal & household goods	3	9	35
Scientific & precision Instruments	3	12	30
Others	17	9	26
Total	100	8	30

Note: Including developing economies of Asia, plus Japan, Australia and New Zealand.
Source: WTO 2005a.

GDP growth, had a much lower trade-to-GDP ratio, indicating that growth had taken place with a much lower level of engagement in trade.

But trends changed drastically in the 1990s – with signs of a growing dispersal of trade across the region. Thus, between 1990 and 2003, while East Asia and the Pacific continued to power ahead – and trade as a percentage of GDP increased from 45 to 81 per cent – the proportion of South Asia also increased, from 20 to 34 per cent.[2] These figures relate only to merchandise trade. If earnings from remittances, tourism and outsourcing are added, the differences between the subregions are smaller, and the overall increase is even more impressive. Asia is rapidly developing as the factory for the world (Box 2.1).

There has also been a rapid growth in imports. Indeed, in the period 1985 to 1995 the annual growth rate of import volume surpassed that of exports, reaching 10.5 per cent, though it slowed in the latter half of the 1990s, to 5.5 per cent. As a result, from a global perspective the region's share of imports rose from 13 to 21 per cent between 1973 and 2003 (Figure 2.2).

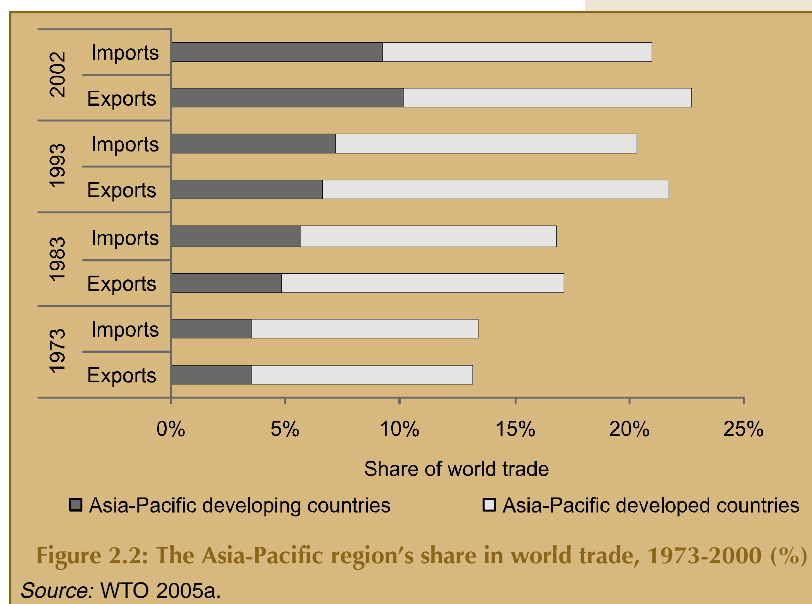

Figure 2.2: The Asia-Pacific region's share in world trade, 1973-2000 (%)

Source: WTO 2005a.

Merchandise exports of East Asia and the Pacific, which on average had been growing at 9 per cent annually in the 1980s, were growing by 13 per cent in the 1990s (Table 2.3). Among other factors, this was a consequence partly of earlier efforts at liberalization that had prepared the ground by exposing firms to international competition. A favourable investment climate had also encouraged substantial inflows of foreign investment. As a result, by the 1990s East Asia – with more efficient and productive industries – was poised for a takeoff in export-led growth.

China was the biggest beneficiary; it had a large and skilled labour force, available at relatively low wages. It also had special export zones that offered fiscal and other advantages, attracting many transnational companies, which during the 1990s invested over $300 billion. As a result, over the decade export growth exceeded 15 per cent, and by 2004, China had displaced Japan as Asia's biggest exporter (Table 2.3).

TABLE 2.3
Growth Rates of Exports, 1980s and 1990s (%)

	Merchandise		*Services*		*Total*	
	1980s	*1990s*	*1980s*	*1990s*	*1980s*	*1990s*
Cambodia	23	37	..	36	..	..
China	13	15	12	19	13	16
Fiji	1	3	9	3	5	2
Indonesia	2	10	22	9	2	9
Lao PDR	13	18	11	25	18	20
Malaysia	9	13	14	15	10	14
Mongolia	5	–0.5	8	10	..	6
Myanmar	–0.5	19	9	26	..	..
Papua New Guinea	2	7	21	4	4	7
Philippines	4	17	10	8	5	14
Samoa	–3	12	17	7	–	10
Thailand	15	12	17	9	15	11
Viet Nam	23	21	..	5	..	23
East Asia & Pacific	*9*	*14*	*14*	*11*	*10*	*13*
Bangladesh	9	15	7	8	10	14
Bhutan	18	6	28	–3.5	18	5
India	8	9	5	15	7	11
Maldives	21	5	6	14	22	9
Nepal	14	16	3	13	6	14
Pakistan	9	5	9	1	8	3
Sri Lanka	7	11	7	8	7	11
South Asia	*8*	*9*	*6*	*12*	*7*	*10*

Source: World Bank 2005.

Coming up fastest is Viet Nam, whose exports have been growing at the rate 20 per cent annually since the early 1980s

Other export success stories in East Asia include Malaysia and Thailand. Indonesia and the Philippines have also been performing more strongly of late. But coming up fastest is Viet Nam, whose exports have been growing by 20 per cent annually since the early 1980s – promising to make this East Asia's next major middle-income economy.

More surprising, perhaps, has been the performance of some of South-East Asia's Least Developed Countries (LDCs). A number of these have been keen globalizers. Starting from a low base, Cambodia, for example, has had phenomenal growth in merchandise exports – 37 per cent per annum – mostly of textiles and clothing. Lao PDR and Myanmar have also done well, with export growth rates of 18 per cent and 19 per cent.

The situation is different in South Asia. Here the growth in merchandise exports has been less impressive. India, the subregion's largest exporter, has been slower to cut tariffs and redirect production from import substitution to export markets. Some of the smaller countries, however, have done better, notably Bangladesh and Nepal in textiles and clothing, though this was largely due to the quota regime, which has now been phased out. South Asia as a whole has also done much better on service exports, with a growth rate in the 1990s higher than that for East Asia. India is the leader here, offering outsourced services, particularly in the IT sector, to many of the OECD countries.

The growth pattern has been similar for imports (Table 2.4). Rates of importing have also been rising, partly because tariff reductions have made imports cheaper relative to home-produced goods, thus displacing some import-substituting industries. But some imports are required as inputs to exports, reflecting the more integrated networks of global production, as different locations contribute different parts to the chain of value added. Exports and imports can thus be closely linked: in South Asia in particular, the rising exports, by alleviating foreign exchange constraints, have enabled import liberalization.

Nevertheless, imports have generally been growing more slowly than exports, particularly in South Asia. The main exception is China, whose buoyant demand for imports, growing at 17 per cent annually, has pushed East Asia and the Pacific's share of global imports from 4 to 7 per cent. South Asia's share, however, has remained more or less the same.

The combination of rising exports and imports means that virtually all Asian economies have become more 'open'. The degree of 'openness' of the economy, measured as the ratio of international trade (goods and services) to GDP, has risen steadily, as seen above, both, in East Asia and South Asia between 1990 and 2003.

TABLE 2.4

Growth Rates of Imports, 1980s and 1990s (%)

	Merchandise		*Services*		*Total*	
	1980s	*1990s*	*1980s*	*1990s*	*1980s*	*1990s*
Cambodia	0	27	..	25	..	
China	12	16	12	28	12	17
Fiji	4	2	9	5	5	2
Indonesia	9	6	3	11	7	8
Lao PDR	8	14	–11	13	2	12
Malaysia	12	12	7	13	11	12
Mongolia	6	2	45	5	..	6
Myanmar	–1	30	4	29	..	..
Papua New Guinea	1	1	4	8	2	4
Philippines	6	12	4	18	6	12
Samoa	4	4	6	3	..	2
Thailand	16	8	16	11	16	9
Viet Nam	8	21	..	10	..	21
East Asia & Pacific	*10*	*12*	*9*	*13*	*10*	*12*
Bangladesh	4	9	4	10	3	9
Bhutan	7	11	2	15	8	13
India	5	9	8	13	5	10
Maldives	20	11	0	11	22	8
Nepal	8	10	7	3	9	7
Pakistan	4	5	9	2	4	5
Sri Lanka	3	11	6	10	4	10
South Asia	4	8	7	10	5	8

Source: World Bank 2005.

The Balance of Imports and Exports

The dynamism in international trade in the 1980s and 1990s has also brought a shift in the balance between imports and exports. The results are summarized in Figure 2.3. In East Asia and the Pacific, the balance in merchandise trade has switched from negative to positive – causing the total balance to move from minus 0.5 per cent to plus 1.9 per cent of GDP. South Asia has also made progress now and has a positive balance in services; overall, the balance is still negative, but is moving in the right direction, from minus 3.7 per cent to minus 1.9 per cent.

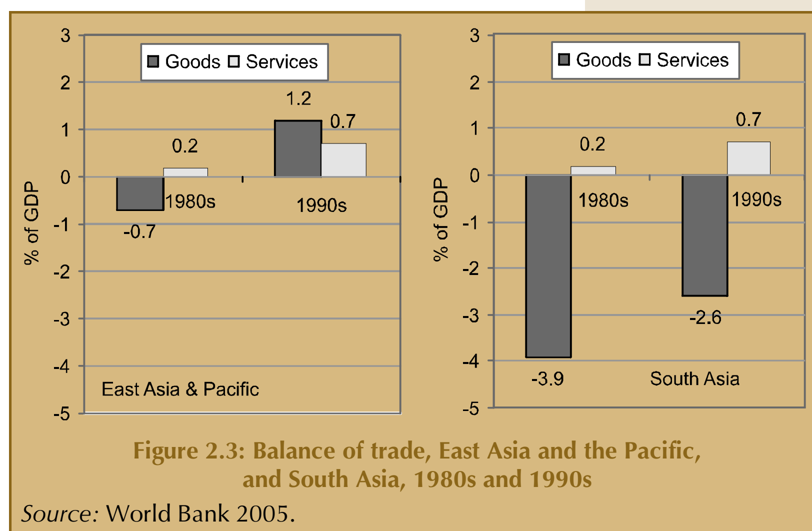

Figure 2.3: Balance of trade, East Asia and the Pacific, and South Asia, 1980s and 1990s

Source: World Bank 2005.

The experience of the Asia-Pacific countries can also be set in the context of other developing countries. UNCTAD, for example, has studied the impact of trade liberalization on the balance of trade in 16 countries across different regions over the period 1970 to 1995, and concluded that, especially in the early stages of the process, there is a tendency for the balance of payments to deteriorate.[3] Another study of 22 developing countries concluded that for a one-percentage-point reduction in duties, exports grew on an average by an extra 0.2 per cent, while imports rose between 0.2 and 0.4 per cent – and overall liberalization worsened the trade balance by 2 per cent of GDP.[4] These findings are more or less confirmed by a further UNCTAD study.[5]

By these standards, therefore, the region overall has had a more positive experience since the balance of payments position seems to have improved. East Asia has done particularly well: in the early 1990s it had a trade surplus of around 2 per cent of GDP, which by the late 1990s had risen to 4 per cent – resulting in an extraordinary buildup of foreign exchange reserves.

South Asia too has improved its position, even if the balance of trade remains negative – with two-thirds of the improvement coming from manufactured goods. Why has the result of liberalization been more muted here? The answer probably lies with domestic private investors, who have responded slowly to changing profitability signals. Despite the trade reforms, levels of private investment in manufacturing have remained low, and investors have been moving only gradually towards the exporting sectors.

Pakistan illustrates the point. During the 1990s, the export growth had actually declined – from 9 to 5 per cent. Private investment remained depressed partly because the country witnessed considerable macroeconomic instability over this period. Investors were also inhibited by the process of structural adjustment during an IMF programme that had caused growth to stall. Subsequently, however, investment recovered, especially for modernizing the textiles sector, and exports have been growing by 20 per cent.

The Changing Structure of Trade

Accompanying the increases in the volume of trade, there have also been dramatic transformations in the structure of trade. This has occurred at three levels: first, within both exports and imports, there have been shifts between merchandise and services; second,

Accompanying the increases in the volume of trade, there have also been dramatic transformations in the structure of trade

Within manufactured exports, there has also been a significant move up the technological ladder towards sophisticated products

within merchandise exports there has been a shift between primary products and manufactures; and third, within manufacturing, there have been changes in the balance between labour- and capital-intensive production.

Shifts in the balances between exports of goods and exports of services have been most noticeable in South Asia, particularly following India's boom in outsourced IT services. As a result, 26 per cent of South Asia's exports are now of services. In East Asia, however, the movement has been in the other direction as merchandise exports have risen from 86 to 88 per cent of exports (Figure 2.4).

Within merchandise exports, there have also been major structural changes, most notably a shift in exports towards manufactured goods, which in East Asia and South Asia by 2000 accounted for 80 and 78 per cent of merchandise exports respectively (Table 2.5). Two other notable features concern agricultural goods and oil. Not only have agricultural exports been declining, a number of countries have also become large-scale food importers. China, for example, was a net agricultural exporter of $2 billion worth in 1990. By 2003, this had been transformed into net imports worth $14 billion – a rising demand that has major implications for future world food prices (Box 2.2).

Regarding fuels, there has been a decline in exports in East Asia and the Pacific, though countries like Malaysia have emerged as net exporters. Indonesia, which is the region's major OPEC member, has had decline in exportable surpluses of petroleum and oil products. South Asia is more dependent on oil imports than East Asia and will, therefore, suffer more from higher oil prices (Box 2.3).

Within manufactured exports, there has also been a significant move up the technological ladder towards sophisticated products, though this is more evident in East Asia and the Pacific than in South Asia (Figure 2.5). In East Asia and the Pacific between 1990 and 2000, the proportion of exports based on natural resources and labour-intensive, low-tech goods fell from 53 to 37 per cent, while the proportion based on high-tech goods rose from 24 to 41 per cent – much of this from the higher-middle-income countries like Malaysia and Thailand. These countries are increasing their output of products like electronics, office machines and telecommunications equipment – which are also responsible for the fastest growth in world trade. In South Asia, on the other hand, around 85 per cent of merchandise exports are still of resource-based products or labour-intensive goods.

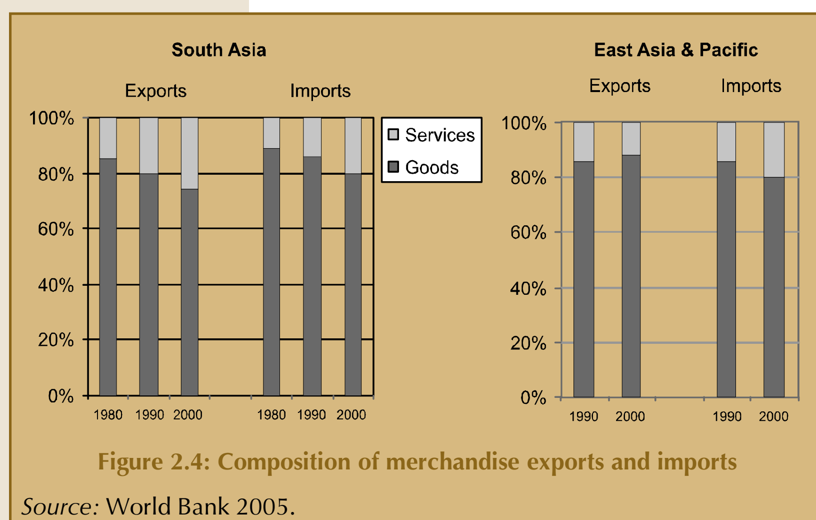

Figure 2.4: Composition of merchandise exports and imports

Source: World Bank 2005.

TABLE 2.5
Composition of Merchandise Exports and Imports

	Exports (%)			Imports (%)		
	1980	*1990*	*2000*	*1980*	*1990*	*2000*
East Asia & Pacific						
Agriculture	...	21	12	...	11	9
Fuel	...	14	8	...	6	10
Manufactures	...	59	80	...	77	76
Others	...	6	0	...	6	5
Total		100	100		100	100
South Asia						
Agriculture	38	21	17	14	13	10
Fuel	3	2	4	35	23	35
Manufactures	54	71	78	46	54	48
Others	5	6	1	5	10	7
Total	100	100	100	100	100	100

Source: World Bank 2005.

Growth or Trade – Which Comes First?

The Asia-Pacific region has thus experienced significant economic growth and a rapid rise in exports, especially in East Asia and to a lesser extent in South Asia. But have the exports have triggered this growth, or is it the other way round: are rising exports an outcome of economic growth? This is a question on which there has been extensive discussion.[6]

One view is that the main driving force is growth: as output rise, there is a surplus that can be exported. If, for example, a small developing country has a good harvest that produces a food surplus, then it can sell in international markets – and do so at the prevailing world price since the quantities will be relatively small.

The alternative view is that growth needs exports. A country that has a small domestic market can only achieve sustained growth by selling into larger world markets. This view is supported by empirical research.[7] This is illustrated in Figure 2.6, which for a sample of the larger low-to-middle income economies of Asia and the Pacific plots GDP growth over the 1980s and 1990s against export growth. This suggests a largely positive relationship. However, this scatter diagram has some outliers: China, for example, in the 1980s had only a modest growth in exports but still managed to achieve rapid economic growth. Viet Nam, on the other hand, had a rapid growth in exports but only a modest economic growth.

It is also possible to group countries according to their performance in the 1990s in relation to the 1980s:

BOX 2.2

From Food Surplus to Food Deficit

Four of the ten larger low to middle-income economies in the region now have net food deficits. They are Bangladesh, China, Pakistan and the Philippines. Of these, China had a surplus till as recently as 2003 and the Philippines up to 1994. The surplus has remained constant in India and also in Sri Lanka, where it is very small. In Indonesia, Malaysia and Thailand, the surpluses have grown.

Net Food Surpluses and Deficits in Selected Countries $ Billions

Country	*1990*	*2000*
Bangladesh	–0.4	–1.2
China	3.2	–0.3
India	3	3
Indonesia	1.7	4.3
Malaysia	1.4	4.3
Pakistan	–0.8	–0.5
Philippines	0.2	–0.6
Sri Lanka	0.1	0.1
Thailand	4.9	7.6
Viet Nam	–	3

Source: World Bank 2005.

BOX 2.3

The Oil Shock

Although Indonesia and Malaysia, as net exporters, have benefited from the rise in oil prices, many others are suffering from an 'oil shock'. The extent of the shock can be measured by considering the rise in the import bill expressed as a percentage of the country's liquid foreign exchange reserves.

Assuming, say, a 50 per cent rise in crude oil prices between 2004 and 2005, then among the larger countries the most vulnerable would be Pakistan, the Philippines, Sri Lanka and Viet Nam, where the shock would exceed 20 per cent. Pakistan, for example, which has foreign exchange reserves of just under $10 billion, faces extra costs of $2 billion. China too faces a rapidly rising import bill – an increase of $24 billion – but the shock is smaller because of its extraordinarily high level of foreign exchange reserves.

Oil shock of the magnitudes sustained by Pakistan, the Philippines, Sri Lanka and Viet Nam will not just be felt in one year; they will persist for some time, depending on structural rigidities and other factors.

Oil Shock = 20%
Pakistan, Philippines, Sri Lanka, Viet Nam
Oil Shock = 10–20%
Bangladesh, India, Nepal, Thailand
Oil Shock < 10%
China

Sources: UNCTAD 2005a; OPEC 2005.

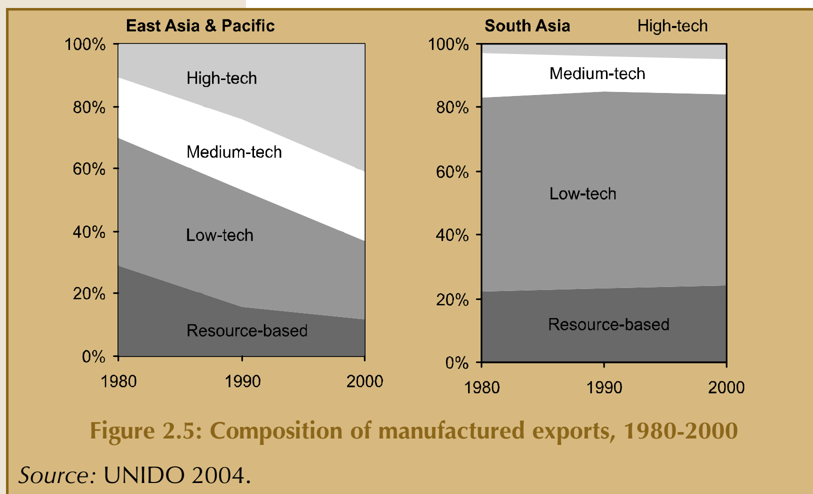

Figure 2.5: Composition of manufactured exports, 1980-2000

Source: UNIDO 2004.

1. *Acceleration in export and economic growth* – China, Malaysia, Philippines, Viet Nam, Bangladesh, Sri Lanka
2. *Acceleration in export growth but deceleration in economic growth* – India and Indonesia
3. *Deceleration in both export and economic growth* – Thailand and Pakistan

Countries falling into the second category can be considered special cases since they do not follow the expected pattern. India has several factors that would have contributed to this result. First, it needs to be borne in mind that the export sector is only a small part of India's economy and will thus have less of an impact. Second, overall growth was slowed due to a poor performance in agriculture.[8] A third contributing factor could have been a surge in imports following liberalization that undermined import substitution industries. In Indonesia, on the other hand, the principal factor seems to have been the East Asian financial crisis, which hit the country particularly hard, causing the GDP to plummet despite a rapid growth in exports. For the region as a whole, it is also interesting to note that no country combined slower export growth with faster economic growth.

Thus, there does seem to be a broad relationship between export growth and economic growth – and the relationship gets stronger when there is a high degree of export orientation. However, it can also be affected by domestic factors of demand and supply, and the outcome can be ambiguous if faster export growth is offset by faster import growth.

In East Asia and the Pacific, most of the impetus for export-led growth seems to have come less from agriculture and more from the non-agricultural sector, especially from manufacturing, which was growing annually by almost 11 per cent in the 1990s (Table 2.6). This was the outcome of policy decisions in these countries to move away from agriculture, first

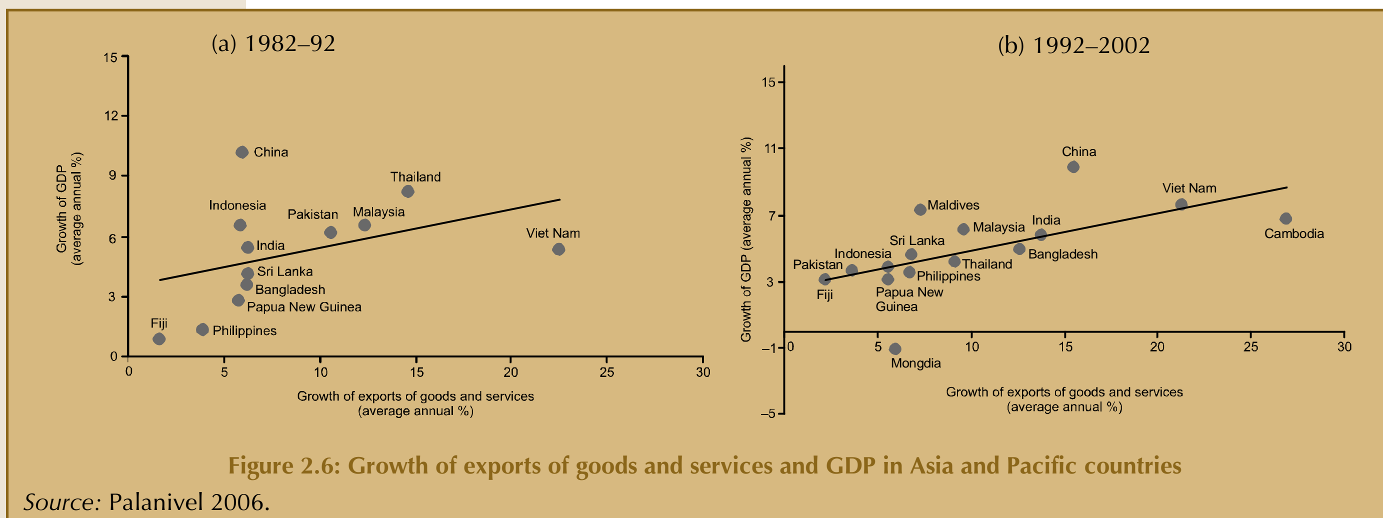

Figure 2.6: Growth of exports of goods and services and GDP in Asia and Pacific countries

Source: Palanivel 2006.

to labour-intensive manufactured goods and later to high-tech products. The outcome was a faster growth rate.

As a result, the agricultural sector has received little investment and is languishing somewhat. Nevertheless, the structural transformation of the East Asian economies has not yet been completed, and agriculture still accounts for almost half the labour force in the subregion – compared to 5 per cent in the developed countries. If the situation of the rural population is to improve, many more of them will need to find work in the more modern sectors of the economy, and more attention would have to be given to the agriculture sector.

In South Asia, the impact of liberalization was more ambiguous. Indeed, economic growth actually faltered somewhat between the 1980s and 1990s. Table 2.6 shows that even manufacturing slowed down, partly as a result of import penetration in industries such as leather and footwear, wood products, industrial chemicals, rubber products, plastic products, paper and paper products, glass products, fabricated metal products, and professional and scientific equipment. Agriculture has also suffered over this period, growing at less than 3 per cent; some of this would have been due to liberalization and the opening up of the agricultural market, which caused agricultural imports to increase by almost 150 per cent.

TABLE 2.6
Growth rates by sector and GDP growth rates

	1980s	*1990s*
East Asia & Pacific		
Agriculture	5.1	3.3
Industry	8.0	11.0
(Manufacturing)	(8.6)	(10.9)
Services	8.9	7.1
GDP	7.4	8.2
South Asia		
Agriculture	3.5	2.9
Industry	7.0	5.6
(Manufacturing)	(7.4)	(5.9)
Services	6.2	6.8
GDP	5.7	5.2

Source: World Bank 2005.

The structural transformation of the East Asian economies has not yet been completed, and agriculture still accounts for almost half the labour force

The Energy Crunch

All countries have to rely on trade to be able to finance imports – and for most of them, and especially the poorest, the largest bills are for oil. World oil prices have been rising steeply: in 2002 Brent spot prices averaged $25 a barrel; in 2003 they rose to $29; in 2004, $43; and in mid-2006 they approached the $75 mark. What does this surge imply? The pessimistic and more alarmist interpretation is that the world is close to the point of 'peak oil': the maximum production before output declines as the resource is depleted. A more optimistic view is that, after adjusting the nominal prices for changes in the prices of other commodities, oil prices are still relatively low. In 1980, for example, Arabian Light was $36 a barrel, which in inflation-adjusted 2005 amounts to $84 per barrel – and thus in real terms higher than recent prices.

But even if today's real price is short of its previous peak, the rising price has serious implications. Overall, the Asia-Pacific region remains a large net importer of oil, and rapid growth, especially in the manufacturing sector, has led to a continually rising demand. As a result, in spite of higher prices many countries of the region since 2004 have substantially increased fuel imports. Only a few of the faster-growing countries, such as Malaysia, the Philippines and Singapore, spent less on fuel in the latter half of the 1990s.

Unlike during previous oil shocks, many countries have clearly been able to finance rising oil imports without much difficulty. China, for example, can keep sucking in oil because of the consistently high increase in its export earnings; India manages because of its large information technology-related revenues; and some other developing countries are able to stay afloat with

the help of remittances from migrant workers. The better-off countries also have access to liquidity in the form of debt, portfolio investment or foreign direct investment, which has helped cushion the effects of rising oil prices. As a result, the demand for oil is still strong and oil prices have remained buoyant.

But the poorest countries, especially the LDCs, without access to foreign credits are facing an oil shock and can only import oil by selling more of their own goods in global markets (Box 2.3). This makes it even more urgent to find ways of ensuring that such trade engagement takes place in a way that also promotes human development.

Greater engagement with international markets was accompanied by a rise in income inequality

The Implications for Human Development

What effect has the rapid increase in trade had on human development? This is difficult to assess across such a huge region, which accounts for nearly 60 per cent of the world's population. It is also very diverse, with some dramatic contrasts in wealth: per-capita income in the richest country is more than 30 times that in the poorest. Within countries, too, there are striking contrasts between the richest and the poorest, both in income and in quality of life. However, there do seem to be some trends common across a number of countries.

TABLE 2.7
Trends in the Gini coefficient, 1960s to 1990s

	1960s average	1970s average	1980s average	Early 1990s	Late 1990s
North-East Asia					
China	–	–	0.315 (i)	0.335 (i)	0.403 (i)
Republic of Korea	0.323 (i)	0.361 (i)	0.359 (i)	0.294 (i)	0.300 (i)
South-East Asia					
Indonesia	–	–	0.317 (c)	0.317 (c)	0.317 (c)
Lao PDR	–	–	–	0.296 (c)	0.365 (c)
Malaysia	–	0.515 (i)	0.469 (i)	0.429 (i)	0.443 (i)
Philippines	0.505 (i)	0.494 (i)	0.409 (i)	0.438 (i)	0.462 (i)
Thailand	0.420 (i)	0.417 (i)	0.460 (i)	0.488 (i)	0.432 (i)
Viet Nam	–	–	–	0.357 (c)	0.361 (c)
South and South-West Asia					
Bangladesh	0.358 (i)	0.375 (i)	0.260 (c)	0.266 (c)	0.315 (c)
India	0.305 (c)	0.297 (c)	0.293 (c)	0.315 (c)	0.378 (c)
Pakistan	0.359 (i)	0.346 (i)	0.350 (i)	0.348 (i)	0.410 (i)
Sri Lanka	0.470 (i)	0.388 (i)	0.447 (i)	0.301 (c)	0.344 (c)

Note: 'i' = income data; 'c' = consumption data. Gini index series are comparable only when income and consumption data are considered separately.
Sources: Adapted from ADB 2001; World Bank 2002a.

Rising Inequality

One of the most general conclusions is that, for most developing countries in the region during the 1990s, a greater engagement with international markets was accompanied by a rise in income inequality. This is clear from trends in the conventional inequality measure, the Gini coefficient, which ranges from zero (absolute equality) to 1 (one person gets everything). The faster-growing economies, like China, have seen a large increase in inequality – though some countries, such as the Republic of Korea and Thailand, experienced a fall (Table 2.7).

Poverty

Despite increases in inequality, there has nevertheless been a substantial decline in poverty. Between 1990 and 2001, the number of people living on less than $1 a day dropped by nearly a quarter of a billion. This is usually attributed chiefly to sustained growth in China and the acceleration of growth in India. But progress has actually been quite widespread across the subregions: over the same period, the proportion of people living on less than $1 a day declined from 41 to 31 per cent in South Asia, and from 30 to 15 per cent in East Asia and the Pacific.[9]

But probably the most rapid changes have been in North-East Asia, where export-led growth was accompanied by a substantial

reduction in poverty and general improvements in the quality of life. Between 1990 and 2001, the proportion of people living in extreme poverty, measured by the headcount ratio, fell from 33 to 17 per cent. East Asia, therefore, stands out as a successful case of high growth, high trade and high human development. Income poverty also declined, if less dramatically, in South-East Asia – though one of the best performers was Malaysia (Box 2.4).

The situation has been different in South Asia. During this period, trade ratios were relatively low and average growth rates, even if creditable, were also lower. Income poverty did come down, though more slowly, and remains quite high (Figure 2.7). This points up the significance of growth for poverty reduction: growth may not be sufficient on its own to reduce poverty, though it does appear to be a prerequisite.

But there is a caveat: the contrasts between the two subregions may be overdrawn. In particular, it should be emphasized that economic growth and human development have a two-way relationship. So while South Asia and

Despite increases in trade, many LDCs have had less success in reducing poverty

BOX 2.4

Trade and Growth in Malaysia's Spectacular Poverty Decline

Malaysia is an example where trade liberalization, accompanied by pro-poor domestic policies, led to a remarkable reduction in poverty. Malaysia adopted two broad interrelated strategies for eradicating poverty. The first focused on economic growth through the pursuit of open trade policies. The second highlighted the role of public policy in promoting pro-poor growth strategies, providing the social and physical infrastructure required for a growing economy, and indirectly assisting specific target groups among whom poverty rates were highest.

Malaysia progressively liberalized its trade and has achieved sustained, albeit variable, economic growth. On an average, over the period of 1970–2005 the Malaysian economy grew in real terms in excess of 6 per cent a year. This has changed the country from a raw material-based to a manufacturing-based one: the most dynamic sector is electronics, and Malaysia is now one of the world's major exporters of semi-conductors and electronic components.

Changing world demand and falling prices led to the re-channelling of resources within the agriculture sector from rubber, which had lost its comparative advantage, to palm oil, for which there was a rising demand. Modern management of farms through land development schemes assisted in the modernization and transformation of agriculture. With rising rural incomes, the incidence of rural poverty declined substantially.

The international demand for labour-intensive products transformed Malaysia's manufacturing sector through the growth of export-oriented industries. FDI, attracted by Malaysia's infrastructure, human resources and government incentives, contributed markedly to the development of export-oriented industries, electronics being the most important. The exchange rate was stable, and the currency was not overvalued. Export-oriented industries – with their correlates of rising modern-sector employment opportunities, especially for women, and raised incomes – contributed significantly to urban poverty reduction.

In 1970 about half of households in multi-ethnic Malaysia were poor. By 1990, however, the proportion had dropped to 17 per cent and by 2002 to just 5 per cent. Further, unlike elsewhere, poverty reduction was accompanied by a reduction in income inequality during the period 1970–2002 – the Gini coefficient fell from 0.52 in 1976 to 0.46 in 2002.

The Malaysian experience suggests long-run economic gains for all from trade liberalization, although there are short-term winners and losers and the poor can be vulnerable. So domestic policies need to be in place to help the vulnerable deal with the transition costs of adjustment and to benefit from the new, open trade regime. Trade liberalization in Malaysia was, therefore, accompanied by pragmatic social policies and macro-economic management, as well as investments in human capital, especially health, education and women's empowerment.

Source: UNDP Malaysia 2006 (forthcoming).

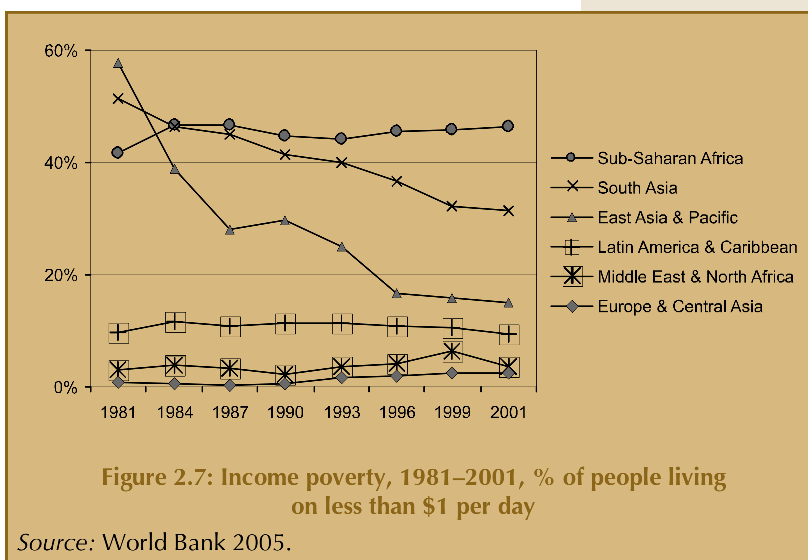

Figure 2.7: Income poverty, 1981–2001, % of people living on less than $1 per day

Source: World Bank 2005.

While South Asia and East Asia chose different paths, they may reach the same destination

East Asia chose different paths, they may reach the same destination.

South Asia, especially before the 1990s and starting from much lower levels of human development, and pursued strategies based more on protecting the domestic market with tariffs and quantitative restrictions. This produced slower growth. It also resulted in slower advances in human development, but these nevertheless helped ensure that modest liberalization in the 1980s and accelerated integration in the 1990s were accompanied by a higher trend rate of economic growth.

East Asia, on the other hand, started with a considerably more favourable level of human development, and in particular an educated population, and was able to capitalize on this to achieve export-led economic growth.

Both experiences underscore the fact that favourable human development conditions – education, long and healthy lives, equal access to opportunities, and a strong and pro-development public sector, including good governance – provide the preconditions not just for economic growth *per se* but also influence its pattern and quality, which can further contribute to enhancing the quality of life and widening people's choices.

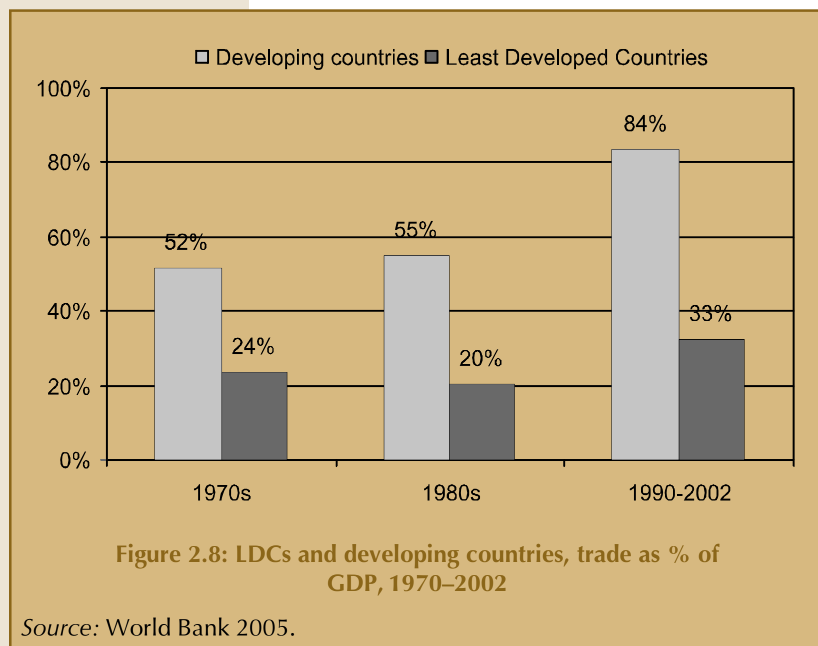

Figure 2.8: LDCs and developing countries, trade as % of GDP, 1970–2002

Source: World Bank 2005.

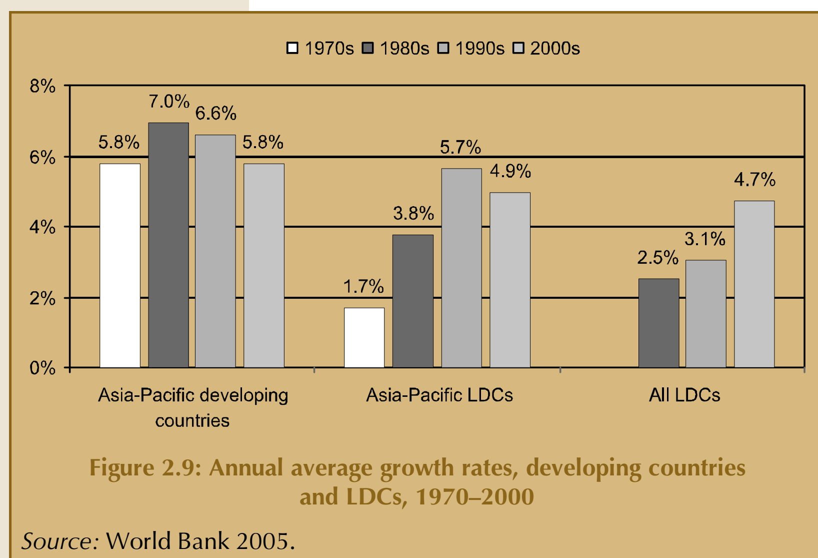

Figure 2.9: Annual average growth rates, developing countries and LDCs, 1970–2000

Source: World Bank 2005.

The Experience of the Least Developed Countries

Advances in the Least Developed Countries (LDCs), however, have been slower. Despite increases in trade, many LDCs have had less success in reducing poverty. Like the developing countries of the region, they have increased trade as a proportion of GDP – from 20 per cent in the 1980s to 33 per cent in 1990–2002 (Figure 2.8). Moreover, this expansion of trade has enabled the LDCs of Asia-Pacific to achieve faster growth than the LDCs of other regions (Figure 2.9) and to narrow the human development gap with the developing countries of the region – though the gap is still significant. Nevertheless, poverty rates in many of the LDCs have not declined very rapidly and while in developing countries of the region the proportion of the population living below the $1-per-day poverty line is 22 per cent, for the LDCs it is 38 per cent.

Food Insecurity

Despite reductions in income poverty, the region continues to suffer from extreme deprivation.

This is evident, for example, in food consumption. Liberalizing agricultural markets may have helped reduce the price of food – particularly food produced with the backing of subsidies in the US and the EU. But this does not seem to have led to any consistent improvement in food security. More countries now have food deficits (Box 2.2), and Asia still has more hungry people than in any other region of the world – over 510 million in 2002.[10] And in recent years the number has increased, so that about one in every six persons was undernourished.[11] This was because progress slowed in China, Thailand and Viet Nam, and in some countries the advances of the first half of the 1990s were actually reversed – as in India, Indonesia and Pakistan.[12]

Food deprivation has hampered efforts to deal with malnutrition. Household food insecurity, combined with the lack of adequate feeding practices and the debilitating effects of infectious disease, leaves million of children undernourished – and at greater risk of early death. The proportion of children under five who are underweight may have been reduced: between 1990 and 2003, in South Asia the proportion declined from 53 to 47 per cent; in South-East Asia from 38 to 29 per cent, and in North-East Asia from 19 to 10 per cent.[13] Nevertheless, this progress has been far too slow, and in 2003 in South-East Asia malnutrition was still sapping the strength of close to one-third of children, and in South Asia of nearly half.

Health

Trade might be expected to improve health by increasing employment and income. There is now the threat that due to the TRIPS agreement, the price of drugs might increase, though this has yet to take effect. Generally, the period of trade-led growth has been accompanied by improvements in health, though this seem to have slowed in recent years. The most rapid progress has been in South-East Asia, where between 1990 and 2003 the under-five mortality rate per 1,000 live births fell from 78 to 46. In North-East Asia it fell from 48 to 37. There has also been progress in the South Asia from 126 to 90, but the rate remains high. A number of subregions also have high rates of maternal mortality: in 2000 these stood at 540 per 100,000 live births in South Asia and 210 in South-East Asia, though a creditable 55 in North-East Asia.[14]

Education

Trade might have been expected to raise education standards by giving people greater incentives to improve their skills. But progress has also been inadequate. The greatest problems are again in South Asia, where one child in five fails to enrol in primary school. Since 1990-91, when the net enrolment ratio in primary education was 73 per cent, the ratio has increased, but by 2001-02 had still only reached 79 per cent. Moreover, a high proportion of children who enrol do not complete the full course of primary education. Enrolment rates tend to be higher in the other subregions, but even here they may be slipping: in South-East Asia over the same period, enrolment declined from 92 to 91 per cent and in North-East Asia from 97 to 95 per cent.[15] Children in these two subregions also do better for completion: in South-East Asia 90 per cent of those enrolled reach the final grade of primary school, and in North-East Asia all children reportedly complete their primary schooling.[16]

As in most other areas, the shortfall is far greater for girls than boys. In South Asia, between 1990-91 and 2001-02 the number of girls enrolled in primary school per 100 boys rose from 76 to 85, but still falls far short of parity. For South-East and North-East Asia, however, the ratios are more impressive – increasing over the same period from 96 to 97 and from 93 to 100 respectively. At the secondary-school level, patterns of enrolment

In 2003 in South-East Asia malnutrition was still sapping the strength of close to one-third of children, and in South Asia of nearly half

were similar: in 2001-02 for the three sub-regions, the numbers of girls per 100 boys were 79, 98 and 93 respectively.[17]

Some of the more direct impacts of trade on education can be seen, however, in greater specialization – as, for example, in India, where the demand for outsourcing personnel has led to a mushrooming growth of IT training institutions.

Women are still often considered as second-class citizens when it comes to the management and organization of work

Gender

Gender differences that start at school tend to persist and sometimes even widen as children move to adulthood. This is evident, for example, in women's share in non-agricultural wage employment which, between 1990 and 2003, increased by only a few percentage points: from 13 to18 per cent in South Asia, 37 to 39 per cent in South-East Asia and 38 to 40 per cent in North-East Asia. The fastest increase, in South Asia, is attributable to rising exports of textiles and clothing.

Earlier, East Asia's export drive in the 1960s and 1970s also relied on the mobilization of female workers. By being able to earn their own income independent of their families, many women thus obtained greater personal freedom – though they often had limited opportunities to participate in decisions on their working conditions and are still often considered as second-class citizens when it comes to the management and organization of work (Box 2.5). Moreover, for women the world over going out of the home to work adds to their double burden and exposes them to the risk of sexual harassment at the workplace.

The Socio-Political Impact

Besides boosting household incomes, trade can also promote other aspects of human development. In Western countries, for example, the potential for trade stimulated factory-based industrialization and created a new working

BOX 2.5

Including Women in Globalization

A special contribution from Ela R. Bhatt, Founder, Self Employed Women's Association (SEWA), Ahmedabad, India

Why are poor women not more fully included in the globalization process, which is encompassing everyone and everywhere? One reason is that poor women are highly dispersed. They are spread across rural and urban areas, across sectors of economy, across levels of access to formal financial services, and across the range of industrial processes.

Another reason is that they do not know their markets directly. For example, those who have their own small ready-made garment businesses do not know who buys the garments they produce, what price their products fetch in global markets or how long this design or fabric will be in demand. As a result, their understanding of global markets is filtered through middlemen.

The first thing that women need to do is to organize – to associate themselves with people in similar occupations and with similar skills. This will enable them to access credit, information, market links and emerging technologies, taking advantage of one or more of these in combination – in packages that are suitable and affordable and that they can select and manage for themselves.

Even these will only allow women to catch up, but not necessarily to move forward. Poor women, therefore, need reforms that provide a possibility for partnerships with governments, and the financial institutions:

1. Put poor women in the centre of any economic reform, especially in the key five areas: basic services, banking, labour, insurance, and trade.
2. Recognise 'work' as central to any economic reform that addresses poverty. For the poor, work is absolutely central to their lives.
3. Invest adequately in those poor women's initiatives that have the potential to grow.
4. Develop and spread social security systems that perform in a holistic way for the poor and women.
5. Build the capacity of poor self-employed women to enter global markets by building new marketable skills and knowledge, individually as well as institutionally.

These changes are tough and demanding, but possible. They have worked for SEWA to a significant extent and for many more institutions across India. Some of these institutions work at loggerheads with the local government, while others work with them, but they all share a common concern for the poor and a commitment to foster change. Poor people have demonstrated the change that they have brought by their collective efforts.

class. This new workforce had a significant social and political impact. Workers may have been dissociated from the ownership of the instruments of production, but they were nevertheless free to choose their occupation and to earn an income independent of the patronage of the elite. Trade can thus be seen to have facilitated the emergence of an independent electorate and to have enriched democracy.[18]

The Employment Channel

The main channel for all these effects of trade on human development is through employment. Ideally, more trade should mean more jobs and a decline in unemployment. But, often there has been no improvement: between 1993 and 2003, a period of rapid expansion in trade, unemployment rates for global regions fell only in the industrialized economies; in all other regions they remained largely unchanged (Figure 2.10). Young women and men aged from 15 to 24 bore the brunt of rising unemployment. While youth made up one-fifth of Asia-Pacific's labour force in 2004, they constituted nearly half of the region's total jobless population. Youth unemployment stood at a particularly high 17 per cent in South-East Asia. Women's unemployment rates have increased in recent years and are higher than men's in most countries of the region.

As the labour force grew rapidly in the 1990s, by 24 per cent in South Asia and 15.4 per cent in East Asia and the Pacific, unemployment pressures rose. Now, those who are in the labour market are finding jobs scarcer. This is evident from unemployment rates in South-East Asia, which between 1993 and 2003 increased from 3.9 to 6.3 per cent. Indeed, since 1990 some of the most trade-intensive countries, such as China and Singapore, have seen unemployment rates increase substantially.

Asian countries created jobs quite rapidly in the 1980s – 337 million in total. However, they

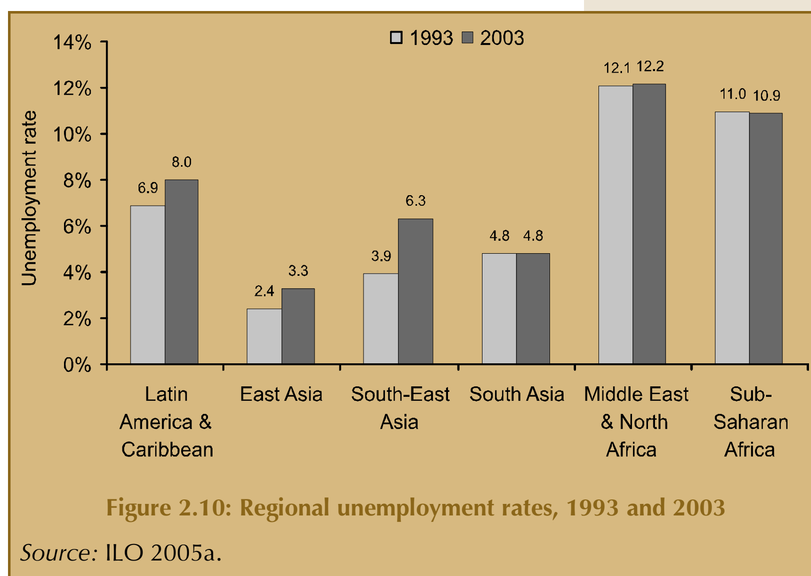

Figure 2.10: Regional unemployment rates, 1993 and 2003

Source: ILO 2005a.

created far fewer, 176 million, in the 1990s. Why was employment generation virtually halved? Most of this shortfall reflects developments in East Asia. During the 1980s, the subregion added 273 million new jobs – 70 per cent of the regional total. In the 1990s, however, despite accelerating economic growth, countries of the subregion added only 104 million jobs and, as a result, the unemployment rate rose again. In South Asia, on the other hand, there was a small increase: the subregion created 64 million jobs in the 1980s and then, despite some decline in the overall rate of economic growth, added 72 million in the 1990s.

Asian countries created jobs quite rapidly in the 1980s far fewer in the 1990s

To look more closely at what is happening, it is useful to consider the 'elasticity' of employment with respect to growth, which is obtained by dividing the growth rate in employment by the growth rate in output.

The region's experience is summarized in Table 2.8. In East Asia, there was a precipitous decline in employment creation: between the 1980s and the 1990s, despite an acceleration in output growth, employment growth fell from 4.2 to 1.2 per cent – a fall of 3 percentage points. This is reflected in a drop in employment elasticity from 0.56 to 0.15.

These data can then be used to 'decompose'

TABLE 2.8

Growth of Employment and Output, and Employment Elasticity by Sector

	1980s			1990s		
	Employment growth	*Output growth*	*Employment elasticity*	*Employment growth*	*Output growth*	*Employment elasticity*
East Asia & Pacific	*4.2*	*7.4*	*0.56*	*1.2*	*8.2*	*0.15*
Agriculture	1.8	5.1	0.35	–0.2	3.3	–0.05
Industry	4.7	8.0	0.59	0.8	11.0	0.07
Services	5.2	8.9	0.59	3.5	7.1	0.49
South Asia	*1.6*	*5.7*	*0.28*	*1.6*	*5.2*	*0.31*
Agriculture	1.3	3.5	0.37	0.6	2.9	0.21
Industry	2.3	7	0.33	2.5	5.6	0.45
Services	2.3	6.2	0.37	3.6	6.8	0.52

Source: Palanivel 2006.

the growth in employment into two parts: first, the part that is caused by an increase or decrease in economic activity, the 'output effect'; second, the part that reflects the capacity of that output to generate employment, the 'elasticity effect'. The results of this decomposition are indicated in Table 2.9. Thus, for East Asia and the Pacific, the 3.0-percentage-point fall in employment growth between the 1980s and 1990s was composed of a 0.1-percentage-point increase due to the output effect and a 3.1-percentage-point decline due to the elasticity effect.

TABLE 2.9

Factors Contributing to Changes in Rate of Employment Growth

	Change in rate of growth of employment (1)	*Output effect (2)*	*Elasticity effect (3)*
East Asia & Pacific	–3.0	0.1	–3.1
Agriculture	–2.0	0.1	–2.1
Industry	–3.9	0.2	–4.1
Services	–1.7	–0.8	–0.9
South Asia	0.0	–0.2	0.2
Agriculture	–0.7	–0.1	–0.6
Industry	0.2	–0.6	0.8
Services	1.3	0.4	0.9

Note: Column 1 is the sum of columns 2 and 3
Source: Palanivel 2006.

Most of this change in the subregion is caused by what was happening in the industrial sector – and particularly in manufacturing, for although manufacturing output increased by almost 180 per cent in the 1990s, the associated employment increased by only 3 per cent, what has been called 'jobless growth'. As Table 2.8 shows, employment elasticity in industry fell steeply – from 0.59 to 0.07.

Employment generation in East Asia was also weak in the services sector. In this case, however, this was due to both a deceleration in output growth and due to deterioration in the employment elasticity: the fall in the rate of growth of employment from over 5 to around 3.5 per cent is shared equally by the two effects.

The worst outcome, however, was in agriculture. Here too there was both a deceleration in output growth and a deterioration in employment elasticity. Indeed, in agriculture employment fell even in absolute terms.

The Changing Composition of Manufacturing

Overall, therefore, most of the inadequate employment growth in East Asia has been due to the elasticity effect. What caused this? And in particular, why has manufacturing failed to provide sufficient jobs to absorb people moving from the agricultural sector? The answer lies in the manufacturing sector's changing composition. First, manufacturing has been moving from low-tech, labour-intensive industries such as garments to high-tech and more capital-intensive ones such as electronics. Table 2.10 indicates this process for China and Malaysia, both of which saw a sharp decline in labour-intensive production. Second, even within more labour-intensive manufacturing, companies have continued to invest in labour-saving equipment: one survey of 28 industries in Malaysia, for example, found a significant decline in labour intensity in 13 industries.

It should, of course, be borne in mind that the manufacturing sector also triggers employment indirectly, as manufacturing enterprises provide business for the wholesale and retail trade, transport and communications, and banking and insurance. Incomes generated in the manufacturing sector also stimulate consumer demands for services.

Table 2.11 shows that while there has been significant growth in the service sector, employment has not kept pace. In East Asia and the Pacific, the employment elasticity of growth has in fact been falling for all sub-sectors except finance and insurance. In South Asia, on the other hand, the employment-generating capacity of all sub-sectors has expanded.

This pattern of jobless growth is evident in virtually all the economies in East Asia (Table 2.12). China, for example, whose buoyant exports have contributed to an exceptionally high rate of economic growth – approaching 10 per cent – had employment growth of only 1.1 per cent in the 1990s.

The employment situation is different in South Asia. Here, despite a deceleration in the rate of economic growth, employment growth remained fairly constant, albeit at a relatively modest rate of about 1.6 per cent – implying an increase in the employment elasticity, including that for industry (Table 2.8). This is because in South Asia there has been relatively little structural change: during the 1990s traditional labour-intensive and natural-resource-based industries maintained and even increased their shares in value added. In India, for example, the proportion of manufacturing value-added contributed by labour-intensive production remained constant between 1990 and 2000 at 29 per cent (Table 2.13).

Increasingly, the employment burden in India has been taken up by the large informal sector – the residual employer – which has created work for people who could not find work in agriculture and have left the rural areas.

TABLE 2.10

Composition of Manufacturing Value-Added in China and Malaysia (%)

Industry	*1980*	*1990*	*2000*
		China	
Labour-intensive	–	29	21
Natural resources	–	25	27
Food, beverages & tobacco	–	15	14
Transport equipment	–	4	7
Metal working, office equipment, etc.	–	24	27
Others	–	3	4
		Malaysia	
Labour-intensive	26	27	18
Natural resources	25	23	19
Food, beverages & tobacco	21	13	10
Transport equipment	4	6	4
Metal working, office equipment, etc.	21	30	47
Others	3	1	2

Source: UNIDO 2004.

TABLE 2.11

Growth of Output and Employment in the Services Sectors

	1980s			*1990s*		
	Employment growth	*Rate of output growth*	*Employment elasticity*	*Employment growth*	*Rate of output growth*	*Employment elasticity*
East Asia & Pacific						
Wholesale & retail trade	6.2	9.5	0.65	5.0	7.8	0.64
Transport, storage & communications	6.1	10.4	0.59	3.4	8.4	0.40
Financing & insurance	7.5	5.6	1.34	6.0	3.6	1.67
Community, social & personal services	4.2	2.0	2.10	1.6	1.5	1.07
South Asia						
Wholesale & retail trade	2.5	5.0	0.50	4.5	3.5	1.29
Transport, storage & communications	2.3	6.3	0.37	4.8	8.0	0.60
Financing & insurance	5.2	9.5	0.55	5.9	9.1	0.65
Community, social & personal services	1.0	6.3	0.16	2.0	1.3	1.54

Source: Palanivel 2006.

