

**ASIAN DEVELOPMENT BANK**

TAR:STU 35234

**TECHNICAL ASSISTANCE**

**FOR**

**A STUDY ON**

**REGIONAL INTEGRATION AND TRADE:**

**EMERGING POLICY ISSUES**

**FOR SELECTED DEVELOPING MEMBER COUNTRIES**

**August 2001**

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
EDRC	–	Economics and Development Resource Center
EU	–	European Union
MFN	–	most favored nation
NAFTA	–	North American Free Trade Agreement
PRC	–	People's Republic of China
PTA	–	preferential trade area
RETA	–	regional technical assistance
TA	–	technical assistance
US	–	United States
WTO	–	World Trade Organization

## NOTE

In this report, "\$" refers to US dollars.

## I. INTRODUCTION

1. International trade has always been a key issue for the Asian Development Bank's (ADB) developing member countries (DMCs). Without the ability to penetrate the world markets, the newly industrialized economies (Hong Kong, China; Republic of Korea; Singapore; and Taipei, China) could not have achieved per capita income levels approaching those of developed countries, enabling them to eliminate poverty according to the dollar-a-day poverty criterion. Nor could the Southeast Asian economies subsequently, and India and People's Republic of China (PRC) most recently, have achieved high rates of growth and lifted millions of people out of poverty.

2. If DMCs are to continue to prosper, it is critical that the world markets as well as their own markets continue to open up. Protectionist threats to reverse past liberalization in DMCs and the rest of the world must be countered. It is with this central, overall objective that the present regional technical assistance (RETA) is being launched.<sup>1</sup> The RETA will help raise awareness of the policy issues and challenges posed for DMCs at different stages of trade liberalization, and will enhance their capacity to promote trade liberalization conducive to economic growth and poverty reduction. It will also help raise ADB's profile and leadership role in trade policy debates.

## II. BACKGROUND AND RATIONALE

3. The last major ADB study on the global trading environment was launched almost eight years ago.<sup>2</sup> At that time, the North American Free Trade Agreement (NAFTA) was about to come into force, while the Uruguay Round Agreement on multilateral trade was nearing conclusion. Since 1993, several developments have taken place that raise new and important policy issues for DMCs. The first and immediate development is that a new round of trade negotiations may be launched at the Fourth Ministerial Conference of the World Trade Organization (WTO) in Qatar in November 2001. Major differences among member countries at the Third Ministerial Conference of WTO in Seattle in 1999 led to the breakdown of efforts to launch such a round. According to the latest reports available, these differences appear to be narrowing down. The European Union (EU) and the United States (US) appear willing to compromise on the language on agriculture. And there even appears to be room for compromise on the most contentious issue of linking trade and labor standards.<sup>3</sup> Even if the efforts to launch the round in Qatar fail, such a round is bound to be launched in another year or two. DMCs have much at stake in this and need technical assistance (TA) both for developing their positions on the negotiating agenda itself in the immediate future and for actual negotiations subsequently.

4. The second new development is continued proliferation of preferential trade area (PTA) arrangements, which lower trade barriers between two or more countries but leave them intact against other countries. NAFTA played a catalytic role in triggering the ongoing wave of PTAs. Since the conclusion of NAFTA, a large number of such arrangements have come into

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<sup>1</sup> The TA first appeared in ADB Business Opportunities in July 2001.

<sup>2</sup> RETA 5551: *A Study of the Emerging Trading Environment: Economic Implications for Developing Member Countries*, for \$350,000, approved on 4 November 1993.

<sup>3</sup> According to a recent report entitled "EU urges full speed on new trade round" in the *Financial Times* (18 July 2001), the EU Commission is poised to caution against attempts to include labor standards in WTO. In parallel, the US Trade Representative has stated that the EU and the US "are developing an increasing degree of convergence on a strong and balanced agenda" for the WTO Fourth Ministerial Conference in Qatar.

existence within Latin America and Europe and between the EU and countries in Eastern and Central Europe and North Africa. The EU has gone so far in this direction that its most favored nation (MFN) tariff applies to only five countries.<sup>4</sup> WTO reports that it has been informed of more than 80 PTAs since the conclusion of NAFTA. There are also plans to launch the Free Trade Area of the Americas, which will turn the entire Western Hemisphere into a single trade bloc.

5. Since PTAs are by and large among countries outside Asia, the market access of ADB's DMCs has been inevitably adversely affected. When Mexico receives tariff- and quota-free access to the US market, it has an obvious adverse impact on the access available to ADB's DMCs. What are the costs of this decline in market access, and what can the DMCs do about it? Should DMCs push harder for multilateral liberalization so that the marginal benefit of tariff preference among member countries within a PTA declines? Should DMCs form trade blocs of their own to counter these effects? These are some of the questions related to PTAs that the RETA will attempt to answer.

