

ASIAN DEVELOPMENT BANK

**FOURTH ASIA DEVELOPMENT FORUM
ON
TRADE AND POVERTY REDUCTION**

PROCEEDINGS

December 2002

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ABBREVIATIONS

ADB	-	Asian Development Bank
APEC	-	Asia Pacific Economic Cooperation
FDI	-	foreign direct investment
IPR	-	intellectual property right
KDI	-	Korea Development Institute
KIEP	-	Korea Institute for International Economic Policy
OECD	-	Organisation for Economic Cooperation and Development
PRC	-	People's Republic of China
RTA	-	regional trade agreement
TRIM	-	Trade-Related Investment Measure
TNC	-	transnational corporation
WB	-	World Bank
WTO	-	World Trade Organization

NOTE

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

I. INTRODUCTION

1. The Fourth Asia Development Forum (Forum) was held in Seoul, Republic of Korea¹ during 3-5 November 2002. The Asian Development Bank (ADB) sponsored the Forum with the Government of Korea and the World Bank (WB). The Korea Development Institute (KDI) and the Korea Institute for International Economic Policy (KIEP) were the hosts that provided logistical support for the event. ADB's Mission was led by the Vice-President (Operations 1).

2. The Government of Korea accorded high priority to the Forum. The Deputy Prime Minister and concurrent Minister of Finance and Economy, H.E. Jeon Yun-churl attended the Opening Ceremony and delivered the keynote speech at the plenary session on "Asian Integration Beyond the Border."

3. The Forum was launched by the ADB and WB in 1998 as a learning event and a venue for identifying and discussing emerging policy issues for policy dialogue among development players and stakeholders in the Asia and Pacific Region. The main features of the Forum include: (i) broad-based participation from the development community (e.g., policymakers, academics, think tanks, members of civil society, and bilateral and multilateral agencies with presence in Asia); and (ii) a focus on a theme supported by multiple learning modules (workshops, seminars, and plenaries).

4. Several changes were introduced in this year's Forum, including (i) reduced scope—the workshop module was taken out of the Forum and the duration was reduced from three days to two days; (ii) greater involvement of ADB and host institutions in the program and logistics—out of 15 seminars, ADB organized eight and WB organized seven seminars, and ADB handled all the logistics in cooperation with the host institutes. These efforts not only enhanced ADB's profile but also helped transform the Forum from a learning event into a policy forum. The limited purpose of this paper is to highlight the main findings of the seminars with a view to broaden dissemination.

II. PROCEEDINGS

5. The theme of this year's Forum was "Trade and Poverty Reduction." The theme was chosen with the following considerations: (i) intensified debates on the relationship between trade and poverty, and increased anti-globalization sentiments; (ii) launch of the Doha Round of negotiations under the World Trade Organization (WTO), and potential broadening of WTO negotiations on "behind-the-border" issues such as investment and competition policy; and (iii) growing concern towards rising economic influence of the People's Republic of China (PRC), and the need for better understanding of the implications of PRC's WTO entry and of the increased emphasis on regional trade agreements as a vital tool to advance economic cooperation and integration in the Asia and Pacific Region.

6. A plenary session and 15 seminars were planned around the theme to support the following proposition: **trade is a powerful tool for poverty reduction; but to leverage trade for poverty alleviation, developing Asia must seize new opportunities from the recent major trade events, and deepen behind-the-border reforms and services liberalization to complement increased cross-border trade and investment.** Accordingly, the seminars were

¹ Henceforth Korea.

grouped into three series: Trade and Poverty Reduction, Major Trade-Related Events, and Behind-the-Border Issues.²

A. Trade and Poverty Reduction

7. This series of seminars consisting of five sessions examined both short-term and long-term effects of trade on poverty reduction, and how trade liberalization affects the poor through the labor market and the agricultural sector which provides the livelihood for the majority of Asia's poor.

1. Long-Term Perspective

8. Trade, or economic openness, has long been recognized as a tool for poverty reduction directly through improved wage earning and affordability of goods and services to the poor, and indirectly through its long-term impact on economic growth. Freer trade creates job opportunities and raises wage earning which is the primary source of income for most of the poor. It enhances economic growth through promoting competition and more efficient utilization of resources. Trade is also a source of creation and innovation through increased specialization and division-of-labor and therefore contributes to higher productivity.