TABLE 2.12
Overall Growth of Employment and GDP and Employment Elasticity in Selected Countries

	1980s			1990s		
	Employment growth	*GDP growth*	*Employment elasticity*	*Employment growth*	*GDP growth*	*Employment elasticity*
China	4.3	9.4	0.46	1.1	10.1	0.11
Indonesia	3.9	6.4	0.61	1.7	4.4	0.39
Malaysia	3.4	6.0	0.57	3.4	7.2	0.47
Philippines	2.8	1.8	1.56	2.1	3.1	0.68
Thailand	3.2	7.9	0.41	0.7	4.6	0.15
Viet Nam	4.2	4.6	0.91	2.2	7.6	0.29
East Asia & Pacific	*4.2*	*7.4*	*0.56*	*1.2*	*8.2*	*0.15*
Bangladesh	3.1	4.1	0.76	4.1	4.8	0.85
India	1.5	5.8	0.26	1.2	5.5	0.22
Pakistan	2.0	6.3	0.32	2.2	4.0	0.55
Sri Lanka	1.0	4.2	0.24	1.4	5.2	0.27
South Asia	*1.6*	*5.7*	*0.28*	*1.6*	*5.2*	*0.31*

Source: Palanivel 2006.

TABLE 2.13
Composition of Manufacturing Value-Added in India (%)

	1980	*1990*	*2000*
Labour-intensive	37	29	29
Natural resources	24	26	31
Food, beverages and tobacco	9	12	13
Transport equipment	8	10	7
Metal working, office equipment, etc.	21	19	17
Others	1	4	3

Source: UNIDO 2004.

TABLE 2.14
Growth in Total Factor Productivity in Selected Countries

	1980s	*1990s*
East Asia & Pacific		
Malaysia	0.5	1.8
Philippines	–0.9	–0.3
Thailand	2.0	0.0
Viet Nam	2.0	3.7
South Asia		
India	1.6	2.5

Source: Calculated from Palanivel 2006.

Table 2.11 indicates that much of this employment has been in wholesale and retail trade, most of which is in the informal sector. Here, by contrast, the employment elasticity has increased substantially, indicating that more people are working in this sector, but without a proportionate increase in output, and thus will be earning lower wages. Overall, however, employment growth in India has been fairly low, at around 1 per cent.

The situation is somewhat better in other countries in the subregion. In Bangladesh, for example, employment growth has increased significantly, primarily because of the expansion in the labour-intensive garment export industry, and there has also been some improvement in Pakistan and Sri Lanka.

Conditions in the Labour Market

Rising output without a corresponding rise in employment is disadvantageous from the standpoint of human development. However, it does have a positive aspect, since it signals a rise in labour productivity. Many enterprises have become more capital-intensive, either because they have been investing in new or replacement labour-saving equipment, or because they have responded to competitive pressure, either in the domestic or international markets, by shedding labour.

In East Asia labour productivity increased rapidly in the 1990s, by over 7 per cent annually – and 10 per cent in industry. In South Asia the corresponding rates of growth were between 3 and 3.5 per cent. Across the region, this has been accompanied by rises in total factor productivity (TFP), which is the effect of technology and management on output. However there are considerable differences between countries in the rise in TFP (Table 2.14). Viet Nam, for example, has been sharpening its competitive edge with annual increases of almost 4 per cent – which explains its boost in exports. India too has

shown a respectable growth of 2.5 per cent in TFP. In Thailand, however, TFP has been stagnant, and in the Philippines it has been falling.

These changes in productivity also have an effect on wages. In countries that have relatively tight labour markets and low unemployment, rising productivity is likely to lead to increases in real wages. In East Asia real wages have indeed been rising rapidly: 7 per cent annually in Malaysia, 11 per cent in China, and 12 per cent in Indonesia. In South Asia, on the other hand, where productivity rises have been smaller and unemployment is higher, there was little change in the 1990s: a marginal improvement in Bangladesh; flat in India, Nepal and Sri Lanka; and a small decline in Pakistan.[19]

There have also been changes in the skill levels of the workforces across the region. This can be seen from the education levels of the unemployed, which tend to be lower as countries move to higher levels of technology. As Figure 2.11 illustrates, in both Indonesia and Thailand, the proportion of the unemployed who were more highly educated fell between 1990 and 2000. This is not surprising given the shift towards medium- and high-technology industries and modern formal-sector services like telecommunications, banking and insurance, which tend to utilize skilled workers more. In India and Sri Lanka, on the other hand, the proportion of the more educated among the unemployed has risen – giving rise to the phenomenon of graduate unemployment.

There are also differences between the subregions on the employment of women. In East Asia female participation rates are high, close to 80 per cent, but women are more likely than men to be unemployed (Figure 2.12). In South Asia the participation rates are lower, 30 to 70 per cent, but there tend to be smaller disparities in the unemployment rates. Indeed, in Bangladesh the rate in the 1990s was significantly lower for women – a result in part of their opportunities for work in the garment sector.

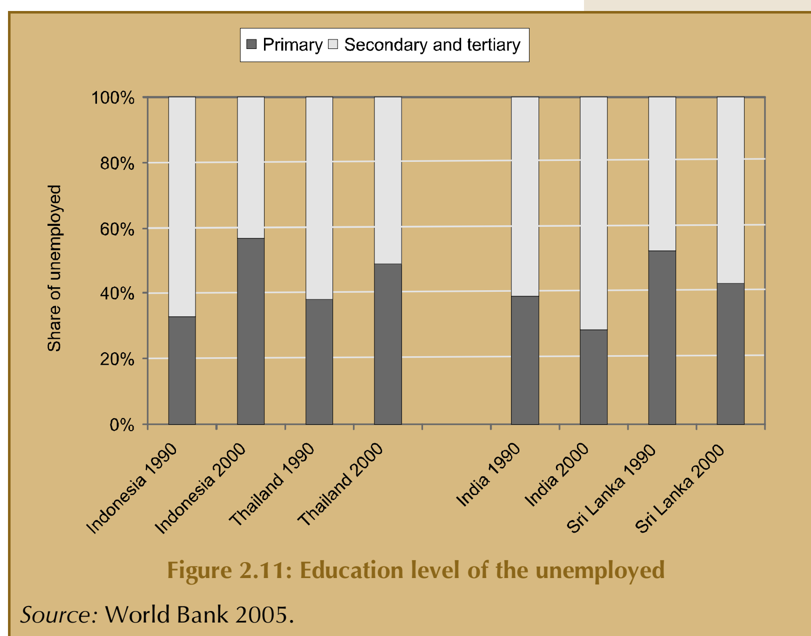

Figure 2.11: Education level of the unemployed

Source: World Bank 2005.

Many enterprises have become more capital-intensive

Conclusions

The above discussion demonstrates that there were fundamental differences between East Asia and South Asia in the 1990s in the linkages between trade, growth and employment. Looking at South Asia, the process of trade liberalization really got under-way during the

Figure 2.12: Unemployment rate by sex, 1990s

Source: ILO 2005a.

decade. Exports, both of merchandise and services, responded positively, but there was also an upsurge of imports, including those of agricultural products. The overall growth rate fell somewhat, with the export stimulus being neutralized possibly by the displacement effect of imports on industry and agriculture.

However, the rate of employment growth, albeit modest, remained unchanged, owing primarily to three factors: first, stability in the industrial structure sustained by continued reliance on labour-intensive manufactured exports; second, buoyancy of labour-intensive services owing again to the rapid growth of service exports and role of the informal sector and; third, limited changes in the choice of techniques within industries in the presence of high real interest rates, which raised the cost of capital, and relative stagnation in real wages.

The impact of trade on poverty was adverse when judged from the viewpoint of the fall in growth, especially of agriculture. However, it was positive from the viewpoint of faster export growth in labour-intensive manufactures and services, and some improvement in conditions in the labour markets for relatively unskilled and female workers.

By the beginning of the 1990s, the process of trade liberalization had been under-way for some time in most East Asian countries. Conditions were ripe for a takeoff to higher rates of export-led growth. This is what happened: exports showed a double-digit growth rate, the balance of trade improved substantially and the economic growth rate went up appreciably, primarily in the manufacturing sector, but agriculture lost some of its dynamism. There were big changes also in the composition of exports. The share of agricultural products fell, while that of manufactured goods rose sharply. As East Asia moved up the international division of labour, the share in manufacturing output and exports of high-tech, skill-intensive products rose, while that of labour-intensive products declined. Simultaneously, the choice of technique in individual industries shifted towards greater capital intensity. These developments were facilitated by low real interest rates and rapid increases in real wages, primarily due to increased labour productivity.

The consequence was that the employment growth rate plummeted, even in the presence of faster growth in output. There was 'jobless growth' both in agriculture and manufacturing. The overall unemployment rate increased, and labour market conditions probably deteriorated for unskilled workers. The rising gaps between urban and rural income, between capital and labour income and between the incomes of skilled and unskilled workers have led to sharp increases in inequality. The failure of employment to rise and the growing income disparities imply that the 'trickle down' effect of fast trade and income growth on human development and poverty reduction is limited.

Overall, the linkage between trade and growth is strong in East Asia, while the linkage between growth and employment is weak. In South Asia, the relationship between trade and growth is weaker, while that between growth and employment is stronger.

It is interesting to note that in spite of the contrasting experience of relatively lower growth but more pro-poor growth in South Asia in relation to East Asia, both regions have shown virtually the same rate of decline, of about one percentage point per annum, in the incidence of poverty in the second half of the 1990s. The basic lesson is that while growth matters, the nature of this growth also matters.

Making Agricultural Trade Work for the Poor

3
Chapter

International trade in agriculture can be a mixed blessing – on the one hand, benefiting low-income consumers by allowing the possibility of cheap food; on the other hand, threatening the livelihoods of poor farmers and fishing communities. Policymakers in Asia and the Pacific have to balance these and other considerations if they are to ensure that agricultural trade promotes human development.

Economic transformation typically focuses on modernization in the urban areas, but in the poorest countries most people actually live in the countryside. Progress in human development will, therefore, be shaped by what happens to rural communities, whether engaged in agriculture or fisheries. The lives of the urban poor too will depend on achieving greater food security.

Agriculture is important throughout the region, but its significance varies considerably from country to country. As a proportion of GDP, agriculture's contribution in 2002 ranged from 6 per cent in the Republic of Korea to 52 per cent in Lao PDR (Table 3.1). It also varies in its share of total employment – in 2000 this ranged from close to 70 per cent Viet Nam and India to less than 1 per cent in Singapore and Hong Kong, China (SAR) (Table 3.2). Generally, agriculture is more important for the poor countries.

Food Insecurity in Asia

When agriculture is weakened, this also has a serious effect on food security. Asia is already home to 65 per cent of the world's food insecure – over 510 million people around the region. There was some progress in the first half of the 1990s, but since then in most countries – the exceptions being China, Viet Nam and Thailand – the number of hungry people has increased. At the turn of the century even the Republic of Korea and Malaysia saw their number of undernourished stagnate or rise.[1]

Between 1990 and 1995, India, for example, made significant gains, reducing the total number of hungry people by 13 million, but in the second half of the 1990s, despite economic growth, the number of hungry increased by 18 million.[2] Indeed, South Asia as a whole has one

TABLE 3.1

Valued-Added in Agriculture as Percentage of GDP

0.1–10%	*15–25%*	*25–40%*	*40–55%*
Hong Kong, China (SAR)	Philippines	Bangladesh	Nepal
Singapore	China	Pakistan	Lao PDR
Japan	Fiji	Mongolia	Afghanistan
Australia	Kiribati	Bhutan	Myanmar
World	Indonesia	Cambodia	
Korea, Rep.	Sri Lanka		
Mauritius	Viet Nam		
Malaysia	India		
Thailand			

Source: World Bank 2005.

TABLE 3.2

Percentage Employment in Agriculture

0–6%	*12–25%*	*37–50%*	*50–80%*
Singapore	Korea, Rep.	Sri Lanka	Thailand
Hong Kong, China (SAR)	Mauritius	World	India
Fiji	Malaysia	Philippines	Viet Nam
Australia	Maldives	Mongolia	Nepal
Japan		Indonesia	
Kiribati		Pakistan	
		China	

Source: World Bank 2005.

of the highest proportions of undernourished – 22 per cent – second only to Sub-Saharan Africa.

Malnutrition has profound implications – damaging health and leading to lifelong physical or cognitive disabilities that reduce chances of survival. It can also be passed from one generation to the next: malnutrition hits particularly hard at women, and when undernourished women give birth to underweight girls, they too may grow up to be malnourished mothers, sustaining an intergenerational cycle of malnutrition. In India and Bangladesh, more than 30 per cent of all children are born under-weight.

Malnutrition not only denies people their right to health; it also has serious economic implications

Malnutrition not only denies people their right to health; it also has serious economic implications. Malnourished children are less able to concentrate in school, and malnourished adults are less able to work effectively – thus undermining productivity and economic growth. On top of this there are the costs, personal and public, of dealing with poor health: in Bangladesh malnutrition is thought to cost up to 8 per cent of GDP. In India, the costs of iron deficiency alone total more than $30 billion.[3]

The Effects of Trade

In these circumstances a greater engagement in international agricultural trade is likely to have a major impact – positive or negative – on the lives of the poor. On the positive side, increasing agricultural exports should stimulate agricultural employment and incomes and have second-order multiplier benefits for the associated supply and service industries.

This optimistic scenario may not, however, be realized. For one thing, efforts at boosting exports could be frustrated by protectionist policies of the importing countries. And even if exports do increase, they could be more than offset by a rise in imports, which could put a different group of people out of work. Nor do export industries necessarily benefit other parts of the economy: if they lack connections to rural enterprises, the economic 'multiplier' could be quite low. The government's revenues too may be smaller than expected: if it had to reduce tariffs to encourage trade, its income could indeed fall.

Other factors might also cause trade liberalization and export increases to yield disappointing results. If, for example, exporting countries concentrate on primary commodities such as coffee or tea, then increasing the volumes could flood world markets with these goods and cause prices to fall. Some countries may be able to escape this trap by diversifying to higher-value crops, but the poorer countries may not have the necessary capacity or the infrastructure. Another possibility is that most of the benefits from a rise in exports could be captured by transnational trading and manufacturing companies, leaving few gains for the cultivators.

TABLE 3.3
Share of World Production of Selected Agricultural Products Traded Across Borders 2005

Commodity	*Proportion traded internationally (%)*
Coffee	68
Tea	40
Soybeans	34
Sugar	21
Bananas	20
Cotton	18
Wheat	17
Feed grains	11
Rice	7

Source: FAS/USDA 2005.

The Pattern of Global Agricultural Trade

Though trade in agricultural goods has been growing, it still only accounts for a small proportion of total agricultural output – most of which is still consumed nationally. For staple food crops, only for wheat is global trade consistently above 10 per cent of total world production (Table 3.3). The proportion tends to be higher for plantation crops, but even for these

it represents more than 50 per cent of global production only for a few, such as coffee.

Most global agricultural trade is between developed countries, whose share of both world exports and imports is around 70 per cent. Developing countries do less well. Not only do they have a smaller share of world agricultural trade, they earn less from it. In recent years they have also suffered a deterioration in the balance of trade between exports and imports: in the early 1960s, they had an overall annual agricultural trade surplus of almost $7 billion, but by the early 1970s their trade surplus fell to about $1 billion, and by the end of the 1980s it had disappeared. Indeed, since the beginning of the 1990s developing countries have generally been net importers of agricultural products, with a deficit in 2001, for example, of $11 billion.[4]

The deficit has been caused by rising imports of food. In 2001, globally the Least Developed Countries imported $4.8 billion worth of food, corresponding to 10 to 12 per cent of national calorific intake. The 'net food-importing developing countries' were even more dependent. In the same year, they imported $10.1 billion worth, corresponding to 35 per cent of calorific intake. The value of imports may be considerably lower than the peak reached in 1996 (Figure 3.1), when food commodity prices were at cyclical highs, but in real terms, in recent decades it has been increasing by more than 6 per cent annually.

The change was most drastic for the LDCs. From being net food exporters, they became net food importers. Indeed, by the end of the 1990s their imports were more than double their exports. And for both groups of countries this trade gap seems destined to widen further. Between 1970 and 2001 developing countries as a whole saw their food imports rise by 115 per cent, but by 2030 their annual imports are expected to reach $50 billion. The developed countries too have seen an increase over the same period, though only by around 45 per cent.[5]

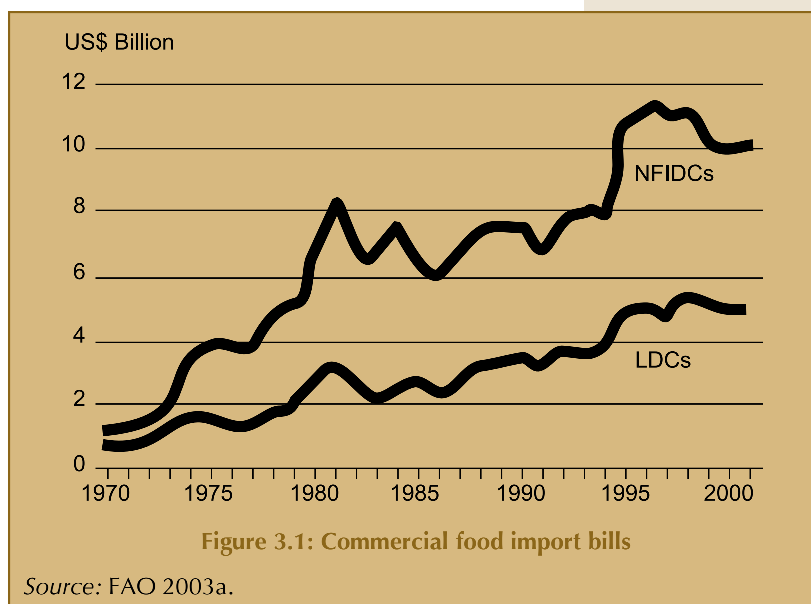

Figure 3.1: Commercial food import bills

Source: FAO 2003a.

Not only have the developing countries experienced a growing food trade deficit, they have also suffered a deterioration in the terms of agricultural trade. Although commodity prices overall have been falling for the past 40 years, they have fallen most steeply for the type of exports that mostly come from developing countries, such as raw materials, tropical beverages, oil crops and cereals – rather than for the goods exported mostly by the developed countries: horticultural, meat and dairy products.

Not only have the developing countries experienced a growing food trade deficit, they have also suffered a deterioration in the terms of agricultural trade

Some developing countries have responded by shifting from tropical beverages and raw materials – coffee, tea, cocoa, sugar, cotton and tobacco – to higher-value crops. But this is more difficult for farmers in the LDCs, most of whom lack the funds to invest. As a result, for the LDCs between the 1960s and 1999–2001, the proportion of their exports accounted for by raw materials and tropical beverages increased from 59 to 72 per cent.

The Food-Trading Countries

For food crops – principally cereals, rice and meat – developing countries that trade internationally fall roughly into one of three categories:

1. *The natural exporters*. These countries have favourable geographical conditions, sparse populations, or specific experiences that have encouraged an extensive low-cost agricultural sector that delivers substantial surpluses of food staples.[6] In Asia, these include Thailand (rice and poultry) and Viet Nam (rice).
2. *The self-sufficient countries*. These are the majority of developing countries, which have been largely self-sufficient in food. When they do trade in global markets, they are more likely to buy than sell, but can usually finance necessary imports by exporting other agricultural products, typically tropical plantation crops.
3. *The net importers*. These, many of which are also among the world's poorest countries, are chronically dependent on imports for basic food supplies. And their numbers could increase following trade liberalization if cheap food imports encourage farmers and businesses to switch to more profitable commercial crops.

TABLE 3.4
Leading Agricultural Exporters in the Asia-Pacific Region 2003

	$ millions	*Market Share (%)*
China	22,158	3.3
Australia	16,337	2.4
Thailand	15,081	2.2
Malaysia	11,061	1.6
Indonesia	9,942	1.5
New Zealand	9,603	1.4

Source: Computed from the WTO Online Statistics Database accessed on 10 July 2005.

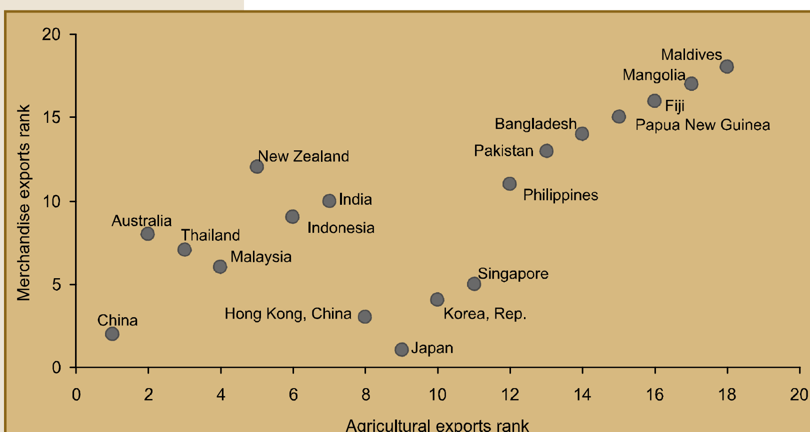

Figure 3.2: Exporter rankings: a comparison of those for merchandise and agricultural goods

Source: Based on World Bank 2005.

The developed countries might be classified in similar groups. Thus, Australia, Canada and the United States are also natural exporters of staple foods. Europe also has significant exports, of sugar for example, but EU countries might better be termed as 'unnatural exporters' since their surpluses are largely sustained by subsidies. Many other countries are net food importers but have no difficulty in financing this through exports of industrial products.

The overall balance of food trade between developed and developing countries varies between different products. Most imports of rice and wheat – for example, 80 per cent of the globally traded tonnage – are by developing countries, as are sizeable proportions of feed grains and soybeans. For animal products the pattern is different: virtually all the imports of high-value animal products such as beef, pork, poultry and cheese are by the developed countries, either from each other or from developing countries. The only animal product imported in significant volumes by developing countries is the low-value powdered milk, of which 85 per cent of world trade goes to the South.

Agricultural Trade in the Asia-Pacific Region

Countries in the Asia-Pacific region thus have a vital interest in the trade in agricultural products. In global terms, however, they are hardly major players. Even the region's largest exporter, China, ranks only at number 9, with 3.3 per cent of global trade (Table 3.4).

A number of Asian countries, though they do have some agricultural exports, have a much

greater weight in other areas of international trade, particularly manufactured exports. This is illustrated in Figure 3.2, which plots countries according to their ranks as merchandise exporters and agricultural exporters. Thus, Japan ranks second in terms of merchandise trade but only eighth in agricultural trade; indeed any country below the 45-degree line is more important in merchandise exports than it is in agricultural exports. On the other hand, Australia, Thailand, Indonesia and New Zealand rank higher for agricultural trade. Of the leading exports of either category, only China has the same ranking in both.

The principal route to success for most Asian countries seems to be the more productive non-agricultural sector – though countries like Malaysia and the Republic of Korea have largely developed their export sectors by investing the surplus of their agricultural output in them. Even today, Viet Nam has agricultural exports as an important source of foreign exchange and will suffer from any distortions in trade.

More worrying for the future is the prospect of food shortages. Now that China has become a major food importer, global food supplies could become much tighter, with serious implications for the major food importers. Food is not like any other tradable commodity, and a number of countries in the region may, therefore, become more preoccupied with national food security and will want to move closer to national self-sufficiency – which will imply greater protection for farmers who find it difficult to compete at world prices, especially when these are distorted by subsidies in the US and the EU.

Protectionism in the North

One reason why developing countries have limited representation in global agricultural markets is that they face determined and unfair protectionism. Many developed countries, despite their promises to reduce trade barriers, continue to shield their farmers from foreign competition.[7]

There was some progress in the 1990s. For the OECD as a whole, between 1986–88 and 1995–97, the level of producer support as a proportion of farm receipts fell from 37 to 30 per cent.[8] Unfortunately, it has stayed around this level ever since. In 2004 this was worth $279 billion, and taking into account support for general services to agriculture such as research, infrastructure, inspection, and marketing and promotion, total support to agriculture was equivalent to 1.2 per cent of OECD GDP. There may have been some change in the composition of this support – substituting measures that are considered trade-distorting with those that are supposedly not, but the overall level remains much the same and is particularly high for products that are critical to Asia – rice, sugar, milk, wheat and meat.

As a result of these subsidies the producers of a whole range of products – including corn, wheat, rice, soy, dairy, meat and cotton – can dump these on world markets, making it very difficult for developing countries to compete.

In the Agreement on Agriculture from the 1986–1994 Uruguay Round of trade negotiations, the developed countries committed themselves to reducing the extent of their domestic support. However, the rules are so skewed that although they prevent middle-income developing countries from using subsidies, they have enabled the EU to continue giving such support (Table 3.5), and the US to increase it.

One reason why developing countries have limited representation in global agricultural markets is that they face determined and unfair protectionism

Indeed, the US has dramatically increased the amounts it spends on subsidies (Table 3.7). This has enabled it to maintain a dominant position in maize and soybeans, for which it is responsible for more than half of global exports; it has also emerged as a leading exporter of rice.

For the purposes of the Agreement on Agriculture, much of this expenditure (70 per cent for the US and 44 per cent for the EU) is classified not as export subsidies but as 'Green

TABLE 3.5

EUROPEAN UNION – ESTIMATES OF SUPPORT TO AGRICULTURE, $ MILLIONS

	1986–88	*2002–04*	*2002*	*2003*	*2004**
Farm-gate value of production	211,407	245,289	242,506	242,428	250,933
Total support estimate (TSE)	106,372	113,401	109,972	117,223	113,007
Transfers from consumers	82,142	55,343	53,684	57,550	54,795
Transfers from taxpayers	25,747	58,960	56,676	61,059	59,146
Budget revenues	–1,517	–903	–388	–1,386	–935
TSE share of GDP (%)	2.82	1.20	1.20	1.26	1.16

Notes: European Union refers to the EU–15 countries in 2004.
* provisional.
Source: OECD 2005.

TABLE 3.6

UNITED STATES – ESTIMATES OF SUPPORT TO AGRICULTURE, $ MILLIONS

	1986–88	*2002–04*	*2002*	*2003*	*2004**
Farm-gate value of production	143,469	210,871	193,151	214,023	225,437
Total support estimate (TSE)	64,009	96,972	90,020	92,199	108,696
Transfers from consumers	15,223	16,203	17,148	13,461	17,998
Transfers from taxpayers	50,274	82,700	74,915	80,650	92,534
Budget revenues	–1,487	–1,931	–2,043	–1,912	–1,837
TSE share of GDP (%)	1.34	0.88	0.86	0.84	0.93

Note: *provisional.
Source: OECD 2005.

TABLE 3.7

US SUBSIDIES TO SELECTED AGRICULTURAL PRODUCTS, $ MILLIONS

	1995	2001
Maize	32	2,800
Soybeans	16	3,600
Cotton	32	2,800
Rice	12	763

Source: Dhar 2004a.

Box' expenditure on items such as research and extension, which are said to have only a minimum effect on trade and for which support can be unlimited.[9] The EU also gives some of its support under the 'Blue Box' items that are related to measures for limiting production.[10]

Impact on Developing Countries

These subsidies have enabled OECD countries to export a number of commodities at prices below the cost of production.[11] In 2002, for example, the extent of price reduction below the cost of production was as follows:

- *Wheat* : 43 per cent
- *Soybeans* : 25 per cent
- *Maize* : 13 per cent
- *Cotton* : 61 per cent
- *Rice* : 35 per cent

These subsidies have had a very serious impact on farmers, and particularly poor farmers, in the Asia-Pacific region. Rice subsidies in the US, for example, which enabled it to maintain exports even during the 1990s when world prices were falling, have affected rice farmers all over the region, but especially in Thailand, Viet Nam and India. Maize subsidies have also driven prices down, affecting farmers in the Philippines and China. Soy subsidies have similarly undermined the livelihoods of 2.5 million Indonesian farmers. Collapsing prices have meant that many producers in the region have been unable to sell even in their own domestic markets, creating rural unemployment and increasing poverty.

Tariff Barriers

The OECD countries offer a great deal of protection to their farmers through subsidies. On the face of it, their protection through tariffs might seem quite low, or at least lower than in developing countries – since applied tariffs on

imports from developing countries are estimated at 12 per cent for the US, 20 per cent for the EU, and 18 per cent for Canada.[12] But, for several reasons these averages are misleading. They refer to the *ad valorem* duties. But, a high proportion of tariff lines in agriculture – 44 per cent for the EU and 43 per cent for the US – are non-*ad valorem* duties, which when converted to *ad valorem* equivalents are much higher. Moreover, these are averages across all tariff lines. For certain commodity groups that are of particular interest to developing countries, the rates are very high. For the OECD countries as a whole, these amount to around 350 per cent for tobacco, 277 per cent for chocolate, 171 per cent for oilseeds, and 134 per cent for poultry.[13]

The other form of protection is through tariff escalation – setting low tariffs for raw materials but steadily escalating the rates as commodities are converted to finished goods. Escalation is particularly pronounced on commodity sectors important to the poorest developing countries: meat, sugar, fruit, coffee, cocoa, hides and skins.[14] The US, for example, has tariff rates of zero, 0.2 and 15.3 per cent on raw cocoa, intermediate products and final products respectively. Moreover, these are weighted averages and mask very high peaks: the maximum tariff on final products is 186 per cent. The situation is similar for the EU with respect to fruit, for example. The tariff rates are 9.9, 18.5 and 18.0 per cent on raw, intermediate and processed fruit products, with a maximum for fruit products of 98 per cent. Again, many of these rates are non-*ad valorem*, so the percentages underestimate the full scale of the tariffs.[15]

Tariff escalation will reduce a country's chances of exporting processed products. However, the developed countries seem to be more successful at overcoming this obstacle; overall, they get 68 per cent of their agricultural export earnings from processed products, while for developing countries the proportion is 57 per cent and for the LDCs only 20 per cent.[16]

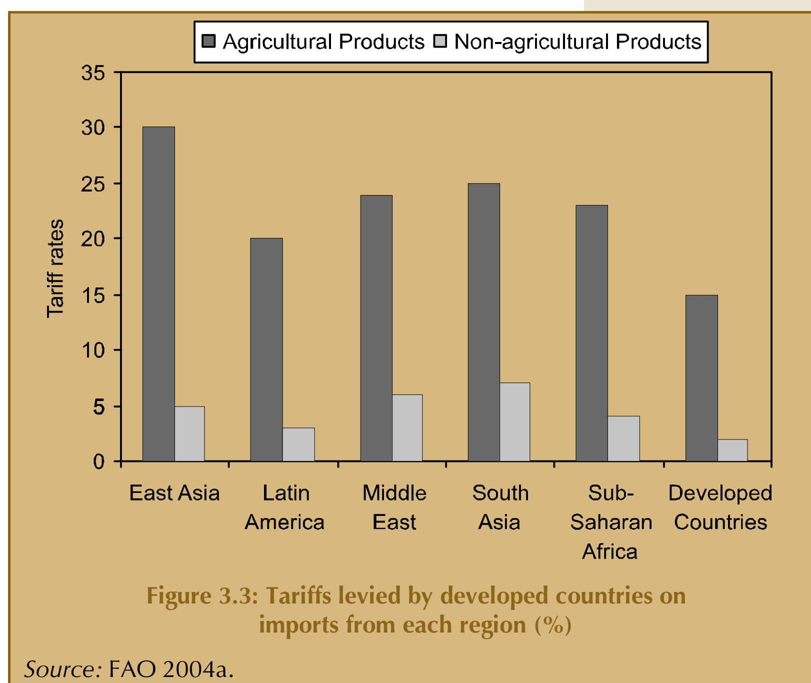

Figure 3.3: Tariffs levied by developed countries on imports from each region (%)

Source: FAO 2004a.

As a result of their selective protection methods, the developed countries overall apply higher tariffs to goods from developing countries than they do to goods from other developed countries. As is clear from Figure 3.3, the rates are highest for goods from East Asia and South Asia.

Subsidies have enabled OECD countries to export a number of commodities at prices below the cost of production

Transnational Companies and Small Farmers

Market distortions are the result not just of subsidies and tariffs, but also of the power of a few vertically integrated transnational companies that dominate the entire food chain – from distributing seeds to placing products on supermarket shelves. For soybean crushing, for example, more than 70 per cent of the US market and around 80 per cent of the European market is controlled by just three companies.[17] Similarly for grains: at the global level, trading, storage, processing and milling are dominated by a few big companies.

This is worrying for a number of reasons. First, large corporations prefer to deal with a few

large producers, rather than with a multitude of small suppliers, thereby squeezing many small producers out of the market. Second, they greatly influence, or even determine, world prices – affecting not only food traded internationally but also the prices of products that appear in the smallest village markets.

This control is most visible to consumers in the spread of supermarkets. Globally, the top 30 supermarkets control almost one-third of grocery sales, and they have been expanding at a remarkable pace in the Asia-Pacific region. In East Asia, for example, over the past decade the supermarkets' share of retail food sales has ballooned from less than 20 to more than 50 per cent. Supermarkets want to deal with a small number of reliable suppliers who can deliver on schedule large volumes of high-quality produce – which for farmers generally requires substantial investments in irrigation, greenhouses, trucks, cooling sheds and packing technology. This is a tall order for small farmers, though some have made a success of contract farming.[18]

Distorted Trade and Human Development

Market distortions are the result not just of subsidies and tariffs, but also of the power of a few vertically integrated transnational companies

All these distortions in global agricultural trade can adversely affect farmers – eroding their means of livelihood and their security. As a result, even countries that are successful agricultural exporters do not necessarily achieve higher standards of human development. Thailand, for example, is Asia's largest food exporter, but its small farmers have gained little from its increased exports of rice. Since 2001, Thailand has exported more than 7 million tonnes annually – about 30 per cent of world rice exports – yet about 40 per cent of rural households live below the poverty line. The government has prioritized commercial rice production, while millions of small farming families have fallen into debt and lost their lands, partly because of low prices for their crops: about 4.7 million of the 5.7 million farming families have no land, or inadequate land to sustain themselves. Malnutrition is increasing: in 2000, 18 per cent of Thai households were malnourished. Thailand appears to be feeding the world on the backs of its poor rice farmers.

Similarly, the World Bank found that since China's accession to the WTO in 2001 and its subsequent liberalization of agriculture, the poorest rural households have suffered a 6 per cent drop in their living standards due to the combined effects of a drop in real wages and an increase in the prices of consumer goods.[19] The study also found that liberalization has widened rural-urban income gaps: since 2001, most urban dwellers have seen their incomes rise, while rural households have on average seen their incomes drop, with the poorest being most seriously affected – a fall that is raising the prospect of some discontent in the rural areas.

Not all these are effects of distorted international trade patterns. Many are linked to liberalization measures associated with structural adjustment and the conditions imposed by World Bank and IMF lending. Indeed, these programmes have often required liberalization on a scale even more sweeping than those required under the Uruguay Round. They have also required a number of other measures – such as privatizing state-run enterprises, eliminating subsidies and price controls, and abolishing marketing boards (Box 3.1).

Why should liberalization damage the interests of poor farmers? There seem to be a number of interrelated factors.[20] These include:

- *Falling prices*. Liberalization opens local markets to imports and thus to low world prices. Farmers could respond by switching from food to commercial crops, though they would not necessarily do any better, since the prices for these too have fallen as more countries enter the market.
- *Rising cost of inputs*. Farmers now have to pay more for inputs such as fertilizers – partly because the world prices for these

BOX 3.1

Agricultural Trade Liberalization in Indonesia

Following the 1997 Asian financial crisis, the IMF imposed sweeping trade liberalization conditions as part of its multimillion-dollar loan to Indonesia. These included lowering tariffs as well as the deregulation of BULOG, the state food purchasing and distribution agency, thus providing the major agricultural exporters, such as the US, with access to a large market for their agricultural surpluses.

Indonesia's applied tariff rates were brought down to 5 per cent or less even on staple products. The tariffs on soy and rice were set at zero and on corn at 5 per cent. Only after social and political chaos and rioting was the rice tariff adjusted to 30 per cent (Kwa 2004).

Before deregulation, BULOG had sole control over imports of the major food commodities coming into Indonesia, and hence was able to regulate food supplies and domestic prices. This role has been dismantled almost completely. BULOG no longer controls the quantities being imported, and private traders have total freedom in this regard. BULOG's previous role in ensuring distribution of rice and other staples between regions has also been severely limited.

The results of liberalization have been dramatic. During the 1980s Indonesia was at times self-sufficient in rice, but over the period 1988–2002 it imported on average 10 per cent of national needs. The US has been the clear winner in this market-opening exercise. US exports to Indonesia, amounting to $411 million in 2000, climbed to $720 million in 2001. Since then, imports have increased even further (Setiwant 2003).

The impact on rural employment is clearest in soybeans. Where there were 5 million soybean producers in 1996, by 2001 there were only 2.5 million. Taking one producer to be supporting a family of four, 10 million people's lives have been affected. Whilst some soy farmers may have switched to rice or corn, the more likely scenario is that they would have left farming altogether.

have been rising, but also because governments have been withdrawing subsidies.

- *Withdrawal of state services*. The removal of services for irrigation, post-harvest facilities and farm-to-market roads in the Philippines, for example, has meant that small-scale farmers are unable to improve productivity levels or get their products to market at prices that cover costs.
- *Land consolidation*. Trade liberalization can make some land more valuable for mechanized farming of certain crops. This leads to land consolidation. Whilst the concentration of farms can increase productivity and competitiveness, it also drives tenants and small farmers from their land, and in the absence of safety nets adds to unemployment and poverty.[21] In Cambodia, for example, following trade liberalization, land was concentrated into fewer hands, and between 1983 and 2003 the proportion of rural households who were landless rose from 3 to 20 per cent.
- *Rising gender inequality*. Prior to liberalization, many women sold their produce to parastatals. Now they have to sell to traders, who may take a greater cut. Women are also affected disproportionately by the elimination of subsidies, the drying up of credit and the surge of food imports.
- *Unsustainability*. The international food market encourages farmers to devote large areas to single crops, with excessive use of fertilizers and pesticides, which can cause damage to both land and water supplies.

Trade liberalization does, of course, have positive effects. Not only does it lower prices for consumers, it can also enable rural communities, and especially women, to engage in non-agricultural activities through micro- and small enterprises, for example. However, the positive effects are often far outweighed by the negative.

Making Agricultural Trade Work for the Poor

Neither economic growth nor an expansion of trade will necessarily benefit the poor; indeed, it may harm them. What would it take to make trade work for the poor? Changing international trade rules will be important, but national governments can also take measures to change the context within which trade liberalization operates.

1. *Promote Agricultural Development*

Although more than half the region's population depend on agriculture for their livelihoods, relatively little has been done to promote productivity and employment. Indeed, public expenditure on agriculture has been declining. Between 1990 and 2001, public expenditure on agriculture as a proportion of GDP in four South-East Asian countries fell from 8.4 to 3.8 per cent, in three South Asian countries from 1.9 to 1.2 per cent, and in two countries of the South Pacific from 1.0 to 0.8 per cent.[22]

India is an example where the government in the past decade has largely neglected the agricultural sector. Though most of India's poor live in the countryside, investment in agriculture has been in serious decline, between the 1980s and the 1990s falling by 29 per cent. Just as important is the shortage of agricultural credit. While consumers can take loans to buy a house or a car at interest rates of 9 to 11 per cent, farmers wanting crop loans can be charged 17 per cent. Even then, most farmers cannot even access government loans and have to rely on moneylenders who can charge them rates of several hundred per cent.

If governments want broad-based and equitable development, they will need to invest more in agriculture – particularly for capital formation – while providing price support, affordable loans, assistance with irrigation and marketing, and help with storage, processing and distribution facilities.

2. *Carry Out Land Reform*

Governments serious about agricultural development will need to make more serious efforts at land reform

Governments serious about agricultural development will need to make more serious efforts at land reform. In Asia, one-third to one-half of smallholders subsist on less than one hectare. In Bangladesh, for example, 78 per cent of rural household are classified as land-poor. In India the proportion is 71 per cent. Elsewhere, the proportions may be smaller but still significant: more than one-third in Indonesia, the Philippines and Sri Lanka. If anything, the problem seems to be getting worse as the concentration on export agriculture and the growth of cities and industry combine to push more poor families off their land.

Land ownership is particularly difficult for women. In Nepal, for example, even though two-thirds of agricultural labourers are women, until very recently they were permitted to own land only as part of a married couple, and when couples separated the land rights went to the husband. While women can inherit property since 2002, it reverts back to the natal family upon marrriage.[23]

Recent attempts at land reform have not got very far. In the Philippines, for example, the government's Comprehensive Agrarian Reform Programme (CARP) has never really been implemented. The Philippines has also attempted 'market-assisted land reform', which involves helping the landless procure land directly from landowners. However, the beneficiary only gets help if he or she presents a farm plan that is geared towards commercial cash crops. The programme does not, therefore, promote small-scale farming. Also, the current landholders object strongly, and given the scarcity of land are unwilling to sell. The farmers' movements are also opposed, because of the unequal bargaining positions of the landholder and the farmer. All in all, the programme has not been very successful.

3. *Address Relative Prices*

Trade liberalization also alters relative product prices, and therefore, its net impact on poverty reduction depends also on the direction of price changes and how they affect input and factor prices and farmers' incomes. If the price changes are pro-poor, then they will tend to reinforce any positive growth effects of trade reform on the

poor. However, the outcome also depends on complementary policy changes, specifically on whether or not they:

- Create new markets that are pro-poor;
- Stimulate the poor to respond to altered prices and new market opportunities;
- Provide second-round spillover effects that are pro-poor;
- Minimize any transitional unemployment that concentrates on the poor;
- Raise government revenue that leads to pro-poor public expenditure; and
- Reduce the vulnerability of the poor.[24]

4. *Offer Protection to Poor Producers*

At present many poor farmers find it difficult to compete. Governments will, therefore, need to find ways of protecting small farmers who are viable food producers but are threatened by low world prices either through higher tariffs, prices support or subsidies on inputs.

Agricultural Trade Policies of Developing Countries

Given their different patterns of agricultural trade, individual developing countries will also have different interests, depending on whether they are exporters or importers. Producers of tropical beverages and raw materials will aim for access to global markets and a steady income. They want to avoid price volatility and ensure that they are not persistent losers in the shifting terms of trade between tropical products, food and non-agricultural products. Thus, they would benefit by coordinating their production programmes so as to maintain steady supplies, for example, while also establishing effective insurance systems in case demand dips temporarily. Food exporters too would welcome stability in terms of access and prices; they would also want to adjust their own patterns of production to reduce dependence on imports.

The most significant dilemma for developing countries, however, concerns the impact of international trade on the prices of staple foods. Should governments aim to maintain prices to provide decent livelihoods to farmers, or should they lower prices so as to help poor urban consumers? This is a major issue for Indonesia, for example, which is a large domestic producer of rice but is not self-sufficient and has to import to meet the rice gap. Selling imported rice at low world prices could harm local producers and, therefore, Indonesia applies tariffs on imports.

Some, including the World Bank, argue that these tariffs should be removed or should be as low as possible since the poorest Indonesians spend 30 per cent of their incomes on rice.[25] Others argue that a cheap rice policy is counter-productive. If Indonesian farmers get low farm-gate prices, they are unable to improve their situation and are less able to invest in education, which means that Indonesia will remain with an unskilled, low-wage and low-productivity economy.[26] Continuing rural poverty also depresses local purchasing power and the demand for other domestic products and thus hampers national development, sustaining a high degree of dependence on foreign markets.[27]

In practice, the trend in agricultural trade is towards greater liberalization. In some cases this is because countries have entered into bilateral, regional or multilateral agreements that require more open trading. In others, however, countries have either liberalized unilaterally or have been required to do so by international agencies on which they rely for capital inflows to cover balance of payments deficits.

Unfortunately, much of this liberalization has been asymmetric. Developing countries have liberalized their agricultural trade far more than the developed countries, which have maintained significant levels of subsidies to national food producers as well as using technical non-tariff barriers. This asymmetry has been accentuated by the Uruguay Round agreements on Trade-

Developing countries have liberalized their agricultural trade far more than the developed countries

Related Aspects of Intellectual Property Rights (TRIPS), within which the clauses on Geographical Indications have so far mostly been exploited by the developed countries. The developing countries could, however, also use these as a lever to advance their human development agenda.

The Current Negotiations

The current Doha Round of trade negotiations offers an opportunity to correct these inequities. But they do not seem to be going in the right direction – particularly with respect to the 'Green Box', which refers to support that can be unrestricted, and the 'Blue Box', where there are more restrictions (*see* Notes 9 and 10). Early in the negotiations, the US and the EU managed to ensure that they could continue to misuse Green Box support measures and even maintain and extend the Blue Box measures that should have been phased out at the end of the Uruguay Round.[28]

There have been some gains. The meeting of the General Council of the WTO in July 2004 led to a framework agreement that required the developed countries to reduce and eventually eliminate direct and indirect subsidies to agricultural exports. It also obtained a promise of a substantial reduction of domestic support to farmers.[29] However, the text allows for some exemptions – notably, through a provision for lower cuts for an 'appropriate number' of 'sensitive products'. This will, for example, allow the US to protect uncompetitive products such as sugar.

Even so, the developing countries have made some gains. The agreement explicitly recognized the need for 'special and differential treatment' for developing countries in terms of the scale of tariff reduction, the number and treatment of sensitive products and the length of the implementation period. In particular, just as the developed countries can designate certain 'sensitive products', the developing countries can identify an appropriate number of 'special products' that will be eligible for more flexible treatment and not subject to tariff reduction commitments – based on their contribution to food security, for example, and rural development needs. The framework also provided for 'special safeguard mechanisms' against disruptive imports, import surges, or sharp price declines in specific agricultural products.

How much has really been achieved? The eventual elimination of export subsidies would of course be welcome, but these should already have been phased out, even under current WTO rules. The main change is that the EU, which is the primary user of such direct subsidies, has made its reductions conditional on parallel reductions on the more indirect subsidies, such as export credits that are primarily used by the US.

The main sticking point, however, is not on support for exports but on direct support to domestic producers. Developed countries have so far offered very little on this, which makes up the bulk of agricultural support.

This framework agreement was largely ratified at the December 2005 WTO meeting in Hong Kong. The EU accepted at this meeting that it would phase out export subsidies by 2013, though this only corresponds to the reduction already envisaged in the reform of the EU Common Agricultural Policy that was to be completed by 2013. On other agricultural issues, the Hong Kong Declaration reiterates the need to work out ways to reduce tariffs and domestic support and says that the greatest reductions will be expected from countries giving the most domestic support and applying the highest import tariffs. However, these seem unlikely to result in any significant cuts in support.

For developing countries, Hong Kong has, therefore, produced three limited gains: the EU commitment to phase out export subsidies by 2013; the opportunities to designate certain 'special products' that will not be subject to tariff

reduction commitments, and the 'special safeguard mechanism' to deal with import surges or sharp declines in prices.

Intellectual Property

Another contentious feature of the international trade regime instituted through the Uruguay Round was the agreement on TRIPS. This aims to protect the rights of individuals and companies that have invested in research and development – giving them the opportunity to recoup their costs on the grounds that, without such protection, they will have little incentive to make similar investments in the future.

Others argue, however, that such protection is unnecessary – that the period in which competitors try to match their innovations already offers sufficient opportunities to recoup R&D costs. And in some respects nowadays there should actually be less need for protection, for as modern products become more complex, the capital costs increase, which poses barriers to entry and alleviates the risk of failure – thus deterring competitors. Moreover, many of the innovations for new products lie less in the products themselves than in the way they are produced; the process of technological change is thus embodied in the firms, which further undermines the position of potential competitors.

There are also many problems with ambiguous definitions. At what point, for example, does an increment in human knowledge warrant being described as an innovation? And how does one take into account the fact that much innovation builds on common property, for example, drugs derived from natural products? If the innovator is allowed to charge, should the country or community that provided the original material not also have similar rights?

Despite these and many other objections, the developed countries have been demanding stronger international patent protection, and in particular have been pressing it through the trade regime via the TRIPS agreement. This brings a number of advantages: first, because it creates an opportunity for enforcement; countries that do not respect intellectual property rights (IPRs) would face retaliation through trade sanctions. Second, it creates an international body, in the form of the Dispute Settlements Panel of the WTO, to which IPR violations can be referred. Third, it passes the responsibility for policing the rights to national governments, who would not want to see all exporters penalized for infractions by a single enterprise. The Uruguay Round agreement thus not only forced countries to recognize IPRs, it also created a workable mechanism for enforcing those rights.

Until recently, the main implications of this for agriculture would have been for inputs like fertilizers, pesticides and machinery. Matters have changed because of two kinds of technological development. First, since the years of the Green Revolution many companies have been producing hybrids or varieties generated through scientific research. Second, more recently, researchers have been using genetic engineering and biotechnology to manipulate genes to produce crop varieties that have higher yields and greater pest resistance, and are more appropriate for particular conditions of climate, soil and moisture.

Transnational corporations hope, therefore, to apply patents to 'plant variety protection', arguing that this will ensure further research. This is doubtful, since in most of the developing world such research is mainly financed by governments, and commercial varieties generally offer cosmetic differences using lines or strains based on research provided by public institutions.

In fact, some forms of protection will inhibit future research. This was evident even during the Green Revolution, when seed multinationals such as Monsanto and Pioneer Hi-Bred International Inc managed to get patents for plants

Developing countries can rightly claim that transnational companies are plundering their resources

that prevented farmers from saving the seeds of the resulting crops. This meant that, when the International Centre for Maize and Wheat Improvement in Mexico developed semi-dwarf improved varieties of wheat for developing countries, it could not offer these to India, where they were covered by a utility patent in America. As a result, the Green Revolution in India did not boost the production of maize. Consequently, patent protection can create new obstacles to agricultural improvement.

Companies can also reinforce this legal form of protection with a technical one by engineering varieties whose 'terminator seeds' do not germinate, or in which during natural reproduction a certain quality collapses or cannot be transmitted through seeds. They can also tailor plants to ensure that they will not express a particular trait, such as herbicide resistance, unless they are sprayed with specific chemicals that activate the right gene.

Developing countries can rightly claim that transnational companies are plundering their resources. Tropical countries are oceans of biodiversity and provide most of the original species as the basis for research in the developed countries. This has been referred to as 'biopiracy', when foreign companies steal and then patent biological resources and traditional knowledge from the developing countries. The US patent on the use of turmeric for healing wounds is a well-known case in point.

Geographical indications offer an advantage for policymakers since they are usually public property

But there have also been other cases where biotechnology and patenting are damaging developing countries in a more insidious way. Thus far, generations of plant breeding in different countries have produced distinctive and valuable varieties. Biotechnology can take these varieties and engineer them so that they will also grow in other places – as has happened with basmati rice, for which the commercial plant breeder, RiceTec, built on traditional knowledge without having to pay for it, and managed to differentiate its product to render it 'novel' enough to be considered for a patent. But what constitutes novelty is generally an arbitrary judgement.

Geographical Indications

Despite these implications, it has been argued that developing countries could, even if partially, exploit the TRIPS agreement in their favour. For example, by using the system of Geographical Indications (GIs). These are indications – words, phrases, symbols or images – that identify a good as originating in a territory, where a given quality, reputation, or other characteristic of the good is essentially attributable to its geographical origin.[30] Geographical Indications are thus unlike patents in that they do not protect new creations but simply recognize existing ones.

The idea originated in Europe and most GIs refer to products from developed countries, such as Champagne, Cognac, Roquefort cheese, Napa Valley wines and Scotch whisky. Examples of GIs in Asia include: Basmati rice, Phu Quoc fish sauce, Long Jing tea, Himalayan waters, Alphonso and Sindhri mangoes, Hunza apricots, Bhutanese red rice, Mongolian Cashmere, Pakistani Shu (windproof woollen fabric) and Ajrak (designs from Sindh), Jasmine (Hom Mali) rice and Thai silk, Lao Agar fragrance, Sumatra Mandheling coffee, Shaoxing alcohol, Maotai, Xuancheng art paper; and Ceylon and Darjeeling teas.

Geographical Indications offer an advantage for policymakers since they are usually public property. Intellectual property is usually owned by individuals or corporations, and 97 per cent of all patents worldwide belong to the industrialized countries.[31] But Geographical Indications are owned publicly by the state, or agencies legally vested by it. Even subsistence-based societies with low levels of technology can thus in principle use GIs to promote their traditional products and know-how.

This opens up many development opportu-

nities. Asian nations have a wide range of distinguished products, but only a few are globally known – which means there is a tremendous scope to publicize them at home and abroad. Once a Geographical Indication is recognized, communities and enterprises in the designated area can stop other people from using it. They are also in a position to charge a premium for what have effectively been certified as 'authentic' products. It might be argued that raising prices would disadvantage poor consumers, but GIs in most cases are not usually staple items of basic needs and consumption; they are generally special products, with high value that are not much used by the poor.

There are also indirect benefits. GIs are often linked with popular tourist regions – which widens economic opportunities for local people through micro-enterprises and could attract additional investment into the region to develop the place and the product, such as in Viet Nam's Phu Quoc island.

As well as being valuable for protecting local products, GIs also provide a way of protecting local knowledge and natural endowments. The developing countries in Asia and Africa are home to 90 per cent of the biological resources that are a source of plant-based drugs. In 2004 the market value of pharmaceutical derivatives from indigenous people's traditional medicine was estimated at $60 billion.[32] In recent years, some Western pharmaceutical companies have attempted to seize control of this knowledge through patents – as for example, with the natural fungicide in the bark of the Indian neem tree. There are also examples of attempts by outsiders to tap the anti-diabetic properties of the banana plant in the Philippines. These have the potential to generate direct, equitable revenue-based benefits to the poor and the marginalized.

The TRIPS Agreement and GIs

The TRIPS agreement offers some protection for GIs. But it has its limitations. It forbids countries from registering a trademark that suggests the product originates in a place protected by a GI, but only if it does so in a way that misleads the public. Thus, if a sauce were described as a Phu Quoc 'kind', 'type', 'style' or even 'imitation', it would be allowed. This creates areas of ambiguity – since producers can free-ride on the reputation of a product without necessarily misleading the public, and there can also be uncertainty in deciding whether or not the public is misled. Moreover, the burden of proof lies with the GI holder.

The only exceptions to this are products of particular value to the developed countries: wines and spirits. Thus, a company that wanted to market, say, a 'Beaujolais-type wine produced in Viet Nam' would not be prevented from doing so on the ground of misleading the public, but it would be caught by a further clause that offers stronger protection for wines and spirits against even this kind of encroachment.[33]

GI Regimes in Asia

Asia has in practice had many GIs for hundreds of years, though only recently have countries considered protecting them through an intellectual property regime. Even today, most countries do not have a separate legal *sui generis* instrument. Instead, they provide some, though often inadequate, protection through two main channels: trademark laws or business practice laws such as those for unfair competition, consumer protection or food standards. Often, however, in response to a threat they have tried to produce more specific legislation – as in India, Thailand and China (Box 3.2).

Nevertheless, Asians still have a long way to go when it comes to presenting their cases. In negotiations the Geneva-based delegations of Asian countries favour short-term tactical bargaining, rather than substantiating their positions with solid research and information.

BOX 3.2

GEOGRAPHICAL INDICATIONS IN ASIA

A number of Asian countries have been developing systems to protect Geographical Indications:

India. In the late 1990s, India fought a well-publicized battle to rescind some US patents on Basmati rice, but it was not until 1999 that it belatedly passed the Geographical Indications of Goods (Protection and Registration) Act, which only came into effect on 15 September 2000. This defined GIs more specifically than TRIPS: in addition to agricultural goods bearing geographical names, it covers natural goods like coal and bauxite, as well as manufactured goods, like Kanchipuram sarees and Kohlapuri slippers. It stipulates that one of the activities of either production or of processing or preparation of the goods concerned should take place in the territory, region or locality. The Indian system is quite elaborate though the alternative of protecting GIs through the trademark system is said to be even more prohibitive and inadequate (Thual 2003). Either system could be daunting to individual and small-scale producers who want to protect their products.

Thailand. Thailand too sprang into action only in self-defence, when a variant of its famous Jasmine rice was patented in the US as Jasmati. A *sui generis* Act on GIs was finally passed and came into force in April 2004. Known popularly as the 'Champagne Law', it has standard procedures for registration and penalties for misuse: a fine of up to $5,000. It also provides for cancelling GIs if, for example, they are contrary to peace and order, good public morals and national policy (Chuenjaipanich 2004). Thailand is using this system as part of its 'One Tambon, One Product' programme. Launched in 2003, this has selected 60 community products for upgrading and quality certification, with the aim of first expanding the domestic market and later exports.

China. There are two distinct regimes of GI protection. The first, which has operated since China joined the Paris Convention in 1985, is through the China Trademark Office (CTMO), and the first regulations were introduced in 1993. As of November 2003, 100 GIs had been registered with 233 applications pending. The second regime is *sui generis*, through the Administration for Quality Supervision, Inspection and Quarantine (AQSIQ). In 1999, for example, in cooperation with the French Government, this recognized GIs for Shaoxing Yellow Wine. As of November 2003, 123 GI applications had been made to AQSIQ, of which 49 had been approved and 41 were under examination (Li et al. 2003). Producers of the most famous Chinese GIs, such as Long Jing tea and pottery, who have availed themselves of protection, say that sales of rival counterfeit products have declined while their sales and prices have increased rapidly, enabling them to pay more taxes to state coffers.

Source: Waglé 2003.

As a result, the intrinsic merits of their GIs get diluted. Some producer associations, like that for Thai silk, and new international networks like ORIGIN are working toward collecting facts and information on selected products. But government departments should take the responsibility to conduct research – collecting information on market share and value, the number of people employed, ancillary rural industries, actual cases of loss in terms of jobs and incomes through lack of protection, and the potential for investment and increasing tourism.