6. The third important recent development has been the possible entry of the PRC (to be followed by the entry of Taipei, China) into WTO in the near future. This entry will result in major liberalization of the PRC economy as well as increased market access for the PRC to the EU and US markets. The natural question is how this entry will affect the PRC itself and other DMCs. On the one hand, further opening of the PRC market will create new opportunities for other DMCs. But on the other hand, they will face more intense competition against the PRC in third markets such as the EU and the US. DMCs need to develop an understanding of how to meet this challenge and what internal policy adjustments are needed to make themselves more competitive.

7. The final development is the Asian financial crisis of 1997-98. The crisis has had effects on the region's trade flows and trade liberalization policies that have not been fully analyzed and understood. Has trade liberalization in the region slowed down? Is the region more vulnerable in the area of trade due to financial vulnerability?

8. Within the context of this broad set of developments, a large number of policy questions must be addressed. The objectives and detailed scope of policy issues to be addressed by the RETA are outlined in the next section.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Objectives**

9. The RETA has two broad objectives. First, it will assist ADB's DMCs in policymaking through the analysis of policy issues raised by the likely launching of a new round of multilateral trade negotiations under WTO and the rapid proliferation of PTAs within and outside the Asia and Pacific region. Second, the RETA will help raise the DMCs' capacities in trade negotiations and policy analysis. The TA framework is shown in Appendix 1.

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<sup>4</sup> The MFN tariff of a country on a commodity is the one to which it commits under its obligations under the General Agreement on Tariffs and Trade of WTO. This tariff applies nondiscriminatorily to all WTO members. But preferences under PTAs result in lower tariffs being applied to PTA members, thereby creating discrimination against nonmembers.

## B. Scope

10. Issues to be addressed under the RETA in preparation for the next round of multilateral trade negotiations include the following:

- (i) **Implication of New WTO round for DMCs.** If and when a new WTO round of negotiations is launched, an important question is, What should be the stance of ADB's DMCs on trade liberalization in industrial goods, agriculture, and services? To assist the DMCs in entering into a profitable bargain in the negotiation, there is need to undertake systematic documentation of what barriers remain in DMCs and other countries, and in-depth analyses of potential benefits for DMCs of further trade liberalization and how the benefit will be affected by different processes of liberalization in these goods and services.
- (ii) **PRC's Entry into WTO.** The PRC's entry (followed by the entry of Taipei,China) will have significant impact on its economy as well as on the economies of other DMCs. The RETA will examine the potential changes in the PRC's policy and regulatory regimes to be brought about by the entry agreements, and will make a quantitative and qualitative assessment of the impact on selected DMC economies.
- (iii) **Intellectual Property Rights.** There are some outstanding issues from the Uruguay Round of multilateral trade negotiations that may bring intellectual property rights back onto the negotiating agenda of the next round. In such a case, what should be the stance of the DMCs? In addition, and perhaps more importantly, there remain major implementation issues for many DMCs in this area. The RETA will look into this issue carefully.
- (iv) **Labor Standards.** The issue of labor standards, including child labor and worker rights, will remain with the DMCs irrespective of whether or not it appears on the agenda of the next round of WTO negotiations. At best, it will be relegated to the International Labor Organization, which will be asked to take it up in conjunction with the WTO or the United Nations Conference on Trade and Development. Either way, there is need to examine the potential impact on DMCs of linking labor standards and other nontrade issues such as environment and product labeling in the next round of WTO negotiations.
- (v) **Investment Agreement.** There remain pressures to incorporate an investment agreement into WTO. If this subject does get included into the agenda of the next round, DMCs have much at stake. Precisely what kind of investments (direct foreign investment, portfolio investment, and/or short-term capital) should be included? What form should such an agreement take? Since DMCs are importers of capital and potential exporters of labor on a net basis, should they not be granted liberalization in the labor area by developed countries in return?
- (vi) **Competition Policy and Antidumping Measures.** With the liberalization of tariffs following the Uruguay Round, the use of antidumping measures has become rampant. DMCs face increased use of these measures not only in the EU and the US but also in other DMCs. Some DMCs have themselves emerged as major users of antidumping measures. The impact and possible policy reforms in this area need to be studied.

- (vii) **E-commerce.**<sup>5</sup> Rules and regulations governing trade through e-commerce will inevitably become part of the next round of WTO negotiations. The RETA will carefully examine the nature and potential benefit of trade through e-commerce, and will recommend the DMCs' position in negotiating WTO rules with respect to e-commerce.
- (viii) **Dispute Settlement.** The new round will also consider the reform of the dispute settlement process in WTO. How DMCs can maximize benefits in this area needs to be considered.