9. An important result presented at the Forum was that trade had a very significant impact on growth and through growth, on poverty reduction. During the period of 1980 and 1994, about two thirds of economic growth was attributable to trade liberalization. As regards growth and poverty reduction, the analysis showed that growth had a significant contribution to poverty reduction even in economies with notable deterioration of income distribution. During the period of 1980 and 2000, developing economies grew at an average rate of 3.1% per annum and the headcount poverty index declined by 30%, implying much higher poverty elasticity than the World Bank's estimates. These estimates suggested that trade could claim credit for at least 50% of global poverty reduction, and the global poverty was reported to be about 500 million according to the dollar-a-day poverty line. The international community would have already achieved the millennium development goal as far as income poverty is concerned.

10. However, the discussions indicated that the economic analysis presented was fraught with methodological and data measurement problems. The definition of trade openness could be very contentious, and the result could be vulnerable to the change in the poverty and trade openness measurements. More fundamentally, the methodology used—cross-country regression at the global level—was considered a coarse tool for tackling the issue because of a number of technical problems. In light of these problems, it was suggested that one should treat the result as merely suggestive, and too much importance should not be attached to the estimate of the numerical contribution of trade to poverty reduction.

11. However, it was pointed that the lack of robust evidence from economic analyses does not mean that the linkage among trade, growth, and poverty reduction does not exist. **The fact that other regions that pushed trade liberalization did not experience the same miraculous results as in Asia suggests that the debates do need to be settled by in-depth country analyses and careful cross-region comparisons; a generic proposition based on a set of cross-country regression analyses is inadequate in identifying concrete policies to leverage trade for poverty reduction.** Two empirical studies presented at the Forum, one

² The Forum program is attached in the Appendix. Speeches and papers presented at the Forum are available at <http://www.adb.org/Documents/Events/2002/ADF/agenda.asp>.

on reassessing East Asia's development experience and the other documenting experience with foreign direct investment (FDI),³ yield important insights and policy messages on the issue.

12. The reassessment of Asia's development experience shows that the linkage between trade and poverty reduction is a contingent one. Trade liberalization needs to be accompanied by complementary domestic policies and institutions. These policies and institutions do not necessarily emerge automatically with trade liberalization and need to be created with deliberate public actions. Some of these complements include macroeconomic stability, labor market flexibility, physical and social infrastructure, and good governance and market-supporting institutions. **These complementary policy and institutional measures contributed to an environment that allows entrepreneurs to seize new opportunities from increased trade and FDI and direct their talents to production and exports than to rent-seeking and other unproductive activities.**

13. The failures of many developing economies to leverage trade for poverty reduction could be attributed to the absence of one or a combination of these complementary factors. These policy and institutional constraints are particularly binding to small farmers and entrepreneurs in the area of financial credit, insurance, product and market information, and government regulations. In Latin America, there was macroeconomic instability; in Africa, there were failed political regimes and social conflicts; in South Asia, there were labor market rigidity and lack of adequate physical infrastructure such as roads and port logistics. These factors seriously hampered efforts to exploit the full potential of trade liberalization in individual economies. However, creating these complements is not an easy task. It requires political leadership and governance capacity beyond what is available in most developing economies. The Forum recognized that it was critically important not only to reform policies and institutions but also to introduce concrete delivery mechanisms to help the poor and small farmers and entrepreneurs take advantage of increased economic openness.

2. Short-Term Effects and Labor Vulnerability

14. While it was generally agreed that trade liberalization bestows long-term economic gains to the poor if appropriate complementary policies and institutional mechanisms are in place, it may not necessarily be the case in the short run. This is due to the fact that the poor receive their income mostly from wage earning, and they are most vulnerable to labor market adjustments and loss of government revenues for public services. Empirical evidence and a *priori* theoretical reasoning suggest that the workers employed in the import-competing industries might lose; the poor farmers might find their real income wiped out by the onslaught of cheap agricultural imports; and even the entire economy might suffer a short-term output decline before it starts reaping the benefits of efficiency gains from trade liberalization.

15. However, a study based on surveys in Indonesia, Korea, and Thailand during the last two decades found that workers suffered no additional earnings vulnerability from trade liberalization. The comparison of different periods showed that during the 1990s when trade barriers were lower than the earlier decades, workers in these countries experienced lower degree of year-to-year variations in incomes suggesting that workers suffered less from external shocks than in the previous decades. In addition, there was no significant variation in incomes (or working conditions) across traded and nontraded sectors or between different manufacturing industries with different degrees of external exposure.