Fisheries and Human Development

Fish has become a highly traded commodity. More than 800 fish species are traded internationally in many different forms, shapes, brands and preparations. By weight, some 38 per cent of total fisheries production enters international trade – worth nearly $60 billion in fish and fish products.

Fisheries are particularly important for developing countries. While the share of developing countries in global merchandise exports was 38 per cent in 2001,[34] their share in global fish exports in 2000 was slightly less than 50 per cent. Fish thus provides a valuable source of foreign exchange for developing contries, with net receipts of around $17 billion a year, more than from the combined exports of tea, rice and coffee.[35] Of this, the net export trade in seafood between 1990 and 2000 increased from $10 billion to $18 billion, an increase in real terms of 45 per cent, due to a large extent to the emergence of aquaculture.

Asia has much to gain by promoting equitable agricultural trade generally, but this is particularly true for that in fish. The region accounts for more than one-third of global exports of fish

and fish products – 7 million tons annually.[36] China is now the world's largest exporter of fish, while Japan is the world's largest importer, but the fish trade is important throughout the region.

- *Viet Nam*. Fisheries represent 5 per cent of GDP, and 40 per cent of total fish production is exported, with earnings of $2.1 billion in 2002 – greater than exports of agricultural products such as rice and rubber and next only to crude oil and garments.
- *India*. Fish is the third-largest export, after textiles and cotton. India exports 25 per cent of its marine fish production. In 2002-03 Indian export earnings from seafood stood at US$ 1.4 billion.
- *Thailand*. Fisheries are 4 per cent of GDP, and Thailand exports more than three-quarters of its production.

But fisheries can be even more significant for smaller developing countries such as Cambodia, where fish accounts for 4 per cent of GDP, and especially small island developing states, such as Fiji and the Maldives, where it contributes 9 per cent of GDP.

Employment in Fisheries

Fishing, both for home markets and for the export trade, employs many millions of people. Indeed, the Asia-Pacific region is home to 85 per cent of the world's fishers and 95 per cent of its fish farmers. Although marine capture is still the biggest employer, aquaculture is fast catching up in some of the major fish-producing countries. Marine capture fishing usually employs men, but aquaculture, fish processing and marketing employ large numbers of women.

- *Viet Nam*. About 3 million people are directly employed in fisheries, and there are plans to develop aquaculture to employ an additional 2 million people by 2010.[37]
- *Indonesia*. There are more than 2 million fishers – half full-time, half part-time – as well as 2 million fish farmers.[38]
- *India*. There are 725,000 full-time fishers and an equal number of part-timers. In addition, over 1 million people, mainly women, are engaged in pre- and post-fishing activities.
- *Thailand*. There are over 250,000 fish-workers. Around one-third are employed as workers in large-scale fisheries, another one-third are owner-operators in large-scale and small-scale operations, and most of the rest are aquaculture farmers.

In some respects fishers are in a stronger position than farmers because they sell a larger proportion of their production on a regular and consistent basis.[39] In other respects, however, they can be more vulnerable, whether as a result of natural factors such as fluctuations in the fish catch, bad weather, and exposure to cyclones, or as a result of economic factors such as market price fluctuations and variable access to markets. This vulnerability was underscored by the 2004 Indian Ocean tsunami, which badly affected the livelihoods of fishers in Indonesia, India and Sri Lanka.

Incomes in fisheries can also be more equitably distributed than in other sectors. In capture fisheries, for example, earnings are typically shared between the owners of the boats, equipments and the crew. Also, fishers working for the export market can earn more than those working for the domestic market. Export species fetch a higher price than non-export species, and those workers on board fishing vessels targeting export species receive a higher share of the catch than for non-export species. On the other hand, the input costs are generally higher for catching or rearing high-value species.

Nevertheless, many fishing communities

The region accounts for more than one-third of global exports of fish and fish products – 7 million tons annually. It is home to 85 per cent of the world's fishers and 95 per cent of its fish farmers

remain very poor. Most full- and part-time fishers in the artisanal and small-scale sectors are completely dependent on fisheries for their livelihood, and nearly 6 million of them, over 80 per cent of whom live in Asia, are believed to be earning less than $1 per day.[40] Of a further estimated 17 million income-poor persons engaged in aquaculture and other related activities (boat-building, net-making, marketing and processing), over 14 million are to be found in Asia. Globally, then, around 23 million income-poor people work in the fishery sector; of these, 19 million are from Asia.

As a result, fishing communities can have lower levels of human development. In the Indian state of Tamil Nadu, for example, fishing communities have a literacy rate of 65 per cent compared with a state average of 74 per cent. Many live in poor housing conditions. Population growth is also more rapid here than elsewhere.

Sustainability

Many fishing communities already have low incomes, but their situation could get worse as stocks are exhausted

Many fishing communities already have low incomes, but their situation could get worse as stocks are exhausted. Intense competition in open-access fisheries is leading to overfishing in several commercially important fisheries. Unregulated coastal industrialisation has also given rise to problems of coastal pollution, which is killing fish and threatening the livelihood of fishing communities in many Asian countries, including India, China and Thailand. Elsewhere, there have been some successes, as in the Maldives, which has introduced environmentally friendly fishing methods and technology – but it has yet to promote Maldives fish in international markets as coming from sustainable sources.

It might have been thought that aquaculture would be more sustainable. But in fact, the reverse seems to be true. The emergence of cultured shrimp in many parts of the region has not only caused considerable environmental damage but also had knock-on effects in marine capture fisheries. This is partly because the volume of cultured shrimp on international markets has depressed prices for wild harvested shrimp – forcing many trawlers to switch over to high open-bottom trawls, which catch all species of fish. This, in turn, has undermined the livelihoods of other non-trawling fishers. In addition, the collection of shrimp fry from the wild gathers not only shrimp fry but other marine fish larvae – further reducing fish stocks.

The Impact of Tariff Measures

The Asian fishing sector also faces problems accessing markets in developed countries. At first glance, the barriers do not appear high. The EU, Japan and the US extend preferential tariff treatment under the Generalized System of Preferences (GSP). For unprocessed fish, frozen fish, crustaceans and molluscs, most developed countries apply fairly low tariffs: Japan, which is the world's biggest market for fish and fish products, has a tariff of about 4 per cent. The US has a nominal tariff of just 1 per cent for fish imports. The EU, on the other hand, applies tariffs on primary shrimp products of 12 to 18 per cent and has an average tariff of 10 per cent.

Tariffs are much higher, however, for processed fish and fish products. Japan, for example, applies a tariff rate on fresh/chilled/frozen tuna of 3.5 per cent, but for processed tuna the rate is 9.6 per cent. The developed countries also typically apply quotas – with higher tariff rates for deliveries beyond the quota: the US, for example, applies a 6 per cent rate to processed Thai tuna within the quota but 12.5 per cent for deliveries beyond it. For the EU, tariff rates on processed tuna can reach 25 per cent.

Even for unprocessed fish, there can be further hurdles. The EU discriminates against imports of fish and fish products from countries

that have not met with their obligations under multilateral environmental agreements. There can also be protests against the arrival of large volumes of particular products. Viet Nam, for example, between 1999 and 2002 increased its exports of frozen catfish fillets to the US from 5 million to 34 million pounds. The Catfish Farmers of America, a group representing catfish growers and processors, lodged a dumping complaint, and in 2003 the US International Trade Commission ruled that Viet Nam's exports had hurt the US catfish industry and imposed tariffs of 37 to 64 per cent. As a result, fishermen in Viet Nam suffered a sudden fall in prices and a sharp decline in income.

In addition to tariff barriers, the developed countries can also restrict imports via non-tariff barriers. These include food safety standards, environmental measures such as ecolabelling and certification programmes, and requirements for compliance with multilateral environmental agreements.

Food Safety Standards

As a result of the globalization of the fish trade and the increasing demands for consumers for safe fish of high quality, developed countries now have much more systematic procedures assuring food safety, using a Hazard Analysis and Critical Control Point (HACCP) system.[41] Processors who export to the EU and the US markets in particular have to comply with tight import regulations or face rejections that they can ill afford (Box 3.3). These standards vary from one market to another: the US, for example, requires that levels of histamine in canned sardines, mackerel and anchovies should not exceed 50 parts per million (ppm), while the EU generally permits up to 150 ppm in canned fish.

Technological advances in seafood analysis are now such that pesticide and pharmaceutical residues can be detected at the parts per billion (ppb) level, and in some cases at the parts per trillion (ppt) level. The EU, for example, uses a high-performance liquid chromatography (HPLC) method that can detect antibiotics such as chloramphenicol at 0.3 ppb and nitrofuran at 1 ppb levels. At this level of sensitivity, a 'safe' product can suddenly become 'unsafe'.[42] On a number of occasions, the EU has rejected Asian shrimp imports, having detecting traces of prohibited carcinogenic antibiotics like nitrofuran and chloramphenicol as well as other bacterial inhibitors such as aminoglycosides and macrolides.

The importing countries also have different control procedures. The EU requires fish imported from a foreign processor to be accompanied by a certificate from an authorized national agency, and it reserves the right to inspect the regulatory process and to decertify a national agency until remedial action is taken. In the case of the US, the individual exporter has to demonstrate an ability to produce seafood according to the US regulations.

Meeting these regulations and complying with the International Organization for Standardization's requirements, especially ISO 9002 for fish processing plants, adds significantly to the costs for exporters – who have to pay for consultants, personnel, record keeping and training. At

Processors who export to the EU and US markets in particular have to comply with tight import regulations or face rejections that they can ill afford

BOX 3.3

Food Safety Standards and Small-Scale Fisheries

From a small-scale fisheries perspective, in addition to the cost aspects, one of the main problems in adopting a HACCP plan would be the difficulty in implementing it at the point where fish is caught, especially for beach landing fishing units like *kattumarams* and canoes in countries like India. According to EU and the US standards, fish has to be stored in ice or kept in frozen storage as soon as it is harvested. Storage of fish in iceboxes would be difficult on board traditional fishing craft like *kattumarams*, which are made of lashed logs. Yet many *kattumarams* using long lining and bottom set gillnets are engaged in catching fish for the export market. Strict implementation of HACCP plans would result in their forced exit from that market.

The fish handling standards of many import markets require that fish is not exposed to beach sand. Because many of the fishing villages that harvest fish, shrimp and cephalopods for the export market have only the beach for landing their catch, it would be difficult for them to comply with a HACCP plan unless they invested in iceboxes and maintained them in a hygienic manner.

2002 prices, an HPLC measuring system, for example, costs around $220,000 per unit. Even complying with HACCP is difficult for small-scale operations (Box 3.3). These rising certification costs are then reflected in falling profits – as reflected in the 'unit value realization': for shrimp, for example, this rose from $1 in 1961 to $9 in 2001, but by 2002 had fallen back to $7.

The high standards required for export markets also have implications for domestic markets. Most exporting countries do not have national standards for food safety. India, for example, does not have a quality standard for seafood for its own domestic consumers. Under the WTO Agreement on Sanitary and Phytosanitary Measures, however, members are required to establish equivalence in the regulations and regulatory processes between importing and exporting nations. For the developed importing nations, this does not represent a problem, since the requirements for importing are normally just an extension of their domestic standards. Many developing countries will, however, need to introduce new systems.

Developing such systems is a national responsibility. But poorer countries should also be able to count on support from the developed countries. This commitment is embodied in Millennium Development Goal 8, which aims to develop global partnerships for development and especially to help build trade capacity towards greater market access, particularly for the LDCs.

Ecolabelling

In an effort to ensure that fish and fish products originate from sustainable fisheries, a number of countries are now encouraging, or requiring, systems of ecolabelling. Japan, for example, uses ecolabelling to control imports of tuna for the lucrative sashimi market. This aims to prevent imports that come from illegal, unreported or unregulated fishing vessels. The EU and the US are also in favour of ecolabelling and certification. As yet, however, there are no multilateral agreements on this issue, and it is not yet clear to what extent such labelling systems come under the WTO Agreement on Technical Barriers to Trade.

Developing countries are worried that even voluntary ecolabelling requirements would effectively exclude imports from artisanal and small-scale fisheries. They have a number of concerns:

- *Costs*. Ecolabelling will add to the expenses for the fishing industry, with no guarantee that these increases will be offset by higher incomes for certified products.
- *Loss of autonomy*. Small-scale artisanal fishers are anxious that they will lose their autonomy if they have to comply with standards that are developed and applied by external agencies – standards that may not take into account specific aspects of their fisheries.
- *Practicability*. Certification is likely to be given for a fishery in its entirety. For example, the ecolabelling programme 'Fish for Ever', established in 1997 by the Marine Stewardship Council, provides a label not to a firm, but to a whole industry, and thus requires collaboration from all its fishing units. In fact, one of the main problems in Asian fisheries is the conflict between bottom trawlers and other small-scale, passive-gear groups who compete for the same space and resources. Cooperation across fisheries is hard to achieve.

Even if ecolabelling systems could be applied, they might have perverse outcomes. If, for example, certified fish commanded higher prices, this could intensify catching of those fish – especially in fisheries where it is difficult to impose limitations on fishing effort.[43] On the other

hand, things could work in the other direction: fishers unable or unwilling to comply with the requirements in a certified fishery might then be diverted to uncertified, or uncertifiable, fisheries where they could over-exploit fish stocks.

In practice, given the poor state of fisheries management in many developing countries, ecolabelling is a long way off. Some fairly homogenous fisheries, like the tuna industry in the Maldives, might be able to cope. But else-where, preparing an industry for certification will be more complex and expensive. The lobster fishers of Ceara, Brazil, for example, supported by a private foundation, applied for precertification. However, the pre-assessment showed that certification was impossible in the short term since the fishery was in such a bad condition.[44]

The EU, Japan and the US are unlikely to require ecolabelling, but at some point they may insist on proof that the fishery at least has a management plan. Developing countries would, therefore, be well advised to start preparing standards for sustainable harvesting of fisheries, resources along with standards for food safety and better living conditions for workers.

BOX 3.4

CITES, The Shrimp-Turtle Dispute and Indian Fishworkers

The shrimp-turtle dispute at the WTO between the US and several Asian countries is the first case that involved an MEA. The 1973 Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) considers all species of sea turtles to be threatened with extinction and bans their international trade. Sea turtles also appear on the Red Data List of threatened species of the Interna-tional Union for the Conservation of Nature.

The US will import shrimp only from countries having a marine turtle conservation programme comparable to that of the US. This means that shrimp fishing vessels are required to add a turtle excluder device (TED) to the belly of their trawls. In response, the Indian state of Orissa in 2001 made TEDs mandatory for all trawlers in Gahirmatha, Devi and Rushikuly and distributed 500 fully subsidized TEDs to trawler operators.

However, the trawler operators are reluctant to use TEDs – arguing that 20 to 30 per cent of their catch would be lost through the escape hatch provided for turtles. Another possibility is that turtles or ray fish could get stuck in the mouth of TEDs, blocking the entry of other fish. The situation is even more difficult in multi-specied fisheries, where the TEDs would need to account for fish of different sizes.

Turtle biologists too are unconvinced of the value of TEDs. Some say that it would be better to concentrate on 'reproductive patches' – congregations of reproductively active adults that are almost entirely found within 5 kilometres the seaboard. They believe that it would be more effective – and much cheaper – to focus protection here, rather than guarding large areas that may not be active turtle habitats.

Multilateral Environmental Agreements and Fisheries

A number of multilateral environmental agreements (MEAs) have implication for the trade in fish. The 1982 Law of the Sea Convention, for example, includes measures 'to protect and preserve rare and fragile ecosystems as well as the habitat of depleted, threatened or endangered species and other forms of marine life' (Article 194). Other MEAs that contain potential trade measures in fisheries and agriculture include: the 1972 Wetland Convention called the Ramsar Convention; the 1973 Convention on International Trade in Endangered Species of Wild Fauna and Flora; the 1980 Convention on the Conservation of Antarctic Marine Living Resources; the 1992 Convention on Biological Diversity, and the 1995 UN Fish Stocks Agreement.[45] An example of a multilateral environmental agreement hindering shrimp farmers is presented in Box 3.4.

It is quite likely that in the future MEA obligations could play a major role in seafood exports. The fish trade is fast emerging as an area with potential conflicts between MEA obligations and trade rules.

Fisheries Subsidies and the WTO

However, an immediate development that could potentially affect market access of many developing countries is the ongoing debate on fisheries subsidies. The Doha Round of WTO for the first time speaks of fisheries subsidies and their uses for 'achieving legitimate development goals'. It also takes into account the demand from developing countries that certain subsidies be treated as 'non-actionable', including those on technology, research and development

funding, production diversification and development, and implementation of environmentally sound methods of production.

This is a vital issue for many developing countries where small-scale fisheries are a crucial source of livelihoods. Some have expressed reservations about discussing fisheries subsidies at the WTO. Several small-island developing states (SIDS), including Fiji, the Solomon Islands, Papua New Guinea and the Maldives, proposed 'special and differential' treatment in fisheries for developing coastal states in general and for SIDS in particular. The SIDS were also the first to attempt a broader definition of 'artisanal fishers' and proposed that any new disciplines on fisheries subsidies should exempt government programmes aimed at raising income levels of artisanal fishers.

Phasing out subsidies designed to enhance capacity will have major social implications for the fisheries sector in several developing countries and result in significant unemployment in coastal fisheries. Ways of providing alternative employment, either in fisheries or aquaculture or in other economic activities, have to be explored. Any investments toward developing such alternatives should certainly be treated as non-actionable subsidies.

Policy Directions for Agricultural Trade

Developing countries face some complex choices for policies on agricultural trade. They have to consider the impact of such trade on different groups in the population, and examine especially the effect on the most vulnerable groups.

Most countries want to maximize exports to earn the foreign exchange needed to finance critical imports. The choice is simpler for those that can produce enough food locally while also being able to export commodities, including food, in order to earn foreign exchange. But even countries that do not have enough good land or other agricultural resources to feed their own populations could conclude that it is economically more efficient to devote some of these resources to high-value commercial crops for export and then use the foreign exchange to import food. This may seem rational from the point of view of economic efficiency, but it may be irrational from the perspective of human development. For while increasing trade in this way might boost economic growth – and benefit poor consumers – it is also likely to depress local prices and undermine the livelihoods of poor farmers.

Such a policy would also weaken national food security. In principle, all countries should, if necessary, be able to buy food from world markets. But in practice, most countries prefer to reduce future vulnerability by sustaining domestic production of staples. They may, therefore, prefer to restrict liberalization, fearing that an external shock, like a sharp increase in oil prices or a rise in interest rates, would leave them unable to import sufficient to meet national needs.

These different circumstances and scenarios imply that each country is likely to have its own priorities, which will colour its stance in trade negotiations. Exporters like Australia, New Zealand, Thailand and Viet Nam will favour most elements of liberalization, whether this concerns widening market access, reducing subsidies or generally increasing competition. Other countries will be more interested in limiting agricultural trade liberalization in order to ensure food security and protect domestic livelihoods. These differences are understandable, so donors or international agencies should resist the temptation to straitjacket countries into a single common policy on agricultural trade.

Nevertheless, even if all developing country interests do not fully coincide, they may overlap to a certain extent. As a result, there is usually some degree of solidarity in the developing-country camp. This suggests three general strategies:

- *Highlighting inconsistency by the developed countries*. The richer countries are often demanding greater access to markets in the developing countries while also demanding the right to protect their own farmers;
- *Protecting sensitive products*. Agreements should include safeguard measures, especially for 'sensitive' products, in order to protect livelihoods and ensure food security;
- *Arguing for differential treatment*. Developing countries believe that they, and the poorest countries in particular, should be able to count on a degree of differential treatment.

In these circumstances, a number of developing countries will need to maintain agricultural tariffs to protect their small farmers and ensure that they can still compete on local markets. But at the same time, they must strengthen the future position of such farmers through land reforms and investment in rural development infrastructure, processing and storage facilities and inputs and, where necessary, offer price support. This may seem to privilege farmers over poor urban consumers, and therefore, governments should also ensure the availability of basic foods at affordable prices – which implies a continuing role for state trading enterprises or the establishment of targeted safety nets.

But there can be no ideal common package. Each country will have to fashion its own set of policies, depending on whether it is a food importer or exporter, on the mix of small and commercial farmers and the competing demands of rural and urban areas. No cookie-cutter set of rules will meet the human development needs of all.

Harnessing Intellectual Property

For intellectual property protection, much more research has gone into the legal and administrative aspects than into its economic benefits. Indeed, the TRIPS agreement itself was drawn up with 'remarkably little analysis of its expected economic impacts'.[46] This could be costly for developing countries. For most poor countries, this would represent a substantial proportion of the development budget and might more fruitfully be invested elsewhere. Again, however, there can be no standard model of IPR protection; countries will choose the model that matches their resources and their development prospects and fears over costs.

Geographical Indications

There is a much stronger case for strengthening protection for well-known GIs – which tends to cost less than protecting Intellectual Property Rights.[47] For most Asian countries that are embarking on this enterprise, the first task is a national effort, ideally at the grassroots, to catalogue what they have and what they might wish to protect and develop. This would include foods, beverages, clothing and crafts, for example, as well as bioresources like plants, herbs and trees.

They should also estimate the value of output and how it could increase, given sufficient legal, marketing and technological investments. They should also be able to indicate how many people will benefit from the increased output, disaggregated by gender, ethnicity, and income-group.

A Fisheries Policy Framework

Just as developing countries, and particularly the LDCs, should have some leeway for protecting their poorest farmers, they should also be able to protect fishing communities. This would demand action from both the importing and the exporting countries. The importing developed countries would need to avoid support or subsidies on exports to their own producers, and

resist efforts to protect them from fair competition from developing countries.

But much more also needs to be done in the developing countries that export fish. First, they need to introduce management measures to prevent fisheries in their national waters from being overfished or fished to their biological limits. This would include regulations on minimum mesh sizes, establishing closed areas/ seasons, and prohibitions on catching certain species and listing species that cannot be exported below a minimum size. In some cases it should also be possible to redirect the fishing effort to other areas. A number of Asia-Pacific countries are already taking such steps, but these need to be generalized and strengthened.

A second option is to produce more of the output through aquaculture. China, for example, has a zero-growth policy for marine capture from its inshore and offshore waters and intends to further boost output from aquaculture and distant water fishing. But because aquaculture can be environmentally destructive, China has also introduced what it calls 'ecological aquaculture', to incorporate principles of natural and social ecology, planning for 'community development and concerns for the wider social, economic, and environmental contexts of aquaculture'.[48]

Other priority fisheries areas are:

- *Food safety standards*. Develop effective and enforceable national food safety standards and establish their equivalence with those prevailing in import markets. For this purpose, the LDCs in particular should be able to rely on international development assistance.
- *Catch certification*. As a precursor to international ecolabelling schemes, some developing countries should be able to embark on national certification programmes – pooling the efforts of national- or state-level fisheries authorities, together with fish-worker organizations and the scientific community. With this experience, Asian countries could be involved in establishing an ISO Technical Committee on fisheries that could work towards an international 'ecolabel' protocol.
- *Negotiations on subsidies*. In the long run, subsidies should be phased out in most countries. But in the WTO debates on subsidies the Asian countries should press for this to happen more rapidly in the developed and higher-income developing countries. For capacity-enhancing subsidies – they could argue for complete exemption for the LDCs.

Policy Priorities

In summary, the key areas for policy are as follows:

1. *Ensure a consistent focus on agriculture*. Most of the world's poorest depend on agriculture and on access to secure supplies of food. Effective policies on agricultural trade are, therefore, crucial to human development and should be kept at the forefront of public debate.
2. *Promote solidarity among developing countries*. In agricultural trade, developing countries have many interests in common. They can unite, for example, in exposing the inconsistencies of developed country policies. They can also together argue for differential treatment for the most vulnerable countries, especially LDCs. And as a group they will want to ensure stable prices for food and non-food agricultural products.
3. *Accommodate different national interests*. Each country must, however, also fashion its own set of policies, depending on whether it is a net food importer or exporter, for example, on the mix of small and commercial farmers and on the competing demands

of rural and urban areas. These inherent differences and conflicts of interest need to be recognized and discussed in an open and transparent fashion at national and international levels.

4. *Promote the interests of the poor*. Trade liberalization is not an end in itself; it is of value only if it benefits the poor. Trade policy must, therefore, incorporate a comprehensive range of instruments, including tariffs and various types of support for weaker groups. Without this more inclusive approach, public support for any type of liberalization is likely to collapse and provoke wide-scale protectionism.
5. *Harness geographical indications and intellectual property rights*. One priority should be to establish and protect Geographical Indications, thoroughly cataloguing national assets and the benefits that can be derived from them. Some developing countries could also create national systems for protecting intellectual property rights, though for many this could prove too expensive.
6. *Reform national fisheries*. Developing countries need to defend the interests of small-scale fishing communities and promote sustainable fisheries in both marine capture and aquaculture, through more effective management. But they also need to respond to current and future international developments by establishing food safety standards, for example, and developing new forms of catch certification.
7. *Invest in rural development*. In the long term, international agricultural trade is likely to increase. Developing countries should, therefore, help rural communities to be more resilient, by promoting equitable rural development through land reform and carrying out other measures that increase productivity with equity while promoting human development.

Adjusting to a New Era for Textiles and Clothing

4
Chapter

Many countries in Asia, like the developed countries before them, embarked on large-scale trading in industrial goods through textiles and clothing. And from the 1960s several poorer countries in the region were able to capitalize on a quota system that offered preferential access to markets in developed countries. Now that era is over, and a number of countries are struggling to adjust to the prospect of fierce competition, particularly from China.

Developing countries now account for half of the world's exports of textiles and almost three-quarters of exports of clothing.[1] This represents a dramatic turnaround: the sector used to be dominated by the developed countries, but by the 1980s the developing countries had overtaken them and now rely on textiles and clothing (T&C) for a substantial proportion of their industrial production and employment.

Many economies in East and South-East Asia have been very prominent in this trade, using the T&C sectors as industrial launching pads: Hong Kong (China), Singapore, Taiwan (China), the Republic of Korea, and Malaysia led the way, to be followed later by China, Viet Nam, Thailand, and Indonesia.

Even this expansion falls far short of the full potential. The developed countries, worried about the speed of the decline in their own industries, had established strict quotas by country on imports from developing countries. Under the auspices of the GATT in 1962 they negotiated a Long-Term Arrangement Regarding International Trade in Cotton Textiles and Substitutes, which was extended in 1974 to become the Multifibre Arrangement (MFA). This reduced aggregate imports and restricted exports from large producers such as China and India, but it also benefited smaller countries such as Bangladesh and Nepal, whose quotas were sufficient for them to establish new industries.

The outcome was a highly dispersed T&C industry that provided employment for thousands of disadvantaged and lower-skilled workers all across the region. Women in particular seized these new opportunities. Even in traditionally secluded societies, many more women were able to enter the workforce. This could be an empowering experience: for the first time many women had independent incomes and a greater say in household decision-making. Apart from promoting gender equality, this brought positive benefits for society as a whole – as women were more likely to use this new income to invest in the education and health of their families.

Developing countries now account for half the world's exports of textiles and almost three-quarters of exports of clothing

These new industries also brought wider economic benefits. They gave the exporting economies the opportunities to acquire new skills and raise productivity and also diffused knowledge and technology and stimulated other industries and services that grew up around the new factories and their workforces. A healthy textiles and clothing sector in a country has been shown by cross-national statistical analysis to be associated with a higher-than-average income.[2]

But this economic advance also had social costs. Working conditions in the T&C sector can be harsh and exploitative. The demand for clothing is seasonal and unpredictable, so the industry employs a high proportion of its work-force on a part-time or piece-rate basis without

offering job contracts or health or other employment benefits. Women have been especially vulnerable: they might have gained a degree of independence by working outside the home, but they often face discrimination within the factories being paid less than men and obliged to take non-managerial jobs with little opportunity to enhance their skills.

Now the era of quotas has come to an end, and the global T&C sector is in the midst of a dramatic upheaval. The smaller exporting countries can no longer rely on the quota regime that favoured them for 40 years and are exposed to much tougher international competition. This chapter examines the implications of these changes and explores ways in which the textiles and clothing sector can better contribute to human development.

TABLE 4.1
WORLD TEXTILES AND CLOTHING EXPORTS ($ MILLIONS)

Years	*Textiles*	*Clothing*	*Total T&C*
1980	54,990	40,590	95,580
1990	104,354	108,129	212,483
2000	154,180	197,029	351,209
2002	152,151	200,851	353,002
2003	169,000	226,000	395,000
2004	195,000	258,000	453,000

Source: UN Comtrade and WTO 2002b, 2003a, 2004, 2005a.

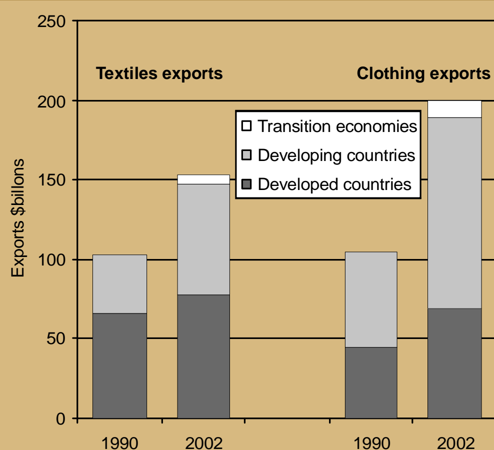

Figure 4.1: Shifts in the pattern of global exports 1990-2002

Source: UN Comtrade.

Trends in Global Trade in Textiles and Clothing

Over the past 40 years the global trade in textiles and clothing has grown 60-fold. Between 1962 and 2004, it increased from $6 billion per year to over $450 billion (Table 4.1). Today, textiles and clothing is one of the most dynamic product sectors, representing about 7 per cent of total world exports of manufactures. Clothing is the larger of the two, representing 57 per cent of total T&C trade. It is also growing faster: between 1997 and 2004 textiles exports grew on average by only 3 per cent per year but clothing exports grew by about 6 per cent.[3]

This trade is also strikingly international: around 130 countries produce and export textiles or clothing. However, fewer countries have substantial imports, around 30, the largest being the United States, the EU and Japan.[4,5]

Shifts in the Pattern of Exports

The most rapid shift in the balance of exports occurred between the early 1980s and 2000. Over this period, the developing countries' share in world textile exports increased from 8 to 46 per cent, and their share in world clothing exports increased from 9 to 60 per cent.[6] By the early 2000s, not only did the value of developing countries exports in textile and clothing increased, but also transition economies began to register a presence on the global scene (Figure 4.1). The leading developing-country exporters of clothing are China, Hong Kong (China), Mexico, India, Bangladesh and Indonesia. For textiles, the leading developing country exporters are China, Hong Kong (China), Taiwan (China), India and Pakistan.

Recent trends for major exporting countries are summarized in Table 4.2 and 4.3. These show, for example, that the developed countries maintain a strong interest in this sector; indeed, in textiles they still have the edge since

production of textiles tends to be more capital-intensive than that of clothing. Another feature of developed-country trade is that much of it is with each other – between the US and the EU, for example, and between the US and Canada.[7]

These tables also show the importance of Asia in global trade in this sector. China is the second-largest exporter for both textiles and clothing worldwide and close to number one for clothing. While individually other Asian countries do not command a large market share, collectively the region has emerged as an important player in the global market for exports.

On the import side, there have been no significant changes. The major importers are mainly the US, the EU and Japan. China too is a major importer of textiles, but mainly as an input to its clothing industry.

Such has been the expansion of the T&C sector in Asia that many countries are now highly dependent on this trade. This is less of an issue in the larger countries. For China, for example, T&C exports are only 16 per cent of total merchandise exports and for India they are 21 per cent. Other, smaller countries rely on this sector much more heavily: Cambodia, 71 per cent; Pakistan, 68 per cent; Bangladesh, 59 per cent; Sri Lanka and Nepal, around 50 per cent (Figure 4.2). A similar pattern emerges when

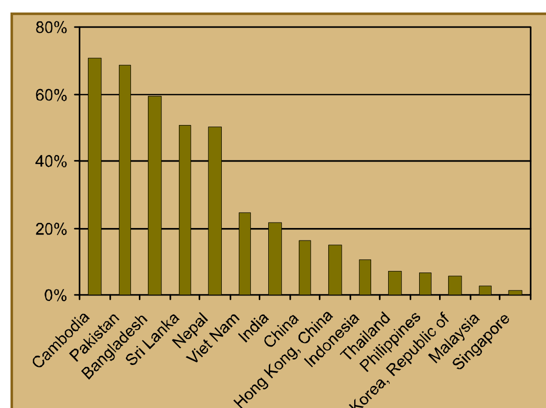

Figure 4.2: Share of textiles and clothing in total merchandise exports in selected countries of Asia 2004

Source: WTO 2005a; World Bank 2005.

TABLE 4.2

Leading Exporters of Textiles 2004

	Value (billion dollars)	% share in world textile exports			
	2004	1980	1990	2000	2004
European Union (25)	71.3	..	..	36.5	36.6
Extra-EU exports	24.3	..	..	11.2	12.5
China [a]	33.4	4.6	6.9	10.4	17.2
Hong Kong (China)	14.3	..	..	..	..
– domestic exports	0.7	1.7	2.1	0.8	0.4
– re-exports	13.6	..	..	..	..
United States	12.0	6.8	4.8	7.1	6.2
Korea, Rep. of	10.9	4.0	5.8	8.2	5.6
Taipei, Chinese	10.0	3.2	5.9	7.7	5.2
Japan	7.1	9.3	5.6	4.5	3.7
India [b]	6.9	2.4	2.1	3.9	4.0
Turkey	6.4	0.6	1.4	2.4	3.3
Pakistan	6.1	1.6	2.6	2.9	3.1
Indonesia	3.2	0.1	1.2	2.3	1.6
Thailand [c]	2.6	0.6	0.9	1.3	1.3
Canada	2.4	0.6	0.7	1.4	1.2
Mexico [a, c]	2.2	0.2	0.7	1.7	1.1
Switzerland	1.6	2.8	2.5	1.0	0.8

Notes: a. Includes significant shipments through processing zones; b. 2003 instead of 2004; c. Includes secretariat estimates.
Source: WTO 2005a.

TABLE 4.3

Leading Exporters of Clothing 2004

	Value (billion dollars)	% share in world clothing exports			
	2004	1980	1990	2000	2004
European Union (25)	74.9	..	..	27.0	29.0
Extra-EU exports	19.1	..	..	6.9	7.4
China [a]	61.9	4.0	8.9	18.3	24.0
Hong Kong (China)	25.1	..	..	..	..
- domestic exports	8.1	11.5	8.6	5.0	3.2
- re-exports	17.0	..	..	..	..
Turkey	11.2	0.3	3.1	3.3	4.3
Mexico [a, b]	7.2	0.0	0.5	4.4	2.8
India [c]	6.6	1.7	2.3	3.1	2.8
United States	5.1	3.1	2.4	4.4	2.0
Romania	4.7	..	0.3	1.2	1.8
Indonesia	4.5	0.2	1.5	2.4	1.7
Bangladesh	4.4	0.0	0.6	2.0	1.7
Thailand [b]	4.1	0.7	2.6	1.9	1.6
Viet Nam [b]	4.0	..	..	0.9	1.5
Korea, Republic of	3.4	7.3	7.3	2.5	1.3
Tunisia	3.3	0.8	1.0	1.1	1.3
Pakistan	3.0	0.3	0.9	1.1	1.2

Notes: a. Or nearest year; b. Includes significant exports from processing zones; c. Includes Secretariat estimates.
Source: WTO 2005a.

T&C exports are considered as a proportion of manufactured exports, with the percentages being higher.

The expansion of the textiles and clothing sector has created millions of new jobs

Employment

The expansion of the textiles and clothing sector has created millions of new jobs. Just how many is difficult to say, because national statistics do not generally distinguish between those working for the domestic market and those involved in the export trade – and miss many people who work in the unorganized sector. With this caveat, estimates of employment are given for a selection of countries in Table 4.4. Other estimates suggest that the T&C sector employs around 340,000 people in the Philippines, more than a million in Indonesia, and close to 3 million in Viet Nam, mostly female migrants from rural areas.[8]

TABLE 4.4
Textiles and Clothing Employment, Selected Asian Countries

	Year	Employment (thousands)	Share of manufacturing employment (%)
Bangladesh	2004	1,800	n.a.
Cambodia	2005	473	80
China	2004	19,000	19
India	2001	1,645	22
Pakistan	2001	2,300	43
Sri Lanka	2000	237	49
Mauritius	2001	85	73

Note: For Cambodia's total textiles and clothing employment figures, while clothing employment is from 2005, textile employment is from 2000.
Source: ILO 2005b.

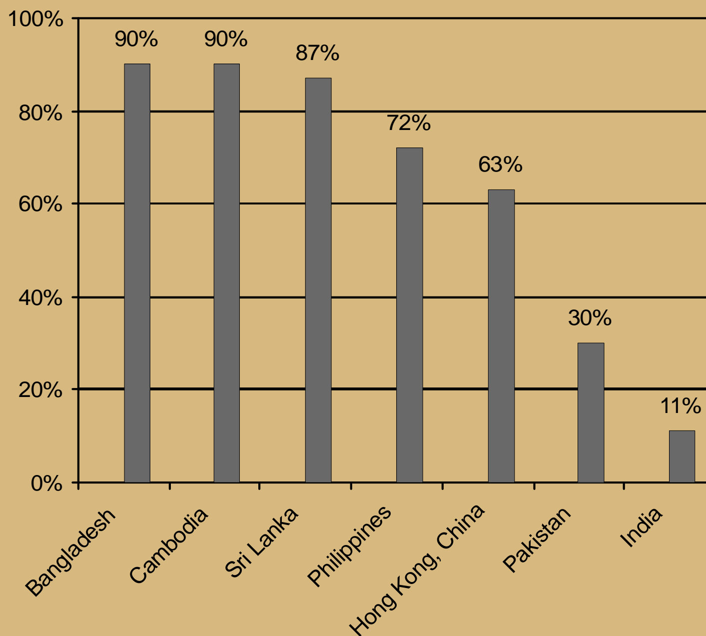

Figure 4.3: Women's share in paid employment in textiles and clothing

Source: Based on ILO 2003; figure for Pakistan taken from Siegmann 2004.

The majority of these workers are women – with the proportion as high as 90 per cent in Bangladesh and Cambodia, and 87 per cent in Sri Lanka (Figure 4.3). This was partly because the pace of expansion increased employment generally and drew more people into the labour force, but also because the sector favoured part-time or piece work, circumstances in which female workers have tended to predominate. In Pakistan, for example, a country in which women make up 15 per cent of the labour force generally, they are 30 per cent of the workforce in textiles and clothing and 75 per cent of the workers in stitching units, where they are employed via subcontractors on piece rates.

This employment has been a liberating experience for many thousands of women who otherwise might have stayed in their villages or been confined to their homes. In Cambodia, for example, most of the women are migrants from rural areas. They earn $60 to $70 per month, around two-thirds of which they remit to their families. With this contribution to the family income they have a stronger voice in decision making, on issues such as marriage, family size, education and health. The 1.8 million women employed in the garments industry in Bangladesh have also gained from their employment, both financially and socially (Box 4.1).

Working Conditions

The textiles and clothing sector is highly competitive, with complex layers of relationships between different producers along the

BOX 4.1

Female Employment in the Bangladesh Garments Industry

The expansion of clothing exports from Bangladesh resulted in increased employment opportunities for Bangladeshi women, who now comprise 80 per cent of the 1.8 million workforces in the sector. Women's incomes have effectively risen, as their daily wage rates in the garments industry are twice as high as the agricultural and construction wages. As with all female employment, there are positive ripple effects on the family: Women employed in export-oriented garment production contribute around 46 per cent to the family income, and their earnings have been instrumental in keeping a large number of their families above the poverty level. Also, by having some control over part of their income, women invest in health, education, and tend to save more.

Rising incomes in this industry have also had a positive effect on women's education levels: survey results show that 78 per cent of women had at least one year of formal schooling in 1997, compared to 65 per cent in 1990 (Paul-Majumder and Begum 2000). Economic independence and opportunities to improve educational levels have increased their empowerment within the household (Bhattarcharya and Rahman 1999).

Nevertheless, within the industry, women are still subject to gender discrimination:

Wage Disparities. Even though nominal as well as real wages in the T&C sector have increased over the last 20 years, women have benefited substantially less than men. Wages have risen most for skilled workers, who are usually men. Between 1990 and 1997, the gender-related wage gap widened: Female wages fell from the equivalent of 66 per cent of male wages in 1990 to 59 per cent in 1997. Even after controlling for skills, the gender-related wage gap persisted.

Assignment to Lower-skilled Jobs. Women are typically employed in the lower-skilled jobs, as production workers or helpers, with few prospects of transition to higher-skilled and better paid positions in the supervisory or managerial fields. Moreover, women workers often are bypassed when new technologies are introduced, as they are not trained to use them.

Medical Benefits and Leave. Survey results also reveal that women do not receive medical treatment for about 40 per cent of illnesses and diseases afflicting them, while for men the proportion is 33 per cent. Only 35 per cent of female workers who asked for it were granted paid leave, compared to 60 per cent of male workers.

Source: Tran-Nguyen and Zampetti 2004.

value chain, and employers are under constant pressure to cut costs. This has frequently led to a very exploitative and hazardous working environment, including excessively long hours, lack of freedom of association, continuous exposure to toxic substances and the prohibition of rest breaks[9] – well-illustrated by the treatment of garment workers in some Delhi production units (Box 4.2). In addition to poor working conditions, parts of the industry have a poor environmental record. For instance, the textile industry uses solvents, pesticides, dyes and bleaches in its production processes, but often makes little effort to treat effluents, leading to water pollution.

Gender-related Disparities

Women are employed in large numbers in the T&C industry, but they are still far from being

BOX 4.2

Sweatshop Conditions in Delhi's Garments Industry

In north India, an overwhelming 90 per cent of the garment units producing for the export market are located in the Delhi metropolitan area. These units employ nearly 103,000 workers – 6 per cent of the total industry workforce – and in 2001 they contributed 35 per cent to the country's earnings from garment exports.

The industry is highly diverse. Large mechanized factories producing standardized products coexist with a wide network of subcontractors producing labour-intensive items, only 20 per cent of which are registered in the 'formal' sector. Irrespective of whether they are large factories or smaller *karkhanas* (workshops), these units try to offset the high overheads by cutting operating costs. They are run like sweatshops, where workers are bound by informal contracts, have to work long hours with limited break, and use outdated machinery. Costs are kept low by keeping wages low and circumventing the obligations required of employers in the formal sector. Flexible production systems have also led the de-skilling of workers, which has effectively weakened the traditional caste-based system of skill formation.

Source: Verma, 2004.

treated on a par with their male counterparts (Box 4.1). In most countries women are paid less than male workers for the same work, and they are usually employed on the lower-skilled, and consequently lower-paid rungs of the industry, such as weaving and spinning, with few opportunities for skill enhancement. Even in the Sri Lankan industry, where gender-related wage disparities are not as high, female workers endure other forms of hardship such as harassment, problems in commuting to and from work, and the dual responsibilities of family and work.

Women workers are also subject to other forms of maltreatment. In India, for example, as more women enter the labour force there seems to have been a rise in domestic violence. In some patriarchal societies this could be because women who move beyond their domestic role to become family breadwinners are perceived as threats. Even outside their family and social settings, female workers have often been the victims of exploitation, oppression and harassment at their workplace.

BOX 4.3

LDCs: Major Beneficiaries of the Multifibre Arrangement

The Multifibre Arrangement was particularly advantageous to a number of LDCs.

Bangladesh. From 1981 onwards the Bangladeshi garment industry grew at 20 per cent per year, with the number of producing units increasing from 70 to around 3,000. Garment exports which in 1983 accounted for 3.9 per cent of total exports, by 2002 had reached 86 per cent.

Nepal. The Nepali clothing industry grew as a direct result of restraints on Indian exports. Garment exports were the most lucrative export items and brought in $162 million in 2003, although this declined by 18 per cent in the first eight months of 2004 (EIU 2004). At its peak in the early 1990s, the Nepali textile sector employed more than 100,000 people.

Cambodia. Over the past decade the quota regime for garment exports allowed Cambodia to become one of the fastest-growing garment exporters: between 1995 and 2003, export earnings rose from $26 million to $1.6 billion, by which time they accounted for 90 per cent of the country's merchandise exports. The industry has become the largest sectoral employer in the country. Around 90 per cent of workers are from rural areas. Remittances are typically around two-thirds of their monthly incomes of $60-70. These remittances have had a tremendous impact on rural poverty, as they often are the family's only source of cash, and help generate peripheral and supporting jobs in the rural areas. As 90 per cent of the workers in these factories are women, the expansion of this industry has also had an empowering effect.

A Changing Trade Regime

The Multifibre Arrangement (MFA) controlled imports of textiles and clothing by assigning quotas for exporting countries. Large producers such as China and India soon reached the limit of their quotas, but a number of other countries found themselves with quotas they were not filling, and developed T&C industries to take advantage of them. The Philippines, for example, which had not previously been a significant exporter, rapidly expanded its industry, which by 2004 was sending more than 80 per cent of its total garment exports to quota markets in Europe and the US. LDCs such as Bangladesh and Cambodia had a further advantage, since their LDC status entitled them to both quota-free and duty-free access to the EU (Box 4.3).

That era is now over. As a result of pressure from some of the larger exporting countries, as well as from retailers in the importing countries, the WTO in 1994 set up the Agreement on Textiles and Clothing (ATC), under which from 1995 onwards, the MFA quota restrictions would be lifted in a series of stages. By 31 December 2004, quotas in product categories of interest to poor-country exporters disappeared completely, and textiles and clothing were fully integrated into the WTO system of free trade.[10]

However, the full force of the ATC has been offset by number of factors that have continued to constrain imports from some Asian countries:

Protection from disruption by China. When China entered the WTO in 2001, the accession agreement included a safeguard to protect importing countries from possible 'market disruptions'. This allowed importing countries to request a 'restraint limit' that would be in

place until the end of 2008. This applied to all products, but the effect was likely to be greatest for textiles and clothing.

Import tariffs. The importing countries no longer apply quotas, but they do discriminate between exporting countries through tariffs. This is a powerful tool, because tariffs are far higher on textiles and clothing than for other industrial products. In the US, for example, the average industrial tariff is 3.5 per cent but for textiles and clothing it is 14.6 per cent. For the EU the figures are 3.6 and 9.1 per cent respectively, and for Japan 1.7 and 7.6 per cent. However, the importing countries offer concessions on these tariffs to certain favoured countries. The US, for example, offers lower tariffs to countries in the North American Free Trade Agreement (NAFTA) and the Central American Free Trade Agreement (CAFTA), and also offers preferential rates to a number of African countries through the African Growth and Opportunity Act (AGOA). The EU similarly offers tariff-free entry to exports from all member countries, which includes several Central and East European countries that produce textiles and clothing. Also, through its Everything But Arms Agreement (EBA), the EU offers tariff-free access to goods from all LDCs.

Anti-Dumping Legislation. Importing countries may also decide to stop imports from countries that appear to be off-loading goods at very low prices, even below the cost of production. The EU, for example, has repeatedly initiated anti-dumping measures. Between 1993 and 1998 it took action against cotton fabric items from India, Indonesia and Pakistan. Often such action has been based on spurious information.[11] It seems unlikely that such actions will diminish following the removal of quotas.[12]

Technical barriers. Countries can also introduce new technical standards. The clauses in the Uruguay Round leave considerable scope for ambiguity, saying merely that technical standards have to be applied in a way that does not prove to be discriminatory between foreign and domestic buyers. So far, however, there does not seem to have been any increase in their use for protectionism.[13]

Winners and Losers

The changes to the international trade regime, and the range of ways in which importing countries can shape the pattern of imports, have created uncertainty in the global textiles and clothing industry. Among the winners in this new environment are the T&C buyers in the importing countries, who now have greater freedom to source from countries or suppliers that offer the best combination of price, quality and speed of delivery. Also likely to gain are the larger exporting countries that previously were constrained by quotas; here the more efficient producers should be able to expand their operations – employing more people and benefiting consumers through lower prices.

Among the winners are the T&C buyers in the importing countries. Also likely to gain are the larger exporting countries that previously were constrained by quotas. The losers will be some of the smaller countries that exploited quotas within the MFA

The losers will be some of the smaller countries that exploited quotas within the MFA. While they might have been able to take advantage of the window of opportunity, their textiles and clothing industries may still not be internationally competitive, so they are likely to lose export markets – with severe economic ramifications for employment and incomes.

A number of studies have attempted to assess the overall impact of this new environment. They differed in a number of respects, but they did agree that overall there would be an increase in exports from Asia and that the benefits would be shared unequally. The main winners would be China and India, which were in a position to deliver competitively at every level of price and quality. The losers would include the smaller exporting countries, which had benefited from the quota.

What has actually happened? Although only a short period has elapsed since the removal of quotas, the outcome seems to have been broadly as predicted. The UNDP analyzed the flow of textiles and clothing to the US and the EU,[14] a snapshot of which is presented in Tables 4.5 and 4.6.

TABLE 4.5
US AND EU IMPORTS OF TEXTILES AND CLOTHING 2004 AND 2005

Country	*US + EU Imports*					
	Value ($ 000's)			*Volume (kg 000's)*		
	2004	*2005*	*% change*	*2004*	*2005*	*% change*
Bangladesh	6,831,529	6,986,371	2.3	772,398	805,074	4.2
Cambodia	2,077,287	2,309,302	11.2	139,582	157,337	12.7
China	33,184,188	48,328,640	45.6	3,415,846	4,902,913	43.5
India	9,461,662	11,498,711	21.5	1,201,657	1,336,645	11.2
Indonesia	4,780,437	5,061,899	5.9	475,909	496,362	4.3
Lao PDR	149,135	150,918	1.2	10,145	10,330	1.8
Nepal	229,322	189,297	–17.5	18,921	13,358	–29.4
Pakistan	5,438,106	5,393,774	–0.8	947,320	1,000,860	5.7
Philippines	2,319,502	2,187,351	–5.7	162,364	145,930	–10.1
Sri Lanka	2,646,967	2,727,200	3.0	212,297	206,596	–2.7
Thailand	3,665,385	3,519,697	–4.0	330,086	332,717	0.8
Viet Nam	3,478,990	3,687,055	6.0	273,593	274,902	0.5
Asian-12	74,262,510	92,040,215	23.9	7,960,118	9,683,024	21.6

Source: Adhikari and Yamamoto 2006.

TABLE 4.6
SHARE IN VALUE IN TEXTILES AND CLOTHING (%)

Country	*US*		*EU*	
	2004	*2005*	*2004*	*2005*
Bangladesh	2.3	2.6	5.6	5.0
Cambodia	1.7	1.9	0.7	0.6
China	17.2	24.2	23	30.7
India	4.6	5.4	6.8	7.5
Indonesia	3.0	3.3	2.6	2.2
Lao PDR	-	-	-	-
Nepal	0.2	0.1	0.1	0.1
Pakistan	2.9	3.1	3.6	3.0
Philippines	2.1	2.0	0.5	0.3
Sri Lanka	1.8	1.8	1.3	1.1
Thailand	2.5	2.4	1.9	1.6
Viet Nam	3.0	2.9	1.1	1.1
Asian 12	41.3	49.7	47.2	53.2
Rest of the world	58.7	50.3	52.8	46.8
World	100.0	100.0	100.0	100.0

Source: Adhikari and Yamamoto 2006.

An analysis of the US and EU figures for 12 countries of Asia in the early post-quota period yields the following tentative conclusions:

1. In 2005, the market share of the 12 major producers in total T&C exports to the US increased by 8.4 per cent and to the EU by 6 per cent. This is in line with historical growth rates. Therefore, the end of quotas has not yet visibly led to enhanced import penetration in these markets – or therefore to the displacement of domestic producers and employment losses. Despite enhanced competition, unit prices of imports have not fallen dramatically, and this has enabled textiles and clothing manufacturers in the US and EU to withstand competition. In addition, safeguards of the type described below have been invoked, especially against Chinese imports.
2. The 12 major Asian producers and exporters have collectively increased their share to both the US and EU markets. Overall, in both markets combined the share has increased from 44 per cent in 2004 to over 51 per cent in 2005. This has come at the expense of the countries of Latin America, Caribbean, Africa and elsewhere.
3. Within Asian exporters, the biggest gains have been experienced by China and India. In the two markets combined (EU and US), China's share has increased from 20 per cent to 27 per cent, while that of India has gone up from around 5 per cent to over 6 per cent. The shares of Cambodia, Indonesia and Viet Nam have remained largely unchanged.
4. The initial losers, in terms of the decline in value of exports to the US and EU markets combined are Nepal, the Philippines, Thailand and Pakistan (Figure 4.4).

China

Even during the era of quotas, China had become the largest exporter; in 2003, it had 20

per cent of global textile exports and 28 per cent of those for apparel. But it also far outstrips other countries in its capacity to respond to the opportunities created by better market access and is certain to be the principal beneficiary of the post-MFA global trading regime.

The Asian giant possesses numerous advantages. It has relatively low labour costs; by no means the lowest in the world, but sufficiently low to undercut many other countries. It has a productive and highly 'disciplined' workforce, with no independent labour unions. It has strong business networks that originated in Hong Kong (China) and Taiwan (China). It also has excellent shipping connections that allow rapid transit times to the US and Europe.

With the ending of quotas, Chinese companies are moving quickly to seize a huge opportunity. At present China imports around half its textile needs, making it the world's third largest importer, just behind the EU and the US. It is also the world's largest importer of raw cotton and amongst the top importers of wool in the world. But in future Chinese suppliers will be able to source more of their textiles locally. In 2004 they imported $4.5 billion worth of up-to-date textile and clothing machinery, 43 per cent of which came from the EU, which should enable Chinese manufacturers to make higher-quality products to tighter delivery schedules. All this will produce a substantial rise in employment.

China's export expansion will, however, face some constraints. In the short term, importing countries that become alarmed about a surge of Chinese imports can protect themselves by imposing quotas. In the medium term, as its own consumer market grows, China is likely to absorb more of its own production as well as imports from other countries. And in the longer term, China, like other industrializing countries, is likely to shift away from the manufacture of relatively simple goods like textiles and clothing and put more emphasis on high-tech industrial products such as electronics.

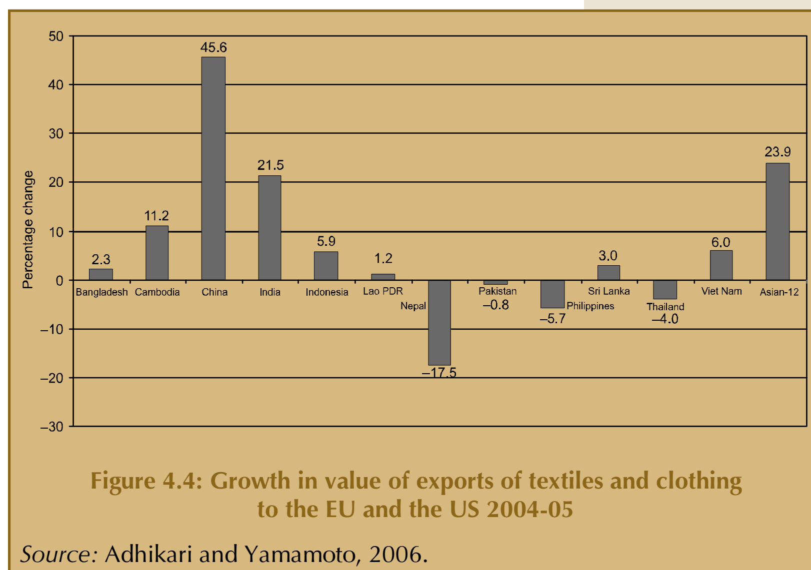

Figure 4.4: Growth in value of exports of textiles and clothing to the EU and the US 2004-05

Source: Adhikari and Yamamoto, 2006.

As expected, China's exports rose rapidly following the end of the quota regime. Between 2004 and 2005, exports to the US and the EU increased by 46 per cent in value and 44 per cent in volume. These increases were for almost all categories of apparel. However, there could have been special factors that boosted these figures. In some cases the exports substituted for goods that previously might have come via the Special Administrative Regions of Hong Kong and Macau as well as Taiwan (China). And some traders will have seen this as a window of opportunity to increase shipments before the US and the EU retaliated with protective measures.

China is certain to be the principal beneficiary of the post-MFA global trading regime

As expected, the US and the EU started imposing restrictions. On 23 May 2005, for example, the US imposed restrictions on cotton knit shirts and blouses, cotton trousers, slacks and shorts, and cotton and man-made fibre underwear. On 27 May, it imposed limits on cotton yarn, men's and boys' cotton and man-made fibre shirts (non-knit), man-made fibre knit shirts and blouses and man-made fibre trousers. It thus appears that the categories on which limits have been reintroduced were among those for which quotas were the most restrictive during the ATC regime.

The companies producing these goods, most

of which are small and medium enterprises, will be severely affected. Since they filled their new quotas within a couple of months, they had to stop production for the rest of the year. This affected some 140,000 jobs, most of which are occupied by young girls or women from rural areas who are not covered by China's limited social safety net.

Following these measures and subsequent additional requests for safeguard action, in November 2005 the US and China arrived at a broad pact. In exchange for guaranteed access to the US, China agreed for three years to limit its exports for 34 categories of clothing, accounting for 46 per cent of Chinese textile imports into the US. The agreement allows an annual average growth of 11 per cent – considerably lower than the Chinese demand of 20-30 per cent.