11. Policy issues and challenges related to PTA arrangements will be tackled from the following angles:

- (i) differences between PTAs and the multilateral approach to trade liberalization in terms of their impact on industry structure, international trade flows, economic growth, and poverty reduction;
- (ii) proliferation of PTAs and implications for the multilateral trading systems under WTO; and
- (iii) strategies and policy actions required to preserve DMC access to markets in regions with PTAs, including examining the pros and cons of actively forming PTAs among DMCs themselves and with economies in other regions.

### C. Cost Estimates and Financing Plan

12. The total cost of the RETA is estimated at \$550,000. The cost estimates include the honoraria and travel expenses of international and domestic resource persons; conferences, seminars and training workshops; and publication and other dissemination activities. The TA will be financed by ADB on a grant basis from the ADB-funded TA program. Details of the cost estimates are given in Appendix 2.

### D. Implementation Arrangements

13. ADB will be the Executing Agency of the RETA. ADB's Economics and Development Resource Center, in consultation with the Programs Departments, will be responsible for implementing the RETA under the overall supervision of its Director and Chief Economist.

14. The study will be carried out in two phases over a period of 20 months. The first phase will be the preparation of a set of papers by renowned international resource persons to sharpen the policy issues raised in paras. 10-11 and develop the analytical framework to guide country-specific studies to be carried out in the second phase. Twelve international resource persons with expertise in international trade and economic growth, development economics, regional economic cooperation, and trade negotiations will be engaged. The outline terms of reference for the international resource persons are given in Appendix 3.

15. The second phase will examine the implications of PTAs and a new round of WTO negotiations for individual DMCs. Tentatively, DMCs involved in this phase of study include Bangladesh, PRC, Fiji, India, Sri Lanka, and Thailand. This list was determined in consultation with the Programs Departments and the Office of Pacific Operations. The outline terms of reference for domestic resource persons to prepare the country studies are given in Appendix 3.

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<sup>5</sup> E-commerce or electronic commerce is the conduct of financial transactions by electronic means.

This phase will start with an inception workshop to discuss the papers prepared by the international resource persons. It will also determine the scope of country studies in light of the international resource persons' studies and the policy issues confronting individual DMCs. Senior DMC policymakers and potential domestic resource persons (12 in all) will be invited to attend the workshop. Implementation of the study may require a local technical assistant, who will be engaged in accordance with ADB's *Guidelines on the Use of Consultants*.

16. A finalization conference will be held to discuss the outputs of the RETA. Subsequently, outputs of the RETA will be more widely disseminated through seminars and training activities in the selected DMCs.

17. The RETA will commence in October 2001 and will be completed by December 2003.

#### **IV. THE PRESIDENT'S DECISION**

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$550,000 for the purpose of a study on Regional Integration and Trade: Emerging Policy Issues for Selected Developing Member Countries, and hereby reports such action to the Board.

## TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goals</b></p> <ul style="list-style-type: none"> <li>• Openness to trade in developing member countries (DMCs) and countries in other regions</li> <li>• Enhanced DMC capacities in trade negotiations</li> <li>• Training for DMCs, particularly those not yet members of the World Trade Organization (WTO)</li> </ul>	<ul style="list-style-type: none"> <li>• Increased awareness of developmental impact of different processes of trade liberalization</li> <li>• Increase in DMCs as WTO members</li> <li>• A new round of WTO negotiations with increased emphasis on DMC concerns and interests</li> </ul>	<ul style="list-style-type: none"> <li>• Increased support for openness through trade</li> <li>• Increased debates on nontrade-related issues and implications of linking them to trade negotiations</li> </ul>	
<p><b>Purposes</b></p> <ul style="list-style-type: none"> <li>• Prepare DMCs for the likely launch of a new round of WTO negotiations</li> <li>• Prepare DMCs for embracing the challenges of proliferation of preferential trade area (PTA) arrangements</li> </ul>	<ul style="list-style-type: none"> <li>• Wide dissemination of the regional technical assistance outputs that address policy issues and challenges posed for DMCs by the likely launch of a new round of WTO negotiation and proliferation of PTAs</li> </ul>	<ul style="list-style-type: none"> <li>• Growing resistance to linking nontrade issues to WTO negotiations</li> <li>• Growing resistance of PTA proposals that are incompatible with the multilateral approach to trade liberalization</li> </ul>	<ul style="list-style-type: none"> <li>• Broad acceptance of positive linkage between openness to trade, and sustainable growth and poverty reduction</li> <li>• PTAs are not considered as a political tool to counter the proliferation of PTAs in other regions</li> </ul>
<p><b>Outputs</b></p> <ul style="list-style-type: none"> <li>• Issues papers prepared by international resource persons</li> <li>• Country papers prepared by domestic resource persons</li> <li>• Publication based on these papers</li> </ul>	<ul style="list-style-type: none"> <li>• Timely invitation of qualified international resource persons</li> <li>• Timely submission of draft outlines and reports</li> <li>• Inception/finalization conference that is well responded to by DMC senior officials</li> <li>• Circulation of conference synopsis</li> <li>• Launching of publication that receives extensive media coverage and favorable book review</li> </ul>	<ul style="list-style-type: none"> <li>• Dissemination of the publication</li> <li>• Organization of policy forums and training workshops in DMCs</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to invite international resource persons who are trade economists and have strong development perspective</li> <li>• Failure to invite domestic resource persons who have strong trade backgrounds and are aware of issues facing their respective DMCs in multilateral trade negotiations</li> </ul>
<p><b>Activities/Inputs</b></p> <ul style="list-style-type: none"> <li>• Prepare the terms of reference and invite international resource persons</li> <li>• Review draft papers</li> <li>• Organize the inception workshop; training; and other dissemination activities</li> </ul>		<ul style="list-style-type: none"> <li>• Inception workshop</li> <li>• Finalization conference</li> <li>• Publications</li> <li>• Training seminars</li> </ul>	<ul style="list-style-type: none"> <li>• Inability to reach agreement on terms of reference with resource persons</li> <li>• Quality of the issues papers and country studies is poor and unpublishable</li> </ul>