³ See para. 32-33.

16. Notwithstanding the absence of any discernible link between trade and disproportionate vulnerability of workers in the trade sector, the poor and unskilled in these countries were more vulnerable to external shocks. In Korea, the workers with the least education were on temporary contracts and were most likely to slide into poverty. In Thailand, workers with primary or less education experienced greater earning insecurities during the 1990s. In Indonesia, male workers with primary or less education had four times the probability of falling into poverty than skilled workers. These labor market outcomes, as is obvious, are essentially dependent on the nature of domestic labor market institutions and the nature and extent of the trade shock. It was suggested that in addition to some safety net measures, policies that promote labor market flexibility and human resource development could help mitigate some of the adverse consequences of trade shocks. However, many of these policy measures are financially burdensome for fiscally constrained economies; or extremely difficult to implement in the face of political-economy constraints and scarce administrative capacities. They require a much longer time horizon to implement than available to most developing economies, particularly when they experience external trade and financial shocks and suffer from fiscal and balance of payments difficulties.

3. Agricultural Trade and Poverty Reduction

17. One important development dimension of the Doha Round is its persistence to liberalize the agricultural sector despite resistance from a number of industrialized economies. Built on the momentum of the Uruguay Round, the Doha Round calls for reductions and eventual phaseout of all forms of export subsidies, and substantial reduction in trade-distorting domestic support prevailing in the economies of the Organisation for Economic Cooperation and Development (OECD). The poor will benefit from the Doha Round of agricultural trade liberalization through improved market access and the relative price of agriculture to nonagriculture goods.

a. Market Access

18. A simulation exercise presented at the Forum showed that all the economies would gain from the removal of import barriers and of production and export subsidies. Close to 50% of the welfare gain would come from agricultural policy reforms in OECD countries even though OECD's agricultural production accounts for only about 4% of the global economy and less than one tenth of global trade. Another significant gain would come from reforms of farm and food policies of developing economies. **The OECD economies will gain the most from agricultural trade liberalization. Developing Asian economies stand to gain from improved market access and removal of their own distortions in the agricultural sector, though some net food-importing Asian economies may gain less than net food-exporting economies.** While the agricultural sector is expected to be substantially liberalized in the current Round and beyond, a concern was raised on the possibility of increased use of nontrade measures to protect the agricultural sector. For instance, agricultural imports could be rejected on the grounds of food safety concerns, failure to comply with sanitary and phytosanitary standards, and food security. Some Asian economies such as PRC may suffer disproportionately from such measures, because they have become some of the world's major producers of genetically modified crops.

b. Domestic Geography

19. The impact of agricultural trade liberalization on the poor and rural households was illustrated in the context of PRC's agricultural liberalization as part of the commitments in WTO

accession. A simulation exercise suggested only a small impact of the entry commitments on the average household income, inequality and the incidence of poverty. However, such aggregate results mask the wide divergence of impacts across household groups. Rural families tend to lose (by 18%) while urban households tend to gain (by 30%). Among the rural households, those most likely to lose are those who are dependent on agriculture, have few workers and few outside links through migration. There are also substantial geographical variations in impacts, some areas gain or lose more than others.

20. The important message of this exercise is that **while PRC would benefit in aggregate terms from WTO accession, some segments of society and regions of the country will suffer some serious adverse poverty impacts.** The recommendations for addressing this geographical poverty included investment in physical and social infrastructure, improved provision of social services, freer mobility of workers from rural to urban areas, and improved access to credit and technical and information support.

B. Major Trade-Related Events

21. Six seminars were organized under this series to discuss (i) the Doha Round, (ii) regional cooperation and integration initiatives in the Asia and Pacific Region, and (iii) the impact of PRC's WTO entry on the PRC economy and the rest of Asia.