On 29 April 2005, the EU too launched investigations into Chinese imports – T-shirts, pullovers, men's trousers, blouses, stockings and socks, women's overcoats, brassieres, flax yarn and woven fabrics of flax. The surge in imports of T-shirts was of particular concern: during the period January–April 2005, T-shirt import volumes from China had increased by 187 per cent compared with the same period in 2004, increasing China's market share from 7 to 15 per cent and leading to a fall in import prices of 36 per cent. These imports had replaced production in a number of EU countries, including Greece, Portugal and Slovenia, and also displaced imports from traditional suppliers such as Morocco, Tunisia, Romania, Sri Lanka, and Bangladesh.

On 10 June 2005, the EU and China concluded a Memorandum of Understanding (MOU) that covered imports from China in ten categories of products, setting a quota limit for the remainder of 2005 and for 2006 and 2007 – allowing for an increase in import volume of 10 per cent per annum. But by late August 2005, Chinese manufacturers had already met or exceeded these quotas, and since the above-quota goods had already been despatched they were impounded in Europe – more than 75 million garments. After further negotiations the European Commission agreed to allow half of these goods to enter, and China agreed that the rest would be deducted either from its 2006 textile quota or switched to other unfilled-quota categories.

In addition to its agreements with the US and the EU, China has undertaken its own unilateral measures to dampen down exports. It has, for example, lowered the VAT rebate rate on T&C exports and imposed export duties on a number of lines to encourage Chinese enterprises to switch to higher value-added products – although it later revoked some of these following the US and EU restrictions, to prevent Chinese textile exporters from being doubly penalized.[15]

Bangladesh

Bangladesh had expanded its T&C exports very rapidly under the quota regime. This was largely based on having some of the world's lowest wages – although offset by low productivity. In 2004, 500,000 workers were employed in knitwear and 1.3 million in woven apparel;[16] 80 per cent of the workers are women.

In recent years Bangladeshi enterprises had made considerable improvements, reducing lead times, increasing the value added, and becoming more price-competitive. Nevertheless, Bangladesh remained highly reliant on quotas, sending 98 per cent of its exports to the US and the EU. Most analysts assumed that without these quotas its T&C sector would collapse.

The result has been more mixed – with a stronger performance in the US and a weaker one in the EU. What appears to be happening is that, for woven garments, EU's stringent rules of origin appear to be more constraining than US's tariff barriers.

So far there has been no evidence of significant factory closures or retrenchment of workers; indeed, one survey found that 19 out of 35 firms had increased the number of workers,[17] while employment in the rest was unchanged.

There could also be improvements in working conditions, since another survey found increasing pressure to meet the different codes of conduct and social standards set by different buyers.[18] However, these burdens fall upon employers' and then workers' shoulders, without too much support from buyers or from government. The demands will also differ from one buyer to another; one buyer may require workers to be provided with sandals, while another requires work shoes. Work hours have also been reduced as buyers demand that factories meet the legal limit of 60 hours a week. Though this is an advance in one respect, it also means people now earn less income and miss out on snacks provided for overtime workers.

Cambodia

Cambodia too had fared well under the quota regime. Investors from Hong Kong (China), Taiwan (China), and Singapore, along with local businessmen, many of Chinese origin, had built up an industry with 200 clothing factories that in 2004 exported $1.9 billion worth of goods. But Cambodia appeared vulnerable to the removal of quotas. Some 40 per cent of its exports were to a US retailer, Gap, which also sourced about one-sixth of its clothing in China. Since Cambodia's production costs were around 25 per cent higher than those in China, and transportation to foreign ports took far longer, it was feared that much of this production would migrate to China.

In the event the outcome has been better than expected, as exports to the US and EU increased by over 11 per cent in value and 13 per cent in volume in 2005. This appears to be the fruit of Cambodia's efforts to improve factory conditions and its participation in an ILO inspection programme that made the country more acceptable to foreign buyers. Cambodian workers have the right to strike. Many are organized into independent unions. A recent report found no forced labour, child labour, or discrimination. Apparently because of these better working conditions, the US provided Cambodia with preferential treatment in the form of higher quotas and lower tariffs.[19] However an ILO report cautions against bureaucratic practices and rampant corruption, and a report from the International Confederation of Free Trade Unions shows increasing pressure on trade union rights that threatens to tarnish the country's image.[20]

Because of better working conditions, the US provided Cambodia with preferential treatment in the form of higher quotas and lower tariffs

India

India's T&C industry accounts for 14 per cent of total industrial production and nearly 30 per cent of total exports. In the 1960s India exported about half of its products to the USSR and Eastern Europe, but from the late 1970s shifted more towards the US and European markets, where it ran into quota restrictions. Most studies have concluded that India would benefit from the lifting of quotas, and some consider that India alone has the ability to be competitive with China. Potential revenue gains have been put at $2 billion annually.[21]

India seems to have gained in both textiles and clothing. Between 2004 and 2005, exports to the US and EU grew by 22 per cent in value and over 11 per cent in volume. In absolute terms, the value of exports grew by almost $2 billion, as anticipated. But India has lost market share in cotton trousers, though gaining in cotton fibre dresses and men's cotton knit shirts. Although no job losses have been reported yet, many female workers are expected to lose their jobs when the textile industry replaces handlooms by machine looms.

Indonesia

Indonesia's T&C sector is the country's major contributor of non-oil and gas exports. Directly and indirectly, about 3.5 million people are now working in the sector. According to the 2004 National Labour Force Survey, 1.1 million people were officially employed in the sector in 2004, down from 1.4 million in the previous year. In addition to factory workers, the T&C sector, especially ready-made garments, hires many informal workers. In Bali, for example, sewing is contracted out to village groups. Wages are among the lowest in the region, averaging $0.27 per hour. In export processing zones the basic wages for females workers in the garment sector were found to be $55 to $74 per month, when the minimum wage was around $74. Thus, women are not earning above minimum wage in the garment industry.[22]

Between 2004 and 2005, the sector increased its output: exports to the US and EU, which account for about two-thirds of exports, show an increase in value of 6 per cent. Nevertheless, there is evidence of factories laying workers off as a result of falling orders and rising costs.

Nepal

In the early 1980s Indian exporters, constrained by the system of quotas, turned to Nepal and established export-oriented garment manufacture there. Output of ready-made garments peaked in 2000 then declined over the next two years in anticipation of the end of the quota regime. The value of exports declined sharply, by 18 per cent in value and 29 per cent in volume, to the US and EU markets in 2005.

Pakistan

Overall, the T&C sector accounts for 60 per cent of exports. In 2000 it employed 2.3 million people, including informal workers – 43 per cent of manufacturing employment – and is the second-largest employer of women, after agriculture. This is mostly a cottage industry: around 90 per cent of work is subcontracted to small- and medium-sized enterprises.

Between 2004 and 2005, Pakistan lost some of its exports to the EU while expanding in the United States. Overall, however, there are some doubts about the growth of the sector following the removal of quotas. The value of export declined by 1 per cent, while volume increased by around 6 per cent. The impact on employment is not yet clear, though there are signs of male production workers being replaced by female ones.[23]

Sri Lanka

Sri Lanka's success has been partly achieved through supportive government policies – lower corporate taxes, duty-free imports of machinery and raw materials, and subsidies and duty rebate schemes. But Sri Lanka has also had a particularly large share of export quotas and enjoyed relatively secure markets through bilateral agreements with the US, the EU, Canada, and Norway. Most of the T&C sector here is in clothing, since there is no significant textile industry. But even before the quota regime was disbanded, labour costs had been rising and garment exports had been shrinking. With the ending of quotas some analysts estimated that as much as half the local industry would have to close.[24]

In a 2005 survey there were 733 apparel factories, and employment seems to have been falling, from 340,367 in 2003 to 273,600 in 2005. Some 85 per cent of these are women. Some of this reduction has been due to the consolidation of the industry, though other factories have closed abruptly, without paying any compensation.

In 2005, the combined exports to the US and the EU rose by 3 per cent in value and fell by an

equal percentage in volume. The EU granted Sri Lanka GSP-plus benefits in 2005. But without a strong textile processing sector, the country will not benefit much from the scheme.

Viet Nam

Viet Nam had also seemed likely to be a loser from the reduction in quotas. So far, the results do not appear to have been negative; exports in value to the US and the EU increased by around 6 per cent in value and half of 1 per cent in volume in 2005. Nevertheless, there is a climate of uncertainty among national producers. Viet Nam has benefited from the reintroduction of restrictions against China, which increased Viet Nam's sales somewhat. However, according to government sources, the outlook is not very promising – not just because of the removal of quotas, but also because of relatively high production costs.[25]

Impact on Workers and Communities

If countries and suppliers are to survive in the new global trading environment, they will have to become more competitive. In efforts to do so, however, they could pass on the pressure to their workers – reducing wages and demanding more unpaid overtime and threatening to close or move if workers do not comply. Increased competition could also lead to less-secure forms of employment, such as piece-rate jobs – which would mean greater health and safety risks for workers as well as a loss of benefits such as medical insurance.

However, there may also be pressures to improve working conditions. Consumers in the importing countries are asking retailers to prove that goods are not produced by sweatshops. This could improve standards for many workers, though there is also the risk that retailers' demands will be so stringent that they drive some developing-country suppliers out of business.

A decline in the garment industry in any country will see job losses, especially for women. Even in countries that maintain production, women's employment may fall because of increased mechanization and the transfer of work to larger factories that employ more men. The introduction of new technologies often leads to greater redundancies among women: first, because the new technologies will replace jobs such as weaving, traditionally performed by women; and second, because women, with their lower access to skills, often lack the knowledge to operate the new equipment.

Women working on piece rates in the informal sectors could also be particularly vulnerable if better working conditions moves more production into factories; unable to find work in more modernized garment factories, these women are more likely to turn to marginal micro-enterprises, such as taking in laundry and street vending.

National Policy Directions

The textiles and clothing industry worldwide is on the threshold of major changes, with gains in some countries offset by losses in others as factories close and unemployment increases. But even countries that manage to boost their export earnings will not necessarily provide more work or better labour conditions. Higher levels of trade in textiles and clothing can lead to higher levels of human development, but only if governments and employers take the necessary action. In the long run, the only way to survive in a competitive global market is by upgrading the industry and removing some of the barriers to increasing both the quality and quantity of output.

Decent Work

Countries that do not have legislation should enact labour laws to guarantee the rights of

Countries that do not have legislation should enact labour laws to guarantee the rights of workers, particularly women

workers, particularly women. Such guidelines, following ILO recommendations, should cap weekly working hours, while offering firms incentives to attain competitiveness through increased labour productivity. Meanwhile, countries that have already enacted such legislation need to be more proactive in ensuring compliance and in taking punitive action against offending enterprises.

In the current climate, international retailers and garment manufacturers are closely scrutinized in their home countries with regard to the labour conditions in the factories of their suppliers. Cambodia, for example, has already demonstrated how improved working conditions can help boost exports. It is important, however, that developed countries do not use such requirements as a substitute or pretext for increasing tariffs and other forms of protection.

Exporting countries can take advantage of such concerns by following the codes of conduct developed by some major retailers to protect basic labour rights in their contracted factories. These typically include adequate wages and work hours, job security, health and safety guarantees, and the right to form independent labour unions. Countries that have labour laws consistent with these codes of conduct – and the means to enforce them – could then market themselves to the socially more conscious US and EU retailers and manufacturers.

Environmental Protection

The textiles and clothing sector can only promote sustainable human development if it is environmentally responsible. All developing countries need relevant and enforceable domestic regulatory frameworks that can mitigate the industry's negative effects on the environment – using cleaner technologies, reducing water usage, avoiding pollution and promoting more efficient use of process chemicals.

Offsetting the Effects of Quota Elimination

In countries where job losses are anticipated, the states need to ensure protection and rehabilitation of affected workers. To manage this, they could set up cells in government departments to track changes in the sector.

The most vulnerable countries are those with inefficient and low-productivity industries that produce poor-quality goods. These are unlikely to survive. In a quota-free world, enterprises have to compete on grounds other than cheap labour. Governments must, therefore, help create the conditions for alternative employment: for example, by improving infrastructure, particularly telecommunications. Governments also need to negotiate new beneficial trade agreements for other products – possibly working through groupings and trading blocs where they can share resources and information.

At the same time, government and industry will need to work together to find ways of moving up the value chain – diversifying product lines, developing indigenous sources of textiles and other inputs.

- *Responsible closure of units*. Governments need to adopt responsible closure guidelines, including notification requirements and phased implementation of closure. All firms – including large retailers that source production in Asia – should have social safety nets to protect workers who are laid off. These workers should also be paid before other creditors. Most countries have laws to protect workers against summary dismissal, but enforcement is unreliable and factory closures will need to be carefully monitored to ensure that workers receive due severance pay, social security and pension payments, along with social safety nets and training and programmes for reemployment.
- *Labour restructuring programmes*. Dis-

placed workers can be helped to gain new employment through labour market adjustment programmes. These can include disseminating labour market information, creating job banks, providing employment subsidies and training, and retraining in alternative skills for employment in sectors akin to textiles and clothing. Particular attention needs to be paid to informal workers, and especially to women, who should be given opportunities to upgrade their skills.

But these programmes need to go beyond classrooms to provide skill-specific and on-the-job training. For this purpose, some governments have entered into partnerships with private-sector and community organizations. In Bangladesh, for example, the Nari Udyug Kendra – the Centre for Women's Initiatives – has conducted a study of worker retraining needs, and the government plans to improve the skills of 40,000 garment workers in partnership with the NGO BRAC (known as the Bangladesh Rural Advancement Committee). This type of training can help diversification into higher-value-added production such as fashion-sensitive women's wear. Some countries have already initiated the process: in Sri Lanka, for example, the government has levied a garment tax to fund technological upgrading and skills enhancement. Credit schemes could also be set up to help retrenched workers begin their own small businesses.

- *Improving infrastructure*. Many garment-exporting countries are hampered by poor infrastructure, inadequate power supplies, high telecommunication costs, poor roads and rail networks, and high turnaround times at ports. According to World Bank estimates, the average customs clearance time for sea cargo is more than ten days in South Asia, compared with only two days in developed countries. This is a serious handicap for fashion-sensitive items. Countries need to invest in dry ports and new export processing zones while developing supportive services and industries and removing shipping and customs bottlenecks. Electronic data interchanges at ports and customs houses, for example, can ensure faster clearance.
- *Raising levels of skill*. Training is especially important at the entry level, particularly in countries such as Cambodia, which have weak education systems that severely limit workers' productivity. Training is necessary at two levels: First, for the workers, with a view to enhancing their skills, speeding up the production process and minimising waste; Second, for mid-level managers to enable them to supervise works more effectively, communicate well with buyers or their agents, and process the orders efficiently. This is an area where there is wide scope for public-private partnership.
- *Upgrading technology*. T&C is generally a low-tech sector. Even so, enterprises in most LDCs and low-income countries are hampered by their inability to invest in latest technologies – including computer-aided design and computer-aided manufacture – not just to increase their efficiency but also enhance quality and respond to buyers' requirements. These technologies are common in middle-income countries, and larger exporters in Bangladesh have installed them. In other LDCs and low-income countries, however, such facilities may not be feasible. Here one possibility is for firms to work together as groups to use such equipment. Another option would be to make use of foreign direct investment through South-South cooperation.
- *Fiscal support*. In some countries fully export-oriented enterprises are accorded special privileges, such as full-duty

drawbacks and exemptions from import taxes. These fiscal incentives could also be extended to firms that export only a part of their output. Other incentives could include: reducing or eliminating tariffs on key intermediate inputs; allowing garment exporters the freedom to choose between using local and imported fabric, as in China and Pakistan; lowering taxes on the sale of 'export-reject' T&C products in the local market; reforming export credit guarantee schemes covering pre- and post-shipment risks and financing needs; and extending the time limit for repayment of export credits. In Bangladesh, for example, the government is eliminating taxes on electricity and utilities used by garment factories.

- *Promoting reputations and brands*. Governments can help smaller enterprises build reputations for quality, reliability, and compliance with product and process standards. They might, for example, target quality niche products such as bed linen or, as Cambodia has done, seek an advantage through well-publicized compliance with international labour and environmental standards. They can do some of this work through trade fairs and missions abroad, as well as by helping domestic producers establish contact with the largest retailers.

International Measures to Increase Market Access

At the same time, governments in both exporting and importing countries will need to take action at the international level to ensure that the trade in textiles and clothing promotes human development in the poorest countries.

The developing countries need to ensure that human development considerations are included in trade agreements. Apart from trying to preserve access to markets, they also need to maintain advantages where they have indigenous manufacturing capabilities. As part of its terms of accession to the WTO, Mongolia, for example, had to eliminate its export restrictions on raw cashmere. This has undermined the competitiveness of its clothing enterprises, since their main competitors in China can now purchase high-quality Mongolian cashmere. Despite a per-capita GDP of less than $1,000, Mongolia was not permitted to maintain export subsidies, a provision that WTO members at similar levels of development enjoy.

The objective should be to seek greater market access along with margins of preference for the LDCs – but without requiring reciprocal reductions that would undermine indigenous manufacturing, especially in the traditional handloom and handicraft sectors that employ substantial numbers of women.

Anti-Dumping and Countervailing Duties

The T&C sector has long been affected by anti-dumping measures. Between 1994 and 2001, the EU, initiated 53 anti-dumping and countervailing actions in the textile sector, while the US invoked 28 safeguard measures under the ATC between 1995 and 2001.[26] In the more liberalized trade regime for textiles and clothing, there is a general expectation that developed countries may increasingly resort to such measures. Discussions on WTO rules should, therefore, aim at reducing the scope for this – with a moratorium on actions against producers in the LDCs.

Promoting South-South Cooperation

Traditional markets such as the EU, the US, Japan and Canada still account for almost 80 per cent of world imports, but their future growth is expected to be marginal. In contrast, the markets of the larger developing countries are growing very fast: China is already the world's fourth-largest market for apparel, accounting for 5 per cent of demand. Brazil and

South Africa are also growing, although at a slower pace.

Asian countries thus have an opportunity to boost T&C trade though regional agreements that promote South-South trade and thus reduce dependence on northern markets. This can be done on three levels: selling to developing country markets; sourcing intermediary products from developing countries and building relations with their investors; and increasing technical cooperation between developing countries.

Moving in this direction will need a considerable investment in resources and time – learning about unfamiliar cultures, market structures and distribution channels. But one problem that can be addressed quickly is tariff protection. Many of these markets have high tariffs; in India and Mexico, for example, the average import tariff for textiles and clothing is 35 per cent. One option is to use the Agreement on Global System of Trade Preferences among Developing Countries (GSTP), administered by UNCTAD, to help deepen the scope of tariff preferences amongst the G-77. Larger and more advanced developing countries could use this to give preferential market access to LDCs, helping them find new outlets that might compensate for losses in traditional markets.

Preferences for the LDCs

The developed countries grant unrestricted market access to T&C exports from some, but not all, LDCs. The US offers this to LDCs in sub-Saharan Africa under the AGOA, but not to any Asian T&C-producing LDCs such as Bangladesh, Cambodia, Lao PDR and Nepal. The EU, in contrast, provides duty-free access to exports from all LDCs under its 'Everything But Arms' (EBA) initiative, though exporters would be able to make better use of this if the EU harmonized the rules of origin so that beneficiaries do not have to fulfil different criteria in different preferential schemes. But even large developing countries, such as China and India, could consider extending such preferences to Asian LDCs.

Addressing these issues would have very beneficial human development outcomes, especially since many women in LDCs are employed in this industry.

Major Changes Ahead

The textile and clothing industry worldwide could be on the threshold of major changes. In the long term, trade liberalization through the removal of quotas could provide more jobs in certain countries and improve human development. At the same time, vulnerable countries could face disruptions if factories close and unemployment increases.

But market access is not sufficient. Exporting countries also need to improve competitiveness, including investing in developing skills, upgrading technology, diversifying products and markets, and integrating better into global supply chains.

Moreover, increasing volumes of trade and expanded export earnings do not necessarily translate into increased employment and, given the sweatshop conditions in many garment units, increased employment does not automatically translate into higher standards of human development. With so many women workers in this sector in Asia, there are also significant gender implications, both positive and negative.

5
Chapter

Selling Services Across Frontiers

Economic development in all countries has involved shifting the focus from agriculture or manufacturing to the service sector. The same is true at the international level – as technological advance and falling transport costs have made it easier to trade services across national borders. The Asia-Pacific region has been at the forefront of these changes – particularly through labour migration, outsourcing and the tourist industry. But policy makers will need to take firm action if the international trade in services is to offer more benefits to the poor.

Asian countries continue to rely on the international trade in goods. But over the last three decades they have been taking advantage of the opportunities to boost the trade in services, and as a result international trade has become much more complex and diverse. This chapter focuses on three forms of cross-border movement: in the first type, the seller moves, as in international labour migration; in the second type, the work moves, as with business outsourcing; and in the third type, the buyer moves, as with international tourism.[1,2]

All three types of movement have increased significantly. For migration, millions of lower-skilled workers continue to travel abroad on short-term contracts, especially from Bangladesh, Cambodia, China, Nepal, the Philippines, and Sri Lanka. An estimated 10 per cent of the Filipino labour force and 12 per cent of the Sri Lankan labour force now work overseas. Labour migrants have improved their quality of life, and even some of the poorest have earned enough to lift their families out of poverty.

Asia has also been a pioneer in the off-shoring of IT and business process services. In some cases IT workers continue to travel overseas on short-term assignments in developed countries, but advances in information and communications technology and falling Internet connectivity costs have allowed more and more of these services to be delivered remotely – providing jobs for highly educated young people, who might otherwise have struggled to find work that took advantage of their skills.

In tourism too, the Asia-Pacific region is one of the global leaders – increasing its share of global traffic from less than 10 per cent in the 1950s to 40 per cent in 2004. Tourism can offer new sources of employment even to the remotest regions.

There are, of course, many other services that are traded across borders, including health services, financial services and environmental services. In the sections that follow, this chapter looks specifically at three of the main forms of economic service.

Short-term Migration

Asia has long been subject to large migration flows

Asia has long been subject to large migration flows – both within and beyond the region. In the nineteenth century, for example, millions of indentured workers left countries in South Asia and China – some to other parts of Asia, others to North America, the Caribbean and Africa. In the twentieth century, many people left the region for long-term settlement in Europe and North America.

Nowadays migration flows are often more

Migration brings many advantages – economic and social – both for individual migrants and for the countries they leave behind

complex, but migrants typically fall into one of three groups. The first group consists of more educated and skilled professional workers, who are heading primarily for the developed countries – chiefly the US, Western Europe, Australia or New Zealand. The second group consists of unskilled or lower-skilled workers, who have gone to a greater number of countries, either outside the region – to the Gulf States, for example – or to the faster-growing Asian countries. The third, though much smaller group, consists of business and professional people, who are being transferred within transnational corporations. The overall patterns of movement of unskilled labour are indicated in Box 5.1.

Migration can be considered as a response to international imbalances – as workers move from countries with labour surpluses to those with labour deficits. In practice, however, the destination countries tend to control the flow as they seek to fill gaps in their labour markets – either at the top, for highly educated professionals such as teachers or doctors, or at the bottom, for unskilled workers in plantations or construction sites.

Within the region, the most significant destination countries have included Japan, Singapore and the Republic of Korea, but from the early 1980s to the mid-1990s, economic booms also created labour shortages in Malaysia and Thailand and attracted workers from neighbouring countries. Outside the region, the most significant destination countries have been the oil-exporting countries of West Asia and the Persian Gulf – which have not only drawn in unskilled and semi-skilled workers for construction and other services, but also attracted large numbers of professionals, especially those working in engineering, accountancy and the health sector. While West Asia remains the most significant for short-term overseas work, the US and Europe have and remain important for migration in general. More recently, there has been an increase in short-term movement of software professionals to the US.

Every country in the region has supplied migrants, but the largest single source has been the Philippines. Filipino workers of varying skill levels have travelled all over the world, though have tended to cluster in specific destinations: domestic helpers, for example, are concentrated in Hong Kong (China) and Saudi Arabia, entertainers in Japan and other South-East Asian countries, and IT professionals and nurses in the US and the UK.

BOX 5.1

Movements of Unskilled Labour in the Asia-Pacific Region

Source countries	Bangladesh, Cambodia, China, Indonesia, Lao PDR, Myanmar, Nepal, Philippines, Sri Lanka, Viet Nam
Destination countries	Brunei Darussalam, Hong Kong (China), Japan, Republic of Korea, Singapore, Taiwan (China)
Both source and destination countries	India, Malaysia, Pakistan, Thailand

Note: The classification here refers only to the larger flows of lower-skilled workers. It does not include seasonal cross-border shifts of neighbouring populations, often part of a centuries-old pattern in these economies
Source: Based on Wickramasekara 2002.

Benefits of Short-term Migration

Migration brings many advantages – economic and social – both for individual migrants and for the countries they leave behind.

Remittances. For the source countries, one of the most direct benefits is the flow of remittances, as migrants send or bring their earnings home. In the 1980s and 1990s most of the source countries, particularly India and the Philippines, enjoyed a steep rise in remittance income (Figure 5.1).

For many countries, remittances represent a significant source of foreign exchange. In Viet Nam, for example, between 1999 and 2002 remittance inflows rose from $1 billion to $1.5 billion. They now account for around 10 per cent of export revenues and are roughly equivalent to the annual flows of overseas

development assistance or foreign direct investment.[3] Even for the larger countries, like India, remittances over the 1990s exceeded all forms of capital inflow. As well as being on a large scale, remittances have the further advantage of being more reliable than other flows: often they come from migrants working in the service sector, which is less susceptible to the fluctuations of business cycles in host countries.

Individual migrants and their families use this income for many different purposes. Some will spend it on immediate needs: food, for example, or education or health care. Others will buy houses or invest in businesses (Box 5.2). For many communities, migration has served as a route out of poverty. Remittances are also used for community activities as migrants build up transnational networks and provide funds that benefit their home villages or regions. For example, migrants from the Indian state of Gujarat who have become shopkeepers, hotel owners and businesspeople in the UK and East Africa have helped develop infrastructure as well as the health and education systems in their home state. Similarly, workers from the state of Kerala helped finance the construction of an international airport to facilitate travel between their home and work countries.[4]

Generally, the largest flows of remittances come from short-term economic migrants. By contrast, long-term migrants are less likely to send money home. Professional workers who settle in developed countries usually want to retain more of their earnings. And when they do send money back, this is typically for investment on which they are seeking a return.

Experience and Skills. Migrants bring home more not only money but also valuable work experience, enhanced skills and useful networks that can promote economic activity, innovation and entrepreneurship. Equipped with these, the migrants themselves can make better use of their remittances.

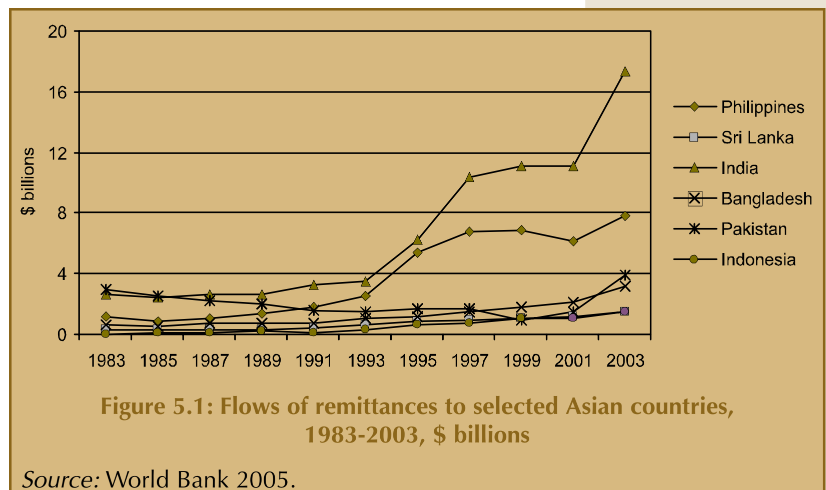

Figure 5.1: Flows of remittances to selected Asian countries, 1983-2003, $ billions

Source: World Bank 2005.

This skill transfer is particularly important for the professionals, especially in the emerging IT-related industries. In the process of outsourcing, for example, service companies will send key consultants and specialists to customers to acquire knowledge and to transfer back to the companies in Asia information about technical applications, products, processes, and marketing techniques. Similarly in the field of health, returnee doctors and specialists have been able to transfer knowledge about cutting-edge techniques – raising standards of health care and generally improving health service delivery.

Empowerment of Women. Migration also has important social effects, particularly in the empowerment of women. Over recent decades,

BOX 5.2

Use of Remittances in Bangladesh

A survey in Bangladesh found that expatriate workers spent around 30 per cent of their income on personal consumption abroad, sent 45 per cent back home and saved the remaining 25 per cent. Of the amount sent home, 50 per cent was used for consumption, including spending on food, education and health care, 29 per cent was invested in land or other property, and 21 per cent was used for housing improvements, including upgrading existing property.

The same survey also found that a relatively prolonged, stable flow of remittances allowed families to move from wage employment to self-employment and to move from cultivation to a range of non-farm activities.

Source: IOM-UNDP 2002; Raihan 2004.

Migrants can find themselves working in very difficult circumstances and their departure can also create problems in the country they leave behind

Asian women migrants have come predominantly from three countries: Indonesia, the Philippines and Sri Lanka, where they make up 60 to 80 per cent of all legal migrants (Figure 5.2). Some of the least developed countries, such as Bangladesh, also have a smaller, but still significant, proportion of women migrants.

Most of these women are employed in health care and domestic service. The Philippines, for example, is the world's largest source of nurses. During the 1980s there was a huge outflow of Filipino nurses to the US. Subsequently, between 1995 and 2001 an average of 5,700 nurses migrated annually, primarily to the UK and Saudi Arabia.[5] Women from Indonesia and Sri Lanka are primarily travelling for domestic service, mainly to Saudi Arabia, Kuwait and the United Arab Emirates.

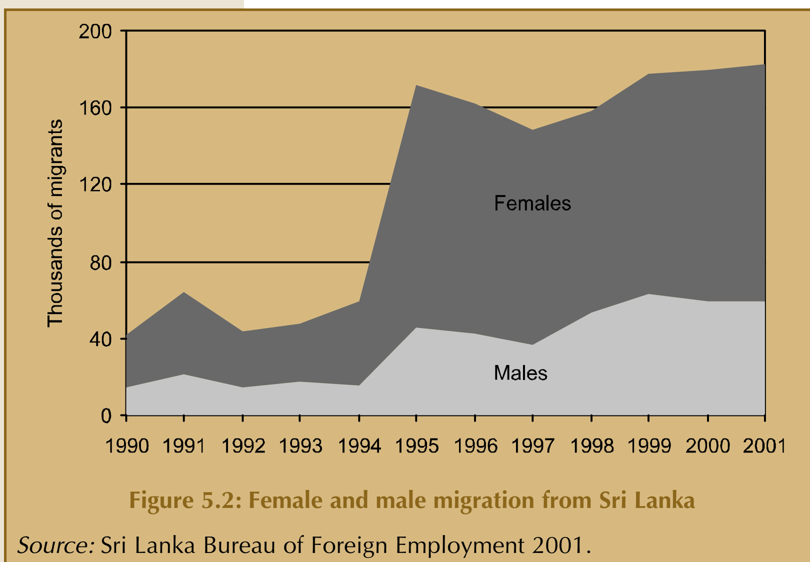

Figure 5.2: Female and male migration from Sri Lanka

Source: Sri Lanka Bureau of Foreign Employment 2001.

BOX 5.3

Discriminatory Work Visas

Depending on the nature of work, poorer migrants, usually from South Asian countries and the Philippines, have occasionally been subject to exploitation in destination countries. This is especially the case when receiving countries have different visas for different categories of labour. Some West Asian countries, for example, issue two types of visas to temporary migrant workers. The 'Type B' visa is issued to migrant workers hired by companies in the formal sector of the economy. These workers are protected by labour laws, have greater rights and are permitted to live outside the work premises. The 'Type A' visa, however, permits the employer to confiscate the passport of the migrant worker, to confine her or him to the house and to dictate work conditions and hours. Housemaids, for example, qualify only for Type A visas, which makes them dependent upon their employers for their minimum rights, and many have complained about excessively long workdays, loneliness and ill health, difficulties in communicating with their family, and sexual harassment.

Disadvantages of Short-term Migration

For all its benefits to migrant-sending communities, migration also has some negative aspects. Migrants can find themselves working in very difficult circumstances, and their departure can also create problems in the country they leave behind.

Working Conditions. Compared with local residents, migrants are more vulnerable to exploitation. Low-skilled temporary migrants in particular are often unaware of their rights and have few forms of protection – especially when employers confiscate their passports (Box 5.3). Even professional workers can face discrimination – receiving lower wages and fewer benefits that comparably qualified national personnel. They may also find that the host country does not recognize their qualifications and requires them to pass new exams; architects might have to work as draughtsmen, engineers as technical staff, nurses as nursing aides, or dentists as dental assistants.

Social Effects on Families. For families, migration is financially beneficial but socially disruptive. Prolonged separation can lead to illicit relationships, and lonely spouses left at home may resort to alcohol or gambling. Consequently, migrant families often have higher divorce rates. Migration also tends to delay marriage, and migrant women in particular may have difficulties finding spouses when they return. Children too can suffer due to the absence of parents, especially their mothers, and face psychological and behavioural problems or difficulties at school.

For families, migration is financially beneficial but socially disruptive

Increasing Inequalities. Migration can dramatically boost the income of a small number of families – making them richer than their neighbours and generally giving rise to skewed patterns of income and consumption. In the Philippines, for example, remittance inflows have been found to increase local income inequalities.[6]

Reintegration. Returnee migrants can also face social and economic problems when they come home. In Sri Lanka, for example, both male and female migrants generally reintegrate fairly smoothly. However, because of their low level of education, some people may not find the kind of work that they aspire to: those who have worked overseas as housemaids, for example, may be unwilling to do such work in Sri Lanka, where it has a low social status. And their work experience in more developed countries can give them unrealistic salary expectations.

Brain Drain. The destination country may gain the skill of migrants, but for the source countries this can represent a significant loss. In the Philippines, for example, where more than one-third of migrants are professional or technical workers, their departure has led to serious staff shortages in the health sector and to driving up of wages. Between 1995 and 2000, the number of registered nurses in the country fell from 27,272 to 5,874. Many doctors have also migrated, particularly to the US and Canada.

Migration and Meeting the MDGs

Migration can thus have positive and negative effects. These can also be considered in relation to the MDGs.

MDG1: Poverty. Higher incomes from remittances cannot only help reduce poverty and hunger, but also accentuate existing inequalities and perpetuate poverty among unskilled and powerless migrants.

MDG2: Education. Migration can help parents pay for education, but if it splits up families, it may also serve to remove children from school.

MDG3: Gender Equality. Women may be empowered if they get independent incomes, but can also be vulnerable to exploitation.

MDG4: Child Mortality. Higher incomes and more knowledge about health should make children healthier, but some may lose out if they too have to migrate to more difficult environments.

MDG5: Maternal Health. Women working overseas can have more opportunities to be better informed, which could lead to health-seeking behaviour. However, they could face restrictions on their movements and other forms of exploitation, which inhibit this health seeking behaviour.

MDG6: Combating HIV/AIDS and Other Diseases. Remittance incomes can be spent on controlling infectious disease, but migration itself can help spread HIV/AIDS infection.

MDG7: Environmental sustainability. Migration from highly populous countries can relieve pressures on land and other resources. However, the migrants can live in overcrowded, unsanitary conditions that can worsen environmental conditions in the host country.

MDG8: Global Partnerships. Migration may result in a better understanding among cultures and societies, leading to greater possibilities of creating a global partnership for development. But unregulated migration can also result in a backlash against migrants among local populations.

From the perspective of the MDGs, and of human development generally, it is clear that migration is intrinsically neither beneficial nor detrimental (Box 5.4). Much depends on the circumstances. What can policy makers do to promote the positive aspects and minimize the negative ones?

Source Country Measures

Though many aspects of migration appear to be under the control of the destination countries, in fact, there is also a great deal that the source countries can do to make migration a more productive and fulfilling experience, especially for unskilled and semi-skilled workers and for women. Viet Nam, for example, has shown how effective such measures can be (Box 5.5). Governments in source countries should therefore develop national strategies for migration. These could include:

Increasing Access to Information. Most migrants get information on migration opportunities from networks of migrants and former migrants. This tends to concentrate the

BOX 5.4

Human Development Outcomes of Migration

Channel of Impact	*Nature of impact*	*Human development outcomes*
Positive Impacts		
Employment and income generation	Provides employment to unemployed or underemployed. Incomes are generally higher than those in the source economy and help alleviate poverty for families of migrants.	Empowerment, equity, productivity
Impact on women	Provides employment to a large number of women who have limited access to employment in their home country. This can lead to an increase in family expenditure on health and education and relatively higher rates of savings.	Empowerment, equity, productivity
Skill and knowledge transfer	Migrants gain wider social and professional exposure and greater access to technology and skill development. In the IT and health professions, for example, returnees can then contribute to professional and technical skills in their home countries.	Productivity, empowerment, sustainability
Resource generation	Remittances and savings often form the main sources of foreign exchange – and add to the stock of capital for investment housing, small businesses and other infrastructure. Migrants who spend remittances at home then have a ripple effect on demand and income among local populations and help boost fiscal resources.	Sustainability, productivity, inempowerment, equity
Externalities and spillover effects	Migrants gain broader social and cultural outlooks by living in other societies and can create useful transnational networks.	Empowerment productivity, equity, sustainability
Negative Impacts		
Employment and income	Remittances increase disparities between households and between regions.	Equity concerns
Skills and knowledge	Source countries can lose skills of professionals, such as medical personnel. These professional skills may also be underused overseas if qualifications are not recognized.	Productivity, sustainability concerns
Externalities and spillover effects	Social costs on families, especially children. Social costs on migrants – loneliness, lack of communication with families. Possibility of exploitative work conditions in receiving countries. Reintegration issues, economically and socially.	Concerns about equity, sustainability, long-term productivity

benefits of migration in particular regions or even villages. Governments can create a more level playing field by making relevant information on markets and employment opportunities available throughout the country and across all income categories and social groups.

Recruitment Agencies. Many migrant workers fall victim to unscrupulous recruitment agencies that can charge exorbitant fees or fail to deliver the promised employment. Governments need, therefore, to regulate and monitor recruitment agencies and close down illegal ones. Conversely, they can reward effective agencies – by recognizing their role and treating them as partners in the social development process.

Skills Training and Resources. Workers will be in a much stronger position to take advantage of migration opportunities if they have certified skills. In addition to creating more training institutions, governments should therefore ensure that these and other government agencies and higher educational institutions obtain national, regional and international accreditation. This will provide potential employers with a measure of quality assurance – especially for skilled and semi-skilled labour.

Finance. Migrants have to pay considerable up-front expenses – for recruitment, for example, and for travel. Those from poor communities that have no access to formal institutions often borrow funds from relatives or through other informal channels. In Viet Nam and Bangladesh, surveys have also found that migrants mainly finance their trips by selling family assets. National strategies for migration should therefore include the provision of cheap loans from banks and other institutions.

Cultural Adaptation. Poorer emigrants will often find themselves very isolated in a new environment. To ease the adaptation process, governments in the source countries can provide language immersion classes and educational programmes that introduce migrants to the cultural nuances of the destination country.

BOX 5.5

Government Promotion of Temporary Migration from Viet Nam

In the 1980s, Viet Nam faced an international blockade and had little interaction with other economies. The Government officially guaranteed jobs to most Vietnamese but their incomes and living standards were very low and there was widespread poverty and even starvation. To help alleviate the problems the Government carefully managed migration abroad under strict regulation.

Recognized recruitment agencies, subject to government regulation, were given the autonomy to explore new markets for short-term workers, develop contacts with foreign partners and directly enter into labour contracts with migrant workers. These agencies were encouraged to enter into new forms of cooperation, such as sub-contracting, turnkey contracts for construction projects and joint ventures with foreign partners. The Government also encouraged migrants by allowing them flexibility on using their income. Migration increased steadily in the 1990s, and the country now sends around 40,000 workers abroad each year (DAFEL 2003).

In Dong Thap province for example, a combination of incentives was provided to encourage and equip locals to work abroad. The Government provided loans for travel through a combined financing programme – 80 per cent from the central government and 20 per cent from the local government through local public sector banks. A local agency, the Centre for Job Services, provided vocational training and conducted language classes to enable people to apply for work in Malaysia, Taiwan (China) and Japan. With the help from local officials, potential migrants could also apply for passports from home instead of having to travel to Ho Chi Minh City. These incentives helped to triple migration from the province in 2002.

Source: Huy et al. 2003.

Rights Awareness. Migrants will be in a stronger position to protect themselves from exploitation if they are more aware of their rights and know how to protect themselves from discrimination and abuse. Governments could, therefore, organize premigration seminars to provide the necessary information – collaborating in some cases with NGOs, which can help train workers and offer advice and support through counselling centres.

Support from Embassies. Migrants should also be able to rely on protection from their embassies. Governments should therefore

Many migrant workers fall victim to unscrupulous recruitment agencies that can charge exorbitant fees or fail to deliver the promised employment

Government agencies could do more to counsel returnees and help them settle

strengthen embassies in countries that employ significant numbers of their migrant workers, by offering the necessary support through the posting of labour officers experienced in handling worker welfare and legal issues.

Channelling Remittances. So far, governments in the source countries have done relatively little to channel foreign exchange remittances into specific development projects – such as building local infrastructure or improving health and education services. Governments could therefore encourage the financial sector to develop the appropriate instruments and financial products.

Return Migration. Few Asian source countries offer any support to returnees to help them deal with the social, economic and psychological effects of return, sometimes after a relatively long period abroad into what could be very changed societies. Government agencies could do more to counsel returnees and help them settle. For migrants who have returned with significant funds, the government can provide seminars on entrepreneurship and other self-employment opportunities. For migrants with more limited resources, the government can provide soft loans and offer skills training programmes to help them establish small businesses.

Destination Country Measures

The destination countries have security and other concerns about immigration. They therefore control the arrival of different types of migrants and limit their rights. Recently, they have been increasing these protectionist measures – restricting the number of arrivals, introducing administrative and procedural delays in processing visa applications and work permits, and making renewals and extensions more difficult and expensive. They have also been less willing to recognize the qualifications and experience of such workers. In the IT sector, for example, there are no formal accreditation procedures, and the outcome can often be opaque and discretionary.

One particular area of concern is the application of an 'economic needs test' for the arrival of certain professionals. Some governments oblige employers who propose employing a migrant to demonstrate that they have failed to recruit a comparable national worker. However, in many cases it would be more efficient simply to designate certain clearly identifiable categories of professionals – all of whom would be entitled to enter and seek work.

Migration could also proceed more efficiently if recipient and source countries arrive at mutual recognition agreements (MRAs). They might start, for example, with less contentious areas like the accreditation of higher educational institutions – establishing equivalences in education levels, degrees, and the quality of graduates. Subsequently, they could move on to the recognition of licenses, professional certificates and experience. The private sector, particularly professional associations, can help here.

MRAs can be negotiated at a multilateral level, but this process is often difficult, lengthy and tedious, and therefore bilateral or regional agreements might be more feasible for specific professions and occupations. ASEAN, for example, has lifted visa requirements for its member countries to increase movement of citizens, a precedent that could be extended across the region.

Destination country governments could also reduce the number of temporary migration visa over-stayers by working more closely with employers. Under such schemes, the sponsoring employers cooperate with governments monitoring of their employees and also take responsibility for workers' return travel – and face the possibility of sanctions if found in breach of the requirements. Evidence suggests that the most sustainable temporary migration programmes are those that are appropriately regulated and

enforced. Bilateral or regional agreements can play an important role in this.

Multilateral Action

For migration, the most important trade agreement, which operates under the aegis of the WTO, is the 1995 General Agreement on Trade in Services (GATS). This was designed to allow developing countries to obtain more liberal access for temporary migrants, and make such migration more secure and sustainable. In practice, however, it does not offer much by way of liberalization and seems to have had little effect on migration patterns in Asia and the Pacific.

One problem is that it is quite narrow. As might be expected, GATS does not cover migrants working outside the service industries and tends not to cover foreign domestic service workers, although this issue is still a matter of controversy. And since it favours relatively higher-income and highly skilled people, it could even be seen to aggravate inequalities both among and within countries. Moreover, since GATS is not a migration agreement but a trade agreement, it is silent on issues such as the treatment of persons working abroad and on forced migration and trafficking.

Source countries could nevertheless use the GATS framework to promote desirable short-term economic migration. There are a number of ways in which this can be done – as outlined in Box 5.6.

Migration could also proceed more efficiently if recipient and source countries arrive at mutual recognition agreements

BOX 5.6

Migration Options in the General Agreement on Trade in Services

For migration, the most important trade agreement, which operates under the tutelage of the WTO, is the 1995 General Agreement on Trade in Services (GATS). This defines four 'modes' of service supply. Mode 1 refers to cross-border services that might be carried out, for example, across the Internet. Mode 2 refers to consumption abroad, such as tourism. Mode 3 refers to foreign direct investment, when a service company like a bank opens a branch in another country. Mode 4, however, is the only one that covers migration of what it terms 'natural persons' – which include intra-company transfers.

There are a number of ways in which source countries could use the GATS framework to promote desirable short-term economic migration.

De-linking Mode 4 from Mode 3. Under GATS, short-term migration is closely linked to foreign direct investment – facilitating the movement of intra-corporate transferees. While this is of benefit to developed countries that are the source of most such investment, it offers much less to developing countries that would like to see greater movement of individual professionals and service providers independent of corporate presence.

Expanding the Classification List. The WTO classification of professionals is insufficiently detailed and different countries interpret it in different ways. Instead, it should break these down further to identify workers more clearly – possibly by adopting the International Standards Classification of Occupations. This should provide a list of individual professions that is independent of professional firms or sectors and thus would be more meaningful to developing countries.

Delinking Immigration and Employment Policies. Developed countries are reluctant to make more binding commitments on Mode 4, fearing that this would give them less flexibility on immigration legislation and procedures. There should therefore be a mechanism to de-link a legitimate immigration policy from restrictions on migration for temporary employment. Governments should also relax or remove various market access barriers to Mode 4 movement, such as quotas and quantitative restrictions, wage conditions and administrative procedures.

Adopting the GATS Visa. One proposal, from India, is to have a 'GATS visa' that would be issued to individuals or professionals who have been invited or recruited to perform temporary services in another country. It would thus be timebound, employment-specific, and temporary; moreover, it could not be converted to another type of visa or used to seek permanent employment or residence. This would separate labour migration from the often cumbersome immigration procedures needed to obtain temporary entry.

Strengthening the Emergency and Safeguard Clauses. A commitment under GATS is a permanent obligation. So even when destination countries accept the need for more migrants, they may be nervous about making permanent commitments. However, these concerns can be addressed if GATS rules instead allowed countries to invoke emergency safeguard measures – or permitted a timebound commitment. Countries could still apply economic needs tests, though in a less arbitrary manner.

Outsourcing Business Processes

Outsourcing typically involves shifting functions from higher-wage to lower-wage economies in efforts to increase efficiency and lower costs

Nowadays many more companies are passing some of their non-core operations to third-party service providers. Such outsourcing of business processes occurs both within a country and outside. Cross-border outsourcing, or offshoring, is a new form of trade in services that is enabled by information and communications technologies. Typically, companies use this form of 'global outsourcing' for business processes and back-office functions. This takes advantage of technological advances and falling costs in information and communications technology that now permit delivery over the telephone and the Internet of a wide variety of services at all levels of skill and complexity.[7]

The current scale of outsourcing is difficult to assess, but OECD estimates that in 2001, IT and business process services outsourcing was worth around $260 billion.[8] Undoubtedly, the phenomenon is growing rapidly (Box 5.7). One estimate suggested that between 2002 and 2006 business process outsourcing (BPO) alone would have risen from $570 billion to $1,200 billion.[9]

Outsourcing typically involves shifting functions from higher-wage to lower-wage economies in efforts to increase efficiency and lower costs, enabling the company to concentrate more on its core operations. Thus, companies in the US and Europe started to outsource to countries such as India, China, Israel, Malaysia, Mexico, the Philippines, South Africa and Viet Nam. Initially, the work they sent was primarily concerned with data entry and the maintenance, delivery and management of IT functions. Since then the range and complexity of services has expanded rapidly – and blurs the boundaries between sectors and activities. Services are now provided all along the value chain, from data entry to highly skilled tasks such as 3D modelling (Box 5.8).

BOX 5.7

Outsourcing Business Processes – Implications for Widening Employment

A special contribution from Narayana Murthy, Chairman of one of India's largest outsourcing companies, Infosys.

The global business process outsourcing (BPO) industry today performs services that range from human resources, research and financial activities, to design and engineering functions. Worldwide, BPO revenues were expected to touch $133.7 billion in 2005, an 8 per cent growth from $123.8 billion in 2004.

The BPO industry in Asia is estimated to grow by over 13.8 per cent annually through 2008, and job creation is expected to accelerate, resulting in up to 6 million new jobs by 2015. Asia's outsourcing advantage stems from its growing pool of highly skilled, low-cost workers – in India, around 3,000 educational institutions train more than 200,000 software professionals and an equal number of non-engineering English-speaking graduates every year. China trains an estimated 400,000 graduates a year. At the same time, aging populations and falling fertility rates in Western Europe and the US mean emerging labour shortages in developed countries. It is estimated that at present productivity levels, the US alone will need 15.6 million more workers by 2015 to maintain current living standards.

India accounts for over 40 per cent of the global BPO market; from 2000 to 2004, the country saw an estimated 260,000 jobs created within the sector. The industry has also seen competing, low-cost destinations emerge across Asia – the Philippines, China, Malaysia, Thailand, and Viet Nam. However, to take advantage of the opportunities from outsourcing, countries must remove existing impediments to growth.

The outsourcing industry is driven as much by the availability of skilled labour as by lower costs. Consequently, Asia's long-term success as an offshore destination will depend on how best countries can leverage their intellectual capital. In India today, an estimated 40 per cent of children drop out of school by the age of ten; across Asia, 46 million children are out of school. Clearly, countries must expand the reach of elementary education; academic institutions must focus on modernizing curriculum and aligning higher education with the needs of the industry. In addition, we must establish innovation systems of industry, science and research centres, and universities, to create new knowledge and technology.

China's reformist leader Deng Xiaoping once said, "To get rich, you must first build a road." This adage holds as true in the Information Age as in the Industrial Age. To fully realize the gains of the outsourcing industry, countries must concentrate on upgrading their infrastructure to support industry clusters – modernizing their power facilities, technological infrastructure, airports, highways, and shipping ports. Additionally, effective legal and regulatory frameworks are essential to address security and privacy concerns of outsourcing firms.

BOX 5.8

Outsourcing Services along the Value Chain

Global outsourcing of services can be classified into five broad categories, based on their contribution to value and their skill requirements:

1. *Data entry, digitization, conversion, transcription.* At the lowest end of the value and skill chain are back-office functions such as data entry, digitization, and conversion activities, and basic clerical services that do not require domain knowledge or specialized expertise. One of the most common of these is transcription services, whereby dictations by doctors or lawyers are converted to written medical or legal records.
2. *Rule-based processing and simple support services.* Next in the value chain are teleworking services, which involve rule-based processing and simple voice and on-line customer relations services, based on rules set by the client. These include call-centre services, email-processing, data processing, billing and payments, account opening, and screening of credit card applications – all at rates as low as $10 per hour.
3. *Activities involving problem solving and decision making.* Slightly higher up the value chain are activities that involve problem solving and decision making, such as developing solutions for improving processes or streamlining systems. In developing countries like India these command rates of $10 to $15 per hour.
4. *Complex multimedia support services.* Next on the value chain are teleworking services that involve direct interaction with customers and more elaborate transactions with the client, but moving beyond pure voice-based support to mixed media-based support services and beyond writing routine software applications to the remote management of sophisticated networks. These include activities like web support, telemarketing, providing customer help desks, technical back office processing, e-customer relationship management, website design, software development for entire business processes, and hardware support services.
5. *Specialized services requiring domain knowledge and skills.* At the top end of the value chain are services that involve domain expertise and specialized skills. These include research and engineering services such as 3-D modelling, drawing up technical specifications for tenders, plant engineering, piloting prototypes, testing and optimization, redesigning for improving cost-performance ratios, financial analysis, risk management, equity research services, and consulting and advisory services.

As a result, the outsourcing flows between countries are becoming more complex. For instance, several Indian IT firms and some independent BPO providers are outsourcing to other developing countries like China and the Philippines that offer special skills, or to developed countries like Canada that offer proximity to US clients. Singaporean companies such as Singapore Computer Systems are in turn establishing their own outsourcing facilities in India and China. These new patterns of outsourcing are driven by the need to diversify production bases, pool risks and take advantage of individual country strengths.

A number of Asian countries have been seizing these opportunities. According to one study, five of the top ten outsourcing destinations are in Asia. In 2001, for business process operations, for example, India was the leader with $7.7 billion, while China accounted for $1.1 billion. This compares with $3 billion in Israel, $0.5 billion in Mexico and $0.4 billion in Eastern Europe. But many other countries have been establishing themselves as outsourcing destinations.[10]

Bangladesh is a host to medical transcription services such as Digital Divide Data.

Cambodia provides outsourced data services to business and public customers both at home and abroad, and is at present engaged in the task of digitizing Harvard University's archives.

China is a key product development centre for GE, Intel, Microsoft, Phillips, and other large electronics firms, for hardware design and embedded software.

India has IT companies such as Infosys, TCS, Wipro, and Satyam that provide IT support, technical help desks, web support, and infrastructure services to overseas companies. There are also companies working in product

development, engineering design, testing, and technical analysis.

Philippines is a host to outsourced work by some 8,000 foreign companies, covering services such as graphic design, architectural blueprints, telemarketing, accounting, and software code writing.

Singapore has service providers engaged in leading-edge functions like remote robotics management, health care, and genetic diagnostics.

Viet Nam carries out simple coding jobs for IBM, Cisco, Sony, Nortel Networks, and NTT, but is also increasingly engaging in higher-value activities connected to geographic information systems, computer-aided design, finance, factory automation, healthcare and computer animation.

Clearly, there could also be opportunities for outsourcing in geographically isolated states – landlocked countries, for example, and small island developing states – especially in those, such as Bhutan and Mongolia, that have a significant English-speaking population or relatively high education levels.

Many outsourcing firms have realized that they are saving even more as a result of productivity gains

BOX 5.9

Factors Shaping Competitiveness in Global Outsourcing

In the service-providing country

- Availability of labour and skills, the quality manpower and related educational investments
- Competitive wages
- Strength of domestic IT industry and its export orientation
- Physical infrastructure
- Government incentives and support
- The business environment
- Intellectual property legislation
- State of regulation in supporting areas such as telecoms and the Internet

In the purchasing countries

- Business cycle conditions
- Availability of skills and labour
- Relative wages
- The need for diversification, risk pooling, and cost reduction
- Technological developments and possibilities for dis-intermediating services
- Legislation concerning outsourcing
- Data protection and intellectual property requirements
- Legislation on immigration
- International certification for quality
- Diaspora and others with contacts in the providing country

Reasons for Outsourcing

Global outsourcing is driven by many different factors. In some cases, companies will outsource to an overseas company that provides specific skills. But generally enterprises are seeking to cut costs on more basic activities, and so they will be looking to countries and companies that can provide low-wage, highly-educated workers who offer a broad range of skills – and can do so through good low-cost, high-bandwidth telecommunications infrastructure. Other factors – in both the buying and selling countries – that influence the choice of outsourcing partners are indicated in Box 5.9.

The principal reason for outsourcing is usually to cut costs, and therefore most outsourcing goes to low-wage economies. For example, in the US telephone operators and medical transcribers earn around $13 per hour, while in India they would receive less than $2 per hour.[11] Similarly, in the US a financial analyst might earn around $35 per hour while a counterpart in the India might get $6 to $15 per hour. One survey concluded that the monthly cost of keeping one high-tech employee in Silicon Valley is $15,000 per worker, while someone in New Delhi with the same skills, responsibilities and job package would cost $2,500 a month. This translates into savings of $12,500 per month, or $150,000 for a year. By outsourcing 10 jobs to India, a start-up in the US can thus cut payroll costs by $1.5 million. Initial investment costs are also far lower: setting up a call centre in Delhi, for example, costs only around one-third of what it might cost in the US.[12]

Many outsourcing firms have realized, however, that they are saving even more as a result of productivity gains – fewer errors in data processing, for example, or fewer defects in computer programs, or a higher quality of

transcription. Outsourcing also allows companies to mitigate risk by diversifying operations across a number of centres. At the same time, they can reshape their activities at home to concentrate their energies on their core competencies.

Constraints on Outsourcing

Not all countries have been able to take advantage of outsourcing opportunities. The main constraints are:

Lack of Infrastructure. Some of the poorer countries, for example, do not have the necessary telecommunications systems or reliable power supplies.

Lack of Skilled Manpower. Only a few countries in the region have enough educated people with the right skills, including computer literacy and knowledge of foreign languages, especially English.

Weak Legal and Regulatory Frameworks. Outsourcing companies demand strong legal systems covering data protection and privacy, particularly in areas like health care and financial services. Similarly, they demand a robust regulatory framework to protect online payments and transactions. Many developing countries in the region do not have legal systems that can meet international standards in these areas.

Even countries with considerable experience in outsourcing can run into problems. India, for example, is now having difficulty recruiting enough skilled people: the education pipeline is not producing sufficient educated young people; turnover rates are high, wages are rising and service providers are poaching among themselves.