**COST ESTIMATES AND FINANCING PLAN**  
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<b>Item</b>	<b>Total Cost</b>
1. International Resource Persons (12)	
a. Honoraria	120,000
b. Travel and Per Diem	130,000
2. Domestic Resource Persons (6)	
a. Honoraria	25,000
b. Travel and Per Diem	25,000
3. Workshops/Training Workshops, Other Dissemination Activities	120,000
4. Publication	35,000
5. Administrative Support	
a. Technical Assistant	18,000
b. Administrative Assistant	12,000
6. Miscellaneous (Communications, Materials, and Supplies)	10,000
7. Contingencies	55,000
<b>Total</b>	<b>550,000</b>

## OUTLINE TERMS OF REFERENCE FOR RESOURCE PERSONS

### A. International (12)

1. The international resource persons will have expertise in economic growth and international trade policies, development economics, regional economic cooperation, and trade negotiations. Each international resource person will:

- (i) Review all relevant literature and prepare a background issues paper leading to an appropriate design, including the analytical framework and approach, of the conduct of the country studies. The outline of the issues paper will be finalized under the guidance of the Director and Chief Economist of the Economics and Development Resource Center (EDRC), and a preliminary draft of the issues paper, each of 30-40 pages, will be submitted within two months after acceptance of the invitation as resource person.
- (ii) Attend the inception workshop of the study. The inception workshop will discuss the outline and preliminary draft of the issues paper, and further adjust the outline and content to enhance its relevance to the developing member countries (DMCs) of the Asian Development Bank (ADB), and to contribute toward preparing the country study outlines.
- (iii) Submit the second draft of the paper within two months of the inception workshop.
- (iv) Finalize the paper on the basis of comments provided by ADB staff and resubmit it to ADB within one month of the finalization conference.
- (v) Review the paper after it has been edited for publication and provide answers to any queries that may arise.
- (vi) Guide the country studies and contribute to the finalization of country papers.
- (vii) Review the country papers as may be assigned for comments during the inception workshop.
- (viii) Assist in organizing dissemination and capacity-building activities.

### B. Domestic (6)

2. The domestic resource persons will have expertise in economic growth and international trade policies, regional economic cooperation, and issues facing their respective DMCs in multilateral trade negotiations. Each domestic resource person will:

- (i) Prepare a preliminary outline of the country paper to be submitted before the inception workshop. The outline will be finalized under the guidance of the Director and Chief Economist, EDRC.

- (ii) Undertake a study that will examine the implications of preferential trade area (PTA) arrangements and a new round of World Trade Organization (WTO) negotiations for individual DMCs. In particular, the study will
  - (a) document the trade barriers existing in DMCs and other countries and identify the threats and opportunities faced by the DMCs in the further liberalization of goods and services;
  - (b) examine the potential impact on the DMCs of the entry of the People's Republic of China in WTO, and of a new round of trade negotiations that will discuss, among others, issues on intellectual property rights, labor standards, investment agreements, competition policy and antidumping measures, e-commerce and dispute settlement; differentiate the PTAs and the multilateral approach to trade liberalization in terms of their impact on industry structure, international trade flows, economic growth, and poverty reduction;
  - (c) examine the existing PTAs and analyze the implications of their proliferation on the multilateral trading systems under WTO; and
  - (d) based on the analyses, identify the relevant strategies and policies that the DMCs should pursue.
- (iii) Submit the first draft paper of 30-40 pages within two months of the inception workshop and revise it in light of comments received from ADB staff.
- (iv) Present the paper and discuss other country and issues papers as may be assigned at dissemination conferences and training events.
- (v) Revise the paper in light of the comments received and review the final draft after it is edited for publication.