In addition, there are constraints imposed by the outsourcing countries. Some of these might be indirect, such as greater restrictions on temporary work visas for professionals who need to spend time overseas preparing and maintaining outsourcing contracts. Other constraints are more direct, as workers in the outsourcing countries object to a loss of jobs. In the US, labour unions, like the Communication Workers of America, are lobbying against outsourcing by US companies or demanding parity in wages between developing and developed country service providers. In December 2002, for example, 22,000 engineers in Seattle threatened to walk out to protest Boeing's decision to outsource work to Russian engineers – as a result of which Boeing halved its employment of Russians.

In response to such pressures, several states have been restricting outsourcing by public bodies. In 2002, New Jersey, for example, passed a bill banning the outsourcing of government contracts to other countries. It is difficult to gauge the net impact of such protectionist pressures. Bans on government outsourcing are not likely to have a major impact, since in countries like India such projects constitute 1 per cent or less of outsourcing. However, the protectionist challenges could grow and start affecting the volume and type of business outsourcing.

Employment Impact of Global Outsourcing. Outsourcing employs relatively small numbers of people at the top end of the labour market and might be thought unlikely to affect poverty directly. India, for example, has just over a million people working in software and IT-enabled services, but this amounts to just one-quarter of 1 per cent of all workers. Even if the sector were to grow fourfold over the next few years, it would still account for only 1 per cent of the work force, and the opportunities would be limited to those who have basic literacy and computer skills and access to training opportunities.

However, such work does have some advantages for human development. First, it draws in a wider social spectrum than many

Outsourcing employs relatively small numbers of people at the top end of the labour market; the availability of relatively high-paid jobs helps to stem the 'brain drain'

other forms of employment. Call centres, for example, which employ around 50,000 people in the Philippines and 150,000 in India, have quite inclusive employment policies: in countries facing shortages of skilled labour, companies are happy to hire people who might traditionally have been outside the labour force, including women and retirees. In India, for example, Wipro has 5,000 employees, of whom almost half are women; and for ICICI One Source and DakshIndia the proportion of female employees is around 60 per cent.

Some companies are also experimenting with locating data centres and telecentres closer to residential areas, or allowing people to work from their homes – making it easier for home-makers and retirees to participate. Others have deliberately focused on expanding employment opportunities beyond the usual target group of graduates and the economically well-off. The Cambodian NGO-initiated enterprise, Digital Data Divide, a digitization and data-entry services provider, offers jobs to physically challenged people, those affected by land mines and polio, and orphans, at monthly rates ($65) that are higher than those in manufacturing ($40). Half of the company's workforce of a staff of 93 are females.[13] Thus, global outsourcing can enable less visible and even marginalized groups to integrate with the labour market. Moreover, as wage rates in this business tend to be higher than elsewhere, it can provide them with a big improvement in their standards of living.

Outsourcing can also help boost national levels of skill. This can happen both overseas and at home. Overseas employees can take in workers to learn about their technical applications, products, processes, and marketing techniques. But even the workers who stay at home will acquire many skills in customer relationship management – thus learning to focus on quality and timeliness. The workforce thus acquires greater discipline, a more professional work culture, and a greater sense of accountability.

The availability of relatively high-paid jobs also helps to stem the 'brain drain'. Outsourcing by multinationals like GE and IBM in developing countries like India and China has been accompanied by a significant upward movement in salary levels that reduces the incentive for skilled people to emigrate. Indeed, there is some evidence of reverse migration: a number of companies are relocating expatriates to offshore operations, and many senior professionals and managers are also returning voluntarily to their country – attracted by the internationally comparable salaries, improved working conditions and changing image of their countries.

However, not all the employment effects are positive, and there is some evidence that outsourcing can also lead to de-skilling. This is because outsourcing companies can tempt even highly trained people to take lower-skilled but highly paid jobs. In Bangladesh, for example, doctors are accepting work as medical transcribers; and engineering and science graduates are often employed in routine tasks such as software programming and web applications design and support. As well as underutilizing skills, this also risks skewing national education and training policies towards meeting short-term needs for lower-skilled people and away from education in more fundamental disciplines and the longer-term research and development that will be needed to help build indigenous manufacturing capabilities.

Spillover Employment Effects

The benefits of outsourcing are not just, of course, felt by people directly employed. These workers will spend their wages and produce important externalities and spillover effects. Most outsourcing employees tend to be in their 20s and 30s, an age group that stimulates demand for consumer durables and other services. The Gurgaon district of Delhi, one of India's main outsourcing hubs, has seen a rapid

expansion in shopping centres and related infrastructure in response to demand from employees in the BPO industry.

Outsourcing workers also stimulate a wide range of ancillary services – in housekeeping, security, catering, transport, real estate, telecoms, and computer equipment provision and maintenance. Caterers are required for shift catering services. Cleaners, janitors, and other support staff are required to maintain world-class premises. In the absence of reliable public transport, fleets of vehicles and drivers are hired to ferry call centre employees to and from their homes. Thus, while the sector itself may be directly geared to a certain kind of employee profile, it can indirectly create equitable employment opportunities, which are neutral to gender, type of business, and skill level.

Outsourcing also triggers the creation of new training institutions and infrastructure, such as computer technical schools, diploma programmes, and IT training and applications courses in colleges and universities. As outsourcing providers look further afield, these institutions are now appearing beyond the metropolises in the smaller cities and towns – helping to distribute income and employment benefits.

Social Impact of Outsourcing

Outsourcing can have many positive social benefits – by providing age- and gender-neutral employment to many thousands of people. But it can also have social costs. Some of these are related to difficult working conditions. These include adverse health effects due to working night shifts, the sedentary nature of the jobs, and the constant use of computers. Long night shifts at call centres can also prevent young employees from having a normal social life and may isolate them from their communities.

The rapid growth of the outsourcing industry is also widening disparities. In India, for example, Bangalore's explosive growth has aggravated inequalities between cities and rural areas and small towns. Within the city, too, while some special enclaves are being developed for teleworking establishments, other areas are being neglected. Meanwhile, the urban poor are suffering from rising costs, deteriorating civic amenities, and an influx of migrants. Outsourcing can thus contribute to a labour market and information divide that cannot be in the interests of sustainable long-term development.

The rapid growth of the outsourcing industry is also widening disparities

Fiscal and Trade Impact

Given its scale, outsourcing might be an important source of tax revenue that could enable developing-country governments to spend more on social services. Often, however, the fiscal benefits are fairly limited. In order to encourage such activities, many governments have exempted them from taxes – or from import duties on hardware and telecoms equipment. Indeed, the government may have spent considerable amounts in building communications infrastructure for teleworking establishments. As a result, in fiscal terms outsourcing firms may not be net contributors but net recipients.

Likewise, on the trade front, although outsourcing contributes to export earnings, there is also a significant foreign exchange outflow from outsourcing providers – buying bandwidth from telecommunication firms, for example, or purchasing hardware from the outsourcing economies.

Domestic Strategies on Outsourcing

Outsourcing can have many effects, both positive and negative, for human development (Box 5.10). The challenge for governments is, therefore, to create an environment that is conducive for outsourcing while integrating it with the rest of the economy, so as to capture the associated developmental benefits. This can cover a range of policy areas (Box 5.11).

BOX 5.10

Human Development Outcomes of Outsourcing

Channel of Impact	*Nature of Impact*	*Human development outcome*
Employment and income creation – positive	Creates well-paying jobs for the computer-literate. Creates high-level jobs for persons with specialized skills and domain expertise. Absorbs young entrants into the labour force. Creates opportunities for less-integrated sections such as disabled and women in the workforce.	Empowerment Equity Productivity
Employment and income creation – negative	Underemploys and underutilizes human capital. Distorts employment choices. Provides low amounts of employment relative to requirements.	Negative sustainability and equity effects
Skill and knowledge transfer - positive	Promotes acquisition and transfer of specialized skills and domain knowledge. Enables acquisition of generic and portable skills. Develops capabilities for indigenous production and innovation.	Productivity, empowerment
Skill and knowledge transfer – negative	De-skills due to misallocation of human capital. Re-prioritizes educational investments and policies away from developing long-term capabilities. Limited impact of skills developed on other parts of the economy.	Concerns about productivity
Resource generation – positive	Enhances investment by domestic and foreign companies. Encourages small and medium enterprises. Value creation. Increases export earnings. Increases fiscal resources.	Productivity, empowerment, equity
Resource generation – negative	Leads to foreign exchange outflow through imports and repatriation of profits. Fiscal concessions, other incentives and diversion of resources from other areas of the economy.	Equity concerns if the sector is an enclave and a net recipient of benefits
Augmenting the human capital base – positive	Helps retain skilled persons. Helps to attract skilled persons into country.	Productivity
Augmenting the human capital base – negative	Limited impact so far. Repatriation leads to loss of employment opportunities and wages.	Productivity
Externalities and spillover effects – positive	Leads to growth in ancillary industries and activities and related employment and investment creation. Development of related physical infrastructure. Encourages spread of education, training, computer literacy, and Internet penetration. Creates demand and a consuming middle class.	Empowerment, productivity, equity, sustainability
Externalities and spillover effects – negative	Increases urban-rural disparities. Increases disparities within urban areas. Increases disparities across regions. Leads to enclave-type growth and associated inequities with other sectors. Diverts resources away from other sectors.	Concerns about equity and sustainability
Social, cultural, occupational aspects – negative	Leads to undesirable lifestyle and working hours, loss of cultural identity. Increases social inequity. Increases the information divide.	Concerns about equity, sustainability, long-term productivity

BOX 5.11

Domestic Measures to Promote Outsourcing

Areas for policy action	*Specific measures*
Labour market deepening and human resource development	Investments in education and training to: – create a pipeline of manpower for lower-end activities – create a high-tech workforce – develop curricula, programmes, institutions, training infrastructure, specialized skills – ensure quality certification and recognition Labour laws and standards for: – welfare-oriented human resource management practices – employee retention and career development strategies
Physical infrastructure	Invest in communication services by: – dismantling the government monopoly of provision – promoting competition in telecom services through deregulation, especially in Internet service provision and long-distance telephony – investing in satellite links – expanding bandwidth – promoting teleworking establishments by creating technology parks and outsourcing hubs – facilitating the acquisition of real estate, power, telecom links, and the procurement of equipment
Regulatory framework	Intellectual property legislation – on data privacy, data protection and piracy Consumer protection laws Spectrum liability legislation E-commerce regulations E-governance-related legislation Regulation on cross-border payments and Internet transactions Technology licensing framework
Tax and subsidy policies	Tax incentives and their withdrawal – provide fiscal incentives in initial stages – bring the industry under the tax net once it has matured and grown in size – use fiscal resources to target industry-specific and wider investments in infrastructure, training Export incentives – provide import duty concessions and rebates in initial stages only, remove later and treat at par with other sectors – discourage firm- or sector-oriented export subsidies that could distort trade – provide general infrastructural subsidies that are not trade-distorting

Human Resources and the Labour Market. Targeting the high end of the market will require investment in professional training. The Chinese Government, for instance, is investing in training programmes in partnership with MNCs, and Indian firms are providing greater emphasis on skills like software development with appropriate quality certification. The Vietnamese Government too is encouraging overseas training institutes from Australia and India to train thousands of Vietnamese in dedicated centres across the country.

Labour Standards and Regulation. Some of the negative social, cultural and occupational outcomes can be mitigated if governments focus on core labour standards, human resource management practices, and domestic labour laws. Governments and industry can also work together to combat high attrition rates, by providing more training and development and offering structured career paths.

Telecommunications and Other Physical Infrastructure. Smaller countries and companies

will need to develop their infrastructure. They can, for example, deregulate telecoms and Internet services and eliminate public monopolies so as to bring down costs. Viet Nam, for example, is planning to dismantle the state monopoly in Internet services, and to allow foreign equity participation in the telecom sector. Malaysia has invested heavily in IT infrastructure (Box 5.12).

Regulatory Framework. Governments may need to introduce internationally compatible laws and regulations concerning the protection of intellectual property rights and Internet transactions, data privacy, consumer protection, e-governance, and spectrum liability.

Some of the most important opportunities for multilateral action on outsourcing should be through the negotiations on the General Agreement on Trade in Services (GATS)

Fiscal Policy and Incentives. While tax breaks may be necessary to encourage growth in the initial stages of a business, the long-term aim should be to bring the outsourcing providers into the tax net, so that part of their profits are reinvested in the society.

Negotiation through GATS

Domestic strategies need to be supplemented with international action. The recent surge in opposition to global outsourcing in key markets like the US and the UK makes it all the more important to address this issue through multilateral, regional, and bilateral negotiations and agreements.

Currently, the electronic marketplace is largely free of explicit trade barriers and WTO members have agreed to temporarily exempt electronic commerce from customs duties and taxes. These commitments now need to be bound into agreements to preclude the introduction of new barriers to e-commerce.

Some of the most important opportunities for multilateral action on outsourcing should be through the negotiations on the General Agreement on Trade in Services (GATS). However, in areas such as distribution, advertising, architecture, legal work, accountancy, and computer and related services, less than half of the commitments in the relevant clauses of GATS are full or unrestricted – mainly due to the lack of commitments by developing countries. This kind of liberalization is best addressed through a 'positive list' to allow countries to pace the degree and scope of liberalization in accordance with their needs and their ability to prepare supporting domestic regulations.

Countries can also pursue their interests in outsourcing through regional and bilateral trade and investment agreements, which can prepare the ground for regulatory frameworks that can later be extended to the multilateral level.

Partnerships

Governments should also be able to rely on support from bilateral aid organizations, various parts of the UN System, and the World Bank – for developing infrastructure, organizing training and providing policy advice. They can also help in improving national statistics on outsourcing.

In addition, private enterprises, national and multinational, and their industry associations can assist in efforts to liberalize markets and counter protectionist threats. In India, for

BOX 5.12

Creating Comparative Advantage for Outsourcing in Malaysia

Labour costs are far higher in Malaysia than in China and India. Nevertheless well-developed infrastructure and government support have made it an attractive outsourcing destination. As part of its multimedia Super Corridor project, the Government has invested around $10 billion in setting up two IT cities – Cyberjaya and Putrajaya – with hi-tech parks, fibre-optic networks, new roads, and laws promoting e-commerce.

Malaysia is also emerging as a hub for research and clinical services in biotechnology. Based on local capabilities in a variety of Asian languages, like Mandarin, Cantonese, Hokkien, Bahasa Malay, Bahasa Indonesia, Tamil, Hindi, Thai, and Japanese, the Government is promoting the country as a high-end contact centre for customer services in the Asia-Pacific region and a pan-Asian hub. Outsourcing is expected to provide employment to 50,000 persons in the corridor cities by 2011. However, the country faces a shortage of skilled IT workers, and currently imports these from India and China.

example, the National Association of Software Service Companies (NASSCOM) has helped to highlight the mutual benefits from outsourcing and dispel misconceptions. Domestic firms engaged in outsourcing may also want to establish some local presence in their export markets, to enable them to lobby more effectively with concerned governments and industry bodies.

A New International Division of Labour

Global outsourcing represents a new international division of labour. While in manufacturing production was split across countries based on competitive advantage, in outsourcing different countries will occupy different parts of the global services space.

For many developing countries, this can be a valuable source of growth and economic and human development – creating employment and incomes, and empowering many sections of society and promoting growth with equity. It can also transfer new skills, technologies, and processes.

Realizing the potential of outsourcing will, however, require determined and focused government action to spread the benefits beyond small enclaves and ensure that it stimulates broad-based growth by integrating outsourcing activities with the rest of the economy. To accomplish this government will need to invest in physical and social capital and try to ensure that enterprises move steadily up the value chain. Overall, global outsourcing must be seen not as a single engine of growth but as another potential avenue for promoting economic and human development.

International Tourism

After oil and petroleum, the world's second-largest industry is travel and tourism. Globally, in 2005 this was expected to generate $6.4 trillion of economic activity, equivalent to 3.8 per cent of global GDP, though if one also considers the many other parts of the economy that also depend on tourism, the 'travel & tourism economy', the proportion rises to 10.6 per cent. Directly the sector employs 74 million people, 2.8 per cent of total world employment; indirectly it employs 222 million people, 8.3 per cent of total employment.

A tourist, according to the United Nations and World Tourism Organization definition, is someone who is staying outside his or her usual environment for not more than one consecutive year for leisure, business or other purposes. Some of these people may not travel very far; others will traverse half the globe. Since this report is about international trade, it is concerned specifically with tourism across international frontiers, though many of the same considerations apply to domestic tourism, which can often make a more significant contribution to human development (Box 5.13).

In 2004 there were 763 million international tourists, spending around $623 billion. But by the year 2020, WTO predicts that the number of international arrivals will reach 1.6 billion – spending a total of $2 trillion per year.[14] Of these worldwide arrivals in 2020, 1.2 billion will be those of intra-regional travellers and 0.4 billion will be of long-haul travellers.

After oil and petroleum, the world's second largest industry is travel and tourism

BOX 5.13

The Significance of Domestic Tourism

With the recent decline in long-haul travel post-9/11, SARS, the Iraq war and the Asian tsunami, many destinations, especially in the larger countries, have come to place greater reliance on the domestic market. This has significant advantages over international tourism: domestic visitors are more likely to support smaller local enterprises, help even out the seasonality patterns – and help conserve foreign exchange.

China has the world's largest domestic tourism market. In 2004, the number of domestic tourists reached 1.1 billion, and domestic tourism revenues totalled $57 billion, accounting for 67 per cent of China's gross tourism revenue.

India too has a huge domestic market. Unconfirmed estimates suggest more than 350 million domestic tourists, around one-quarter of which is pilgrimage traffic. Although national tourists spend less than international tourists, they travel in large numbers and tend to stay longer, and thus help create more jobs (Aibara and Gopalani 2005).

Many more of these people are arriving in the Asia-Pacific region. In the 1950s, the region contributed less than 10 per cent to global tourist volume, but by the early 1970s, its contribution had risen to 20 per cent, and by 2004 to 40 per cent.

TABLE 5.1
Tourist Arrivals in Asia-Pacific Countries, 2005

Country	*Population* (millions)*	*Arrivals (millions)*	*Growth (%)*	*Tourism earnings (% of GDP)*
East Asia				
Mongolia	2.4	0.2		...
China	1280.4	42.5	7.5	2.4
Korea, Rep.	47.6	6.0	5.0	1.6
Korea, Dem. Rep.	22.5		4.7	...
South-East Asia				
Lao PDR	5.5	0.2	–2.9	5.5
Cambodia	12.5	1.0		7.3
Philippines	79.9	1.7	–4.6	2.7
Viet Nam	80.4	2.1	9.3	2.2
Indonesia	211.7	5.4	2.4	3.1
Thailand	61.6	12.4	6.5	5.2
Malaysia	24.3	18.1	12.7	5.3
Singapore	4.2	7.8	4.3	2.6
Brunei	0.4	1.0	1.0	3.3
Myanmar	48.8	0.2	1.8	
South Asia				
Afghanistan	28.0	...	...	
Iran, Islamic Rep.	65.5	1.9	7.1	3.6
Maldives	0.3	0.5	4.1	32.3
Bangladesh	135.7	0.2	4.7	
India	1,048.6	2.5	0.4	2.1
Nepal	24.1	0.2	–19.7	4.4
Sri Lanka	19.0	0.3	–3.3	3.8
Pakistan	144.9	0.6	3.8	2.6
Bhutan	0.9	0.0	–1.6	
Pacific				
Vanuatu	0.2	0.051	–0.8	17.2
Kiribati	0.1	0.004	–4.3	9.7
Fiji	0.8	0.361	–0.2	12.0
Papua New Guinea	5.4	0.043	–8.9	5.8
Marshall Islands	0.1	0.005	...	
Samoa	0.2	0.096	2.7	
Micronesia	0.1	0.021	5.5	
Palau	0.0	0.054	–2.0	
Solomon Islands	0.4	...	...	3.1

Notes: Population data are for 2002; tourist arrivals are for 2004 and growth in arrivals in 2004 over the previous year; tourism as a percentage of GDP is based on estimates by WTTC for 2005.
Source: Aibara and Gopalani 2005.

As elsewhere in the world, tourism in the Asia-Pacific region was greatly disrupted by the triple shocks of September 11 in 2001, the SARS outbreak and the war in Afghanistan as well as in Iraq. The September 11 attacks alone caused a 10 per cent drop in travel worldwide – up to 30 per cent in some countries – and cost 6.5 million jobs. In 2004 there was a spectacular rebound: while tourism grew in all the world's regions, in the Asia-Pacific region it increased by 29 per cent – though a number of tourist destinations in the region were later hit by the tsunami in December 2004.

The distribution of these arrivals is indicated in Table 5.1. The significance of tourism to a particular country can be considered in a number of ways. One is through the total number of arrivals. This tends to be greater for the largest countries – with China in the lead, followed by Malaysia, Thailand and Singapore respectively, all of which in the past decade have developed huge tourism infrastructures.

Another approach is to consider international tourist revenue as a proportion of GDP. This gives some indication of how economically dependent a country is on tourism. For those countries with GDP figures available, the Maldives is at the top of the list with tourism representing 32 per cent of GDP, followed by Vanuatu and Fiji respectively. Were the data available, other Pacific Islands would also rank highly.

A third way of assessing the distribution is to consider tourist arrivals per head of population (Figure 5.3). This too indicates the degree of dependence on tourism but also gives an idea of the social impact. In this case, Palau comes out ahead followed by the Maldives, but even Singapore has more annual tourist arrivals than its total population.

Finally, one can consider arrivals from the perspective of poverty. The most popular destinations seem to be the middle- and upper-income developing countries. Nevertheless,

some countries with high levels of poverty also depend on tourism for more than 5 per cent of GDP including Cambodia, Lao PDR and Vanuatu.

The Human Development Impact of Tourism

From the human development perspective, the most important effect of tourism is to create employment. The tourist industry employs people at many levels of skill, from holders of MBAs to unskilled migrants from the rural areas. They can have a broad range of skills – hotel managers, fitness instructors, drivers, masseurs, beauticians, chefs – and some are employed directly, others indirectly, in support sectors such as retail trade, transport, or arts and crafts.

The scale of employment from international and domestic tourism is indicated in Table 5.2. This also estimates the ratio of indirect to direct employment, which for the region overall is greater than two to one, though this is swayed by the high figure for China. Another aspect of employment is highlighted in the table: which the proportion of the total workforce employed in tourism. In the Maldives, for example, this is very high, at around two-thirds. For the region as a whole, it is close to 7 per cent. Currently, many countries of the region are focusing on the development of domestic tourism, which is showing fast growth (Box 5.13).

Compared to other modern sectors, a higher proportion of benefits in the travel and tourism industry go to women – whether through formal or petty trade and informal employment. According to the ILO, women constitute 70 per cent of the entire tourism workforce, though the percentage varies enormously by country, and in Muslim countries can be less than 10 per cent.

The tourist industry and related services also have the merit of being quite labour-intensive; for each visitor, beds have to be made, food

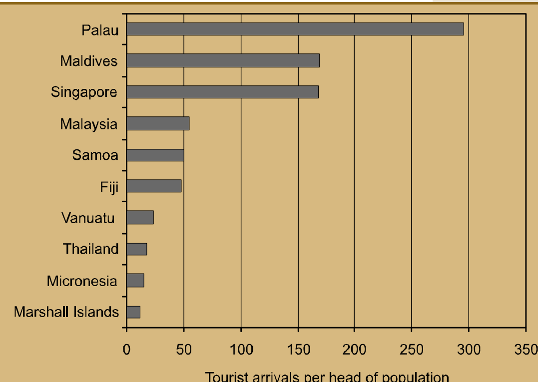

Figure 5.3: Tourist arrivals per 100 people, 2002

Source: Aibara and Gopalani 2005.

TABLE 5.2

Employment in the Tourist Industry

Countries	*2004 (Millions of people)*				
	Direct	*Indirect*	*Total*	*Direct/ Indirect*	*Share of (%) labour force in tourism (%)*
East Asia					
China	14.8	47.5	62.3	3.2	8.3
Korea, Republic of	0.5	1.3	1.9	2.6	8.4
South-East Asia					
Cambodia	0.2	0.4	0.6	2.0	8.3
Indonesia	3.2	5.3	8.5	1.7	8.5
Lao PDR	0.1	0.1	0.2	1.0	7.3
Malaysia	0.5	0.8	1.3	1.6	12.7
Philippines	..	..	2.8	..	9.6
Singapore	..	..	0.1	..	6.0
Thailand	1.5	1.6	3.1	1.1	8.9
Viet Nam	0.6	1.8	2.4	3.0	6.5
South Asia					
Bangladesh	0.9	1.4	2.2	1.6	3.0
India	11.4	13.1	24.5	1.1	5.6
Maldives	0.0	0.0	0.1	..	64.4
Nepal	0.3	0.4	0.7	1.3	7.0
Pakistan	1.0	1.2	2.2	1.2	4.1
Sri Lanka	0.3	0.4	0.7	1.3	8.8
Pacific					
Fiji	0.0	0.1	0.1	..	25.4
Kiribati	..	..	..	..	22.6
Papua New Guinea	0.1	0.2	0.3	2.0	11.2
Solomon Islands	0.0	0.0	0.0	..	8.3
Tonga	0.0	0.0	0.0	..	12.3
Vanuatu	0.0	0.0	0.0	..	47.0
Total	35.9	76.4	115.3	2.1	6.9

Note: The final column is the ratio of indirect to direct jobs.
Source: Aibara and Gopalani 2005.

From the human development perspective, the most important effect of tourism is to create employment. The poor can have a direct stake in the tourism industry, not just through jobs but also through many business opportunities

cooked and floors swabbed. In India, for example, it has been calculated that a $23,000 investment will generate 89 jobs in the hotel and restaurant industry, compared with 45 in agriculture and only 13 in manufacturing.[15]

Many of these jobs are low-paid and seasonal, but they do offer low-skilled workers opportunities to move up the income ladder. Many poor people, who have lost work in agriculture as a result of more liberalized and competitive global food markets, have been transferred to the tourist industry either to work permanently or as part-time or casual labourers during the high season.

The poor can have a direct stake in the tourism industry not just through jobs but also through many business opportunities, particularly in the informal sector, where there are many small-scale, locally run tourism enterprises. These benefits can also be geographically dispersed. Although high-volume tourism can be concentrated in beach resorts, cities or famous sites, there are also opportunities to create tourism-related jobs in remote areas that have few other options.

In addition to its contribution to poverty reduction through employment, tourism also helps boost government revenues through taxation. This can be generated directly through a tourism tax that is paid either to the local or national authorities, or through taxes on the profits of tourist-related businesses. These revenues can then be invested in public services. More indirectly, by boosting foreign exchange earnings tourism supports macro-economic stability, which again contributes to poverty reduction.

However, it should also be noted that much tourist revenue leaves the country – through payments to foreign-owned hotel chains, imports of goods for the tourism industries, or revenues accruing to foreign airlines. In small island nations these 'leakages' can be quite large – though not necessarily higher than for other sectors such as manufacturing.

For its contribution to poverty reduction, tourism can be considered in three main segments: business travel, leisure travel, and nature-based eco-tourism.

Business Travel. In the Asia-Pacific region, business travellers are most likely to go to large urban centres like Bangkok, Hong Kong, Mumbai, Shanghai and Singapore. Here they, like other travellers, create a demand for services, though the extent to which these services are provided by the poor will differ from city to city – greater in Mumbai and Shanghai, for example, which have millions of poor people living in urban slums, than in wealthier Singapore. In addition, business travellers can help combat poverty since they further their own businesses; this should in the longer term boost economic growth, which, if equitably distributed, will expand opportunities for all.

Leisure Travel. As with business travellers, the impact of leisure travellers on poverty will depend on their choice of destination. Also important, however, is how they interact with the local environment. People travelling on package tours, especially those going to enclave developments or all-inclusive resorts, or who are arriving on cruise ships, may meet very few local people. They will certainly encounter waiters or receptionists, or others formally employed in the tourist industry, but they will generate less work for informal businesses. Budget tourists, on the other hand, although they spend less in total on their trip, may spend more on local goods and services. Nevertheless even the income from high-end tourism can help combat poverty if it is redistributed through government spending. A number of Asian countries, such as Bhutan and the Maldives, have pursued this low-volume, high-yield route (Box 5.14).

Nature-based and Eco-tourism. Leisure visitor flows continue to be driven by mass tourism, but

there has been a noticeable shift towards niche, special-interest and experiential tourism. Leisure visitors are increasingly seeking to spend time on understanding the culture, heritage and natural environment of the places they visit – a trend that bodes well many rural and remote areas. The fastest-growing form of special-interest tourism is eco-tourism – which refers to travel to natural areas in responsible ways that conserve the environment and sustain the well-being of local people. Bhutan and Nepal, for example, and the relatively underdeveloped North-East region of India, are uniquely placed to build on their comparative advantage in this area. Indeed, Asia as a whole has many of the world's major Buddhist heritage sites. Nature-based tourism offers many advantages for poverty elimination. It takes place in remote areas where residents are likely to be poor. It involves a higher proportion of independent travellers who may spend more locally. It also contributes to the conservation of the local heritage and to biodiversity. But it also brings risks. Nature-based tourism does not necessarily have low impact, particularly if it occurs in fragile areas. It can also suffer from high 'leakage' if it requires importing supplies and skills.

BOX 5.14

Harnessing Leisure Travel in the Maldives

The Maldives has been extremely successful in developing a viable tourism industry, which directly and indirectly is responsible for over 70 per cent of GDP. And with an economically active population of 88,000 people, this provides 25,000 jobs, though 6,800 of these are held by expatriates.

In the late 1970s and early 1980s, the Maldives had no choice but to promote the mid-scale tourist segment – till such time as the islands attained the critical mass required to sustain and encourage commercial air traffic and the requisite infrastructure. Lately, however, given the small size of the country and its fragile ecosystems, the Government has taken a conscious decision to focus on high-end tourism and has encouraged the growth of boutique-style, luxury resort developments. This approach has helped maximize revenues generated for both government and private sector investors while maintaining environmental and social sustainability. The Maldives does still offer a mix of properties to cater to different groups, but it also hosts some of the world's top resorts. These are clearly attractive since the visitor repeat rate is 20–30 per cent. These are also very profitable, and the high rates of return for most projects are encouraging many investors and top hotel chains to establish a presence.

Source: World Bank, ADB and UN 2005.

Potential Negative Impacts of Tourism

As with other components of economic growth and globalization, tourism can also have some negative effects.

Inflation. Investment in tourist destinations can push up prices of land, accommodation and food – in some cases driving poor people out.

Resource Conflicts. Tourist enterprises can also harm many livelihoods by taking over natural assets such as land or beaches or by polluting waterways. People in coastal communities in many Pacific Islands, for example, rely on fish for their main source of protein and income and can see their food security and livelihoods undermined by tourist development.

Tourist enterprises can also harm many livelihoods by taking over natural assets such as land or beaches or by polluting waterways

Burden on Services. New tourist enterprises put pressure on water supplies, for example, and on waste management services – burdens that are often passed on to other local residents and businesses.

Environmental Destruction. Mass tourism is generally associated with high consumption of water and energy. Hotels are often concentrated in small areas, and they contribute to the increasing traffic congestion and air and water pollution. In some cases tourists who are attracted by the remoteness or beauty of locations can effectively destroy what they have come to visit – as roads and hotels intrude on natural vistas, for example, or trekkers erode paths. And in coastal areas, activities such as snorkelling and scuba diving can endanger fragile marine ecosystems.

Spread of Disease. There is no established correlation between AIDS and tourism, but it

does seem that in many countries, such as Thailand, the HIV prevalence rate is particularly high in tourist areas, and the continuing increase in tourist numbers can aggravate the problem.

Cultural Issues. Many tourists, who are typically richer than the local population, can undermine age-old cultures by introducing consumerist values. Their hedonistic lifestyles can also offend the sensibilities of conservative communities. In addition, adapting local culture to tourism, through special performances, for example, can lead to a loss of identity and authenticity.

Exploitation of Women. Women may while gain new jobs in the tourism industry, here, as in most other sectors, they are often at a disadvantage. Since they have less control over land and other properties, they find it more difficult to take full advantage of economic opportunities. Being vulnerable, women can also be subject to sexual exploitation.

While tourism can lead to developmental problems, these can be resolved or minimized with proper planning and management

Pro-poor Tourist Development

While tourism can lead to developmental problems, these can be resolved or minimized with proper planning and management. Among the priorities should be:

Planning and Support. Governments need to be involved in establishing national and regional parameters for the industry as well as in creating support institutions, such as tourist boards and training institutes.

Infrastructure. This is particularly important in remote regions, where tourism represents one of the few economic development opportunities – though in some cases the lack of infrastructure may be beneficial if it deters mass tourism to environmentally sensitive destinations.

Cultural Diversity. Governments need to protect cultural diversity – allowing local people to participate in the economic benefits of tourism, while protecting their cultural heritage. One of the most remarkable examples of rapid development of infrastructure for tourism is at Angkor in Cambodia (Box 5.15).

Training. Jobs in the industry do not normally require academic qualifications, and in many countries the major hotel groups and travel companies tend to rely on their own inhouse training facilities. This puts smaller enterprises at a disadvantage. Government agencies may, therefore, work with the private sector on training, mentoring and short education courses that will help more people benefit.

Linkages for the Poor. Economic 'leakages' need to be examined and, where possible, counteracted. Large tourist operators can, for example, build partnerships with local small- and medium-size enterprises – purchasing local materials, outsourcing laundry and other such services, showcasing handicrafts and creating packages of local excursions. The operators can thus take into account commercial returns, while

BOX 5.15

Rapid Tourist Development in a Remote Area: Angkor, Cambodia

The Angkor temples near Siem Reap in Cambodia are perhaps the single largest cultural tourism 'discovery' in the last decade for Buddhist heritage. After the fall of the Khmer Rouge and the installation of a democratic government and the subsequent opening up of the country, the temples of Angkor caught the attention of the international culture tourist. From scarcely any in the early 1990s, annual international visitor arrivals rose to 561,000 in 2004.

Tourism has changed the economics of the entire region. The town of Siem Reap has seen phenomenal growth in roads and air connectivity. Over the period 1998-2003 the number of hotel rooms increased by 29 per cent per year. Tourism has also spawned hitherto-forgotten industries in stone carving and handicrafts – and boosted many other local enterprises.

This success is attributed to the quality of the temples themselves, the ambience of the area, with its tall leafy trees, and the combined efforts of the Government, the private sector and NGOs. Now a region that had been exporting workers to the rest of the country is importing labour.

Source: Ministry of Tourism, Cambodia 2004; Mahajan and Aibara, 2001.

simultaneously seeking to optimize benefits for the marginalized.

The New Trade in Economic Services

The Asia-Pacific region is in the forefront of the international trade in services – in particular, through international migration, business outsourcing and tourism. But in all these areas policy makers will need to take firm and wide-ranging action to ensure that these dynamic sectors fulfil their potential to promote human development.

For migration, both source country and destination countries can do more to make migration a more productive and fulfilling experience. Source countries can ensure that migrants are well informed, financed and trained before they depart, and destination countries can make the migration process simpler and more transparent.

For business process outsourcing, governments have a range of policy options to ensure that it makes a stronger contribution to human development, including building infrastructure, training the workforces and ensuring the best regulatory and fiscal environment.

Regarding tourism, many of the problems can be resolved or minimized with proper planning and management – building the appropriate infrastructure, for example, providing training to people working in smaller enterprises, and ensuring better economic links between larger tourist operators and poor communities.

Trading Opportunities for the Least Developed Countries

6
Chapter

When it comes to integrating into international trade, the Least Developed Countries are in a very vulnerable position. They typically have small economies, difficult topographies, and are located far from international markets, in which they are minor and weak players. They do benefit from some concessions from the developed countries, but will need fairer treatment at the WTO, as well as international assistance, if they are to use international trade to promote human development.

In principle, all countries should be able to use their comparative advantages to benefit from international markets and free trade. In practice, the scales are heavily weighted in favour of the larger and more advanced countries. The developing countries, and particularly the Least Developed Countries (LDCs), find themselves in a much weaker position.

The Asia-Pacific region is home to 37 per cent of the world's LDC population, with 14 of the 50 LDCs. They are: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao PDR, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu. All qualify as LDCs because they satisfy three criteria: low incomes, human resource weakness and economic vulnerability.[1] Even so, they are clearly a very diverse group. Indeed, the region is home to the world's most populous LDC, Bangladesh, and the least, Tuvalu. Geographically too they can be very different: four are landlocked countries, for example, while seven are island states[2] (Table 6.1).

The LDCs are vulnerable on many fronts:

- *Economic*. Exposure to exogenous shocks that adversely affect incomes, employment, domestic production, distribution, markets, consumption, and the stock of wealth. LDCs also have a limited capacity to deal with such shocks.
- *Environmental*. Exposure to calamities induced by natural or human-made factors. Small island states of the Pacific, for example, are often hit by droughts, floods, hurricanes, and volcanoes and earthquakes, while mountainous countries in Asia are prone to flashfloods, volcanic eruptions and earthquakes.
- *Social*. Exposure to factors that undermine social cohesion, introduce systemic social pathologies, and erode social capital. Because the LDCs have little capacity to respond, these events tend to recur.
- *Institutional*. Limited capacity of domestic institutions, including the State, to respond to the complexity and intensity of pressures flowing from globalization.

As a group, the region's LDCs have made significant progress. During the period 1990–2000, they increased their average per-capita GDP by one and a half times and their exports three times. Social indicators also improved. Over the same period the adult literacy rate increased from 60 to 71 per cent, life expectancy rose from 58 to 62 years, and the infant mortality rate per 1,000 live births rate dropped from 77 to 55.

Nevertheless, they were starting from quite low levels and still have high rates of poverty and hunger. In 2003 the average per-capita GDP

TABLE 6.1

Key Indicators of Asia-Pacific Least Developed Countries

Country	*Geographic status*	*Population in 2003 (millions)*	*GDP per capita in 2003 (constant 2000 $)*	*Aid per-capita in 2003 (current $)*	*Indebtedness* status in 2003*	*Exports as % of GDP in 2003*	*Human development index (HDI) status in 2003 (HDI value; HDI rank out of total 177)*
Afghanistan	Landlocked	22.2	..	..	Not classified	..	..
Bangladesh	Coastal	138.1	395	10.1	Less indebted	14.2	Medium (0.520; 139)
Bhutan	Landlocked	0.9	680	88.1	Severely indebted	22.0	Medium indebted (0.536; 134)
Cambodia	Coastal	13.4	313	37.9	Moderately indebted	62.0	Medium (0.571; 130)
Kiribati	Small island	0.1	569	190.6	Not classified	..	..
Lao PDR	Landlocked	5.7	352	52.8	Severely indebted	25.5	Medium (0.545; 133)
Maldives	Small island	0.3	2,548	61.3	Less indebted	85.2	Medium (0.745; 96)
Myanmar	Coastal	49.4	..	2.5	Severely indebted	..	Medium (0.578; 129)
Nepal	Landlocked	24.7	241	18.9	Less indebted	16.7	Medium (0.526; 136)
Samoa	Small island	0.2	1,522	185.6	Severely indebted	..	Medium (0.776; 74)
Solomon Islands	Small island	0.5	597	131.9	Moderately indebted	31.0	Medium (0.594; 128)
Timor-Leste	Small island	0.9	421	171.9	Not classified	..	Medium (0.513; 140)
Tuvalu	Small island	0.0	..	..	Not classified	..	..
Vanuatu	Small island	0.2	1,098	154.3	Less indebted	..	Medium (0.659; 118)
Asia-Pacific LDCs		256.3	375	13.6	..	18.8	..
Asia-Pacific Other Developing Countries	3,016.6	854	2.7	..	34.8	..	

Note: * Indebtedness is as defined by the World Bank. 'Severely indebted' means either the present value of debt service to GNI is at a critical level, 80 per cent or more, or the present value of debt service to exports is at a critical level, 220 per cent or more. 'Moderately indebted' means either of the two key ratios exceeds 60 per cent of, but does not reach, critical levels. All other economies are listed as less indebted. See www.worldbank.org/data/countryclass/countryclass.html
'..' = not available.
There are significant data issues for many of the LDCs. Different sources provide differing estimates for the same indicator and there also tend to be data gaps.
Sources: UNDP and UNESCAP 2005; World Bank 2005; UNDP 2005a; ESCAP 2005.

in the region's LDCs was $375 – less than half that of the Asia-Pacific developing countries. Economically they are extremely vulnerable – often remote from markets, operating at low levels of technology and dependent on a small range of exports for which both demand and prices can be quite volatile. They have few natural resources and are prone to natural disasters.

LDCs and Liberalization

One area where LDCs are especially exposed is international trade. For many LDCs trade – exports plus imports – represents a significant proportion of economic activity. In fact, their trade-to-GDP ratios are often higher than those of many developing countries, or even developed ones: 127 per cent for Cambodia in 2002, for example, and 152 per cent for Maldives. They also tend to have very open trade regimes, with low tariff or non-tariff barriers. According to the IMF's index of trade restrictiveness, of the 46 LDCs around the world for which data were available in 2004, only four had average tariff rates above 25 per cent. Moreover, for 29 countries their non-tariff barriers were either low or minor.[3]

However, these open trade regimes are not primarily the result of multilateral commitments negotiated during the Uruguay Round or with the WTO. More often, LDCs have taken unilateral steps to open up their economies as part of broader programmes of domestic reform. Of the 21-percentage-point cut in average weighted tariffs of all developing countries between 1983 and 2003, two-thirds was the result of autonomous liberalization.[4]

Why do LDCs not Benefit Sufficiently from Trade?

Conventional wisdom suggests that increasing exports of any kind should be beneficial – providing much-needed foreign exchange to invest in economic development and alleviate poverty. Unfortunately, although LDCs have often had dynamic export sectors since the late 1980s, they have not achieved commensurate economic growth, or a significant reduction in poverty.

Why have the LDCs not been able to use trade to boost economic growth? Many of the constraints are the same as those that hold back economic development generally: low levels of skill and technology that lead to low productivity; poor infrastructure; few linkages between productive sectors; and the lack of a financial sector that can provide capital at reasonable interest rates.

Many also face serious geographic obstacles. Afghanistan, Bhutan, Nepal and Myanmar, for example, have some very inaccessible mountainous terrain. Since road construction is expensive, these countries can link many of their regions only by air transport or tortuous, winding roads, adding greatly to the cost of doing business. Economic development can also be slowed if populations are very scattered across the landscape – whether over mountain ranges, or widely separated islands, as in the Maldives, for example, or the Solomon Islands. This not only makes it more difficult to provide social services but also slows economic integration.

Geography hampers not just national economic development but also international trade. Many landlocked countries face high transport costs that eat into the revenue from exports, and also add to the costs of imports. These countries are also vulnerable to policy changes in the neighbouring countries through which their goods have to transit.

But geography can impede trade even for countries with their own coastlines. The poorest countries tend to have only a few major ports, so exporters located far from those ports are at severe cost disadvantages. Indeed, if their export volumes do not justify regular ship calls, exporters might have to use ports in neighbouring countries.[5]

LDCs with small economies can thus find themselves with multiple cost disadvantages. One estimate suggests that telephone services, electricity services and personal travel in micro-states cost around twice as much as in the average country and are particularly damaging to trade – sea freight costs can be three times as high.[6]

Trade represents a significant proportion of economic activity

LDCs with small economies can find themselves with multiple disadvantages

Trade integration has had a limited impact on poverty because it encourages an 'enclave-type' growth pattern

LDCs also suffer in international trade because they are minor players. For individual commodities, they typically make only a small contribution to the global market so they cannot influence international prices. This means they become 'price takers' and have to accept what they are offered. If other producers increase their output, this can push down international prices, wiping out the LDCs' already-low profit margins. In the short term, this can deliver a sharp economic shock or in the longer term, push them into a 'poverty trap'.[7]

They are also vulnerable if they have a limited range of exports. LDCs have to specialize in products in which they have a comparative advantage, and as a result, many still rely on agricultural goods: for Kiribati, for example, agricultural products account for nearly 89 per cent of exports, and for Vanuatu 54 per cent.[8] Even countries that export manufactured goods tend to concentrate on one sector such as textiles and clothing – which in 2003 accounted for 40 per cent of exports from Nepal, 76 per cent of those from Bangladesh, and 95 per cent of those from Cambodia. Of the 4,162 products exported by the LDCs to 30 major trading partners in 2000, 127 accounted for 90 per cent of their total export trade.[9] For all LDCs, the export concentration ratio – the share of the principal export product in the total export value – has remained high and largely unchanged since 1980.[10]

Trade integration has also had a limited impact on poverty because it encourages an 'enclave-type' growth pattern. Certain sectors do reasonably well, but leave the rest behind. Even the agricultural export sector tends to have few links with the subsistence agrarian activities on which most people depend for their livelihoods.

In these circumstances, it may not be obvious why LDCs would want to gain access to the World Trade Organization and the further liberalization that this implies. For most, however, the alternative is worse – marginalization or bilateral control by one or two major powers. The multilateral WTO is still a better option if it offers some consistent basic ground rules.[11] Accession to the WTO can offer:

- Binding commitments to stable policies
- Predictability of market access
- Shelter against unilateral pressures from powerful countries
- Access to a powerful dispute settlement mechanism
- Expectations of a role in shaping the future of world trade

Experience with Trade Integration

In the past, most LDCs have liberalized trade unilaterally. In future, however, they are more likely to do so on a reciprocal basis, multilateral, regional or bilateral. Their main multilateral option is the WTO which currently has 149 members. Of the 50 LDCs, 32 are now WTO members, and 8 others are in the process of accession. A few Asian LDCs, such as Bangladesh, were founder members of the WTO when it was signed into existence in 1994, but others joined later. Of the Asia-Pacific LDCs, Bangladesh, Cambodia, the Maldives, Myanmar, Nepal and the Solomon Islands are now members, while Bhutan, Lao PDR, Samoa and Vanuatu are in the process of joining.

Many LDCs find this accession process very difficult. They lack the trained people needed to understand the implications of trade agreements – either the commitments or the policy flexibilities. Even the few Asia Pacific LDCs that have missions in Geneva can devote only a few staff members to participate in WTO negotiations. As a result, even well-meaning officials may be unable to exploit opportunities during negotiations and can sign agreements that compromise national interests and human development priorities.

The same limitations are evident in civil society organizations. They too lack the

resources and capacity for specialized research, and few can conduct informed advocacy at the policy level. Consequently, they may have to base their campaign strategies on their perceptions of how trade agreements work, which may not necessarily accord with reality.

The situation is even more difficult for the LDCs now trying to join. Because the rules for accession to the WTO are vague, incumbent members have been able to exploit them to impose onerous conditions on the acceding countries. They try to extract maximum concessions for three reasons: first, because this will help them set a precedent for later applicants; second, because it provides them benefits for which they do not need to reciprocate; third, because they can use these terms as instruments in subsequent multilateral trade negotiations.

The extra conditions they apply are of two types – 'WTO-minus' and 'WTO-plus'. The WTO-minus conditions are those that prevent the new arrivals from taking advantage of certain rights contained in the WTO agreements and already enjoyed by existing members. WTO-plus conditions are additional obligations that are either not a requirement of the WTO or have not been undertaken by its existing members.

These conditions can have serious implications, because the WTO rules, unlike those for GATT, influence national policies, including many that are critical for human development. Poor countries acceding to the WTO now find it more difficult to obtain special and differential treatment to allow them to delay some commitments.

However, certain agreements within the WTO do provide more policy space. For example, the General Agreement on Trade in Services respects members' rights to pursue their human development objectives – allowing them to retain certain conditions related to market access and national treatment. Even at the time of accession, some countries have used this opportunity to negotiate reasonable terms (Box 6.1).

Although these demands on newly acceding countries cover a wide range of issues, they can be considered in two groups – those related to policy space and those related to systemic issues.

Policy Space

These refer to restrictions on freedom of action. Generally, the founding and existing members have retained considerable freedom of manoeuvre while giving new arrivals much less scope. They use a number of instruments that compress the policy space of newly acceding members, including:

- *Tariffs*. One of the most important issues is the flexibility to alter tariff rates. If, within

WTO rules influence national policies, including many that are critical for human development

BOX 6.1

NEPAL'S CAUTIOUS APPROACH TO LIBERALIZING SERVICES

At the time of accession to the WTO, Nepal liberalized 11 service sectors and 70 sub-sectors. This seems like a lot, but in fact, Nepal managed to negotiate liberalization for only a select group of services: First, those in which the Nepalese private sector may never get involved, given the huge investment cost and high gestation periods – such as pipeline transportation; second, those in which the Nepalese private sector is already competitive and able to outperform foreign service suppliers – such as banking services; third, sectors that have a high potential to employ local people – such as computers and related services.

A few other measures of restriction negotiated by Nepal include:

(a) capping foreign investment in most sectors at 51 per cent; while in some others at 66-67 per cent and only in two sectors at 80 per cent;
(b) the requirement that a majority of the board members of basic telecom providers should be Nepalese nationals, and in the case of financial institutions, the composition of the board should be proportionate to the shareholding pattern;
(c) foreign banks, with minimum 'B' rating by a credit rating agency, can only establish branches in Nepal for wholesale banking, not retail banking;
(d) incentives and subsidies should be available only to enterprises wholly owned by Nepalese nationals;
(e) not allowing foreigners to purchase or own land in Nepal; and
(f) movement of natural persons to be limited to intra-corporate transferees at the executive, managerial or specialist levels, with a proviso that the number of such transferees shall not exceed 15 per cent of the number of local employees in the firm.

Source: Adhikari 2004.

the WTO, a member has 'bound' a tariff, it is then committed not to increase this above a specified rate. Most developing-country members of the WTO bind some, but certainly not all, of their tariff lines and can raise them, even astronomically, if circumstances so dictate. Indeed, some African countries have bound a very small proportion: Tanzania and Cameroon, for example, 0.1 per cent; Mozambique, 0.5 per cent; Togo, 0.9 per cent; and Ghana, 1.2 per cent.[12] All the acceding countries, on the other hand, have been asked to bind tariffs on almost all lines.

- *Other duties or charges*. Similarly, many WTO members still maintain 'other duties and charges' (ODCs) and have never been challenged to remove them.[13] The acceding countries, on the other hand, have been asked to either bind ODCs at zero, or phase them out over a short period – though in fact, the only acceding countries that have been allowed to maintain ODCs with an agreed timeline to phase them out are Bulgaria[14] and Nepal;[15] all others have been compelled to bind them at zero from their date of accession.
- *Special and differential treatment*. The WTO acknowledges that developing countries can have difficulties in taking on multilateral commitments and obligations. It thus grants them longer grace periods before complying with agreements (Box 6.2). Existing WTO members get 'special and differential treatment' rights automatically, but acceding countries have to negotiate these on a case-by-case basis – and most have been denied them.
- *Export duties*. The WTO does not oblige members to bind, reduce or eliminate export duties, and virtually all members have avoided binding them. However, some acceding countries have been compelled to eliminate export duties or bind them at a certain level.
- *Services liberalization*. In various service sectors acceding countries have been asked to make commitments far more extensive than those of incumbent members.

BOX 6.2
Special and Differential Treatment Provisions in the WTO

Developing countries have been granted some flexibility in applying the conditions of membership of the WTO through 'special and differential treatment' (SDT). This treatment applies to both binding and non-binding provisions.

Binding Provisions
Some of these can be implemented unilaterally, without having to wait for action by others. Under this heading, there are two kinds of SDT.

(a) Permitting developing countries to assume lesser obligations. In the Agreement on Agriculture, for example, the *de minimus* levels of domestic support to agriculture are 5 per cent, but for developing countries they are 10 per cent. Similarly, the developed countries have to commit to 36 per cent tariff reductions but developing countries to 24 per cent; for the reduction in subsidies, the corresponding proportions are 20 per cent and 13 per cent.
(b) Providing transitional time periods, which are higher for the developing countries. In TRIPS, for example, developed countries have only a one-year transition period to implement the commitment, while developing countries were given five years and LDC were given even more generous treatment.

Other binding provisions require action from others, particularly developed countries. For example, Article 66.2 of TRIPS required developed-country members to provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to LDCs.

Non-binding Provisions
These are also known as best-endeavour clauses. For these the SDT concessions are of three types:

(a) Requiring WTO members to safeguard the interest of developing countries – as with the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), which requires members to take into account the special needs of the developing countries and LDC members.
(b) Requiring developed countries to provide technical assistance to the developing countries and the LDCs. For example, the Agreement on Technical Barriers to Trade (TBT) requires members to provide technical assistance to developing countries and the LDCs, on mutually agreed terms and conditions, for the establishment of national standardizing bodies.
(c) Requiring developed countries to enhance trade opportunities of the developing countries and LDCs. For example, the need to provide market access: Article XXXVII.1 of the GATT requires the developed members to accord high priority to the reduction and elimination of barriers on products currently or potentially of particular export interest to developing member countries.

- *Intellectual property protection*. For the protection of new plant varieties, the developing countries often prefer to use their own systems that better suit their social, economic and environmental needs. The developed countries, however, argue that the only effective *sui generis* system is that of the International Union for the Protection of New Varieties of Plants (UPOV) and are trying to impose this model on each acceding country.[16] China and Cambodia, for example, have been cajoled into signing on to UPOV as a part of their accession deal – though Nepal was able to fend off these pressures due to the collective efforts of the government and civil society organizations. Although the data protection measures are not mandated by TRIPS, new countries are also being required to enforce these, Cambodia being an example (Box 6.3).
- *Plurilateral agreements*. These are commitments that were agreed to by only a limited number of members, at the founding of the WTO. Some members are now insisting, however, that the acceding countries agree to accept these agreements, or at least enter into negotiations to do so. Vanuatu, for example, had to accept this demand.[17]
- *Participation in sectoral initiatives*. These are tariff reduction initiatives, such as the Information Technology Agreement. For existing WTO members, participation in these is optional, and they have the flexibility to choose which products they would like to cover. But all the acceding countries have been asked to participate in one or more of these initiatives.

BOX 6.3

TRIPS and the Looming Public Health Crisis in Cambodia

An estimated 2.8 per cent of the adult population in Cambodia are infected with HIV/AIDS, one of the highest rates in Asia. Tens of thousands have already died, and within the next five to ten years 200,000 people, including children, could develop HIV/AIDS (Ouyahia-McAdams 2002).

Combating HIV/AIDS requires, among other things, providing antiretroviral (ARV) drug therapy. Cambodia was already finding this hard: until recently, humanitarian agencies and NGOs were providing drugs to only 700 patients (Macan-Marker 2003). But accession to the WTO makes things even more difficult. During the negotiations Cambodia was forced, as a 'WTO-plus' requirement, to agree to protect undisclosed test or other data for pharmaceutical products for five years. This will be devastating for Cambodia's efforts to tackle HIV/AIDS, for during the period of the patent, Cambodia will not even be able to use test data to assess bio-equivalent generics to be prepared for when the patent expires. Instead, the generic producing or importing company would have to repeat the trials – a costly and slow process – or wait for five years (Charveriat and Kirkbride 2003). ARV medicines will thus become even more scarce and expensive – and exacerbate an already serious public health crisis.

Source: Adhikari 2004a.

Systemic Issues

The demands from the WTO also concern some fundamental issues that affect the organization of economies. These include:

- *Non-market economy status*. The WTO agreements do not demand that countries have a market economy. But existing members have effectively pushed new members, including China, Kyrgyzstan and Mongolia, in this direction, and are likely to apply the same pressure on Viet Nam.
- *Privatization of state owned enterprises*. The WTO mandate does not require countries to embark on the privatization path. Nevertheless, acceding countries such as Cambodia and Mongolia have been asked to report periodically to the WTO about the status of their privatization programmes.
- *Investment regime*. The agreement on Trade Related Investment Measures (TRIMs) prohibits governments from imposing 'export balancing requirements' on firms – preventing them from importing further inputs unless they have met certain export targets. However, in accession negotiations some WTO members have requested new applicants to ban export performance requirements even when they are not linked to import volume or value.[18]

Implementation Problems

A number of LDCs have had problems implementing their WTO agreements. This is partly because, for the accession countries in particular, these agreements are often onerous and unreasonable. But LDCs can also have a limited capacity to fulfil even the normal conditions. Some agreements are easy and cheap to implement: tariffs, for example, can be reduced by the stroke of a minister's or a legislator's pen. But others require a huge investment – in the purchase and installation of equipment and procedures and the training of staff – as with customs valuation, and intellectual property rights and standards.[19] In addition, LDCs may not have the administrative capacity or the funds to create the requisite institutions.

Human Development Implications of Trade Integration

Assessing the impact of trade integration on human development for LDCs is a challenging task. It is difficult enough to determine whether integration even increases trade, let alone what are its precise effects on different segments of society.[20] At the most general level, however, it is clear that trade integration does create winners and losers. The winners are usually those who can best organize themselves in the private sector, or occasionally in trade unions – who can press for their interests during trade discussions, and if they think they will be disadvantaged, bargain for compensation payments. The losers are less organized, and usually more numerous – small farming households, for example, or workers in import-competing industries who will lose the protection of high tariffs – not to mention taxpayers who have to fill the gaps left in government budgets by cuts in customs revenues.

Governments need to support those who suffer from trade liberalization

Institutions and Governance

Governments need to support those who suffer from trade liberalization. One priority should be to build social safety nets – offering unemployment allowances and facilities for retraining, while helping businesses make any necessary social adjustments. Some governments have done this quite successfully and provided extensive protection. Indeed, there is often a striking correlation between a country's exposure to foreign trade and the size of its welfare state: the most open countries such as Sweden, Denmark and the Netherlands have also seen the greatest boosts in spending on income transfers.[21] Unsurprisingly, these countries also have some of the best human development achievements.

But these enlightened policies need not be limited to richer countries. Ecuador, for example, a middle-income developing country, has made similar efforts. In 2001 after acceding to the WTO and signing several regional trade agreements, it enacted a new Social Security Law that provides for an unemployment allowance to those losing jobs in the private and public sectors. Mongolia too, after accession to the WTO, and with the help of a loan from the Asian Development Bank, strengthened its social security programme so that, among other things, it could help the unemployed and underemployed to find jobs.

Public Health

Trade liberalization can affect public health in a number of ways. One is by accepting intellectual property regimes that influence the availability and pricing of drugs. Previously, developing countries that did not operate patents systems could produce generic drugs similar to, but far cheaper than, the original branded versions. India, for example, built up a sophisticated and efficient pharmaceutical industry to produce generic drugs for both local consumption and export. Neighbouring Pakistan, on the other hand, which also had a sizable pharmaceutical industry, but which did respect patents, had prices from 3 to 14 times higher.[22]

All this changed from 1994 with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). All WTO members now have to comply with strict intellectual property provisions covering such issues as copyright and patents. This has serious implications. First, there are the economic costs: TRIPS is expensive to implement – revising laws, training officers, and testing and enforcing patents, and the economic benefits are unclear.[23] But there can also be catastrophic social costs. By restricting the opportunities to produce affordable, generic versions of drugs, TRIPS is set to create a public health crisis in Asia and the Pacific. One of the most severe impacts will be on HIV/AIDS. More than 7 million people in the region suffer from HIV/AIDS, and almost half a million die from the disease each year.[24] Cambodia, for example, which has recently acceded to the WTO, will now find it even more difficult to provide anti-retroviral therapy (Box 6.3).

The full effects have yet to be felt because many of the TRIPS provisions included a ten-year exemption period that only expired on 31 December 2004. The LDCs also have the advantage of a longer stay of execution. In November 2001, the Doha Declaration on TRIPS and Public Health granted LDCs an extension of the transition period for pharmaceutical products until 2016. And in June 2002, the TRIPS Council exempted all LDC members from applying certain parts of the TRIPS agreement in relation to pharmaceuticals until 2016.

The General Council has also made it somewhat easier for LDCs to import generics. Previously, companies producing under compulsory licences had to manufacture predominantly for their domestic markets. In August 2003, however, these companies were given a waiver from this requirement for exports to countries that had an insufficient manufacturing capacity – though there are some procedural constraints on this provision.

Finally, in November 2005, the Least Developed Country members as a group were granted an extension of the transitional period for TRIPS as a whole for 7.5 years – that is, until July 2013, or until such a date on which they cease to be a LDC. But the decision freezes the status quo since it stipulates any changes in laws, regulations and practice made during the additional transitional period should not result in a lesser degree of consistency with the provisions of the TRIPS agreement.

Environmental Protection

Developed countries have argued that lax environmental standards offer some developing countries an unfair competitive advantage – in particular, that many of their enterprises can produce goods much more cheaply, largely because they do not have to worry about, or pay for, the pollution they cause. This, they say, will inevitably lead to a 'race to the bottom' in what have been called 'pollution havens'.

Empirical evidence does not support this hypothesis. One survey of five polluting industries in 119 countries found that, except for iron and steel products, there was no clear evidence that national governments were deliberately setting low environmental standards, and it concluded that the case for including such standards in the WTO framework was weak. The same applies to environmental standards in regional trade agreements like NAFTA and the US-Singapore bilateral agreement.[25]

The developing countries, for their part, agree that it is important to improve environmental protection, but this should not be a part of trade negotiations since it offers the developed countries even more opportunities to raise arbitrary and discretionary trade barriers. And in any case, the GATT already allowed for restrictions if trade was harmful to the interest of plant, animal or human health or to the goal of conservation of natural resources.

Instead, developing countries prefer to focus on the more positive potential of trade to transfer technologies that offer better environmental

Developing countries, as a group, have insisted on SDT, saying that applying the same rules to unequal trading countries could be disastrous

protection. The Doha Declaration, for example, mandates a liberalization of trade in environmental goods and environmentally sound technologies.

Initiatives to Address LDC Vulnerability

The developed countries recognize that when integrating into international trade the LDCs are likely to be vulnerable and have, therefore, made some efforts to protect their interests. But most such endeavours, although genuine, have failed to achieve their objectives.

Special and Differential Treatment

One approach has been to allow developing countries some leeway under the umbrella of 'special and differential treatment' (SDT). Developing countries, as a group, have insisted on SDT, saying that applying the same rules to unequal trading countries could be disastrous. Instead, they would prefer modulated commitments – based on their trade, development and financial needs: well-designed, effective, enforceable and timebound SDT that can help developing countries and LDCs integrate into the multilateral trading system.[26] Just as important, SDT offers ways of modifying the trade regime to take better account of human development objectives.[27]

Within Asia, many of the middle- to higher-income countries have limited imports from LDCs in the region because their import needs are different from what these LDCs can supply (Box 6.4).

In response, the various WTO agreements contain 124 separate articles or paragraphs containing around 160 provisions for SDT.[28] They can be broadly divided into 'binding' and 'non-binding', that is, enforceable and non-enforceable (Box 6.2). These are presently being reviewed by the WTO's Committee on Trade and Development – with a view to strengthening them and making them more precise, effective and operational, though so far there have been few signs of progress.[29]

Some analysts oppose SDT on principle, arguing that developing countries should not demand such treatment because it further marginalizes them.[30] But others take the view that SDT is necessary if the poorest countries are to integrate successfully, but emphasize that it is by no means sufficient.[31]

BOX 6.4

Trade Between Asia-Pacific LDCs and China

China's trade with Asia-Pacific countries has grown rapidly and now accounts for 53 per cent of its global trade. But much of this trade, almost 78 per cent, is with high-income countries of the region, such as Japan, the Republic of Korea, Singapore, Hong Kong (China) and Taiwan (China). Within middle-income countries, the major trading partners are Malaysia, Thailand and Indonesia.

Imports by China from Asia-Pacific LDCs are extremely limited – about $300 million. All LDCs have trade deficits with respect to China. A striking example is Bangladesh, which exports goods valued at only $57 million and imports goods worth $1,906 million from China.

Given China's import requirements, primarily of high-tech equipment, machinery and parts, fuel and raw materials, it is not surprising that most of the trade is with high-income countries. LDCs have limited scope for benefiting from the booming Chinese market – which is growing at over 15 per cent per annum. On the other hand, LDCs imports from China are large and account for over 20 per cent of all their imports, which implies big and growing trade imbalances with respect to China and the possibility that Chinese imports are displacing some domestic industries.

Clearly, there is a strong case for China, along with other middle- and high-income countries of Asia-Pacific, to provide special and differential treatment to LDCs through a Generalized System of Preferences (GSP) involving concessional tariffs.

Trade balance of Asia-Pacific countries with China, 2004 ($ millions)

	Exports to China	*Imports from China*	*Trade Balance*
LDCs			
of which:	314	3,560	–3,246
Bangladesh	57	1,906	–1,849
Cambodia	30	452	–422
Lao PDR	12	101	–89
Myanmar	207	938	–731
Nepal	8	163	–155
Low-income countries	11,460	12,945	–1,485
Middle-income countries	46,017	25,140	20,877
High-income countries	247,109	228,419	18,690
Total Asia-Pacific	304,900	270,064	34,836

Source: ITC Trade map. Accessed May 2006.

Preferential Market Access

This refers to various concessions that allow duty-free access for certain goods for developing countries. Preferential access could also be considered a subset of SDT, though this particular form of special treatment has deeper historical roots. In 1965 the members of the GATT added articles to give preference to goods from developing countries. Then in the 1970s several advanced economies introduced the Generalized System of Preferences (GSP), voluntarily offering unilateral preferential tariff rates to imports from developing countries. From 1979, this was instituted as a permanent feature of the multilateral trading system. Subsequently, in the 1980s many other developed countries introduced bilateral schemes.

In 1979 the EU provided a second preferential market access scheme under the Lomé Convention – now the Contonou Agreement – offering their former colonies, including the Pacific countries, far deeper preferences than those in the GSP schemes. Then in 2001 the EU presented a new agreement with special terms for LDCs – the 'Everything But Arms' (EBA) initiative – which provides duty- and quota-free access to the EU market for all products other than arms and munitions, although three products were to be phased in later: bananas in 2006, and rice and sugar in 2009. Similarly, 27 other countries have either offered some form of preferential market access to the LDCs or are in the process of doing so.[32] These include:

Canada. In January 2003, Canada introduced a new GSP scheme. This is very liberal, though it excludes dairy products, eggs and poultry. It also has an innovative approach for rules of origin, using a cumulative system that allows access to products that include inputs from any of the beneficiary countries.

Japan. Japan has extended its GSP scheme until 2014, and in 2003 further improved it by allowing LDCs duty-free entry not only for industrial goods but also for a few agricultural products, such as prawn and frozen fish fillets.

United States. In addition to the concessions it offers through its regular GSP scheme, the US provides deeper preferences to selected African countries through the African Growth and Opportunity Act (AGOA) and to Caribbean countries through the Caribbean Basin Initiative. However, the US GSP scheme offers less favourable treatment to countries in Asia and the Pacific.

Nevertheless, the take-up of these preferences has been disappointing. The developed countries still take a very small proportion of their imports from LDCs: 0.6 per cent for the EU; 0.2 per cent for Canada; 0.4 per cent for Japan; and 0.8 per cent for the US.[33] These figures have remained unchanged since 1992; indeed, for Japan the figure has declined.

The take-up of preferences has been disappointing

There have been a number of explanations for this. One is that exporting countries do not want to invest in building new markets in these countries, since the preferences are unilateral and optional and could be eliminated at any time. They also point out that the schemes exclude certain 'sensitive' sectors and often apply excessively stringent rules of origin, making it difficult for industrial products that incorporate materials from several other countries. Moreover, many enterprises do not really understand these rules or are generally unaware of the preferences available.[34]

Another problem is that the developed countries are increasingly protecting their markets using non-tariff barriers. The EU and the US, for example, have been using the Agreement on the Application of Sanitary and Phytosanitary Measures to keep out some exports of agriculture, livestock, horticulture and floriculture. These measures are often inappropriate for the circumstances of producers

and represent disproportionately onerous burdens for small exporters.[35]

'Preference sceptics' say that these schemes are inherently discriminatory: although they benefit some developing countries, they do so at the expense of others.[36] But 'GSP reformers' take a more positive line arguing that these schemes have played a positive role.[37] Others go further, claiming that GSPs have approximately doubled trade between developing and developed countries[38] and that they contributed to the 'Asian success story', allowing a number of countries to penetrate markets and sustain themselves there to build the necessary competitiveness.[39]

BOX 6.5

Aid-for-trade: The Way Forward

If the least developed and low-income countries are to take full advantage of a more liberalized global economy, they will need more support from the richer countries through 'aid for trade'. This should enable LDCs to use trade as an instrument of development policy – helping them, for example, to apply appropriate standards, diversify their agricultural, industrial and services exports and deal with supply-side constraints – human, institutional and infrastructural.

Aid for trade, in the form of grants or concessional loans, should also help countries cope with fiscal losses and deteriorating terms of trade; other short-, medium- and long-term preference erosion; and the costs of implementing trade agreements.

Some developing countries have reservations about this initiative. They fear that aid for trade may serve as the basis of a new form of conditionality based on a country's trade negotiating position in the Doha Round. They also wonder whether this is new and additional aid money. If not, they would like to know if trade is considered more important than health or education. They also wonder whether it will be multilateral or bilateral, and whether it will come in the form of budget support or project support.

Nevertheless, there does seem to be political backing for the concept. The British Government, for example, championed it in its Commission for Africa Report, and both the Millennium Project Report and the UN Secretary-General's Report for the 2005 World Summit identified scaled up aid for trade as a priority. The World Bank and the International Monetary Fund have also endorsed a proposal for "an enhanced Integrated Framework . . . including expanding its resources and scope and making it more effective."

The 2005 Ministerial Meeting of the WTO produced a strong consensus for an enhanced Integrated Framework. A new Aid for Trade Task Force will provide recommendations to the WTO General Council by July 2006. The EU also announced that it would raise aid-for-trade spending, excluding infrastructure, to approximately €2 billion a year by 2010. Japan has committed $10 billion, and the US announced that it would double its aid for trade to $2.7 billion annually by 2010.

However, even an ambitious aid for trade package cannot and should not be viewed as a substitute for the development dimensions of the Doha Round. Rather, it should be thought of as complementary.

A new school of thought is emerging on this issue. It suggests that developed countries should not offer preferences but instead liberalize across the board on a 'most favoured nation' basis – while also offering LDCs support for their adjustment programmes, and for strengthening their supply capacity and competitiveness through 'aid for trade'. Of course, various WTO agreements already include provisions for technical assistance that have frequently failed to materialize. Even so, it should be possible to strengthen aid for trade measures.

Trade-related Technical Assistance

The developed countries recognize that many LDCs will need support if they are to integrate productively into the multilateral trade system. They have, therefore, considered two types of trade-related assistance (Box 6.5).

The first and more difficult type is designed to help the recipients compete more effectively in the international arena. This involves helping remove capacity constraints – building better infrastructure, for example, or improving levels of skill in the workforce.

The second type of assistance focuses more narrowly on improving the capacity of public officials to deal with trade issues and to operate more effectively at the WTO and other trade negotiations. It also conducts studies on related issues. Thus far, most multilateral and bilateral donors and institutions, including the WTO, have focused more on this second type of assistance.

To try to ensure a more comprehensive and effective approach, in 1997 six multilateral institutions – the IMF, UNDP, the World Bank, the International Trade Centre, UNCTAD and the WTO – launched the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries, also known as the 'Integrated Framework' (IF). The IF has two objectives: first, to integrate trade into the LDCs'

national development plans such as the Poverty Reduction Strategy Papers; second, to respond to needs identified by the LDCs with a coordinated delivery of trade-related technical assistance. In order to finance the IF activities, donors have established a Trust Fund that has two main 'windows': one to finance the Diagnostic Trade Integration Study (DTIS) and the other, created in 2003, to finance capacity building projects identified by the DTIS.[40]

The IF has received support from both development and trade communities. In July 2003, for example, the heads of the six IF agencies and their representatives issued a joint communiqué underscoring their commitment to the IF model. Then, in December 2003 in Doha, the WTO Ministers endorsed the IF as a viable model for the LDCs' trade development. Despite this support, the IF seems to be having a limited impact, and critical trade infrastructure remains unfunded. Some of the problems are common to many multilateral ventures. One is a lack of funds: the budget per country under Window II is only $1 million. The DTIS has had little influence on the allocation of donor funds.[41]

Recent Developments

The current round of trade negotiations, the Doha Development Agenda, recognized the special needs of the Least Developed Countries within the multilateral trading system. The Doha Ministerial Declaration spoke not just of the importance of speedy accession of the LDCs into the WTO, but also of the need for technical assistance and capacity building.

Since then, however, there has been little effort to convert this political commitment into practical action. In 2004, following the failure of the Cancun Ministerial Conference of the WTO, a group of influential developing and developed countries, with limited participation of LDCs, hammered out the 'July Framework'. But even this failed to address most of the concerns relating to LDC integration into the multilateral trading system. The language is weak on a number of issues. For example, rather than obliging the developed countries to give SDT to the poorer developing countries, it only says that 'disciplines on export support will be developed with consideration of the impacts on least-developed and net food-importing developing countries'. The language is similarly non-committal when it comes to ways of achieving fuller integration of small, vulnerable economies into the multilateral trading system.

The Hong Kong Ministerial Meeting in December 2005 made more progress. Members agreed that developed-country members *shall*, and developing-country members declaring themselves in a position to do so *should*, provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008, or no later than the start of the implementation period of the Doha Round in a manner that ensures stability, security and predictability. However, members who find this difficult would be allowed to permit duty-free and quota-free market access for only 97 per cent of products originating from LDCs. And developing-country members would be allowed to phase in their commitments and enjoy appropriate flexibility in coverage.

There has been little effort to convert this political commitment into practical action

Following the Hong Kong Ministerial, the LDCs were also allowed to maintain, on a temporary basis, existing measures that deviate from their obligations under the TRIMs agreement.[42] They would also be able to take new measures, if they obtained approval from the WTO's Council, for Trade in Goods. These can last for five years and are renewable, but have to be phased out by 2020.

Finally, it was reaffirmed that LDC members will only be required to undertake commitments and concessions to an extent consistent with their individual development, financial or trade needs, or their administrative and institutional capacities.

The Way Forward

The Least Developed Countries of the region can engage more fruitfully with the international trading system, but this will need more determined action at both national and international levels.

The National Agenda

Governments need to integrate trade issues into their overall development architectures

- *Giving a higher priority to trade issues*. Governments need to integrate trade issues into their overall development architectures – including the Poverty Reduction Strategy Papers – to ensure national ownership and facilitate better coordination among different agencies. And when negotiating international trade commitments, they should ensure that these take full account of human development priorities. They also need to work closely with the private sector and civil society organizations and seek their input at every stage.
- *Increasing productivity and competitiveness*. This will mean investing in infrastructure – including roads, telecommunications, warehouses, and port facilities. Though LDCs should be able to count on external assistance, they would also need to mobilize some domestic resources. In addition, they will have to enhance the capacity of domestic enterprises, particularly by harnessing the potential of the knowledge-based economy. At the same time, they will need to strengthen institutions and the regulatory system to foster competition and prevent fraud, deception and capital flight.
- *Providing compensation and human development safeguards*. Governments should seek ways to compensate those that lose out in the short run from trade integration – for example, through retraining facilities, unemployment benefits and adjustment credits. They will also need to safeguard areas of vital human development interest, such as food security and public health.
- *Diversifying exports and markets*. In order to prevent deterioration in the terms of trade triggered by international volatility of commodities exports, the LDCs should not only diversify into more valued-added, dynamic manufacturing sectors, but also into service sectors – making special efforts to identify niche products and services as well as new destinations for exports (Box 6.6).

BOX 6.6

NICHE PRODUCTS: AN OPPORTUNITY FOR LEAST DEVELOPED COUNTRIES

Some landlocked or small countries can adopt the niche market approach to export production. Of special interest are opportunities in markets for nature-based 'green' products such as organic fruits or vegetables; and woollen floor coverings or shawls that use only natural fibres and vegetable dyes. These mainly cater to the tastes of an ever-growing segment of 'green consumers' in the developed countries.

Niche products could also cash in on the unique cultural heritage of these countries. Several Pacific nations – Samoa, Tonga and Vanuatu – could develop as an exportable item kava, a traditional drink and medicinal plant.

Similarly, there are services that depend on natural features such as unspoiled scenic beauty – for example, environmental tourism in Nepal and Bhutan, and 'bungalow tourism' in Vanuatu. Also in the tourism sector, there are other possibilities for specialization, such as yacht chartering or sports fishing in archipelagic waters, as in the Maldives.

Source: Adapted from UNCTAD 1999b.

The International and Regional Agendas

- *Building credible alliances*. The LDCs cannot effectively influence negotiations by acting individually or even in small groups. Instead, they need to build broader alliances around specific principles or on issues such as vulnerability and negotiate as a bloc.
- *Achieving fairer terms of accession*. The LDCs need to advocate for clear-cut guidelines for WTO accession. These should include the timeframe for each stage of negotiations, maximum levels of market access commitments and a requirement to genuinely take into account their trade, development and financial needs and their institutional capacity. Further, they should

tie implementation of their commitments to the availability of technical assistance. 'WTO-plus' conditions should be stopped.

- *Targeting technical assistance*. Many of the trade participants, including industry, farmers and service providers, would benefit from carefully targeted technical assistance programmes. Such external assistance would free government resources for the social sector investment that is crucial for achieving human development objectives.
- *Strengthening SDT provisions*. SDT should be made operational, effective and enforceable. This means not just including such provisions in the WTO architecture, but also building mechanisms to monitor their implementation. For this purpose, the various committees in the WTO should be required to submit regular reports.
- *Offering aid for trade*. The potential losses of trade integration for LDCs suggest a new role for aid – compensating for losses and offering help for restructuring. Aid should also be provided to develop the capacity of country negotiators and build stronger institutions. In addition, it should address supply-side constraints that inhibit export responsiveness.
- *Focusing on human development*. Trade is not an end in itself; it is a means to an end. All trade initiatives and negotiations should, therefore, be based on a human development perspective. The focus should be not merely on market access, but on achieving improved human development outcomes – through trade rules that allow for diversity in national institutions and standards.

All trade initiatives and negotiations should be based on a human development perspective

Chapter 7

Trade for Human Development: An Eight-Point Agenda

The Asia Pacific region has often performed spectacularly well on trade and made good progress in human development. But more recent trends are disturbing, with serious implications for the Least Developed Countries and even for the poorest people in the larger and more dynamic economies, where trade is accompanied by inadequate job creation and rising inequality. How can trade best serve human development? This chapter summarises the main policy recommendations of the Report for national governments and proposes an eight-point agenda.

The rest of the world sees the Asia-Pacific region as a key player when it comes to globalization. But these other countries, and particularly the richest, have a fairly single-minded view: that in a more liberalized trading environment the other global regions face a threat from Asia and the Pacific, which is emerging as the factory of the world and is capable of under-cutting the developed countries in the production of everything from clothing to footwear to electronic goods.

The picture looks different within the region. In one sense it mirrors the global one, though in this case it is the poorest countries of the region who look towards China with some trepidation – perceiving their giant neighbour as a strong competitor capable not just of capturing some of their export markets for textiles and garments, for example, but also of displacing even some of their humbler domestic industries. Nor do they see many offsetting opportunities for exporting to China – which mainly requires raw materials, machinery and high-tech equipment.

Within the region the trade flows also look much more complex, and in many respects even more crucial, because the new patterns of trade are not just directing flows of goods and money, they are also reshaping national development. Workers across the Asia-Pacific region, from Nepal to Nauru, are rapidly learning that the acronym WTO means something, for better or for worse, in their everyday lives.

Workers across the Asia-Pacific region are rapidly learning that the acronym WTO means something, for better or for worse, in their everyday lives

For the poorest people in the poorest countries, these are matters not just of strategy but of survival. A call-centre worker in the United Kingdom or the United States, say, whose job migrates to Delhi or Manila can be rapidly redeployed elsewhere or can use the cushion of the social security system to search for a suitable alternative job. But a Bangladeshi woman making shirts on piece rates for a garment manufacturer may have little or nothing to fall back on when told she is suddenly surplus to requirements.

That is why this Report has embedded human development concerns within the heart of international trade. First, pointing out the multiple ways in which trade shapes people's lives – affecting how they live, what they do and what they can be. Second, showing how human development and international trade have multiple links; in some senses a two-way street, in others a multi-lane intersection.

Some people wish to avoid this complexity by shying away from the subject altogether. At one extreme, there are those who would prefer to erect higher trade barriers and aim for national self-reliance; why depend on imports when you can make something similar yourself? At the other extreme are the proponents of free

trade who would opt for no barriers at all; why try to manipulate trade flows when a free flow of goods or people would allow global production to reach its natural levels – letting the market dictate the most economically suitable location?

Neither extreme makes much sense. Total national self-reliance – autarchy – has an emotional appeal but soon runs into practical difficulties. Does this mean that every small country should have its own pharmaceutical industry or try to survive without vaccines for measles, or treatment for HIV/AIDS? People in the twenty-first century have social and economic rights that can only be met through international trade.

Trade has always been subject to active intervention from the state

More seductive and plausible is the free-trade option. But this too is fallacious – for it involves trade between unequal partners. Perhaps it appeals because it has appropriated the trigger-word 'free'. Look more closely, however, and it is clear that this is freedom for goods and for money, not freedom for people. No small farmer in Indonesia who has been told that she will get 30 per cent less for the crop this year because free trade has let in unlimited quantities of subsidized rice from the US will feel any sense of liberation. Maybe 'unleashed trade' would be a more realistic description of a tariff-free world – indicating that for safety's sake at certain times the leash should be carefully in place.

That is why this Report has argued for policies more grounded in reality. It recognizes the value of the private sector as the main engine for economic growth but says that some of this energy needs to be harnessed or guided if it is to serve human development. This should come as no surprise in a region which in the latter part of the twenteeth century set the template for modern trade-led economic growth. Anyone tracing the footsteps of the 'Asian Tigers' will recognize that they took a very strategic position – choosing which infant industries to nurse and when to liberalize – before taking the world by storm with their flow of goods. And no need to select only Asian examples: look further back to the nineteenth century at the 'mercantilist' policies of the now-developed countries for a record of restrictions on trade, including on textile imports from Asia, which gave these countries the breathing space before their infant industries were mature enough to sell their goods across the world.

Trade has never been a matter for private industry alone. It has always been subject to active intervention from the State. This central role for the state may not seem an encouraging prospect. Can it be trusted? Trade regulation, after all, offers both politicians and public officials considerable authority and discretion. At the very least, this risks overloading people who have limited capacity or time to deal with complex commercial matters that are typically laden with impenetrable acronyms and jargon. At worst, it opens wider the doors to venality and corruption.

However, there are more promising signs. Civil society groups and the media at both international and national levels are now shedding greater light on trade negotiations that only a few years ago would have taken place behind closed doors. They rightly demand far greater transparency, consistency and fairness. There is still secrecy, and many of the doors remain closed, but at least nowadays trade officials who emerge blinking into the dawn from all-night negotiations know that they will frequently have to cope with the glare of television cameras.

Many people are now asking hard questions about the direction and momentum of international trade. If the developed countries are so keen on free trade why, for example, do the EU and the US persist with huge market-distorting subsidies on agriculture? Why are they enthusiastic about free flows of capital into poor countries but suddenly switch gears when

discussing the opportunities for the flows of labour into their own? And why are they now becoming more reluctant to allow Asian countries to demonstrate the remarkable potential of the Internet to allow people all over the world to work together by outsourcing software production or call centres or back-office administration?

Meanwhile the new global trade regime is limiting the freedom of developing countries to manage their own economies. A decade or so ago, under the previous regime, the GATT, countries were more free to choose tariff levels and import quotas and apply foreign exchange controls. Now IMF conditions and the rules of the WTO have narrowed the options – especially for the newcomers to the WTO club, the LDCs, who remarkably have to sign up to an even more intrusive list of rules than the existing members.

This makes life much more difficult for the many countries that are now simultaneously trying to pursue export-led growth. Indeed, it raises the question of whether we may now be reaching the limits of a model that has served many Asian countries so well.

How should the countries of Asia and the Pacific respond in this demanding new environment? Clearly, there can be no standard blueprint – especially for such a huge and diverse region. Each country has its own priorities and will pursue its own agenda; in international negotiations countries may, therefore, have not just different priorities but even opposing interests. The food-exporting countries, for example, will see things differently from the food importers; Indonesia will take a different position from that of Thailand or Viet Nam. The more highly developed countries will feel more at ease with global competition than the poorer ones.

Nevertheless, there is a way of encompassing this diversity – by viewing trade issues through a human development lens. This helps focus attention on the issues that matter for the poorest people, and especially those in the Least Developed Countries. In earlier chapters, this Report has followed this philosophy as it has identified some of the detailed issues in agriculture, manufacturing and services. Some of these will appear common sense, and many will already be part of the human development consensus. Others may be less obvious, and apparently more technical, but could still make a huge difference to the lives of poor people. Rather than be driven by commercial lobbies, the centrality of human development should inform national priorities.[1] Eight that have some of the most general application are as follows.

1. Invest for Competitiveness

In a globalizing world, public investment needs to take into account both national and international considerations. Generally the type of investment will remain much the same, but it may need adjusting with an eye to boosting international competitiveness. Thus, when looking at basic infrastructure, governments will need to ensure that they have the roads, railways, ports and telecommunications systems that align with national needs and also with the requirement of getting goods and services quickly and cheaply to international markets.

The physical infrastructure is just as important as human capital. The most successful trading countries have invested heavily in human development – generating a healthy and well-educated workforce that has the stamina, the skill and the flexibility to cope with a changing trading environment. China, for example, long before it started opening up to the world at the end of the 1970s, already had good basic human development indicators. Education has to start with strong and universal primary schooling, but nowadays all countries need to make sure they have sufficient people with technical and managerial skills. India's success in selling IT services is a reward for heavy investment in

The most successful trading countries have invested heavily in human development

technical education, almost all of it funded by the government. Few smaller countries will be able to match this, but at the least, all should be aiming at least at a balance of skills. People with good primary or secondary education can only make use of their potential for international trade if they have the support of others with higher levels of education, in engineering, for example, telecommunications, or accountancy. Men and women alike should have equal opportunities to realize their full potential.

At the same time, many countries will need to invest more in R&D that specifically addresses the needs of poor people. The Republic of Korea, for example, has reaped the benefits of a huge investment in technological infrastructure and by 2004 had the world's highest university enrolment rates. At the broadest level, R&D can include 'foresight studies', as have taken place in Thailand, for example, to anticipate future demands and link science and technology to economic and social needs. But competitive countries also need to continually explore the most appropriate current technologies that will capitalize on national strengths. Some of this can be carried out through public-private partnerships, perhaps combining venture-capital funds and government equity, though most of the R&D into opportunities specifically for the poor is likely to take place in the public sector.

2. Adopt Strategic Trade Policies

The essential requirement for engagement in international trade is that the process should be strategically planned and carefully sequenced

In a world of giant global players and fierce competition, no developing country now has the luxury of entering global markets and hoping for the best. Instead, just as the OECD states and those of the Asian tigers did before them, states have to identify a few sectors and industries that have long-term potential in international markets and guide enterprises towards them. Asia's miracle economies – as well as those of China or India, which are now being lauded as success stories – only liberalized after they had established the basis for diversified export industries.

The chosen industries will vary from country to country. But they could include, for example, those such as basic engineering goods that have the greatest potential linkages with other industries and will train more people in essential skills and thus have important spillover benefits for the rest of the economy.

Picking 'winners' is not, of course, a simple task and will demand much stronger capacity within a government. And it will be important not to foster collusion between public officials and company bosses – reproducing more of the 'crony capitalism' whose shallow foundations collapsed during the Asian financial crisis. Instead, the aim should be to achieve a transparent policy compact between government and the private sector, by using a carrot-and-stick approach.

The carrot will include the opportunity to operate behind tariff walls until companies are strong enough to compete internationally. China, for example, until it started to open up to the outside world had an average tariff rate of around 40 per cent. Tariffs should be low on essential imports such as raw materials and high-tech capital goods, higher on goods that compete with the selected strategic industries.

The stick is that such industries will be closely scrutinized to see that they are living up to their side of the bargain and developing steadily more competitive products and services for export. They will also be subject to a domestic competition policy designed to prevent them abusing a monopoly position.

The essential requirement for engagement in international trade, however, is that the process should be strategically planned and carefully sequenced. Thus, higher tariffs should be rigidly time-bound. In order to avoid creating cosy monopolies that never mature into vigorous export enterprises, tariffs should automatically be scaled down after a predetermined period.

3. Restore a Focus on Agriculture

Many countries with ambitions to boost their presence in international markets have concentrated most of their energies on industry in urban areas – leaving the rural areas to cope as best they can. A trade strategy based on human development, however, must have agriculture at its core. This is not because agriculture offers export opportunities, but because in many countries farming is still the primary source of income for the poor; so no trade strategy that undermines rural livelihoods can claim to be promoting human development.

For food-importing countries in particular, it will often make sense to maintain tariffs on food imports so as to protect poor producers. In WTO negotiations, therefore, developing countries should insist on the right to protect 'special products', including safeguard mechanisms that will be triggered when food imports reach certain prices or volumes.

This also has the strategic advantage of preserving national food security in a world that in just a few years down the line could be moving towards food shortages – precisely because larger developing countries like China have let agriculture stagnate and have become net importers. Tariff protection, or if necessary price support, should, however, be designed specifically to protect farmers rather than simply offer higher profits for traders or for the food industry. And if this results in higher prices that cause hardship for the poorest consumers, governments will need to prepare appropriate social safety nets.

As well as protection, farmers also need progress. In many countries investment in rural development has been on a steep downward curve. This has to be reversed, particularly through investment: for example, in irrigation, in village electrification and in farm-to-market roads.

4. Combat Jobless Growth

Most countries that embark on industrialization typically do so with labour-intensive production in industries like garments, textiles and footwear that take advantage of ample supplies of low-cost labour. But as industrialization proceeds, competitive pressures, greater ambitions and changing market conditions start to push them higher up the value chain. In addition, enterprises often prefer to mechanize if they find machines easier to cope with than people. As a result, the most successful trading countries, primarily in East Asia, are now creating jobs far more slowly – the phenomenon of 'jobless growth'.

To some extent, this process is understandable. Less comprehensible, however, is why governments should exacerbate this trend by maintaining low real interest rates – effectively giving capital preference over labour. That may seem like the best strategy for rapid growth, but it is storing up problems for the future. By all means allow enterprises to choose the lowest-cost option for production, but this choice should not be biased away from labour: interest rates should, therefore, reflect the real price of capital, not the rate that industrialists would prefer. In a similar vein, states should phase out fiscal incentives to enterprises; these may attract investment, but not necessarily in businesses that maximise human development potential because such tax breaks artificially raise the return on capital and again encourage capital-intensive investments.

Another reason why enterprises may be reluctant to take on new workers is that labour contracts can be too rigid. In rapidly changing markets, companies that find it difficult to predict future demands may prefer to invest in machinery rather than commit themselves to a larger permanent workforce. This creates a persistent duality – a small and protected group

of 'insiders' with secure employment influenced by national regulations, and a large casual, and often exploited, workforce working on piece rates. Instead, more workers should steadily be absorbed into formal employment but on contracts sufficiently flexible that they can readily be deployed to other sectors or companies as trading conditions change.

Governments can assist in this process by providing some support to workers through health insurance and social security and by active labour market policies to encourage retraining and redeployment.

5. Prepare a New Tax Regime

Liberalization is a common prescription for economic success, but it has a debilitating side effect – it means foregoing a predictable and easy-to-collect source of government revenue. Many of the poorest countries have relied on customs duties for a high proportion of public income, in some cases up to 70 per cent. If they suddenly drop tariff rates, they will lose vital revenue.

Governments need to have an alternative tax regime in place before embarking on liberalization

It might be argued that economic growth itself would take care of this problem, as corporate and income taxes would automatically rise to fill the fiscal gap. But this is unlikely, and certainly not in the short term, when both local and foreign enterprises may have been given generous tax breaks as an incentive to invest. Instead, governments need to have an alternative tax regime in place before embarking on liberalization.

Care will need to be taken, however, to ensure that these new taxes are progressive and do not hurt the poor. Customs duties, for example, are often quite progressive since they are typically highest on the luxury items that are of greater interest to the rich. Corporate taxes too can be levied progressively, though many people escape the net since the lawyers of the largest corporations are skilled at techniques of tax planning, while most enterprises in the informal sector simply evade tax collectors altogether. Much the same is true for income tax, which tends to be paid more by middle-income workers in government or the formal sector.

Garnering more income from corporate or income tax will mean overhauling the tax codes to close loopholes and considering other options such as 'withholding taxes' at points where informal entrepreneurs have no choice but to provide documentation, as when commercially importing inputs.

Governments can also consider taxes on real estate or on capital gains. They can also adopt the value added tax (VAT), for example, which can generate quite high and predictable revenues but assumes a well-documented economy and needs to be developed with care; in any case, it should exempt food and other necessities of the poor.

The key point is that these new sources of revenue should be up and running prior to liberalization, or falling revenues could lead to severe cuts in public services that will harm human development.

6. Maintain Stable Exchange Rates

One thing that hampers international trade and discourages investment is a volatile exchange rate that makes it difficult for states or enterprises to plan ahead. It is important that the rate is realistic: too high, and it will jeopardize employment by penalizing exporters as well as farmers and other local producers who will face more competition from imports; too low, and there is a risk of a rise in the domestic price level, with adverse impact on the cost of living of the poor.

Exchange rates are likely to fluctuate, especially in small and open economies that are powerless against the rise or fall in international commodity prices. With floating exchange rates, these economies are also susceptible to the 'Dutch disease', in which inflows of capital

without sufficient investment opportunities to absorb them can push the exchange rate to unrealistic levels. This can happen as a result of rising commodity prices, as with the oil price for Timor-Leste. But it can also be a consequence inflows of aid, for example, or as a result of the arrival of funds for disaster relief as with the tsunami.

Currency devaluations, while seeming to offer a short-term boost, have generally been ineffective. Most of the successful Asian trading countries, compared with those in Latin America, for example, have benefited from long periods of relative exchange rate stability based on active currency management.

Initially, rather than having a freely floating exchange rate, countries that are becoming more involved with international trade can consider a 'managed float' that permits their currency to depreciate slowly. Many countries have combined trade liberalization with a gradual depreciation of the currency that prevented an unsustainable buildup of trade deficits. The overall priority, however, is to ensure that the rate remains relatively stable and realistic.

7. Persist with Multilateralism

The slow pace of progress in the Doha Round of multilateral trade negotiations has discouraged many developing countries. They can see this 'development round' running into some familiar impediments, especially the resistance from the developed countries over agricultural subsidies. This is leading at best to pessimism, and at worst to a crisis of falling expectations that could cause the developing countries to abandon multilateralism altogether.

Despairing of the WTO negotiations, many countries are also seeking bilateral trade agreements with the developed countries. Some would argue that in terms of trade these are better because they give preferential access. But in terms of human development, they may impose high costs. Bilateral agreements typically involve much deeper tariff concessions from the developing countries and make demands on issues like intellectual property rights that go far beyond what WTO members require of each other – and can threaten the health and livelihoods of the poor.

Many countries of the region would do better to resist the immediate temptations of a bilateral embrace and build up slower, but ultimately more productive, multilateral relationships that can lead to more durable human development outcomes.

Better to resist the immediate temptations of a bilateral embrace and build up slower but ultimately more productive multilateral relationship

8. Cooperate with Neighbours

Rather than seeking bilateral agreements, governments would do better to seek trade and other agreements with other countries in their region or subregion. These could include regional pacts such as the South Asian Free Trade Agreement, the ASEAN Free Trade Agreement, or the Pacific Island Countries Trade Agreement. These have the advantage of being quicker to negotiate than multilateral agreements while posing less of a risk to human development than bilateral ones. In addition, they dovetail well with the region's many integrated cross-national production systems and lead to trade creation.

Regional trade agreements can also be complemented by other forms of cooperation, particularly in the financial area. Many countries in the region have accumulated vast foreign exchange reserves – $1.9 trillion in total, half of which is in China – partly to protect themselves against another Asian financial crisis. These funds could be put to better use if they were pooled so that countries facing sudden balance of payments crises caused, say, by a spike in oil prices could draw on this shared Asian resource. Governments can also consider using the reserves to expand the Asian Development Fund, which could put resources to work for investment in large-scale infrastructure and in

human development priorities such as health and education.

Reaching a Different Frontier

With or without new multilateral agreements, globalization will continue to power ahead. And millions more workers in the Asia Pacific region will find themselves producing goods for people on the other side of the globe – as well as buying at lower prices goods their parents could scarcely have dreamed of.

The main hazard, however, is that millions of others will fall by the wayside – abandoned in rural areas where agricultural economies have drifted into decline, or scratching a living on the fringes of Asia's mega-cities as a permanent underclass. Even those currently in work may find themselves later discarded from ever more sophisticated production systems. This not only denies people their basic rights to decent work and a reasonable standard of living; it also heightens the risk of future unrest. Globalization does not just distribute products but also disseminates new ideas and information that change people's expectations.

Asia and the Pacific will offer fresh lessons to the rest of the world

The countries of the Asia-Pacific region are renowned for the speed at which they have developed economically. Now they find themselves at a different frontier – trying to combine accelerated trade-driven economic growth with equally rapid poverty reduction and, more broadly, human development. In many ways, this is a more complex and difficult task, and just as before, they will need to work out their own solutions. Some of these have already been highlighted in this Report; others will only emerge in the light of experience. One thing is certain – that Asia and the Pacific will remain at the forefront of global development and will offer fresh lessons to the rest of the world.

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About the Data

The Asia-Pacific HDR presents statistics on international trade and human development for the countries of Asia and the Pacific and, for comparative purposes, other regions of the world. The grouping of countries into regions follows the classification of the World Bank's World Development Indicators. The data are presented for three points of time – 1982, 1992 and 2002 – a period during which trade liberalization deepened in the countries of Asia-Pacific.

Using these three data points helps to capture trends in social and economic indicators over a relatively long period. The latest year for which most of the countries of the Asia-Pacific have data on most indicators is 2002, although for some countries later data are available for 2003. Where data for some indicators are not available for the exact time points, the nearest reference points are reported and footnoted in the tables.

Developing countries covered and regional classifications are as below:

East Asia & Pacific

1 Cambodia
2 China
3 Fiji
4 Indonesia
5 Malaysia
6 Mongolia
7 Papua New Guinea
8 Philippines
9 Thailand
10 Viet Nam

South Asia

11 Bangladesh
12 Bhutan
13 India
14 Maldives
15 Nepal
16 Pakistan
17 Sri Lanka

Regions

1 East Asia & Pacific
2 Europe & Central Asia
3 Latin America & Caribbean
4 Middle East & North Africa
5 South Asia
6 Sub-Saharan Africa
7 Least Developed Countries (UN classification)
8 World

Note: Countries of the Asia-Pacific region that are not covered in the Annexures because of unavailability of data on most indicators include Afghanistan, Brunei, Cook Islands, Democratic People's Republic of Korea, Islamic Republic of Iran, Kiribati, Lao PDR, Myanmar, Nauru, Niue, Palau, Marshall Islands, Federated States of Micronesia, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu and Vanuatu.

Table 1: Basic Indicators

Subregions/Countries/Regions	Total population (millions)			Rural population (% of total)			GDP per capita (constant 2000 US $)		
	1982	1992	2002	1982	1992	2002	1982	1992	2002
East Asia and Pacific									
1. Cambodia	7.2	10.4	13.2	87.5	86.8	82.0	..	..	305.9
2. China	1008.6	1165.0	1280.4	79.0	71.0	62.3	208.2	475.9	1106.0
3. Fiji	0.7	0.7	0.8	61.9	56.8	49.1	1773.1	1885.5	2142.5
4. Indonesia	154.2	184.3	211.8	76.2	67.4	56.9	417.0	691.6	844.3
5. Malaysia	14.5	18.8	24.3	56.4	47.9	41.2	1989.7	2881.6	3944.4
6 Mongolia	1.8	2.2	2.4	46.7	43.0	43.3	314.8	300.0	406.2
7 Papua New Guinea	3.2	4.3	5.4	86.6	86.8	82.1	555.3	616.0	598.1
8 Philippines	50.4	64.0	79.9	60.3	49.1	39.8	1009.1	876.6	1024.0
9 Thailand	48.6	56.2	61.6	82.6	81.1	79.8	864.3	1657.6	2110.0
10 Viet Nam	55.7	69.0	80.4	80.6	79.0	75.0	..	250.6	443.7
South Asia									
11 Bangladesh	89.9	108.9	135.7	84.1	79.5	73.8	243.4	283.9	373.4
12 Bhutan	0.5	0.6	0.9	95.9	94.1	92.3	293.6	449.5	654.0
13 India	718.4	882.8	1048.6	76.4	74.0	71.9	234.2	322.5	477.4
14 Maldives	0.2	0.2	0.3	76.3	74.2	71.5	..	..	2237.7
15 Nepal	15.2	20.1	24.1	93.0	90.2	87.4	150.5	186.1	225.8
16 Pakistan	87.4	113.6	144.9	71.4	68.9	66.2	356.2	496.4	532.0
17 Sri Lanka	15.0	17.4	19.0	78.5	78.7	76.5	472.0	615.6	879.5
Regions									
1. East Asia & Pacific	1402.5	1643.5	1839.2	77.5	69.7	61.8	297.2	562.1	1075.4
2. Europe & Central Asia	434.1	465.7	471.9	40.5	37.0	36.3	..	1921.3	2159.2
3. Latin America & Caribbean	372.4	453.3	525.3	33.7	28.1	23.8	3386.7	3424.9	3720.6
4. Middle East & North Africa	185.1	236.5	305.8	50.7	47.6	41.4	1355.0	1414.7	1660.5
5. South Asia	942.6	1160.5	1401.5	77.1	74.5	72.0	247.0	335.8	468.7
6. Sub-Saharan Africa	403.8	543.3	689.2	76.4	70.9	64.2	559.3	490.0	514.6
7. Least Developed Countries	423.4	550.1	660.4	84.1	78.3	75.6	251.9	240.5	283.3
8. World	4585.4	5423.6	6199.7	60.0	56.1	51.7	3921.1	4585.1	5282.4

Note: Blanks refer to non-availability of data for the countries/regions.
Source: World Bank 2005.

Table 2: Human Development Index – Trends

Subregions/Countries		1980	1990	2000	2003	2003 HDI rank (out of 177)
East Asia and Pacific						
1	Cambodia	..	..	0.541	0.571	130
2	China	0.558	0.627	..	0.755	85
3	Fiji	0.686	0.724	..	0.752	92
4	Indonesia	0.530	0.625	0.680	0.697	110
5	Malaysia	0.659	0.721	0.790	0.796	61
6	Mongolia	..	0.673	0.657	0.679	114
7	Papua New Guinea	0.445	0.481	0.529	0.523	137
8	Philippines	0.687	0.720	..	0.758	84
9	Thailand	0.652	0.714	..	0.778	73
10	Viet Nam	..	0.617	0.695	0.704	108
South Asia						
11	Bangladesh	0.364	0.419	0.506	0.520	139
12	Bhutan	..	..	..	0.536	134
13	India	0.438	0.513	0.577	0.602	127
14	Maldives	..	..	..	0.745	96
15	Nepal	0.333	0.423	0.499	0.526	136
16	Pakistan	0.386	0.462	..	0.527	135
17	Sri Lanka	0.649	0.705	..	0.751	93

Notes: HDI 0.800 and above = High human development;
HDI 0.500 – 0.799 = Medium human development;
HDI below 0.500 = Low human development.

Source: UNDP 2005a.

Table 3: Indicators of Poverty, Income Inequality and Undernutrition

	Subregions/ Countries/Regions	MDG Population below poverty line ($1 a day) (% of total)	MDG Share of income or consumption (%) -poorest 20%	Ratio of richest 20% to poorest 20%	Gini index	MDG Population undernou -rished (% of total)		MDG Children underweight for age (% under age 5)
		1990–2003	1996–2002	1996–2002	1996–2002	1990–92	2000–2002	1995–2003
East Asia and Pacific								
1	Cambodia	34.1	6.9	6.9	40.4	43.0	33.0	45
2	China	16.6	4.7	10.7	44.7	16.0	11.0	10
3	Fiji	..	..	..	..	..	..	8
4	Indonesia	7.5	8.4	5.2	34.3	9.0	6.0	26
5	Malaysia	<2.0	4.4	12.4	49.2	3.0	2.0	12
6	Mongolia	27.0	5.6	9.1	30.3	34.0	28.0	13
7	Papua New Guinea	..	4.5	12.6	50.9	..	..	35
8	Philippines	14.6	5.4	9.7	46.1	26.0	22.0	31
9	Thailand	<2.0	6.1	8.3	43.2	28.0	20.0	19
10	Viet Nam	..	7.5	6.0	37.0	31.0	19.0	33
South Asia								
11	Bangladesh	36.0	9.0	4.6	31.8	35.0	30.0	48
12	Bhutan	..	..	..	..	..	..	19
13	India	34.7	8.9	4.9	32.5	25.0	21.0	47
14	Maldives	..	..	..	..	..	..	30
15	Nepal	37.7	7.6	5.9	36.7	20.0	17.0	48
16	Pakistan	13.4	8.8	4.8	33.0	24.0	20.0	38
17	Sri Lanka	7.6	8.3	5.1	33.2	28.0	22.0	29
Regions								
1	East Asia & Pacific	14.9	..	..	..	..	12.0	..
2	Europe & Central Asia	3.6	..	..	..	..	7.9	..
3	Latin America & Caribbean	9.5	..	..	..	13.0	10.7	7
4	Middle East & North Africa	2.4	..	..	..	..	6.5	..
5	South Asia	31.3	..	..	..	25.0	21.7	47
6	Sub-Saharan Africa	46.4	..	..	..	32.0	31.9	31
7	Least Developed Countries	..	..	..	..	34.0	35.0	..
8	World	..	..	..	..	..	16.5	..

Note: Whenever data for a particular year are not available, data for the most recent year are used.
Gini coefficients for Malaysia and Thailand are calculated from income surveys. For all other countries, Gini coefficients are calculated from consumption expenditure surveys.

Sources: UNDP 2005a; World Bank 2005.

Table 4: Indicators of Access to Safe Drinking Water and Sanitation Facilities

Subregions/ Countries/Regions	MDG Improved water source (% of population with access)		MDG Improved sanitation facilities (% of population with access)	
	1990	2002	1990	2002
East Asia and Pacific				
1 Cambodia	..	34.0	..	16.0
2 China	70.0	77.0	23.0	44.0
3 Fiji	..	..	98.0	98.0
4 Indonesia	71.0	78.0	46.0	52.0
5 Malaysia	..	95.0	96.0	..
6 Mongolia	62.0	62.0	..	59.0
7 Papua New Guinea	39.0	39.0	45.0	45.0
8 Philippines	87.0	85.0	54.0	73.0
9 Thailand	81.0	85.0	80.0	99.0
10 Viet Nam	72.0	73.0	22.0	41.0
South Asia				
11 Bangladesh	71.0	75.0	23.0	48.0
12 Bhutan	..	62.0	..	70.0
13 India	68.0	86.0	12.0	30.0
14 Maldives	99.0	84.0	..	58.0
15 Nepal	69.0	84.0	12.0	27.0
16 Pakistan	83.0	90.0	38.0	54.0
17 Sri Lanka	68.0	78.0	70.0	91.0
Regions				
1 East Asia & Pacific	71.0	77.6	29.7	48.7
2 Europe & Central Asia	..	91.3	86.4	82.0
3 Latin America & Caribbean	82.2	88.9	68.1	74.5
4 Middle East & North Africa	87.3	87.8	69.4	74.8
5 South Asia	69.8	83.7	16.5	34.6
6 Sub-Saharan Africa	48.8	58.2	32.3	36.0
7 Least Developed Countries	51.4	59.4	23.0	35.7
8 World	75.0	81.7	43.2	54.3

Sources: UNSTATS website – http://unstats.un.org/unsd/mi/mi_goals.asp
World Bank 2005.

Table 5: Indicators of Maternal and Child Health

Subregions/ Countries/Regions	Life expectancy at birth, total (years)		MDG Infant mortality rate (per 1,000 live births)		MDG Children under under age 5 mortality rate (per 1,000 live births)		MDG Maternal mortality ratio* (adjusted per 100,000 live births)	MDG Malaria cases* (per 100,000 people)	MDG Tuberculosis cases (per 100,000 people)		Prevalence of HIV, total* (% of population aged 15–49)
	1992	2002	1990	2000	1990	2000	2000	2000	1990	2002	2003
East Asia and Pacific											
1 Cambodia	54.9	54.0	80	95	115	135	450	476	1,579	769	2.6
2 China	69.0	70.7	38	32	49	40	56	1	325	264	0.1
3 Fiji	66.7	69.5	25	18	31	22	75	..	145	44	0.1
4 Indonesia	62.7	66.7	60	35	91	48	230	920	860	699	0.1
5 Malaysia	70.8	72.8	16	8	22	9	41	57	334	139	0.4
6 Mongolia	63.6	65.5	78	60	108	75	110	..	613	242	0.1
7 Papua New Guinea	52.7	57.2	74	70	101	95	300	1,688	744	501	0.6
8 Philippines	66.5	69.8	41	30	62	40	200	15	937	491	0.1
9 Thailand	68.8	69.2	31	25	37	29	44	130	414	213	1.5
10 Viet Nam	65.7	69.7	38	23	53	30	130	95	563	238	0.4
South Asia											
11 Bangladesh	56.4	62.1	100	54	149	82	380	40	741	506	..
12 Bhutan	56.0	63.2	107	77	166	100	420	285	626	201	..
13 India	60.1	63.4	80	68	123	94	540	7	503	343	0.9
14 Maldives	61.1	69.2	79	59	111	80	110	..	542	53	..
15 Nepal	55.9	59.9	100	69	145	95	740	33	636	322	0.5
16 Pakistan	59.7	63.8	100	81	130	108	500	58	377	379	0.1
17 Sri Lanka	71.6	73.8	26	16	32	20	92	1110	182	88	0.1
Regions											
1 East Asia & Pacific	67.5	69.4	43	31	59	39	..	..	..	..	0.2
2 Europe & Central Asia	68.4	68.5	40	25	49	30	..	..	..	..	..
3 Latin America & Caribbean	68.8	70.7	43	27	54	32	190	..	99	65	0.6
4 Middle East & North Africa	65.2	68.6	60	..	81	..	..	..	..	..	..
5 South Asia	59.6	63.0	86	66	129	91	540	..	171	168	0.7
6 Sub-Saharan Africa	48.9	45.8	111	105	185	179	920	..	142	263	7.3
7 Least Developed Countries	50.0	51.1	115	99	182	156	..	..	..	..	4.4
8 World	65.5	66.7	64	54	95	80	400	..	119	128	1.1

Note: *Data for 1980s and 1990 are not available for these columns.

Sources: UNSTATS website – http://unstats.un.org/unsd/mi/mi_goals.asp
World Bank 2005.

Table 6: Indicators of Health Services

Subregions/ Countries/Regions		MDG Births attended by skilled health personnel (%)*	MDG Immunization, DPT (% of children aged 12–23 months)		MDG Immunization, measles (% of children aged 12–23 months)		MDG Tuberculosis cases cured under DOTS** (%)	Health expenditure per capita** (current US$)
		1994-2003	1992	2002	1992	2002	2002	2002
East Asia and Pacific								
1	Cambodia	32.0	32.0	54.0	33.0	52.0	92.0	32.0
2	China	97.0	91.0	90.0	87.0	84.0	96.0	63.0
3	Fiji	100.0	97.0	92.0	91.0	88.0	85.0	94.0
4	Indonesia	68.0	64.0	70.0	65.0	72.0	86.0	26.0
5	Malaysia	97.0	94.0	96.0	83.0	92.0	79.0	149.0
6	Mongolia	99.0	81.0	98.0	84.0	98.0	87.0	27.0
7	Papua New Guinea	53.0	62.0	49.0	70.0	56.0	67.0	22.0
8	Philippines	60.0	80.0	79.0	81.0	80.0	88.0	28.0
9	Thailand	99.0	85.0	96.0	74.0	94.0	75.0	90.0
10	Viet Nam	85.0	88.0	75.0	90.0	96.0	93.0	23.0
South Asia								
11	Bangladesh	14.0	66.0	85.0	69.0	77.0	84.0	11.0
12	Bhutan	24.0	86.0	86.0	86.0	78.0	93.0	12.0
13	India	43.0	56.0	70.0	51.0	67.0	85.0	30.0
14	Maldives	70.0	98.0	98.0	98.0	99.0	97.0	96.0
15	Nepal	11.0	49.0	72.0	58.0	71.0	88.0	12.0
16	Pakistan	23.0	42.0	68.0	52.0	63.0	77.0	13.0
17	Sri Lanka	97.0	88.0	98.0	82.0	99.0	80.0	32.0
Regions								
1	East Asia & Pacific	86.0	84.9	84.5	82.3	82.3	..	62.9
2	Europe & Central Asia	..	81.3	92.1	84.0	93.2	..	151.8
3	Latin America & Caribbean	82.0	77.3	89.2	82.7	92.4	82.0	217.9
4	Middle East & North Africa	..	84.7	91.8	84.7	92.0	..	98.9
5	South Asia	38.0	54.9	70.8	53.0	67.1	85.0	25.8
6	Sub-Saharan Africa	41.0	49.1	54.5	50.2	57.5	71.0	31.9
7	Least Developed Countries	34.0	48.6	64.2	50.3	64.6	..	36.2
8	World	62.0	70.7	77.3	69.7	76.4	82.0	523.7

Notes: * Whenever data for a particular year are not available, data for the most recent year are used.
** As data for these indicators are not available for 1980s or 1990s, the latest years are reported.

Sources: UNDP 2005a;
UNSTATS website – http://unstats.un.org/unsd/mi/mi_goals.asp;
World Bank 2005.

Table 7: Indicators of Literacy and School Enrolment

Subregions/ Countries/Regions	Adult literacy rate (% of people aged 15 and above)		MDG Youth literacy rate (% of people aged 15-24)		MDG School enrolment, primary (% net)		School enrolment, secondary (% net)		School enrolment, tertiary (% gross)		MDG Children reaching grade 5 (% of grade 1 students)
	1990	2000	1990	2000	1990	2000	1990	2000	1990	2000	2001/2002
East Asia and Pacific											
1 Cambodia	62.0	68.0	73.5	79.1	66.6	84.7	..	16.1	0.7	2.8	61
2 China	78.3	90.9	95.3	98.9	97.4	..	..	..	2.9	9.8	99
3 Fiji	88.6	..	97.8	..	100.0	99.4	..	76.6	8.3	..	88
4 Indonesia	79.5	86.8	95.0	97.7	96.7	91.9	39.1	..	9.5	14.6	89
5 Malaysia	80.7	88.7	94.8	97.2	93.7	96.9	..	69.1	7.4	27.0	87
6 Mongolia	..	97.8	..	97.7	90.1	90.0	..	66.8	14.3	33.1	..
7 Papua New Guinea	56.6	..	68.6	66.7[a]	66.0	78.2	..	22.7	..	..	51
8 Philippines	91.7	92.6	97.3	95.1	96.5	92.7	..	52.5	27.8	31.2	76
9 Thailand	..	92.6	..	98.0	75.9	86.8	..	..	..	35.5	94
10 Viet Nam	..	90.3[a]	94.1	93.9[a]	90.5	95.4	..	62.5	2.0	9.7	87
South Asia											
11 Bangladesh	34.2	40.0	42.0	48.4	71.2	87.7	19.2	43.1	4.1	6.6	54
12 Bhutan	..	..	..	..	..	..	..	..	..	..	91
13 India	49.3	57.2	64.3	72.6	..	83.3	..	..	6.2	10.9	84
14 Maldives	94.8	96.9	98.1	99.1	86.7	98.9	..	..	..	..	..
15 Nepal	30.4	41.7	46.6	60.4	81.2	70.5	..	..	5.2	4.8	65
16 Pakistan	35.4	49.9[a]	47.4	65.5[a]	..	59.1	..	..	3.5	..	..
17 Sri Lanka	88.7	91.6	95.1	96.8	89.9	..	..	..	4.7	..	98
Regions											
1 East Asia & Pacific	78.8	90.2	94.9	97.9	..	..	..	..	..	12.4	..
2 Europe & Central Asia	96.0	97.1	98.3	98.9	..	..	..	..	..	46.4	..
3 Latin America & Caribbean	84.9	88.5	92.7	94.5	..	94.4	..	63.6	..	23.2	..
4 Middle East & North Africa	51.8	68.4	69.9	86.5	..	82.5	..	..	..	..	..
5 South Asia	47.1	55.8	60.5	69.5	..	80.3	..	..	..	10.3	..
6 Sub-Saharan Africa	50.6	62.3	68.6	77.5	..	..	..	..	..	..	..
7 Least Developed Countries	44.4	51.7	57.4	63.6	..	65.7	..	..	..	..	..
8 World	..	79.1	..	86.6	..	..	..	..	..	23.8	..

Note: [a] Data for these countries pertain to 2004, as 2000 data are not available.

Sources: UNSTATS website – http://unstats.un.org/unsd/mi/mi_goals.asp
World Bank 2005.

Table 8: Indicators of Gender Development

Subregions/ Countries/Regions	Seats in parliament held by women (as % of total)		MDG Female legislators, senior officials and managers* (as % of total)	MDG Female professional and Technical workers* (as % of total)	Ratio of young literate females to males (% ages 15-24)		MDG School enrollment, Primary, females** (net) %	MDG Ratio of females to % males in primary enrolment**	MDG School enrolment, secondary females** (net) %	Ratio of females to % males in secondary enrollment	MDG School enrolment, tertiary, females** (gross) %	MDG Ratio of % females to % males in tertiary enrolment**	MDG Ratio of girls to boys in primary and secondary education** (%)	
	1990	2002	1992-2003	1992-2003	1990	2002	2000	2000	2000	2000	2000	2000	1990	2000
East Asia and Pacific														
1 Cambodia	..	7.4	14	33	80.6	89.8	81.4	0.9	11.9	0.6	1.5	0.4	72.8	82.8
2 China	21.3	21.8	..	..	95.5	99.3[a]	..	..	..	..	..	..	87.0	97.2
3 Fiji	..	5.7	51	9	99.6	100.3[a]	99.3	1.0	80.1	1.1	..	..	..	102.9
4 Indonesia	12.4	8.0	..	..	96.7	99.0	91.3	1.0	..		12.6	0.8	93.3	97.7
5 Malaysia	5.1	10.4	23	40	98.8	100.1[a]	97.1	1.0	72.8	1.1	28.1	1.1	102.0	104.6
6 Mongolia	24.9	10.5	30	66	..	101.5[a]	91.7	1.0	73.3	1.2	42.1	1.7	109.4	112.3
7 Papua New Guinea	0.0	1.8	..	..	83.9	90.2	74.1	0.9	19.9	0.8	..	..	78.7	88.8
8 Philippines	9.1	17.8	58	62	100.4	101.3[a]	93.3	1.0	57.0	1.2	..	..	100.4	102.6
9 Thailand	2.8	9.2	26	52	..	99.7[a]	85.4	1.0	..	..	37.5	1.1	95.3	95.4
10 Viet Nam	17.7	26.0	..	..	99.1	99.4[a]	92.2	0.9	..	..	8.2	0.7	..	92.5
South Asia														
11 Bangladesh	10.3	..	8	25	65.5	71.1	88.2	1.0	44.0	1.0	4.6	0.5	77.1	102.3
12 Bhutan	2.0	9.3	..	..	..	..	..	..	..	..	..	..	..	85.6
13 India	5.0	8.8	..	..	73.9	80.5[a]	75.6	0.8	..		8.8	0.7	70.1	78.6
14 Maldives	6.3	6.0	15	40	100.0	100.1	99.2	1.0	..	..	..	..	..	100.9
15 Nepal	6.1	5.9	..	..	40.7	58.9	66.0	0.9	..	..	2.0	0.3	57.3	81.2
16 Pakistan	10.1	..	2	26	49.0	72.2[a]	50.0	0.7	..	..	..		..	71.7
17 Sri Lanka	4.9	..	21	46	98.3	99.7	..	..	..	..	..	..	102.2	..
Regions														
1 East Asia & Pacific	..	..	..	..	95.8	99.2	..	..	..	..	..	..	88.9	97.2
2 Europe & Central Asia	..	..	..	..	98.1	99.1	..	..	..	..	49.1	1.2	98.5	..
3 Latin America & Caribbean	11.9	19.0	..	..	100.1	100.8	93.5	1.0	65.0	1.1	24.7	1.2	..	101.7
4 Middle East & North Africa	..	..	..	..	72.4	83.7	82.4	1.0	..	..	..	..	81.7	89.4
5 South Asia	5.7	8.3	..	..	70.5	79.6	73.8	0.8	..	..	8.1	0.7	71.1	80.3
6 Sub-Saharan Africa	7.2	14.2	..	..	77.7	86.9	..	..	..	..	..	..	79.0	..
7 Least Developed Countries	7.3	12.7	..	..	69.6	78.0	66.3	0.9	..	..	..	..	76.3	86.0
8 World	12.4	15.9	..	..	..	91.7	..	..	..	..	..	..	87.2	92.9

Notes: * Whenever data for a particular year are not available, data for the most recent year are used.
** As data for these indicators are not available for 1980s or 1990s, the latest years are reported.
[a] Data for these countries pertain to 2004, as 2000 data are not available.

Sources: UNSTATS website – http://unstats.un.org/unsd/mi/mi_goals.asp
World Bank 2005.

Table 9: Indicators of Technology Diffusion

	Subregions/ Countries/Regions	MDG Telephone fixed-lines (per 1,000 people)		MDG Mobile phones* (per 1,000 people)		MDG Internet users* (per 1,000 people)	
		1992	2002	1992	2002	1992	2002
East Asia and Pacific							
1	Cambodia	0.4	2.6	0.0	27.6	..	2.2
2	China	9.7	166.9	0.1	160.9	..	46.0
3	Fiji	66.6	119.0	0.0	109.7	..	61.0
4	Indonesia	9.0	36.5	0.2	55.2	..	21.2
5	Malaysia	111.5	190.4	10.7	376.8	0.0	319.7
6	Mongolia	32.5	52.7	0.0	88.9	..	20.6
7	Papua New Guinea	9.1	11.7	0.0	2.7	..	13.7
8	Philippines	10.4	41.7	0.9	191.3	..	44.0
9	Thailand	32.1	105.0	4.5	260.4	0.0	77.6
10	Viet Nam	2.2	48.4	0.0	23.4	..	..
South Asia							
11	Bangladesh	2.0	5.1	0.0	8.1	..	1.5
12	Bhutan	5.6	28.4	0.0	0.0	..	14.5
13	India	7.7	39.8	0.0	12.2	0.0	15.9
14	Maldives	37.8	102.0	0.0	149.1	0.0	53.4
15	Nepal	3.6	14.1	0.0	0.9	0.0	3.4
16	Pakistan	10.4	25.0	0.1	8.5	..	10.3
17	Sri Lanka	8.0	46.6	0.2	49.2	..	10.6
Regions							
1	East Asia & Pacific	11.3	131.1	..	141.9	..	48.1
2	Europe & Central Asia	140.6	228.0	..	209.9	..	95.4
3	Latin America & Caribbean	70.5	168.6	1.0	190.3	..	92.6
4	Middle East & North Africa	44.8	107.3	..	72.9	..	42.0
5	South Asia	7.3	33.8	..	11.5	..	13.7
6	Sub-Saharan Africa	10.1	15.0	..	37.3	..	17.0
7	Least Developed Countries	2.9	7.3	..	10.4	..	39.6
8	World	105.8	175.9	4.0	187.9	4.0	130.9

Note: * Data for the 1980s are not available.
Source: World Bank 2005.

Table 10: Indicators of Energy and Environmental Sustainability

Subregions/Countries/Regions	MDG CO_2 emissions (metric tons per capita)		Electric power consumption (kwh per capita)		MDG GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)		Forest area (% of land area)		Traditional fuel consumption* (% of total energy requirements)
	1992	2002	1992	2002	1992	2002	1990	2000	2002
East Asia and Pacific									
1 Cambodia	0.0	0.0	..	..	..	..	56.1	52.9	92.3
2 China	2.3	2.7	499.1	987.1	2.5	4.8	15.6	17.5	5.3
3 Fiji	1.0	1.6	..	..	..	..	45.5	44.6	..
4 Indonesia	1.0	1.4	185.0	411.0	4.9	4.1	65.2	58.0	17.6
5 Malaysia	3.9	6.3	1347.7	2831.8	4.0	4.0	65.9	58.7	1.5
6 Mongolia	5.1	3.4	..	..	..	..	7.2	6.8	2.1
7 Papua New Guinea	0.6	0.4	..	..	..	..	70.1	67.6	61.9
8 Philippines	0.8	0.9	323.3	458.8	8.4	7.5	22.4	19.4	12.8
9 Thailand	2.3	3.7	862.1	1625.8	5.8	5.0	31.1	28.9	13.6
10 Viet Nam	0.3	0.8	100.4	373.9	3.5	4.2	28.6	30.2	25.3
South Asia									
11 Bangladesh	0.1	0.3	52.8	100.3	10.2	10.3	9.0	10.2	61.6
12 Bhutan	0.3	0.5	..	..	..	..	64.2	64.2	87.8
13 India	0.9	1.2	280.2	379.8	3.9	5.0	21.4	21.6	20.0
14 Maldives	1.1	3.4	..	..	..	..	3.3	3.3	0.0
15 Nepal	0.1	0.2	35.2	63.6	3.6	4.0	32.7	27.3	..
16 Pakistan	0.6	0.7	321.3	363.4	4.1	4.2	3.6	3.1	..
17 Sri Lanka	0.3	0.5	175.3	296.6	7.6	8.6	35.4	30.0	41.6
Regions									
1 East Asia & Pacific	2.1	2.4	449.9	890.7	3.1	4.7	..	27.0	..
2 Europe & Central Asia	9.1	6.7	3311.3	2808.1	1.9	2.6	..	39.6	..
3 Latin America & Caribbean	2.4	2.4	1184.3	1506.4	6.0	6.2	50.1	47.6	..
4 Middle East & North Africa	2.7	3.2	952.3	1412.0	4.6	4.2	..	1.5	..
5 South Asia	0.8	1.0	256.1	343.7	4.1	5.1	13.5	16.3	..
6 Sub-Saharan Africa	0.8	0.7	426.4	457.1	2.6	2.8	29.3	27.3	..
7 Least Developed Countries	0.1	0.2	63.6	99.1	3.8	3.9	..	27.4	..
8 World	4.0	3.9	1917.2	2224.8	3.9	4.7	30.3	29.7	..

Note: * Data for earlier time points are not available.
Source: World Bank 2005.

Table 11: Tariffs, Domestic Peaks and International Peaks

	Subregions/Countries	Tariff year	Simple tariff line average	Simple average tariff	Weighted average tariff	Number of total tariff lines	Number of domestic peaks	Number of International peaks
East Asia and Pacific								
1	Cambodia	2003	17.3	16.4	16.5	6,805	12	1,914
2	China	2004	10.4	10.5	6.0	7,475	150	1,413
3	Fiji	..	..	..	..	..	..	..
4	Indonesia	2004	9.9	7.0	6.2	11,153	526	1,173
5	Malaysia	2005	8.1	7.3	4.2	10,581	1,470	2,476
6	Mongolia	..	..	..	..	..	..	..
7	Papua New Guinea	2005	6.3	6.0	2.2	5,590	1,268	1,268
8	Philippines	2003	5.1	4.7	2.6	5,641	160	160
9	Thailand	2005	12.0	11.9	6.2	5,504	341	1,453
10	Viet Nam	2004	18.6	16.8	15.2	10,620	330	4,421
South Asia								
11	Bangladesh	2004	18.9	18.4	15.4	6,792	0	3,547
12	Bhutan	..	..	..	..	..	..	..
13	India	2005	18.9	18.3	14.6	11,693	314	2,137
14	Maldives	2004	21.5	20.2	19.8	8,768	143	5,638
15	Nepal	2004	13.8	13.7	14.3	5,351	33	893
16	Pakistan	2005	14.4	14.2	11.3	6,336	70	2,536
17	Sri Lanka	2005	11.6	10.9	7.4	6,406	9	1,434

Note: A tariff peak is a high tariff on a particular product within a given tariff line. Tariff peaks refer to the ratio of lines for which the tariff rates exceed a reference level to the total number of lines. A 15 per cent ratio is referred to as a “international peak” and three times the national mean tariff is referred to as a “domestic peak”.

Source: World Integrated Trade Solutions (WITS), See website http://wits.worldbank.org/witsweb/

Table 12: MFN Tariffs with Respect to Agriculture

	Subregions/Countries	Tariff year	Simple tariff line average	Simple average of MFN tariff	Weighted average	Number of total lines	Number of domestic peaks	Number of International peaks
East Asia and Pacific								
1	Cambodia	2001	20.7	19.4	9.9	929	0	371
		2003	20.7	19.5	10.2	929	0	371
2	China	1994	41.5	41.4	16.3	853	19	723
		2004	15.8	16.5	22.8	1,073	61	410
3	Fiji	..	..	..	..	..	..	..
4	Indonesia	1990	21.0	20.6	7.3	1,320	2	745
		2004	11.6	8.1	5.2	1,244	58	64
5	Malaysia	1991	9.2	7.6	4.1	1,294	1	185
		2005	3.1	2.4	2.5	1,204	29	60
6	Mongolia	..	..	..	..	..	..	..
7	Papua New Guinea	1997	34.4	33.3	19.5	761	44	387
		2005	14.8	14.7	5.1	813	383	383
8	Philippines	1994	27.9	28.5	26.0	701	0	558
		2003	10.4	7.9	8.8	788	135	135
9	Thailand	1989	40.1	40.2	16.4	668	0	282
		2005	24.5	25.3	14.0	768	161	471
10	Viet Nam	1994	19.1	19.3	77.5	676	50	276
		2004	27.9	24.5	31.6	1,162	51	714
South Asia								
11	Bangladesh	1994	83.7	83.1	50.2	773	14	746
		2004	20.8	20.4	8.9	1,024	0	713
12	Bhutan	..	..	..	..	..	..	..
13	India	1990	82.9	82.9	50.3	662	10	598
		2005	41.7	37.6	60.9	1,490	248	1,383
14	Maldives	2000	18.7	18.4	15.1	711	0	219
		2004	17.6	18.1	13.7	1,123	0	255
15	Nepal	1993	10.7	10.7	6.7	682	17	162
		2004	13.7	13.6	9.9	710	1	121
16	Pakistan	1995	45.7	45.5	28.5	731	2	654
		2005	15.6	16.0	8.3	803	17	284
17	Sri Lanka	1990	41.2	41.5	29.8	724	6	492
		2005	22.4	22.1	18.8	894	9	555

Note: A tariff peak is a high tariff on a particular product within a given tariff line. Tariff peaks refer to the ratio of lines for which the tariff rates exceed a reference level to the total number of lines. A 15 per cent ratio is referred to as a "international peak" and three times the national mean tariff is referred to as a "domestic peak".

Source: World Integrated Trade Solutions (WITS), See website http://wits.worldbank.org/witsweb/

Table 13: Customs and Other Duty Revenues

Subregions/Countries	Tax revenue (% of GDP)		Customs and other duty (% of tax revenue)	
	1992	2002	1992	2002
East Asia and Pacific				
1 Cambodia	..	..	..	..
2 China	3.3	8.3[b]	24.8	6.6[a]
3 Fiji	21.6	..	28.2	..
4 Indonesia	15.8	12.9[b]	6.0	1.6[a]
5 Malaysia	20.2	18.8	14.4	5.4
6 Mongolia	..	..	..	..
7 Papua New Guinea	18.3	22.3	25.6	24.4
8 Philippines	15.4	12.3	32.5	19.4
9 Thailand	..	..	..	..
10 Viet Nam	..	16.4	..	22.8
South Asia				
11 Bangladesh	..	7.7	..	42.5
12 Bhutan	5.2	8.5	3.2	3.8
13 India	10.0	9.0	31.2	20.4
14 Maldives	15.0	13.1	61.0	62.5
15 Nepal	6.5	9.3	32.8	29.8
16 Pakistan	13.0	10.4	39.5	10.4
17 Sri Lanka	18.0	14.0	27.3	12.8

Notes: [a] Data refer to the latest available year, 1998;
[b] Data refer to the latest available year, 2001.
Source: World Bank 2005.

Table 14: Trends in Real Effective Exchange Rate (REER, base 2000 = 100)

	Subregions/Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	East Asia and Pacific														
1	Cambodia	..	..	..	..	51.5	65.9	76.5	91.5	102.6	95.7	100	107.5	101.6	97.2
2	China	98.9	87.8	78.9	69.8	75.9	84.6	92.8	98.8	100.8	97.5	100	104.3	102.6	96.7
3	Fiji	83.7	64.6	57.9	54.8	46.6	58.9	68.1	74.4	98.1	91.0	100	107.5	100.1	79.4
4	Indonesia	65.2	52.0	46.5	42.3	36.4	46.6	53.6	68.9	151.5	94.1	100	113.5	90.7	74.7
5	Malaysia	86.4	69.4	56.7	53.7	47.6	59.1	68.4	81.9	109.9	98.8	100	103.4	99.1	93.5
6	Mongolia	..	..	61.9	134.2	90.4	84.3	83.7	97.0	95.6	103.0	100	100.6	98.4	92.1
7	Papua New Guinea	72.7	55.9	50.1	47.0	42.7	61.9	68.2	78.5	101.0	103.9	100	116.8	117.3	89.1
8	Philippines	106.9	84.2	66.4	64.1	52.0	63.0	70.3	82.1	105.1	89.8	100	114.0	109.4	106.3
9	Thailand	85.0	66.1	58.4	54.6	46.6	58.7	67.3	86.7	107.1	93.1	100	114.2	107.2	96.9
10	Viet Nam	..	..	..	..	..	71.6	80.9	91.2	97.7	94.1	100	109.4	106.8	100.2
	South Asia														
11	Bangladesh	94.9	77.9	73.9	70.7	61.6	75.3	91.0	99.7	99.5	93.6	100	110.0	107.8	97.6
12	Bhutan	80.5	76.9	69.7	71.6	62.2	78.9	94.5	99.9	104.0	96.9	100	106.4	104.5	93.9
13	India	79.0	74.3	70.0	75.1	63.3	79.8	95.5	100.3	101.9	96.9	100	106.1	102.3	90.0
14	Maldives	139.9	108.0	88.0	73.7	68.0	88.1	98.9	101.0	103.8	96.1	100	108.3	109.5	107.5
15	Nepal	83.5	75.7	68.4	70.2	59.5	78.0	93.1	100.7	104.2	95.7	100	107.6	106.0	93.4
16	Pakistan	83.6	67.6	60.1	59.4	51.9	64.3	79.3	89.1	93.1	93.7	100	117.3	106.9	95.7
17	Sri Lanka	112.2	85.2	74.8	71.6	61.0	78.9	87.6	93.8	94.9	94.7	100	106.6	101.7	91.9

Note: REER = Nominal Exchange Rate * (WPI/CPI) where WPI = World Price Index, and CPI = Consumer Price Index.

Source: Data on official exchange rate and CPI are compiled from World Bank 2005.

Table 15: Trends in Real Interest Rates, 1990–2003

Subregions/Countries	1980	1990	1995	1999	2000	2001	2002	2003	Average (1990-99)	Average (2000-03)
East Asia and Pacific										
1 Cambodia	..	..	6.9	15.1	19.4	16.9	13.8	15.9	**11.3**	**16.5**
2 China	1.2	3.5	–1.0	8.2	4.9	4.6	5.9	3.0	**2.3**	**4.6**
3 Fiji	–4.5	3.5	8.7	6.7	9.7	4.0	6.7	5.1	**6.3**	**6.3**
4 Indonesia	..	12.2	8.3	11.8	8.1	7.0	11.0	9.8	**7.9**	**9.0**
5 Malaysia	..	4.8	4.9	8.5	2.7	10.3	2.6	2.7	**5.8**	**4.6**
6 Mongolia	..	..	64.4	27.0	19.0	19.7	23.7	20.6	**49.7**	**20.8**
7 Papua New Guinea	3.8	10.9	0.0	13.4	7.1	8.6	1.0	7.1	**7.2**	**6.0**
8 Philippines	–0.2	9.9	6.6	3.5	4.3	5.7	4.1	5.6	**7.0**	**4.9**
9 Thailand	3.1	8.2	7.3	13.6	6.4	5.0	6.1	3.8	**8.1**	**5.3**
10 Viet Nam	..	..	–14.6	6.6	6.9	7.3	4.9	3.9	**1.9**	**5.7**
South Asia										
11 Bangladesh	–5.3	9.1	6.2	9.0	13.4	14.0	12.4	11.0	**9.8**	**12.7**
12 Bhutan	..	8.9	5.8	7.7	8.5	7.4	7.1	7.2	**6.5**	**7.6**
13 India	4.5	5.4	6.0	8.4	8.2	7.9	8.2	7.5	**6.4**	**7.9**
14 Maldives	..	..	..	11.1	11.3	12.1	12.4	11.5	**13.5**	**11.8**
15 Nepal	5.9	3.3	–5.9	2.3	4.7	4.9	..	..	**–2.0**	**4.8**
16 Pakistan	..	..	..	..	..	..	..	..	**..**	**..**
17 Sri Lanka	–0.8	–5.9	8.0	10.1	8.3	5.0	4.6	5.1	**6.4**	**5.8**

Note: Real Interest rate = Nominal interest rate – CPI inflation

Source: World Bank 2005.

Table 16: Trade and Growth

Subregions/Countries/Regions	Exports of goods and services (% of GDP)			Imports of goods and services (% of GDP)			Trade (% of GDP)		
	1982	1992	2002	1982	1992	2002	1982	1992	2002
East Asia and Pacific									
1 Cambodia	..	15.7	59.2	..	18.6	67.4	..	34.3	126.6
2 China	8.9	19.5	28.9	7.3	18.0	25.9	16.3	37.5	54.8
3 Fiji	43.2	51.9	..	49.6	54.9	..	92.9	106.8	..
4 Indonesia	25.3	27.9	35.8	24.1	25.0	29.3	49.4	52.8	65.1
5 Malaysia	50.1	76.0	114.8	58.8	74.6	96.5	108.9	150.6	211.3
6 Mongolia	26.3	36.8	67.0	64.5	46.2	81.2	90.7	83.0	148.2
7 Papua New Guinea	36.8	47.8	..	60.5	45.7	..	97.3	93.6	..
8 Philippines	20.3	29.1	48.9	26.1	34.0	49.4	46.5	63.2	98.4
9 Thailand	22.9	37.0	64.7	24.6	41.0	57.5	47.5	78.0	122.2
10 Viet Nam	..	34.7	55.0	..	38.8	59.6	..	73.6	114.5
South Asia									
11 Bangladesh	5.2	7.6	14.3	15.9	12.3	19.0	21.1	19.9	33.3
12 Bhutan	14.0	32.7	21.8	45.2	57.2	42.7	59.2	89.9	64.6
13 India	6.1	9.0	15.2	8.4	9.8	15.6	14.5	18.7	30.8
14 Maldives	20.0	..	86.5	80.0	..	65.6	100.0	..	152.1
15 Nepal	11.6	16.0	18.2	18.8	25.7	28.8	30.4	41.7	47.0
16 Pakistan	9.9	17.4	18.7	21.8	20.5	19.0	31.7	37.9	37.7
17 Sri Lanka	27.4	31.8	36.1	46.3	41.0	42.9	73.6	72.8	79.0
Regions									
1 East Asia & Pacific	14.3	25.2	38.5	14.2	24.6	34.5	28.4	49.8	73.0
2 Europe & Central Asia	..	39.3	38.3	..	36.5	38.1	..	75.9	76.4
3 Latin America & Caribbean	13.3	15.4	23.4	12.7	16.6	21.0	26.0	32.0	44.4
4 Middle East & North Africa	34.8	29.7	33.4	33.7	33.4	28.3	68.5	63.1	61.7
5 South Asia	7.1	10.5	16.5	11.7	12.2	17.7	18.8	22.7	34.2
6 Sub-Saharan Africa	24.9	25.9	33.4	29.7	27.9	33.7	54.6	53.8	67.1
7 Least Developed Countries	11.2	14.0	22.4	23.8	24.5	31.1	35.0	38.5	53.6
8 World	18.4	19.5	23.9	18.9	19.5	23.7	37.3	39.0	47.6

Source: World Bank 2005.

Table 17: Merchandise Exports and Imports

Subregions/Countries/Regions	Merchandise exports (% of GDP)			Merchandise imports (% of GDP)		
	1982	1992	2002	1982	1992	2002
East Asia and Pacific						
1 Cambodia	..	13.4	36.1	..	22.4	40.5
2 China	11.0	20.3	25.6	9.5	19.3	23.2
3 Fiji	31.3	27.4	31.6	42.3	39.0	51.5
4 Indonesia	23.5	24.4	33.0	17.8	19.6	18.1
5 Malaysia	44.1	68.9	98.0	45.4	67.4	83.9
6 Mongolia	..	..	40.3	..	..	61.8
7 Papua New Guinea	32.5	44.0	52.7	49.3	33.9	42.0
8 Philippines	13.3	18.4	46.8	22.1	29.2	47.7
9 Thailand	19.0	29.1	54.2	23.4	36.5	51.0
10 Viet Nam	..	26.2	47.2	..	25.8	54.2
South Asia						
11 Bangladesh	4.3	6.6	12.8	13.6	11.8	16.6
12 Bhutan	10.6	26.9	17.9	42.3	51.0	27.3
13 India	4.8	8.0	9.7	7.6	9.7	11.1
14 Maldives	20.9	14.0	14.0	89.7	66.3	61.2
15 Nepal	3.7	10.8	10.2	16.5	22.8	25.5
16 Pakistan	7.8	15.1	13.9	17.8	19.4	15.7
17 Sri Lanka	21.6	25.3	28.4	38.4	36.1	36.9
Regions						
1 East Asia & Pacific	17.2	25.8	33.4	17.1	26.2	29.6
2 Europe & Central Asia	..	..	31.5	..	16.3	32.7
3 Latin America & Caribbean	12.5	11.6	20.2	12.1	13.0	20.4
4 Middle East & North Africa	37.3	25.4	28.4	31.2	25.8	21.4
5 South Asia	5.7	9.5	10.8	10.3	12.3	12.9
6 Sub-Saharan Africa	20.8	21.0	27.0	24.7	20.2	25.6
7 Least Developed Countries	11.4	11.9	19.7	20.6	19.7	23.4
8 World	16.7	15.8	20.1	17.2	16.3	20.6

Note: Data are calculated at current prices.

Source: World Bank 2005.

Table 18: Share of Agriculture in Exports and Value Added

Subregions/Countries/Regions	Agricultural raw materials and food exports (% of merchandise exports)			Agriculture, value added (% of GDP)		
	1982	1992	2002	1982	1992	2002
East Asia and Pacific						
1 Cambodia	..	..	99.3	..	..	35.6
2 China	..	13.6	5.8	33.3	21.8	15.4
3 Fiji	94.7	61.8	55.2	20.3	20.1	16.2
4 Indonesia	10.7	14.8	15.8	23.9	18.7	17.1
5 Malaysia	41.9	20.7	9.7	21.1	14.6	9.2
6 Mongolia	..	..	20.5	18.0	34.5	29.7
7 Papua New Guinea	39.9	36.5	27.7	32.4	24.5	27.2
8 Philippines	38.2	18.8	5.7	23.3	21.8	14.7
9 Thailand	65.5	30.6	..	18.5	12.3	9.4
10 Viet Nam	..	..	27.6	..	33.9	23.0
South Asia						
11 Bangladesh	35.6	15.7	..	31.2	29.4	22.7
12 Bhutan	..	34.3	..	53.7	39.8	33.7
13 India	30.2	17.8	13.4	35.9	30.9	22.7
14 Maldives	..	..	61.7	..	..	..
15 Nepal	64.7	15.5	..	61.0	44.9	40.7
16 Pakistan	34.2	19.6	12.3	31.6	26.3	23.2
17 Sri Lanka	59.9	26.7	22.7	26.4	25.9	20.5
Regions						
1 East Asia & Pacific	..	17.9	9.0	30.2	21.0	14.9
2 Europe & Central Asia	..	..	8.8	..	11.9	8.4
3 Latin America & Caribbean	27.7	23.9	20.6	9.8	8.1	7.1
4 Middle East & North Africa	6.4	6.1	5.3	11.0	14.0	10.8
5 South Asia	33.7	18.4	14.3	35.0	30.3	23.0
6 Sub-Saharan Africa	..	..	..	19.9	18.1	18.5
7 Least Developed Countries	..	..	..	37.4	36.5	30.2
8 World	16.8	13.1	9.8	6.4	4.9	..

Source: World Bank 2005.

Table 19: Share of Manufacturing in Exports and Value Added

Subregions/Countries/Regions	Manufactures exports (% of merchandise exports)			Manufacturing, value added (% of GDP)		
	1982	1992	2002	1982	1992	2002
East Asia and Pacific						
1 Cambodia	..	..	0.6	..	..	20.2
2 China	..	78.7	89.8	37.3	33.1	35.4
3 Fiji	4.1	37.5	43.9	10.7	13.4	15.7
4 Indonesia	3.6	47.5	54.4	11.9	22.0	25.4
5 Malaysia	22.8	64.4	79.7	19.1	25.8	30.5
6 Mongolia	..	..	35.5	..	..	4.8
7 Papua New Guinea	3.4	11.6	4.9	9.4	9.2	8.4
8 Philippines	23.3	41.3	91.7	25.1	24.2	22.8
9 Thailand	26.3	66.8	..	21.3	27.5	33.9
10 Viet Nam	..	..	50.0	..	15.4	20.6
South Asia						
11 Bangladesh	61.5	83.3	..	13.7	13.9	15.9
12 Bhutan	..	40.5	..	4.7	10.5	7.3
13 India	49.2	73.5	75.2	16.2	16.2	15.6
14 Maldives	..	..	38.2	..	..	..
15 Nepal	34.5	82.8	..	4.3	8.8	8.3
16 Pakistan	57.9	78.8	85.5	15.1	16.9	16.1
17 Sri Lanka	26.0	70.5	74.2	14.4	15.3	15.8
Regions						
1 East Asia & Pacific	..	68.0	81.6	32.0	30.2	33.1
2 Europe & Central Asia	..	..	61.4	..	..	18.2
3 Latin America & Caribbean	16.6	49.7	56.5	26.9	21.4	15.8
4 Middle East & North Africa	13.1	18.8	19.2	8.9	12.8	13.3
5 South Asia	49.2	74.7	76.2	15.7	16.0	15.6
6 Sub-Saharan Africa	..	..	..	16.6	15.4	13.6
7 Least Developed Countries	..	..	..	10.9	10.7	11.7
8 World	65.0	74.5	77.3	..	21.4	..

Source: World Bank 2005.

Table 20: Share of Agriculture and Manufacturing in Imports

Subregions/Countries/Regions	Agricultural raw materials and food imports (% of merchandise imports)			Manufactures imports (% of merchandise imports)		
	1982	1992	2002	1982	1992	2002
East Asia and Pacific						
1 Cambodia	..	..	12.2	..	..	78.2
2 China	..	9.8	7.3	..	80.4	80.4
3 Fiji	17.4	16.8	20.4	50.5	67.0	65.5
4 Indonesia	9.8	12.0	16.9	66.2	76.0	58.7
5 Malaysia	13.1	7.7	6.4	67.7	84.1	83.5
6 Mongolia	..	..	..	..	..	..
7 Papua New Guinea	20	..	17.2	57.9	..	68.7
8 Philippines	12.3	10.8	8.6	46.3	55.7	80.0
9 Thailand	8.4	10.4	..	52.4	75.9	..
10 Viet Nam	..	..	9.3	..	..	76.1
South Asia						
11 Bangladesh	31.3	22.2	..	54.0	63.1	..
12 Bhutan	..	15.2	..	..	70.8	..
13 India	..	7.5	8.9	..	49.8	51.9
14 Maldives	..	..	24.5	..	..	60.2
15 Nepal	11.5	18.6	..	72.5	52.4	..
16 Pakistan	17.5	18.8	16.8	49.0	61.3	53.2
17 Sri Lanka	14.3	18.2	15.4	52.8	71.6	68.4
Regions						
1 East Asia & Pacific	..	9.8	8.5	..	78.0	78.4
2 Europe & Central Asia	..	..	10.5	..	..	71.9
3 Latin America & Caribbean	13.4	11.7	9.4	67.0	76.9	80.7
4 Middle East & North Africa	20.0	20.5	20.3	70.2	72.8	70.1
5 South Asia	..	11.3	10.5	..	54.3	53.7
6 Sub-Saharan Africa	..	..	13.4	..	..	66.9
7 Least Developed Countries	..	..	..	..	..	..
8 World	14.1	12.0	9.5	56.1	73.4	75.8

Source: World Bank 2005.

Table 21: Export of Services by Sector

Subregions/Countries/Regions	Transport services exports (% of total services exports)			Travel services exports (% of total services exports)			Other services exports (% of total services exports)		
	1982	1992	2002	1982	1992	2002	1982	1992	2002
East Asia and Pacific									
1 Cambodia	..	..	14.7	..	100.0	75.1	..	..	10.2
2 China	52.3	22.5	14.4	28.0	38.2	51.3	19.7	39.4	34.3
3 Fiji	18.1	30.5	..	64.7	48.3	..	17.2	21.2	..
4 Indonesia	13.7	2.6	15.9	55.6	90.0	79.3	30.8	7.4	4.8
5 Malaysia	33.9	31.9	19.2	32.8	40.6	47.8	33.3	27.4	33.0
6 Mongolia	14.0	51.1	21.2	7.4	9.2	70.7	78.6	39.7	8.2
7 Papua New Guinea	23.9	7.1	..	15.0	6.3	..	61.1	86.6	..
8 Philippines	9.6	5.8	20.6	24.9	19.9	57.0	65.4	74.3	22.4
9 Thailand	20.6	16.4	21.2	60.5	54.8	51.3	18.9	28.7	27.5
10 Viet Nam	..	..	..	..	..	..	..	..	..
South Asia									
11 Bangladesh	12.0	8.5	10.8	12.5	5.1	6.7	75.5	86.4	82.5
12 Bhutan	..	..	..	..	..	..	..	..	..
13 India	15.1	21.0	12.7	40.6	46.5	15.9	44.3	32.5	71.4
14 Maldives	58.9	6.5	4.8	34.7	89.5	92.9	6.4	4.1	2.4
15 Nepal	5.4	14.4	11.9	38.2	40.0	33.9	56.4	45.6	54.2
16 Pakistan	46.2	55.0	32.6	23.0	7.2	4.0	30.9	37.8	63.4
17 Sri Lanka	20.0	35.3	40.5	44.3	31.4	28.6	35.7	33.2	30.8

Source: UNCTAD 2005.

Table 22: Import of Services by Sector

Subregions/Countries/Regions	Transport services imports (% of total services imports)			Travel services imports (% of total services imports)			Other services imports (% of total services imports)		
	1982	1992	2002	1982	1992	2002	1982	1992	2002
East Asia and Pacific									
1 Cambodia	..	24.5	57.1	..	..	10.2	..	75.5	32.6
2 China	61.6	45.8	29.3	3.3	26.6	33.1	35.1	27.5	37.7
3 Fiji	50.9	43.0	..	11.6	14.5	..	37.5	42.5	..
4 Indonesia	44.6	44.1	30.2	11.6	14.4	19.3	43.8	41.5	50.5
5 Malaysia	43.3	43.4	35.8	26.0	24.1	15.9	30.8	32.5	48.3
6 Mongolia	38.1	66.7	37.5	0.5	5.0	44.8	61.4	28.3	17.7
7 Papua New Guinea	51.4	18.2	..	5.6	8.2	..	43.1	73.5	..
8 Philippines	44.1	51.9	49.1	8.1	4.4	21.4	47.8	43.6	29.5
9 Thailand	60.4	43.8	42.6	16.1	23.7	19.8	23.5	32.5	37.7
10 Viet Nam	..	..	..	..	..	..	..	..	..
South Asia									
11 Bangladesh	64.5	57.1	71.6	4.1	14.1	8.0	31.4	28.8	20.4
12 Bhutan	..	..	..	..	..	..	..	..	..
13 India	60.5	59.5	40.5	5.5	7.0	14.2	34.0	33.6	45.3
14 Maldives	84.8	48.0	46.8	5.5	43.5	41.2	9.8	8.5	12.0
15 Nepal	33.2	38.2	46.8	27.8	23.1	29.2	39.0	38.7	24.0
16 Pakistan	61.3	55.2	61.9	12.9	25.4	11.4	25.8	19.3	26.7
17 Sri Lanka	53.1	59.2	55.6	10.3	13.5	16.6	36.6	27.3	27.8

Source: UNCTAD 2005.

Table 23: Growth of Exports, Imports and GDP

Subregions/Countries/Regions	Exports of goods and services (average annual % growth)		Imports of goods and services (average annual % growth)		GDP growth (average annual %)	
	1982–92	1992–02	1982–92	1992–02	1982–92	1992–02
East Asia and Pacific						
1 Cambodia	..	26.9	..	17.3	..	6.7
2 China	6.0	15.5	11.5	17.2	10.2	9.8
3 Fiji	1.6	2.2	–4.8	1.6	0.9	3.1
4 Indonesia	5.9	5.5	3.9	5.4	6.6	3.9
5 Malaysia	12.4	9.7	11.3	8.7	6.5	6.1
6 Mongolia	..	6.0	..	4.7	2.4	–1.1
7 Papua New Guinea	5.8	5.6	–0.4	1.9	3.3	3.5
8 Philippines	4.0	6.8	5.4	7.2	1.3	3.5
9 Thailand	14.6	9.2	13.9	6.3	8.2	4.1
10 Viet Nam	22.5	21.3	2.6	26.5	5.3	7.6
South Asia						
11 Bangladesh	6.2	12.6	1.4	9.1	3.8	4.9
12 Bhutan	..	..	..	..	6.6	6.7
13 India	6.3	13.8	6.9	13.5	5.4	5.8
14 Maldives	..	7.4	..	6.7	..	7.3
15 Nepal	..	..	..	..	4.6	4.4
16 Pakistan	10.7	3.7	4.7	3.8	6.2	3.6
17 Sri Lanka	6.3	6.9	3.9	7.8	4.1	4.5
Regions						
1 East Asia & Pacific	..	10.8	..	8.4	8.1	7.9
2 Europe & Central Asia	–18.9	5.2	–25.5	4.3	–5.4	0.4
3 Latin America & Caribbean	5.4	7.4	3.4	7.6	1.8	2.6
5 Middle East & North Africa	..	0.7	..	2.0	2.4	3.0
4 South Asia	7.0	11.2	5.2	10.5	5.2	5.4
6 Sub-Saharan Africa	2.5	3.7	0.1	4.7	1.3	2.6
7 Least Developed Countries	..	8.6	–0.6	4.4	2.1	3.8
8 World	5.1	6.1	4.8	6.2	3.0	2.7

Source: World Bank 2005.

Table 24: Labour Force and Unemployment Rate

Subregions/Countries/Regions	Labour force (% of population age 15 and above)			Unemployment rate (% of total labour force)		
	1980	1990	2000	1980	1990	2000
East Asia and Pacific						
1 Cambodia	87.3	79.3	86.6	..	..	2.5
2 China	85.1	81.7	80.2	4.9	2.5	3.1
3 Fiji	52.6	56.3	59.8	..	6.4	..
4 Indonesia	67.9	68.3	69.6	..	..	6.1
5 Malaysia	63.4	64.0	64.3	..	5.1	3.1
6 Mongolia	81.6	78.8	77.5	..	..	4.6
7 Papua New Guinea	84.2	80.3	82.2	..	..	..
8 Philippines	65.8	66.0	66.2	4.8	8.1	10.1
9 Thailand	88.2	84.2	78.4	0.8	2.2	2.4
10 Viet Nam	84.3	83.1	78.3	..	..	..
South Asia						
11 Bangladesh	90.4	87.5	81.4	..	1.9	3.3
12 Bhutan	87.2	85.9	84.5	..	..	..
13 India	70.9	66.8	65.9	..	..	4.7[b]
14 Maldives	82.1	77.3	72.6	..	..	..
15 Nepal	88.1	85.0	80.0	..	..	..
16 Pakistan	65.9	63.9	63.2	3.6	3.1	7.8
17 Sri Lanka	58.5	61.7	61.2	..	14.4	8.0
Regions						
1 East Asia & Pacific	82.4	79.5	78.1	4.7	2.8	3.7
2 Europe & Central Asia	67.9	65.7	64.4	..	..	10.0
3 Latin America & Caribbean	59.9	62.4	63.0	..	6.1	..
4 Middle East & North Africa	72.3	68.6	67.3	..	..	13.5
5 South Asia	55.7	54.6	54.4	..	..	..
6 Sub-Saharan Africa	82.5	80.9	79.3	..	..	..
7 Least Developed Countries	86.1	84.3	82.2	..	..	..
8 World	71.1	69.9	69.1	..	..	6.5[a]

Notes: [a] Data refer to 1999;

[b] Data refer to 1999 and were obtained from NSSO estimates for employment and unemployment situation in India, Government of India.

Source: World Bank 2005.

Table 25: Structure of Employment

Subregions/Countries/Regions	Employment in agriculture (% of total employment)			Employment in industry (% of total employment)			Employment in services (% of total employment)			Employment in others (% of total employment)		
	1980	1990	2000	1980	1990	2000	1980	1990	2000	1980	1990	2000
East Asia and Pacific												
1 Cambodia	..	..	..	..	..	..	..	..	..	..	..	..
2 China	68.7	53.5	46.9	18.2	19.0	17.5	11.7	9.5	12.9	1.4	18.0	22.7
3 Fiji	..	2.6	..	..	34.5	..	..	62.9	..	..	0.0	..
4 Indonesia	55.9	55.9	45.3	13.2	13.7	17.3	30.2	30.2	37.3	0.7	0.2	0.1
5 Malaysia	37.2	26.0	18.4	24.1	27.5	32.2	38.7	46.5	49.5	0.0	0.0	0.0
6 Mongolia	..	33.0	48.9	..	25.2	14.1	..	14.3	14.6	..	27.5	22.4
7 Papua New Guinea	82.4	79.1	..	5.8	6.5	..	11.8	14.3	..	0.0	0.1	..
8 Philippines	51.8	45.2	37.4	15.4	15.0	16.0	32.8	39.7	46.5	0.0	0.1	0.1
9 Thailand	70.8	64.0	48.8	10.3	14.0	19.0	18.9	22.0	32.2	0.0	0.0	0.0
10 Viet Nam	..	..	..	..	..	..	..	..	..	..	..	..
South Asia												
11 Bangladesh	..	66.4	62.1	..	13.0	10.3	..	16.2	23.5	..	4.4	4.1
12 Bhutan	94.4	94.2	..	1.4	0.9	..	4.2	5.0	..	0.0	0.0	..
13 India	..	69.1	..	..	13.6	..	..	17.3	..	..	0.0	..
14 Maldives	..	25.2	13.7	..	22.4	19.0	..	48.5	50.2	..	3.9	17.1
15 Nepal	..	83.3	..	..	2.3	..	..	13.7	..	..	0.7	..
16 Pakistan	52.7	51.1	48.4	20.3	19.8	18.0	26.8	28.9	33.5	0.2	0.2	0.1
17 Sri Lanka	..	47.8	..	..	20.6	..	..	30.0	..	..	1.6	..
Regions												
1 East Asia & Pacific	66.7	53.9	46.2	17.3	18.1	17.6	14.7	13.5	17.8	1.3	14.4	18.4
2 Europe & Central Asia	..	22.8	..	..	35.9	..	..	36.6	..	..	4.6	..
3 Latin America & Caribbean	..	18.2	..	..	25.4	..	..	54.4	..	..	2.0	..
4 Middle East & North Africa	..	26.9	..	..	25.6	..	..	47.4	..	..	0.1	..
5 South Asia	..	67.3	..	..	13.9	..	..	18.3	..	..	0.5	..
6 Sub-Saharan Africa	..	..	..	..	..	..	..	..	..	..	..	..
7 Least Developed Countries	..	72.3	..	..	9.6	..	..	16.0	..	..	2.1	..
8 World	..	43.3	..	..	21.0	..	..	29.4	..	..	6.4	..

Note: The sum total of sectoral employment should be equal to 100. However, in the cases of China, Mongolia, Bangladesh and Maldives, the total is less than 100. This simply implies that some workers are not classified into any of the sectors.
Source: World Bank 2005.

Table 26: Workers' Home Remittances and Other Receipts

Subregions/Countries/Regions	Workers' remittances and compensation employees received (US $ million)			Workers' remittances and compensation of employees received (% of GDP)		
	1982	1992	2002	1982	1992	2002
East Asia and Pacific						
1 Cambodia	..	9	140	..	0.5	3.5
2 China	616	228	2,353	0.3	0.1	0.2
3 Fiji	8	23	24	0.7	1.4	1.4
4 Indonesia	..	229	1,259	..	0.2	0.7
5 Malaysia	45	358	959	0.2	0.6	1.0
6 Mongolia	..	..	56	..	..	5.0
7 Papua New Guinea	6	21	6	0.3	0.5	0.2
8 Philippines	1,049	2,538	7,381	2.8	4.8	9.5
9 Thailand	619	445	1,380	1.7	0.4	1.1
10 Viet Nam	..	..	2,714	..	..	7.7
South Asia						
11 Bangladesh	526	912	2,858	2.9	2.9	6.0
12 Bhutan	..	..	..	..	..	..
13 India	2,618	2,897	13,751	1.3	1.2	2.7
14 Maldives	..	2	2	..	0.7	0.3
15 Nepal	..	..	678	..	..	12.2
16 Pakistan	2,588	1,574	3,554	8.4	3.2	5.0
17 Sri Lanka	289	548	1,309	6.1	5.6	7.9
Regions						
1 East Asia & Pacific	2,382	3,943	16,509	0.6	0.5	0.9
2 Europe & Central Asia	2,140	3,160	11,501	..	0.3	1.0
3 Latin America & Caribbean	2,076	8,426	28,105	0.3	0.7	1.6
4 Middle East & North Africa	5,293	16,150	15,501	1.3	3.6	2.3
5 South Asia	6,021	5,933	22,152	2.4	1.7	3.4
6 Sub-Saharan Africa	1,224	2,062	5,166	0.5	0.7	1.5
7 Least Developed Countries	1,536	3,515	8,387	1.3	2.5	4.3
8 World	36,315	80,583	150,800	0.3	0.3	0.5

Source: World Bank 2005.

Table 27: Import of Essential Commodities

Subregions/Countries/Regions	Food imports (% of merchandise imports)			Fuel imports (% of merchandise imports)		
	1982	1992	2000	1982	1992	2000
East Asia and Pacific						
1 Cambodia	..	..	10.8	..	..	8.2
2 China	..	4.9	3.3	..	4.5	6.5
3 Fiji	17.1	16.5	20.0	28.6	14.1	12.7
4 Indonesia	7.2	6.4	11.1	21.5	7.8	21.3
5 Malaysia	11.7	6.6	5.2	15.1	4.3	4.8
6 Mongolia	..	..	..	..	..	..
7 Papua New Guinea	19.7	..	16.5	19.2	..	13.0
8 Philippines	10.2	8.4	7.6	26.5	13.9	9.3
9 Thailand	4.7	5.5	..	31.0	8.2	..
10 Viet Nam	..	..	6.2	..	..	11.0
South Asia						
11 Bangladesh	26.0	18.3	..	12.2	12.2	..
12 Bhutan	..	14.0	..	..	8.1	..
13 India	..	3.8	5.8	..	29.8	33.4
14 Maldives	..	..	22.6	..	..	13.0
15 Nepal	10.7	11.2	..	15.0	12.7	..
16 Pakistan	13.6	15.1	12.0	30.9	16.4	27.3
17 Sri Lanka	12.8	16.2	14.2	31.4	8.9	14.0
Regions						
1 East Asia & Pacific	..	5.8	5.2	..	6.1	8.2
2 Europe & Central Asia	..	..	8.4	..	..	11.0
3 Latin America & Caribbean	10.9	9.4	7.8	16.4	8.4	7.3
4 Middle East & North Africa	17.5	17.5	18.1	7.9	3.6	4.6
5 South Asia	..	7.6	7.4	..	24.5	30.7
6 Sub-Saharan Africa	..	..	11.8	..	..	13.7
7 Least Developed Countries	..	..	..	..	..	..
8 World	10.6	9.1	7.6	24.2	9.5	9.5

Source: World Bank 2005.

Table 28: Net Barter Terms of Trade

Subregions/Countries	Net barter terms of trade (ToT)		
	1982	1992	2002
East Asia and Pacific			
1 Cambodia	..	..	..
2 China	117	103	102
3 Fiji	..	..	..
4 Indonesia	182	89	100
5 Malaysia	64	109	98
6 Mongolia	..	..	..
7 Papua New Guinea	..	..	..
8 Philippines	74	79	104
9 Thailand	120	120	90
10 Viet Nam	..	..	..
South Asia			
11 Bangladesh	110	99	108[a]
12 Bhutan	..	..	..
13 India	72	98	88
14 Maldives	..	..	..
15 Nepal	..	..	..
16 Pakistan	113	105	95
17 Sri Lanka	76	96	100[b]

Notes: [a] Data refer to the latest available year, 1999;
[b] Data refer to the latest available year, 2000.

Net barter terms of trade (base 2000=100) is the ratio (expressed as a percentage) of relative export and import prices when volume is held constant.

Source: World Bank 2005.

Table 29: Concentration and Diversification Indices of Exports and Imports by Country and Country Grouping

Subregions/Countries/ Country Groups	Exports/ Imports	Number of commodities exported/ imported* (1995)	Diversification index** (1995)	Market concentration index*** (1995)	Number of commodities exported/ imported* (2002)	Diversification index** tion index** (2002)	Market concentration index*** (2002)
East Asia and Pacific							
1 Cambodia	..	..	..	..	..	..	..
2 China	Exports	233	0.47	0.06	233	0.45	0.09
	Imports	234	0.41	0.07	234	0.39	0.11
3 Fiji	Exports	..	..	..	112	0.79	0.27
	Imports	..	..	..	190	0.44	0.10
4 Indonesia	Exports	210	0.60	0.15	227	0.50	0.12
	Imports	234	0.43	0.06	230	0.47	0.12
5 Malaysia	Exports	227	0.51	0.18	224	0.50	0.22
	Imports	233	0.38	0.18	234	0.40	0.26
6 Mongolia	Exports	..	..	..	4 [a]	0.90	0.39
	Imports	..	..	..	167 [a]	0.54	0.16
7 Papua New Guinea	Exports	..	..	..	80 [b]	0.87	0.37
8 Philippines	Exports	186	0.63	0.36	204	0.63	0.42
	Imports	227	0.36	0.17	228	0.47	0.30
9 Thailand	Exports	223	0.48	0.09	225 [b]	0.37	0.09
	Imports	229	0.31	0.08	230 [b]	0.32	0.11
10 Viet Nam	Exports	..	..	..	196	0.63	0.24
	Imports	..	..	..	217	0.42	0.10
South Asia							
11 Bangladesh	Exports	74	0.83	0.26	90 [b]	0.88	0.30
	Imports	204	0.57	0.14	212 [b]	0.61	0.10
12 Bhutan	Exports	..	..	..	..	..	..
	Imports	..	..	..	..	..	..
13 India	Exports	221	0.60	0.14	227	0.56	0.13
	Imports	213	0.48	0.14	224	0.51	0.25
14 Maldives	Exports	11	0.51	0.40	10	0.50	0.42
	Imports	141	0.49	0.10	146	0.48	0.10
15 Nepal	Exports	38	0.83	0.44	52 [a]	0.82	0.30
	Imports	124	0.64	0.25	177 [a]	0.61	0.18
16 Pakistan	Exports	139	0.84	0.24	178	0.81	0.22
	Imports	208	0.51	0.11	219	0.50	0.16
17 Sri Lanka	Exports	..	..	..	163	0.77	0.22
	Imports	..	..	..	215	0.48	0.10
Country Groups							
1 World	Exports	224	0.41	0.13	224	0.42	0.16
	Imports	232	0.26	0.08	232	0.26	0.10
2 Developing economies	Exports	207	0.56	0.22	210	0.55	0.23
	Imports	225	0.38	0.10	225	0.39	0.14
3 Developing economies: Asia	Exports	216	0.54	0.20	217	0.53	0.22
	Imports	228	0.38	0.10	228	0.40	0.15
4 Developing economies: Oceania	Exports	59	0.85	0.46	56	0.86	0.48
	Imports	157	0.52	0.13	148	0.55	0.25

Notes: * Number of products (at SITC, Rev 2-digit and 3-digit group level) exported (or imported) by country; this figure includes only those products whose figures are greater than US$ 100,000 or more than 0.3% of the country's or world's total exports (or imports).

** The diversification index, which ranges from 0 to 1, reveals the extent of diversification between the structure of the country's trade and the world average. It is computed by measuring the absolute deviation of the share of the commodity *i* in total exports (or imports) of the country from the share of the commodity *i* in total world export (or imports). Thus, the lower the index the closer is the country's structure of trade to the world's structure of trade. An index value closer to one indicates a bigger difference from the world average.

*** The market concentration index is the Herfindahl-Hirschmann index. It has been normalised to obtain values between 0 (minimum concentration) to 1 (maximum concentration). See the formula as given below;

$$Hj = \frac{\sqrt{\Sigma(x_i / X)^2} - \sqrt{(1/239}}{1-\sqrt{(1/239)}}$$

H_j = country index; x_i = value of exports of product *i*; *X* = sum of value of exports of all products; Total number of products 239; at the three-digit SITC; [a] data used for 2000; [b] data used for 2003.

Source: UNCTAD 2005.

Table 30: Total Foreign Exchange Reserves (without gold)

Total reserves (million US$ current)

Subregions/Countries	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
East Asia and Pacific																
1 Cambodia	..	..	..	..	24.2	118.5	192.0	265.8	298.6	324.4	393.2	501.7	586.8	776.1	815.5	943.2
2 China	2,545.7	29,586.2	43,674.3	20,620.3	22,386.8	52,914.0	75,376.6	107,039.4	142,762.8	149,187.8	157,727.5	168,277.3	215,604.6	291,127.6	408,151.4	614,499.7
3 Fiji	167.5	260.8	271.4	316.9	269.5	273.1	349.0	427.2	360.3	385.7	428.7	411.8	366.4	358.8	423.6	478.1
4 Indonesia	5,391.7	7,459.1	9,257.9	10,448.6	11,262.7	12,132.7	13,708.2	18,251.2	16,586.9	22,713.4	26,445.0	28,501.8	27,246.2	30,970.7	34,962.3	34,952.5
5 Malaysia	4,387.4	9,754.1	10,885.6	17,227.5	27,249.2	25,422.8	23,774.5	27,009.3	20,788.2	25,559.4	30,588.2	29,522.6	30,474.4	34,221.6	44,515.1	66,384.2
6 Mongolia	..	..	..	16.4	59.7	81.4	117.0	107.4	175.7	94.1	136.5	178.8	205.7	349.7	236.1	236.3
7 Papua New Guinea	423.4	403.0	323.1	238.6	141.5	96.1	261.4	583.9	362.7	192.9	205.1	286.9	422.6	321.5	494.2	632.6
8 Philippines	2,846.1	924.4	3,245.9	4,403.3	4,675.7	6,038.0	6,396.3	10,058.2	7,297.5	9,274.1	13,269.7	13,090.2	13,476.3	13,329.3	13,654.9	13,116.3
9 Thailand	1,560.2	13,305.1	17,517.2	20,358.7	24,472.9	29,332.2	35,982.0	37,731.2	26,179.5	28,825.0	34,062.8	32,015.9	32,354.8	38,046.4	41,077.0	48,664.0
10 Viet Nam	..	..	..	..	..	..	1,323.7	1,735.9	1,985.9	2,002.3	3,326.2	3,416.5	3,674.6	4,121.0	6,224.2	..
Sub Region Total	**17,322.0**	**61,692.7**	**85,175.4**	**73,630.3**	**90,542.2**	**126,408.8**	**157,480.7**	**203,209.5**	**216,798.1**	**238,559.1**	**266,582.9**	**276,203.5**	**324,412.4**	**413,622.7**	**550,554.3**	**779,906.9**
South Asia																
11 Bangladesh	299.6	628.7	1,278.2	1,824.6	2,410.8	3,138.7	2,339.7	1,834.6	1,581.5	1,905.4	1,603.6	1,486.0	1,275.0	1,683.2	2,577.9	3,172.4
12 Bhutan	..	88.8	101.3	85.1	98.0	121.4	130.5	190.1	188.7	256.8	292.3	317.6	323.4	354.9	366.6	398.6
13 India	6,943.9	1,521.0	3,626.6	5,757.1	10,199.1	19,698.5	17,921.9	20,170.1	24,688.3	27,340.7	32,666.7	37,902.3	45,870.5	67,665.5	98,938.0	126,593.3
14 Maldives	0.9	24.4	23.5	28.2	26.1	31.2	48.0	76.2	98.3	118.5	127.1	122.8	93.1	133.1	159.5	203.6
15 Nepal	182.8	295.3	397.0	467.4	640.2	693.6	586.4	571.4	626.2	756.3	845.1	945.4	1,037.7	1,017.6	1,222.5	1,462.2
16 Pakistan	495.8	295.9	526.5	850.2	1,196.8	2,929.4	1,732.8	548.3	1,194.8	1,028.0	1,511.4	1,513.3	3,640.0	8,078.3	10,941.0	9,799.0
17 Sri Lanka	245.5	422.9	685.1	926.5	1,629.3	2,045.7	2,087.7	1,961.5	2,024.1	1,979.8	1,635.6	1,039.0	1,286.8	1,630.9	2,264.9	..
Sub Region Total	**8,168.5**	**3,277.0**	**6,638.2**	**9,939.1**	**16,200.3**	**28,658.5**	**24,847.0**	**25,352.2**	**30,401.9**	**33,385.5**	**38,681.8**	**43,326.4**	**53526.5**	**80563.5**	**116,470.4**	**141,629.1**
Regional Total	**25,490.5**	**64,969.7**	**91,813.6**	**83,569.4**	**106,742.5**	**155,067.3**	**182,327.7**	**228,561.7**	**247,200.0**	**271,944.6**	**305,264.7**	**319,529.9**	**377938.9**	**494186.2**	**667,024.7**	**921,536.0**
Number of months of imports																
East Asia and Pacific																
1 Cambodia	..	..	..	..	0.5	1.5	2.0	3.0	3.2	2.8	2.7	3.0	3.2	3.8	4.2	5.5
2 China	1.5	6.1	7.3	2.7	2.5	5.1	6.7	9.1	12.1	11.7	9.7	8.6	9.6	9.9	10.1	13.1
3 Fiji	3.4	4.5	5.1	5.6	4.2	3.8	4.5	5.3	5.1	5.7	6.0	6.1	5.2	4.2	4.1	4.3
4 Indonesia	5.4	3.8	4.2	4.5	4.5	4.0	3.9	5.2	5.8	10.6	11.0	10.6	10.5	10.1	8.9	8.1
5 Malaysia	4.7	3.6	3.4	4.8	6.2	4.4	3.7	4.1	3.6	5.0	5.0	4.6	4.8	5.1	5.7	7.6
6 Mongolia	..	..	..	0.5	2.0	2.6	3.3	2.8	4.3	2.2	2.9	3.4	3.7	5.6	3.1	2.8
7 Papua New Guinea	4.2	3.5	2.5	2.1	1.2	0.8	2.0	4.1	3.0	1.9	2.1	3.1	4.6	3.2	4.0	4.5
8 Philippines	4.1	0.9	2.8	3.1	2.7	2.8	2.5	3.3	2.5	3.5	4.6	4.4	4.5	4.2	4.0	3.7
9 Thailand	2.0	4.5	5.4	5.6	5.8	5.6	6.0	6.7	5.9	7.4	7.3	6.2	6.1	6.5	5.8	6.1
10 Viet Nam	..	..	..	..	..	..	1.7	1.8	2.1	2.1	2.9	2.6	2.5	2.3	3.0	..
South Asia																
11 Bangladesh	1.4	2.2	4.3	5.7	6.7	6.8	4.3	3.3	2.7	3.1	2.4	2.1	1.9	2.3	3.2	3.8
12 Bhutan	..	13.0	11.7	9.5	12.9	14.3	13.0	17.2	16.7	19.5	18.2	19.4	20.6	20.0	17.1	17.4
13 India	5.5	0.8	2.0	3.0	4.9	7.7	5.9	6.1	7.0	7.3	8.0	8.9	10.3	12.7	14.4	16.2
14 Maldives	0.4	2.0	1.6	1.8	1.5	1.5	2.0	2.8	3.4	3.8	3.9	3.8	2.8	3.7	3.4	3.8
15 Nepal	6.2	5.0	6.3	6.7	7.5	6.7	5.2	4.4	5.1	6.8	6.8	7.5	8.6	7.7	8.1	9.4
16 Pakistan	1.1	0.5	0.7	1.1	1.6	3.5	1.8	0.6	1.4	1.3	1.7	1.7	4.1	8.0	8.5	6.6
17 Sri Lanka	1.5	1.8	2.5	3.0	4.5	4.9	4.7	4.2	4.1	4.0	3.2	2.0	2.6	3.1	4.1	..

(Contd.)

Table 30 *(Contd.)*

Total reserves (% of GDP)

Subregions/Countries	*1980*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
East Asia and Pacific															
1 Cambodia	..	..	..	..	1.0	4.3	5.7	7.7	8.9	10.5	11.4	14.0	15.8	19.4	19.3
2 China	1.4	8.3	11.6	4.9	5.2	9.8	10.8	13.1	15.9	15.8	15.9	15.6	18.3	22.9	28.8
3 Fiji	14.1	19.2	18.9	19.6	16.5	15.7	18.4	20.9	17.7	20.1	22.0	23.8	21.2	20.6	20.8
4 Indonesia	6.9	6.5	7.2	7.5	7.1	6.9	6.8	8.0	7.7	23.8	18.9	19.0	19.0	17.9	16.8
5 Malaysia	17.6	22.2	22.2	29.1	40.7	34.1	26.8	26.8	20.8	35.4	38.6	32.7	34.6	36.0	42.9
6 Mongolia	..	..	..	..	11.4	12.7	9.5	9.1	16.7	9.7	15.1	18.9	20.2	31.3	18.5
7 Papua New Guinea	16.6	12.5	8.5	5.4	2.8	1.8	5.7	11.2	7.4	5.1	5.1	8.1	13.3	10.9	15.5
8 Philippines	8.8	2.1	7.1	8.3	8.6	9.4	8.6	12.1	8.9	14.2	17.4	17.2	18.7	17.1	16.9
9 Thailand	4.8	15.6	17.8	18.3	19.6	20.3	21.4	20.8	17.3	25.8	27.8	26.1	28.0	30.0	28.7
10 Viet Nam	..	..	..	..	..	..	6.4	7.0	7.4	7.4	11.6	11.0	11.2	11.8	15.9
Subregion Total	**4.8**	**9.4**	**11.9**	**9.2**	**10.5**	**12.3**	**12.4**	**14.1**	**14.6**	**18.0**	**18.4**	**17.7**	**19.8**	**23.1**	**27.5**
South Asia															
11 Bangladesh	1.7	2.1	4.1	5.8	7.3	9.3	6.2	4.5	3.7	4.3	3.5	3.1	2.7	3.5	5.0
12 Bhutan	..	31.2	41.9	34.7	41.5	44.3	42.0	57.0	47.9	63.7	65.7	65.1	60.4	58.8	52.6
13 India	3.8	0.5	1.4	2.4	3.7	6.1	5.0	5.2	6.0	6.6	7.3	8.3	9.6	13.3	16.5
14 Maldives	2.1	11.3	9.6	9.9	8.1	8.8	12.0	16.9	19.3	21.9	21.6	19.7	14.9	20.8	22.3
15 Nepal	9.4	8.1	10.1	13.7	17.5	17.1	13.3	12.6	12.7	15.6	16.8	17.2	18.6	18.3	20.9
16 Pakistan	2.1	0.7	1.2	1.7	2.3	5.6	2.9	0.9	1.9	1.7	2.4	2.1	5.1	11.3	13.3
17 Sri Lanka	6.1	5.3	7.6	9.5	15.7	17.5	16.0	14.1	13.4	12.5	10.4	6.4	8.2	9.9	12.4
Subregion Total	**3.6**	**0.8**	**1.9**	**2.9**	**4.3**	**6.7**	**5.3**	**5.0**	**5.7**	**6.2**	**6.7**	**7.2**	**8.6**	**12.3**	**15.3**
Regional Total	**4.3**	**6.2**	**8.6**	**7.4**	**8.7**	**10.7**	**10.5**	**11.7**	**12.2**	**14.5**	**15.1**	**14.8**	**16.8**	**20.2**	**24.1**

Source: UNCTAD 2005; World Bank 2005 for data on GDP.

Table 31: Trends in Current Account Balance (% GDP)

Subregions/Countries	*1980*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
East Asia and Pacific															
1 Cambodia	..	..	..	–4.7	–4.2	–5.7	–5.5	–5.4	–6.2	–5.7	–5.4	–3.8	–2.3	–1.4	–3.0
2 China		3.4	3.5	1.5	–2.7	1.3	0.2	0.9	4.1	3.3	2.1	1.9	1.5	2.8	3.2
3 Fiji	–1.5	–6.9	–4.8	–3.8	–8.4	–6.5	–6.0	0.7	–1.7	–3.1	0.7	..	..	..	..
4 Indonesia	..	–2.6	–3.3	–2.0	–1.3	–1.6	–3.2	–3.4	–2.3	4.3	4.1	5.3	4.8	4.7	3.6
5 Malaysia	–1.1	–2.0	–8.5	–3.7	–4.5	–6.1	–9.7	–4.4	–5.9	13.2	15.9	9.4	8.3	7.6	12.9
6 Mongolia	..	..	..	..	5.9	7.2	3.2	–3.1	9.8	–7.7	–5.7	–7.4	–6.1	–9.4	..
7 Papua New Guinea	–11.3	–2.3	–4.0	2.2	13.0	10.6	14.6	6.0	–2.0	1.2	3.0	9.8	9.0	..	..
8 Philippines	–5.9	–6.1	–2.3	–1.9	–5.5	–4.6	–2.7	–4.8	–5.3	2.4	9.5	8.2	1.8	5.6	4.2
9 Thailand	–6.4	–8.5	–7.7	–5.7	–5.1	–5.6	–8.1	–8.1	–2.0	12.7	10.2	7.6	5.4	5.5	5.6
10 Viet Nam	..	..	..	..	..	..	..	–8.2	–5.7	–3.9	4.1	3.5	2.1	–1.7	..
South Asia															
11 Bangladesh	–3.9	–1.3	0.2	0.6	1.1	0.6	–2.2	–2.4	–0.7	–0.1	–0.8	–0.6	–1.1	1.6	0.4
12 Bhutan	..	–9.8	–6.9	–10.1	–29.8	–14.6	–11.0	12.9	5.6	4.2	3.0	–2.7	–7.5	–6.9	..
13 India	–1.0	–2.2	–1.6	–1.8	–0.7	–0.5	–1.6	–1.5	–0.7	–1.7	–0.7	–1.0	0.0	0.7	1.4
14 Maldives	–52.3	4.6	–3.7	–6.9	–16.7	–3.1	–4.6	–1.7	–6.8	–4.0	–13.4	–8.2	–9.4	–5.6	–4.3
15 Nepal	–2.0	–8.0	–7.8	–5.3	–6.1	–8.7	–8.1	–7.2	–7.9	–1.4	–1.6	–2.4	–2.9	3.9	2.9
16 Pakistan	–3.7	–4.2	–2.8	–3.9	–5.6	–3.5	–5.5	–7.0	–2.7	–3.6	–1.5	–0.1	2.6	5.4	4.3
17 Sri Lanka	–16.3	–3.7	–6.6	–4.6	–3.7	–6.5	–5.9	–4.9	–2.6	–1.4	–3.6	–6.4	–1.4	–1.4	–0.7

Source: World Bank 2005.

Table 32: Trends in Capital Account Balance (% GDP)

Subregions/Countries	*1980*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
East Asia and Pacific															
1 Cambodia	..	..	..	..	..	9.1	7.7	7.5	7.2	6.5	7.4	6.8	4.6	6.1	3.9
2 China	..	–0.1	0.2	–7.0	3.1	4.4	3.0	3.0	–0.1	–2.6	–1.3	–0.9	2.5	3.2	5.0
3 Fiji	4.1	10.5	5.5	6.6	5.5	6.7	10.0	3.2	–1.6	4.5	1.6	0.0	0.0	0.0	0.0
4 Indonesia	0.0	4.4	4.7	2.9	1.8	2.1	4.0	5.4	1.5	2.1	–1.5	–4.0	–5.7	–2.5	–1.7
5 Malaysia	3.0	6.5	10.8	14.4	19.5	3.6	7.9	7.6	–0.3	–6.6	–9.6	–10.6	–7.2	–3.6	–3.0
6 Mongolia	..	..	..	..	2.3	–3.9	–0.3	2.3	–3.3	–0.7	10.4	11.9	8.8	22.3	0.0
7 Papua New Guinea	8.2	2.9	1.9	–4.1	–14.9	–11.5	–11.0	0.2	–2.5	–5.7	–2.7	–7.5	–4.7	0.0	0.0
8 Philippines	7.7	5.0	7.4	4.1	6.0	6.7	3.2	9.2	1.9	0.6	–4.2	–8.5	–1.3	–6.0	–3.8
9 Thailand	5.5	13.0	12.0	8.2	8.4	9.0	12.0	9.0	–5.7	–10.4	–5.9	–9.3	–5.1	–1.0	–3.4
10 Viet Nam	..	0.0	0.0	0.0	0.0	0.0	0.0	9.9	6.6	4.0	0.5	–3.3	–1.3	3.0	0.0
South Asia															
11 Bangladesh	3.4	1.7	1.9	1.2	0.7	1.6	0.1	1.2	0.1	0.8	0.1	0.4	0.7	–0.7	1.4
12 Bhutan	0.0	9.4	12.1	3.5	35.2	23.2	13.9	5.0	–5.9	12.7	5.0	7.9	8.5	12.2	0.0
13 India	0.7	1.5	2.4	2.7	2.3	3.5	1.1	2.1	1.8	2.3	1.9	2.1	1.6	3.5	3.8
14 Maldives	52.8	–4.8	3.3	8.5	16.0	4.5	8.7	7.9	11.2	7.8	14.9	7.6	4.6	11.8	7.9
15 Nepal	3.2	10.3	10.4	7.4	10.8	10.0	5.7	6.9	9.0	4.1	3.3	4.2	4.6	–4.2	0.6
16 Pakistan	4.8	3.6	3.3	4.5	6.3	6.8	3.5	5.1	3.8	3.3	2.2	0.1	0.3	0.8	–0.9
17 Sri Lanka	9.5	5.9	9.5	7.1	10.5	10.0	6.2	4.0	3.0	1.2	1.4	2.7	2.9	3.5	4.2

Note: Capital account balance = Change in foreign exchange reserves – Current account balance
Source: World Bank 2005.

Table 33: Foreign Direct Investment

Subregions/Countries/Regions	Foreign direct investment, net inflows (% of GDP)			Foreign direct investment, net inflows (% of gross capital formation)		
	1982	1992	2000	1982	1992	2000
East Asia and Pacific						
1 Cambodia	..	1.7	3.6	..	17.0	16.3
2 China	0.2	2.7	3.9	0.6	7.4	9.6
3 Fiji	3.1	6.4	1.5	12.0	50.3	..
4 Indonesia	0.2	1.3	-0.9	0.9	4.2	-5.6
5 Malaysia	5.1	8.8	3.4	15.2	24.8	14.2
6 Mongolia	..	..	7.0	..	..	21.6
7 Papua New Guinea	3.6	2.4	0.7	11.3	10.2	..
8 Philippines	0.0	0.4	2.3	0.2	2.0	11.9
9 Thailand	0.5	1.9	0.8	2.0	4.7	3.2
10 Viet Nam	..	4.8	4.0	..	27.2	12.0
South Asia						
11 Bangladesh	0.0	0.0	0.1	0.2	0.1	0.5
12 Bhutan	0.0	0.0	0.0	0.0	0.0	0.1
13 India	0.0	0.1	0.7	0.2	0.5	3.2
14 Maldives	0.0	2.3	1.9	..	..	7.6
15 Nepal	0.0	0.0	–0.1	0.0	0.0	-0.4
16 Pakistan	0.2	0.7	1.2	1.1	3.4	6.9
17 Sri Lanka	1.3	1.3	1.2	4.3	5.2	5.6
Regions						
1 East Asia & Pacific	0.6	2.7	3.1	1.9	7.7	8.9
2 Europe & Central Asia	0.1	0.4	3.1	0.2	1.2	14.1
3 Latin America & Caribbean	0.9	1.2	2.7	4.0	5.8	14.0
4 Middle East & North Africa	2.5	0.7	..	10.8	3.0	..
5 South Asia	0.1	0.2	0.7	0.4	1.0	3.3
6 Sub-Saharan Africa	0.4	0.5	2.7	2.1	3.5	14.0
7 Least Developed Countries	0.3	1.1	3.4	1.5	7.4	15.0
8 World	0.5	0.7	2.2	2.4	3.1	10.4

Source: World Bank 2005.

Table 34: Official Development Assistance

Subregions/Countries/Regions	Aid per capita (current US$)			Aid (% of GDP)			Aid (% of imports of goods and services)		
	1982	1992	2002	1982	1992	2002	1982	1992	2002
East Asia and Pacific									
1 Cambodia	6.4	20.1	37.0	..	10.4	12.2	..	39.0	16.7
2 China	0.5	2.6	1.2	0.3	0.7	0.1	2.7	3.8	0.4
3 Fiji	53.9	84.8	41.4	2.9	4.0	2.0	5.4	6.9	..
4 Indonesia	5.8	10.7	6.2	1.0	1.4	0.8	3.4	4.8	2.2
5 Malaysia	9.4	10.7	3.5	0.5	0.3	0.1	0.8	0.4	0.1
6 Mongolia	1.4	56.6	85.1	..	..	18.7	0.2	25.6	21.6
7 Papua New Guinea	95.6	106.8	37.8	13.1	10.2	6.9	20.1	18.3	11.4
8 Philippines	6.6	26.9	6.9	0.9	3.2	0.7	2.8	9.0	1.3
9 Thailand	8.0	12.9	4.8	1.1	0.7	0.2	3.7	1.5	0.4
10 Viet Nam	4.5	8.3	15.9	..	5.8	3.6	..	..	5.7
South Asia									
11 Bangladesh	14.9	16.0	6.7	7.4	5.7	1.9	47.6	42.3	9.6
12 Bhutan	22.3	86.8	86.3	7.0	22.5	12.2	11.2	50.1	28.0
13 India	2.3	2.8	1.4	0.8	1.0	0.3	9.0	7.2	1.6
14 Maldives	32.3	162.1	95.8	11.3	12.8	4.3	5.5	15.4	5.5
15 Nepal	13.2	22.8	15.1	8.4	12.7	6.6	40.6	43.6	21.1
16 Pakistan	10.5	8.9	14.8	3.0	2.1	3.0	12.6	7.3	14.2
17 Sri Lanka	27.7	38.6	18.1	8.7	6.6	2.1	17.9	15.7	4.6
Regions									
1 East Asia & Pacific	2.6	5.9	4.0	0.9	1.2	0.4	3.9	3.9	1.1
2 Europe & Central Asia	1.5	18.0	23.8	..	0.8	1.0	..	..	2.3
3 Latin America & Caribbean	6.9	11.9	9.8	0.3	0.4	0.3	1.5	2.2	1.1
4 Middle East & North Africa	30.6	27.7	19.8	1.4	1.5	0.9	3.4	3.9	3.2
5 South Asia	4.8	5.7	4.7	1.8	2.0	1.0	14.3	11.5	5.3
6 Sub-Saharan Africa	19.7	36.1	27.3	3.2	6.3	5.6	9.8	21.8	14.9
7 Least Developed Countries	19.9	30.1	..	7.4	11.8	..	30.6	44.8	..
8 World	6.6	12.4	10.8	0.3	0.3	0.2	1.1	1.2	0.7

Source: World Bank 2005.

Table 35: Exports by Main Regions of Origin and Destination

Origin/Destination	Year	Developed Economies	EU 25	United States and Canada	Japan	South-East Europe and CIS	Developing economies	OPEC	Developing economies: Africa	Developing economies West Asia	Developing economies Other Asia	Unallo-cated	World
East Asia and Pacific													
1 Cambodia	1990	15.0	7.1	..	7.6	0.7	84.3	1.8	0.2	0.0	83.3	0.0	100
	2004	90.9	25.6	60.8	3.5	0.1	9.1	0.1	0.0	0.1	8.9	0.0	100
2 China	1990	35.7	10.7	9.2	14.7	3.7	59.6	2.5	2.1	2.2	54.1	1.0	100
	2004	57.9	18.2	24.9	12.2	2.4	39.6	3.7	2.2	3.1	31.6	0.0	100
3 Fiji	1990	69.2	23.3	10.6	5.9	..	5.4	..	..	..	5.4	25.5	100
	2004	64.5	13.6	24.4	4.1	0.0	20.6	0.4	0.0	0.0	2.5	14.9	100
4 Indonesia	1990	70.5	12.3	13.6	42.5	0.4	29.0	2.7	0.7	2.7	25.1	0.1	100
	2004	51.4	13.6	13.6	20.3	0.6	48.0	2.5	1.9	3.2	41.5	0.0	100
5 Malaysia	1990	50.8	15.6	17.7	15.3	0.8	48.4	2.7	0.8	2.4	44.5	0.0	100
	2004	45.9	12.6	19.4	10.1	0.6	53.5	4.6	1.2	3.0	48.1	0.0	100
6 Mongolia	1990	56.0	35.9	2.0	17.6	8.8	35.2	0.1	20.7	0.1	13.9	0.0	100
	2004	40.3	7.4	31.8	1.0	5.5	54.1	0.3	0.0	0.5	53.6	0.0	100
7 Papua New	1990	82.0	24.1	2.7	27.8	..	17.7	0.3	0.2	0.0	17.1	0.3	100
Guinea	2004	45.2	10.5	1.2	5.6	0.0	14.8	3.2	0.0	0.0	14.4	40.0	100
8 Philippines	1990	79.3	18.5	39.4	19.8	0.0	20.0	1.8	0.3	1.1	17.5	0.6	100
	2004	51.2	15.6	18.5	15.6	0.1	48.7	1.4	0.3	0.7	47.1	0.0	100
9 Thailand	1990	68.1	23.4	24.0	17.2	0.6	30.8	5.2	2.5	4.8	22.0	0.6	100
	2004	49.8	14.7	17.0	13.9	0.4	48.4	6.3	2.6	3.2	41.0	1.3	100
10 Viet Nam	1990	23.9	9.8	0.1	13.5	38.2	28.4	1.7	0.2	0.9	26.8	9.6	100
	2004	65.8	23.2	21.2	13.4	0.6	32.8	4.8	1.0	3.2	27.7	0.7	100
South Asia													
11 Bangladesh	1990	75.2	35.4	32.2	3.9	4.6	19.7	3.5	4.1	5.0	10.1	0.5	100
	2004	78.3	50.0	26.5	1.0	0.1	8.7	1.2	0.9	2.0	5.4	12.9	100
12 Bhutan	1990	..	..	..	..	..	..	..	..	..	..	..	..
	2004	..	..	..	..	..	..	..	..	..	..	..	..
13 India	1990	57.3	29.1	16.0	9.3	16.8	21.5	6.1	2.5	6.3	12.2	4.5	100
	2004	47.8	22.2	19.6	2.9	1.6	50.2	14.0	5.9	13.8	28.5	0.4	100
14 Maldives	1990	61.5	26.2	26.3	8.5	..	38.5	..	..	..	38.5	0.0	100
	2004	63.4	14.8	39.9	8.6	0.0	36.5	6.8	5.3	0.1	30.5	0.0	100
15 Nepal	1990	85.0	53.8	24.0	0.8	0.0	15.0	0.0	0.1	0.0	14.8	0.0	100
	2004	43.0	17.5	23.4	1.0	0.0	54.0	0.0	0.0	0.7	53.3	3.0	100
16 Pakistan	1990	62.0	37.1	14.1	8.2	2.7	32.9	8.6	4.2	10.1	18.4	2.4	100
	2004	53.0	28.0	22.1	1.1	0.6	45.9	18.6	4.9	20.6	18.8	0.5	100
17 Sri Lanka	1990	62.4	26.9	27.4	5.4	3.1	30.5	11.0	5.5	13.3	9.6	3.9	100
	2004	66.7	29.3	32.2	2.9	3.3	22.1	6.2	1.8	7.5	11.3	4.6	100

Note: Data for Bhutan are not available
World = Developed economies + South-East Europe and CIS + Developing economies + Unallocated
Source: UNCTAD 2005.

Table 36: Imports by Main Regions of Origin and Destination

Origin/Destination	Year	Developed Economies	EU 25	United States and Canada	Japan	South-East Europe and CIS	Developing economies	OPEC	Developing economies: Africa	Developing economies West Asia	Developing economies Other Asia	Unallo-cated	World
East Asia and Pacific													
1 Cambodia	1990	40.0	28.2	0.0	9.0	0.0	59.9	23.9	0.1	3.5	55.8	0.0	100
	2004	9.3	4.1	1.9	2.5	0.2	90.5	3.3	0.0	0.1	90.4	0.0	100
2 China	1990	51.3	18.2	15.0	14.2	4.8	42.9	2.2	0.7	1.0	38.5	1.0	100
	2004	39.8	12.2	8.8	15.8	3.0	50.7	3.9	2.3	3.4	41.4	6.5	100
3 Fiji	1990	74.1	5.6	13.4	11.0	..	19.7	..	..	..	19.7	6.2	100
	2004	58.0	4.0	2.5	3.9	0.0	40.8	1.7	0.3	0.0	39.5	1.2	100
4 Indonesia	1990	66.2	20.8	13.3	24.8	0.4	33.0	4.7	0.7	5.1	24.8	0.5	100
	2004	42.5	11.7	6.5	18.4	0.9	55.9	7.4	3.5	5.6	45.0	0.7	100
5 Malaysia	1990	63.8	16.1	17.9	24.2	0.4	35.6	2.2	0.5	1.2	32.0	0.2	100
	2004	46.4	12.1	15.1	16.1	0.5	52.9	5.9	0.6	2.4	48.6	0.2	100
6 Mongolia	1990	67.8	54.3	..	10.7	8.9	23.2	0.0	0.7	0.0	22.5	0.0	100
	2004	26.3	12.2	4.2	7.9	36.7	37.0	0.4	0.0	0.4	36.2	0.0	100
7 Papua New Guinea	1990	82.0	6.7	11.5	13.3	0.1	17.7	1.0	0.3	0.0	16.8	0.3	100
	2004	60.7	2.6	3.1	4.3	0.2	37.3	3.1	0.2	0.1	36.4	1.7	100
8 Philippines	1990	56.5	12.1	21.0	18.4	0.4	43.0	12.7	0.7	11.4	27.9	0.0	100
	2004	47.6	8.6	15.7	20.0	1.1	51.3	7.7	0.2	5.9	43.7	0.0	100
9 Thailand	1990	63.7	16.9	11.9	30.4	0.7	34.8	4.0	0.9	3.8	28.1	0.8	100
	2004	45.7	9.9	8.2	23.6	1.6	50.4	10.3	1.4	11.1	36.0	2.3	100
10 Viet Nam	1990	20.0	13.1	0.2	5.9	7.7	29.9	0.3	0.1	0.0	29.6	42.3	100
	2004	26.8	9.5	4.2	10.7	3.0	69.5	3.3	0.4	1.4	66.7	0.7	100
South Asia													
11 Bangladesh	1990	44.0	18.5	8.3	13.2	1.3	41.3	6.3	0.3	5.1	34.4	13.3	100
	2004	20.8	8.7	3.2	5.6	2.0	66.3	10.3	0.9	8.2	55.7	10.9	100
12 Bhutan	1990	..	..	..	..	..	..	..	..	..	..	..	..
	2004	..	..	..	..	..	..	..	..	..	..	..	..
13 India	1990	58.6	34.0	12.3	7.5	6.3	34.6	16.7	3.1	18.0	11.2	0.5	100
	2004	40.9	21.7	7.3	3.3	2.2	33.1	6.5	2.3	4.6	24.5	23.8	100
14 Maldives	1990	17.4	13.0	0.5	3.3	0.0	82.6	0.7	..	0.5	82.0	0.0	100
	2004	20.2	12.3	2.2	1.2	0.0	79.6	9.6	3.2	7.6	68.8	0.2	100
15 Nepal	1990	46.6	18.2	2.8	18.7	0.8	52.6	0.0	0.2	0.0	51.9	0.0	100
	2004	9.8	5.0	2.1	1.4	0.5	86.8	16.9	0.3	16.8	69.5	2.9	100
16 Pakistan	1990	56.1	24.9	14.1	11.9	1.5	41.1	18.5	2.6	19.5	17.9	1.3	100
	2004	40.3	18.5	11.2	6.7	1.7	57.1	28.0	2.2	27.4	26.9	1.0	100
17 Sri Lanka	1990	40.9	16.2	8.6	12.3	1.0	58.0	12.1	4.4	12.0	40.4	0.1	100
	2004	29.2	17.0	2.6	4.3	0.3	65.2	10.6	0.5	8.6	55.7	2.5	100

Note: Data for Bhutan are not available
World = Developed economies + South-East Europe and CIS + Developing economies + Unallocated
Source: UNCTAD 2005.

Table 37: Regional and Bilateral Trading Agreements and WTO Membership

	Subregions/Countries	*Regional trading agreements (RTAs)*	*Bilateral trading agreements (BTAs)*	*WTO membership year*
East Asia and Pacific				
1	Cambodia	AFTA (1999)	China (2002)*	2004
2	China	ASEAN (2002) / Bangkok Agreement (2001)	Hong Kong, China (SAR) (2003)/ Macao (2003) / Pakistan (2005)	2001
3	Fiji	PICTA (2001) / PACER (2001)	No	1996
4	Indonesia	AFTA (1992)	China (2002)*	1995
5	Malaysia	AFTA (1992) / GSTP (1989)	China (2002)*	1995
6	Mongolia	..	..	1997
7	Papua New Guinea	PICTA (2001) / PACER (2001)	None	1996
8	Philippines	AFTA (1992) / GSTP (1992)	China (2002)*	1995
9	Thailand	AFTA (1992) / BIMSTEC (2004) / GSTP (1990)	Australia (2004) / Bahrain (2002) / China (2002)* / India (2003) / New Zealand (2005) / Peru (2003)	1995
10	Viet Nam	AFTA (1995) / GSTP (1989)	China (2002)*	Observer
South Asia				
11	Bangladesh	SAFTA (2004) / BIMSTEC (2004) / Bangkok Agreement (1975)/ GSTP (1989)	None	1995
12	Bhutan	SAFTA (2004) / BIMSTEC (2004)	India (1995)	Observer
13	India	SAFTA (2004) / BIMSTEC (2004) / Bangkok Agreement (1975)/ GSTP (1989)	Afghanistan (2003) / Bhutan (1995)/ MERCOSUR (2005) / Nepal (1996) / Singapore (2005)/ Sri Lanka (1998) / Thailand (2003)	1995
14	Maldives	SAFTA (2004)	None	1995
15	Nepal	SAFTA (2004) / BIMSTEC (2004)	India (1996)	2004
16	Pakistan	SAFTA (2004) / ECO (2003) / GSTP (1989)	China (2005) / Sri Lanka (2005)	1995
17	Sri Lanka	SAFTA (2004) / BIMSTEC (2004) / Bangkok Agreement (1975)/ GSTP (1989)	India (1998) / Pakistan (2005) / Iran (2004)	1995

Note: * ASEAN Plus Agreement; ( ) refers to year of agreement.

Sources: WTO Website on WTO Trade Statistics and International Trade Statistics, 2005 at http://www.wto.org/english/res_e/statis_e/statis_e.htm

UNDP Policy Paper "The Great Maze: Regional and Bilateral Free Trade Agreements in Asia", UNDP Regional Centre in Colombo, December 2005.

Bilateral Agreement Website http://www.bilaterals.org

Definitions of Technical Terms

Ad valorem duties (tariffs) Is calculated as a percentage of the value of the dutiable items. Contrasts with a specific tariff.

Anti-dumping duties May be imposed if export dumping causes injury to producers of competing goods in an importing country. The duties should be equal to the difference between the export price and the normal value of the dumped goods.

Balance of trade Refers to the difference between the value of exports and imports. It is calculated as the value of exports of goods and services minus the value of imports of goods and services.

Balance of payments Records all flows of money in and out of a given country. These flows might result from the sale of exports (an inflow or credit) or from the country's purchase of imports from overseas (an outflow or debit). They might also arise from other countries investing in the country (inward investment – a credit), or from country's companies investing abroad (a debit). All flows of money are added together and grouped according to their type. The overall account is then called the balance of payments – principally because the total of outflows must be equivalent to the total of inflows. The balance of payments therefore balances.

Blue Box Comprises measures regarded as exceptions to the general rule that all subsidies linked to production must be reduced or kept within defined minimal levels. Covers payments directly linked to land size or livestock as long as the activity being supported limits production.

Common external tariff Refers to a tariff rate applied by a regional grouping of countries as a unit.

Dumping Occurs when goods are exported at a price less than their normal value, generally meaning that they are exported for less than they are sold in the domestic market or third-country markets, or at less than cost of production.

Employment elasticity Is the percentage change in employment resulting from a one per cent change in economic growth.

EU Common Agricultural Policy Refers to the system of European Union agricultural subsidies that guarantees a minimum price to producers and pays a subsidy for crops planted.

An export processing zone (EPZ) Eases tax and labour restrictions. Its primary purpose is to generate export revenues in poor developing countries. It is largely identical to a free trade zone.

Extreme poverty Is the most severe state of poverty, where people have minimal or very limited access to basic necessities, such as food, clothing, shelter, education and health care. The World Bank defines extreme poverty as living on $1 or less per day, and estimates that 1.1 billion people currently live under these conditions. Eradication of extreme poverty and hunger by 2015 is a Millennium Development Goal.

Financial liberalization Refers to a series of regulatory changes that allow foreign investors to buy domestic assets and allows domestic citizens to invest in foreign assets which make the domestic securities market an integral part of the world market. The process is mainly defined as a series of regulatory changes that open up the capital markets to foreign investors with the introduction of depository receipts, country funds or equity capital flows to the emerging economy.

GATS framework Is the General Agreement of Trade in Services. It covers four 'modes of supply" for the delivery of services in cross-border trade:

- Mode 1, cross border trade – which is defined as delivery of a service from the territory of one country into the territory of the other country;
- Mode 2, consumption abroad – which covers supply of a service of one country to the service consumer of any other country;
- Mode 3, commercial presence – which covers services provided by a service supplier of one country in the territory of any other country; and
- Mode 4, presence of natural persons – which covers services provided by a service supplier of one country through the presence of natural persons in the territory of any other country.

A 'Natural Person' is a human being, as distinct from a legal person such as a company or organization. Countries can freely decide where to liberalize on a sector-by-sector basis, including which specific mode of supply they want to cover for a given sector.

Gross Domestic Product (GDP) Is gross value added, at purchasers' prices, by all resident producers in the economy plus any taxes and minus any subsidies not included in the value of the products. It is calculated without deducting for depreciation of fabricated assets or for depletion or degradation of natural resources. Value added is the net output of an industry after adding up all outputs and subtracting intermediate inputs.

Gender Is a social construct regarding culture-bound conventions, roles and behaviours for, as well as relationships between and among, women and men and boys and girls.

Generalized System of Preferences (GSP) Aims to encourage developing countries' exports by allowing their products preferential access to the markets of developed countries. Although donor countries are under no obligation in international law to give preferences, almost all developed countries operate GSP schemes; however, the schemes they offer vary significantly.

Green Box Contains income support and subsidies that are expected to cause little or no trade distortion. Subsidies have to be funded by governments but must not involve price support. Environmental protection subsidies are included. No limits or reductions are required for such income support or subsidies.

Gini coefficient (index) Measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A value of 'zero' represents perfect equality, while a value of 'one' represents perfect inequality.

Globalization For the purposes of this report, refers to the generalized expansion of international economic activity, which includes increased international trade, growth of international investment (foreign investment) and international migration, and increased proliferation of technology among countries. Globalization is thus the increasing worldwide integration of markets for goods, services, labour, and capital.

Headcount ratio Is also known as the poverty incidence or headcount index. It measures the share of the total population in a given area whose consumption is below the poverty line. In other words, it is the proportion of the population who cannot afford to purchase the basic basket of goods and services.

Infant mortality rate Is the probability of dying between birth and exactly one year of age, expressed in terms of per 1,000 live births.

Intellectual property rights Is a generic phrase encompassing intangible property rights, including, among others, patents, trade and service marks, copyrights, industrial designs, rights in semiconductor chip layout designs, and rights in trade secrets.

Least Developed Countries (LDCs) Are countries which, according to the United

Nations, exhibit the lowest indicators of socioeconomic development. A country is classified as a Least Developed Country if it meets three criteria based on:

- Low-income (GNI per capita of less than $750)
- Human resource weakness (based on indicators of nutrition, health, education and adult literacy)
- Economic vulnerability (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, and handicap of economic smallness, and the percentage of population displaced by natural disasters).

Life expectancy at birth Is the number of years a newborn infant would live if prevailing patterns of age-specific mortality rates at the time of birth were to stay the same throughout the child's life.

Low- and middle-income developing countries Are defined on the basis of per capita gross national income (GNI), based on the approach used by the World Bank. Based on GNI per capita for 2004, the groups are: low-income, $825 or less; lower middle-income, $826–$3,255; upper middle-income, $3,256–$10,065; and high income, $10,066 or more.

Maternal mortality ratio Is the annual number of deaths of women from pregnancy-related causes per 100,000 live births.

Multifibre Arrangement (MFA) Also known as Agreement on Textile and Clothing (ATC), governed the world trade in textiles and garments from 1974 through 2004, imposing quotas on the amount developing countries could export to developed countries. It expired on 1 January 2005.

Most-favoured-nation (MFN) Is a commitment that a country will extend to another country the lowest tariff rates it applies to any other country. All WTO contracting parties undertake to apply such treatment to one another under A`rticle I of the GATT. When a country agrees to cut tariffs on a particular product imported from one country, the tariff reduction automatically applies to imports of that product from any other country eligible for most-favoured-nation treatment.

Newly industrializing economies (NIEs) A term originated by the Organization for Economic Cooperation and Development (OECD), describes economies of the Third World that have enjoyed rapid economic growth and can be described as 'middle-income' economies. The term was first applied to Hong Kong (China), Singapore, the Republic of Korea, and Taiwan (China), but it is often extended to other economies.

Outsourcing of business processes Is the leveraging of third party technology or specialist process vendors to provide and manage an organisation's enterprise processes and applications. In these contracts the provider is responsible for performing and managing the outsourced function or process on behalf of the customer. Business process outsourcing contracts generally involve the provider taking overall responsibility for the business process and not just supplying IT applications or services to facilitate the process. Through business process outsourcing, vendors provide and manage a company's critical and/or non-critical enterprise applications. The most common examples of such arrangements are call-centres, human resources, accounting and payroll outsourcing. Business process outsourcing may involve the use of off-shore resources.

Plant variety protection (PVP) Is a synonym for plant breeders' rights (PBR). It is the legal protection of a new plant variety granted to the breeder or his successor in title. The effect of PBR is that prior authorization is required before the material can be used for commercial purposes.

Poverty gap Provides information on how far the consumption of poor people is from the poverty line – i.e. the depth of poverty. More technically, the measure captures the average

expenditure shortfall, or gap. It is obtained by adding up all the shortfalls of the poor (ignoring the non-poor) and dividing this total by the number of poor. The poverty gap thus measures the consumption deficit of the population, or the resources that would be needed to lift all the poor out of poverty through perfectly targeted cash transfers.

Preferential treatment Refers to trade preferences that have long been an instrument of foreign and commercial policy, employed to establish closer relations, both economic and political, between the countries concerned. Preferential treatment by developed countries of imports from developing countries has, in addition, become a firm element of development-oriented policies. The various existing regimes of trade preferences for developing countries can be classified into three major categories: (i) the Generalized System of Preferences (GSP); (ii) special preferential regimes for groups of developing countries; and (iii) regional free-trade arrangements between individual developed countries and given groups of developing countries.

Regional integration Refers to the formation of closer economic linkages among countries that are geographically near each other, especially by forming preferential trade agreements.

Small-island developing states (SIDS) Include low-lying coastal countries that share similar sustainable-development challenges, including small populations, lack of resources, remoteness, susceptibility to natural disasters, excessive dependence on international trade and vulnerability to global developments. In addition, they suffer from lack of economies of scale, high transportation and communication costs, and costly public administration and infrastructure.

Special and differential treatment Is the principle in the WTO that developing countries be accorded special privileges, either exempting them from some WTO rules or granting them preferential treatment in the application of WTO rules.

Tax-to-GDP ratio Refers to taxes and social security contributions as a percentage of GDP. This indicator is widely used to measure the overall tax burden.

Total factor productivity (TFP) Often referred to as the 'Solow residual', addresses any effects in total output not caused by inputs or productivity. In terms of a standard Cobb-Douglas production function –

$$Y = AK^{\alpha}L^{1-\alpha}$$

where Y represents total output as a function of total-factor productivity (A), capital input (K), labour input (L), and the two inputs' respective shares of output. Technology growth and efficiency are regarded as two of the biggest factors affecting TFP, the former possessing 'special' inherent features such as positive externalities and non-rivalness which enhance its position as a driver of economic growth. TFP is seen as the real driver of growth within an economy, and studies reveal that whilst labour and investment are important contributors, TFP accounts for up to as much as 60 per cent of growth within economies.

Trade diversion Occurs when a trade reform measure discriminates between different trading partners and a less efficient (higher cost) source displaces a more efficient (lower cost) one. Can arise whenever some preferred suppliers are freed from barriers but others are not.

Tradable goods Are goods that have export or import potential. The possibility of their being traded abroad sets up a continuous comparison between their price and that of their overseas competitors.

Trade liberalization Is the removal of barriers to free trade, such as tariffs, quotas, nominal and effective rates of protection and exchange controls.

Trade Related Investment Measures (TRIMs) Is one of Agreements covered under Annex IA to the Marrakech Agreement, signed at the end of the Uruguay Round negotiations. The Agreement addresses investment measures that are trade related and that also violate Article III

(National treatment) or Article XI (general elimination of quantitative restrictions) of the General Agreement on Tariffs and Trade.

Trade-Related Aspects of Intellectual Property Rights (TRIPS) Is an international treaty under the World Trade Organization (WTO), which sets down minimum standards of intellectual property for all products and services, covering copyrights, trademarks, geographical indications, industrial designs, integrated circuits, patents and trade secrets.

Trade-to-GDP ratio Is the sum of imports and exports as a proportion of GDP.

Value added tax Is similar to a sales tax in that it is levied at the time of the sale of goods and services. In some countries, including Australia, Canada, New Zealand, and Singapore, this tax is known as 'goods and services tax' or GST; and in Japan it is known as 'consumption tax'. VAT is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer).

Venture Capital Fund Is a pooled investment vehicle (often a partnership) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.

Notes

Chapter 1

1. WTO 2005a.
2. Ranis and Stewart 2005.
3. World Bank 2005.
4. Kelsey 2004.
5. Rodriguez and Rodrik 1999.
6. Patnaik and Chandrasekhar 1996.
7. Other studies also confirm this. For example, see Levine and Renelt (1992) and Wacziarg (2001).
8. The distinctions between the roles of the WTO Secretariat, the limitations of the Agreements and the rigid positions of some of the WTO members are not always well understood.
9. An earlier, very similar conceptualization in the context of trade may be seen in Waglé and Gibbs (2003), which was later incorporated in Montes and Memis (2005). The idea originates from Mahbub ul-Haq (1995).

Chapter 2

1. World Bank 2005.
2. World Bank 2005.
3. UNCTAD 1999a; 1999b.
4. Santos-Paulino and Thirlwall 2004.
5. UNCTAD 2004a.
6. Dollar and Kraay 2001; Rodriguez and Rodrik 1999.
7. Hossain 2001; Keong et al. 2003.
8. Acharya and Chaudhri 2001.
9. World Bank 2005.
10. This slow progress has contributed to slow progress at the international level. In 2002, there were 815 million hungry people in the world, according to the United Nations (2005). FAO estimates show that since the World Food Summit benchmark period of 1990-92, the number of hungry in the world has declined by only 9 million. 'More alarming still, the number has actually increased over the most recent five years for which numbers are available. In three of the four developing regions, more people were undernourished in 2000–2002 than had been the case in 1995–97. Only Latin America and the Caribbean registered a modest reduction in the number of hungry people' (FAO 2004a).
11. FAO 2004a; 2004b.
12. Over the 1990–92 to 2000–02 period as a whole, the proportion of people living with insufficient food declined from 25 to 22 per cent in South Asia, from 18 to 13 per cent in South-East Asia and from 16 to 11 per cent in East Asia. As a result, in East and South-East Asia the number of hungry people declined by 47 and 12 million respectively, while in South Asia it rose by 15 million. (United Nations 2005).
13. United Nations 2005.
14. United Nations 2005.
15. United Nations 2005.
16. United Nations 2005.
17. United Nations 2005.
18. Reinert 2005.
19. Palanivel 2006.

Chapter 3

1. FAO 2004b.
2. FAO 2004a.
3. FAO 2004a.
4. FAO 2004a.
5. FAO 2004a.
6. Einarsson 2001.
7. Aksoy 2005.
8. OECD 2005.
9. The 'Green Box' is the term used to denote domestic support policies that are not subject to reduction commitments under the Agreement on Agriculture. These policies are said to affect trade minimally, and include support such as research, extension, food security stocks, disaster payments, and structural adjustment programmes. Direct payments to producers delinked from production (decoupled payments) also fall under the Green Box.

10. The ‘Blue Box’ denotes the set of provisions in the Agreement on Agriculture that exempts from reduction commitments those payments to producers received under production limiting programmes – if they are based on fixed area and yields or a fixed number of head of livestock, or if they are made on 85 per cent or less of base level of production.
11. The full cost of production for soybeans was $7.34 per bushel in 2002, but the product was exported at $5.48 per bushel. Maize, which cost $3.08 per bushel to produce, was exported at $2.69 per bushel, and rice was exported at $11.80 though it was produced at a cost of $18.26 per bushel (IATP 2004).
12. FAO 2004c.
13. FAO 2004c.
14. Dhar 2004a.
15. Aksoy 2005.
16. FAO 2004c.
17. FAO 2004a.
18. FAO 2003a.
19. Bhattasali, Li and Martin 2004.
20. Madeley 2000; FAO 1999a.
21. FAO 1999a.
22. FAO 2004b.
23. It was only recently, in 2002, that Nepal’s civil code of 1963 was amended giving women better property rights, like allowing them to inherit an equal share in their husband’s property without qualification of age or duration of marriage and retention of rights after widowhood or remarriage.
24. Anderson 2003.
25. McCulloch 2004.
26. Dillon 2001.
27. Conroy, Murray and Rosset 1996.
28. Following trade negotiations crafted by the General Council of the WTO in July 2004, the ‘basic concepts, principles and effectiveness’ of the Green Box remain untouched, subject to a review to ensure that its trade-distorting effects are ‘minimal’. Further, not only were members allowed to take recourse to existing forms of Blue Box support, but new measures were to be negotiated subject to the condition that such payments will be less trade-distorting than aggregate measure of support measures.
29. This primarily came in the form of an agreement to substantially reduce, based on negotiations, the sum total of Final Bound levels of the Aggregate Measure of Support (AMS), *de minimis* (or minimal acceptable) support and Blue Box measures. Such reduction was to occur through a tiered formula involving larger reductions by those currently providing higher levels of support, leading to some ‘harmonization’ of support levels. In particular, the framework required that there would be a minimal reduction in such support to 80 per cent of preexisting levels in the first year and throughout the period of implementation. Finally, while a major compromise in the form of the continuation of the Blue Box had been made, a promise to cap Blue Box support at 5 per cent of the value of production had been included.
30. This definition draws on two established concepts, Indication of Source (IS) and Appellation of Origin (AO), which trace their formal origins to the 1893 Paris Convention and the 1958 Lisbon Convention on Appellations of Origin and their Registration respectively. IS refers generally to any expression or sign used to indicate that a product originates in a country, or a specific place (e.g., Made in Mongolia), while AO refers to the geographical name of a country or locality (e.g., Champagne), which serves to designate a product originating therein whose characteristics are exclusively or essentially due to that geographical environment. While all Appellations of Origin are clearly Indications of Source, the converse is not necessarily true.
31. UNDP 1999.
32. Consumers International 2005.
33. This imbalance in the TRIPS agreement was a result of deals done between major players at the 1990 Brussels Ministerial Conference. At that point, few developing countries showed much interest in GIs. A coalition of developing and developed countries is now, therefore, seeking to redress this imbalance by extending additional protection to products other than wines and spirits. They clearly have equity and logic on their side, though they are struggling to prove that weaker protection has actually caused economic losses (Rangnekar 2003).
34. WTO 2002a.
35. FAO 2005.
36. FAO, FISHSTAT Online Database.
37. FAO 1999b.

38. FAO 2000.
39. FAO 2003b.
40. FAO 2002.
41. They now use the Hazard Analysis and Critical Control Point (HACCP) systems. The international regulatory framework for fish safety and quality is embodied in the WTO agreements on the application of Sanitary and Phytosanitary (SPS) Measures and Technical Barriers to Trade (TBT), and the standards, guidelines and recommendations developed by the relevant committees of the *Codex Alimentarius*. These safety and quality concepts are also enshrined in the Code of Conduct for Responsible Fisheries, particularly Articles 6 and 11 (FAO 2004). The HACCP-based food safety and quality system has been fully enforced from December 1999 in the US and is also part of the EU food safety standard. In December 2000, the EU introduced residue-monitoring requirements for veterinary medicines in fisheries products from third countries. In March 2001, it further introduced requirements for monitoring heavy metal contamination in a wide range of foods, including fish products.
42. Humpal and Guenette 2000.
43. FAO 1998.
44. Scharer 2001.
45. WTO 2001a.
46. UNDP 1999.
47. While enforcing GI provisions will cost much less, the fact that GIs are part of the IP parcel (together with patents, trade-marks, and copyrights) means that an isolated assessment of its separate implementation is difficult. It has been noted, however, within TRIPS it is the enforcement of IPs like patents and copyrights that are more expensive (and more likely to be foreign-owned) than GIs.
48. Costa-Pierce 2002.

Chapter 4

1. European Commission 2003.
2. Diao and Somwaru 2001.
3. ILO 2005b.
4. ATMI 2003.
5. Since the publication of the ATMI report, the EU membership has expanded with the accession of 10 new member states. The enlarged EU spends more on imports of textile and clothing than the US as a study by Adhikari and Yamamoto (2006) illustrates.
6. UNCTAD WITS-TRAINS Database.
7. Diao and Somwaru 2001.
8. Waglé 2005.
9. Jha 2003.
10. The process of abolishing quotas and freeing trade in textiles and clothing was in fact ‘end-loaded’, defeating the purpose of the ten-year transitional period.
11. Jahan 2000.
12. ITCB 2003.
13. Jahan 2000.
14. Adhikari and Yamamoto, 2006.
15. ILO 2005b.
16. Khondker et al. 2005.
17. Khondker et al. 2005.
18. Ahmed et al. 2005.
19. Brooke 2004.
20. ICFTU 2005.
21. Kathuria, Martin and Bhardwaj 2001.
22. Adhikari and Yamamoto 2006.
23. Siegmann 2006.
24. Udagedara 2003.
25. ILO 2005b.
26. WTO 2003a.

Chapter 5

1. Rajivan 2004; 2005.
2. This chapter focuses on the human development implications of three types of service – involving movement of the seller, the buyer or the services themselves. Of course, there are other types of services, such as environmental services (water and sanitation, telecom, energy services, health services, education and financial services, etc.), many of which also have positive and negative human development implications. Due to limitations of space and time, a collective decision was taken to limit the scope of this chapter. The human development implications of these other services could be a useful area for research.
3. Huy et al. 2003.
4. Chanda 2003a; Ghosh 2004.
5. DOLE 2001; Buchan and Sochalski 2003.
6. Manalansan 2002.
7. Chanda 2004.
8. WTO 2005b.

9. NASSCOM-Hewitt 2003.
10. Kearney 2004.
11. Richards and Margolis 2004.
12. Economic Times 2002.
13. UNCTAD 2003a.
14. World Tourism Organisation 2005a; 2005b.
15. ILO 2005c.

Chapter 6

1. The precise definition for an LDC is available in *Voices of the Least Developed Countries of Asia and the Pacific, UNDP/UNESCAP, 2005.*
2. UNDP and UNESCAP 2005.
3. UNCTAD 2004a.
4. World Bank 2004a.
5. UNCTAD 2004a.
6. Winters and Martins 2004.
7. Thomas 2004.
8. UNDP 2005a.
9. WTO 2001d.
10. The export concentration index takes a value between zero and 1, where zero represents the lowest concentration and 1 represents the highest. While the non-LDC world average is 0.2 for the 1990s, Kiribati had a concentration index of 0.73 in 1995. See Commonwealth Secretariat and UNCTAD (2001).
11. Adhikari 2004.
12. WTO 2005b.
13. Adhikari 2003.
14. WTO 2001a.
15. WTO 2003a.
16. Kanniah 2003.
17. Ognivtsev et al. 2001.
18. Butkeviciene et al. 2001.
19. Finger and Schuler 1999.
20. The existing literature on the impact of WTO accession is not only scarce, but also highly specialized and not necessarily relevant from a human development perspective. For example, Evenett and Gage (2005) only focus on the impact on trade flows of four countries after WTO membership and fails to establish any clear cut linkage between WTO membership and increased trade flow – mainly exports; Rose (2004) challenges the argument that GATT/WTO membership could actually increase trade; and Subramanian and Wei (2003) conclude that the WTO promotes trade, strongly but unevenly. Due to these limitations, much of the analysis in this section deals with prospective impact, based on the available literature.
21. Rodrik 1997.
22. UNDP 1999.
23. UNDP 1999.
24. ADB/UNAIDS 2004.
25. Busse 2004.
26. Adhikari 2005a.
27. Waglé and Gibbs 2003.
28. UNCTAD 2004b.
29. The Committee is at present discussing five LDC Agreement-specific proposals including greater flexibility for LDCs to take up commitments, consistent with their level of economic development; improved access for LDCs to temporary waivers regarding one or more of their obligations; duty-free and quota-free market access for goods originating from LDCs; and greater flexibility to use trade-related investment measures as a development tool.
30. Srinivasan 1999.
31. Ismail 2005.
32. UNCTAD 2004b.
33. Brenton 2003.
34. Inama 2002; Brenton 2003.
35. Stevens and Kennan 2004.
36. Anderson 2004; UN Millennium Project 2005.
37. Romalis 2003.
38. Rose 2004.
49. Puri 2005.
40. Puri 2005.
41. Puri 2005.
42. For this purpose, LDCs shall notify the Council for Trade in Goods (CTG) of such measures within two years, starting 30 days after the date of the Hong Kong declaration. If notified, LDCs will be allowed to maintain these existing measures until the end of a new transition period, lasting seven years.

Chapter 7

1. Malhotra 2006.

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2005: Voices of the Least Developed Countries of Asia and the Pacific: Achieving the Millennium Development Goals Through a Global Partnership (with UNESCAP). *Thematic Report and Video.*
2004: ICT for Human Development: Towards Building a Composite Index for Asia. *Technical Paper.*

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ASIA-PACIFIC HUMAN DEVELOPMENT REPORT 2006

The Asia and the Pacific region is at the forefront of globalization – dispatching myriad goods across the globe. The region is selling services too: From Bangalore to Manila, hundreds of thousands of workers are assisting customers and clients in Europe, the United States or Japan. And when the services cannot be outsourced, the service workers are travelling across the region and beyond – as domestic workers or nurses, construction workers or engineers. Asia and the Pacific is thus rapidly becoming not just the factory of the world, but of the back office too.

What impact will this have on people's lives – on their employment opportunities, their incomes, their quality of life, on who they are and what they can become? In sum: What will all this mean for human development? And, looking at it from the other direction, what contribution can higher levels of human development make to further expanding trade and economic growth?

This Report responds to these questions from the perspective of Asia and the Pacific. It points out that while trade can certainly enhance human development, it can also hinder it – triggering a series of complex and dynamic processes that produce both winners and losers. How should national governments respond? The Report concludes with a bold eight-point agenda for ensuring that international trade promotes poverty reduction and human development for all.

This Report was developed by a multinational team under the auspices of the Human Development Unit of the UNDP Regional Centre in Colombo, Sri Lanka (RCC). The RCC was established in 2005 to serve countries of Asia-Pacific as a regional hub for development knowledge and expertise, providing policy advisory, capacity development and advocacy services that nurture the creativity of UNDP Country Offices, host Governments and Civil Society Organisations in the region. RCC specialises in Poverty Reduction and HIV and Development, with Gender Equality as a crosscutting concern.

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