1. Doha Round

22. The Doha Round was launched as a "development round" in November 2001 by promising to place development at the heart of trade negotiations and focus on issues of direct interest to developing economies. The discussions highlighted a number of development dimensions for the Doha Agenda. **The strongest development dimension of the Doha Agenda is the continued push for trade liberalization in all sectors (agriculture, industry, and services), because trade liberalization benefits both developing and developed economies, particularly Asia's export-oriented economies.** Another important aspect is the intention to tighten WTO rules regarding antidumping and subsidies and countervailing measures, because stricter rules in these areas help safeguard international trade and prevent the use of these measures as disguised protectionism. Asia's developing economies stand to gain in this aspect, too, because nearly half of the antidumping cases filed during 1995-2001 were against them. Other positive aspects of the Doha Agenda included the emphasis on the special and differential treatment for developing economies so that WTO rules could be implemented with country considerations, and increased provision of technical assistance so that developing economies could fulfill their WTO obligations and effectively participate in the Doha Round.

23. As regards possible expansion of WTO negotiations into several behind-the-border issues such as foreign investments and transparency of government procurements, it was suggested that **WTO's generic approach that only deals with "trade-related aspects" may be unsuitable for stimulating policy and regulatory reforms in individual economies.** While in principle WTO negotiations aimed at aligning domestic regulations with international "best practices" and improving transparency should have strong development impact, the merit of negotiations on these issues should be examined in a broad development context, rather than from trade-related aspects alone. If rules are ever established in these behind-the-border areas, they have to be flexible enough to suit country-specific development circumstances. In view of the increased attention to the behind-the-border issues, the discussions suggested that WTO should work more closely with multilateral development banks (MDBs) so that trade-

related aspects can be integrated into the broad package of policy support provided by MDBs. Given the diversity of the Asian economies, several participants stressed that **it was neither development friendly nor practical trying to build coalition among the Asian economies in the Doha Round of negotiations**. Each economy should carefully assess the Doha Agenda according to their country circumstances and development priorities.

2. Regional Cooperation and Integration

24. The discussions were centered on two parts: (i) broad issues and prospects concerning regional cooperation and integration in the Region, and (ii) issues related to bilateral and regional trade agreements (RTAs). While Asian economies had a long tradition of promoting regional cooperation particularly in subregional context, it was noted that such initiatives gathered momentum only after the Asian Financial crisis of 1997/98. **Asia took a distinct approach in promoting regional cooperation with financial cooperation running in parallel with regional trade agreements**. In other regions, financial cooperation took place only after trade and nontrade barriers were substantially eliminated through RTAs and macroeconomic coordination mechanisms were in place. Macroeconomic policy coordination was pointed out as an important means to press ahead regional cooperation and integration. In this connection, the Chiang Mai Initiative was recognized as an important step towards policy coordination among the Asian economies.

25. The discussions recognized several advantages for promoting RTAs in the Region. RTAs accelerate economic openness among parties to the agreements, and therefore serve as a “building block” for the multilateral trading system under the auspices of the WTO. Through the “peer pressure” effect among the parties to the agreements, RTAs could also help stimulate policy and structural reforms to complement cross-border trade and investment. However there is real cost in administering an ever-increasing number of RTAs in Asia. **Asia could avoid the negative sides of RTAs by embracing an RTA including most Asian economies**. An RTA with big economies will benefit all the parties to the agreement, particularly small ones as shown in an economic analysis presented at the Forum. In this context, it was urged that the current ASEAN + 3 Summit be replaced by an “East Asia Summit” and an “East Asia Free Trade Area” to be established under a long-term vision of “Integrated Asia” or “One Asia.”

3. PRC's WTO Entry

26. Two seminars were devoted to issues related to PRC's WTO entry and its impact on the PRC economy and the rest of Asia. To understand the impact on PRC's economy, it was suggested that PRC's WTO entry must be viewed in the context of PRC's ongoing policy and structural reforms; the accession could be considered as a major milestone of PRC's move toward a rule-based and market-oriented economy. To understand its impact on the rest of Asia, one must keep in mind that PRC is a big economy at varied stages of economic development among the provinces and autonomous regions; and therefore, one cannot generalize PRC's comparative advantage and competitive strength vis-à-vis the rest of Asia. The discussions stressed that **PRC's WTO entry poses as much challenges to PRC's ongoing structural reforms as to the rest of Asia**.

27. In fulfilling extensive commitments under the accession agreement, not only will PRC have to reduce tariff and nontariff barriers, but PRC will also need to accelerate behind-the-border services liberalization and regulatory reforms. In particular, the average rate of tariffs will have to be reduced to 7% by 2006 from the current level of 11%; restriction on foreign ownership and geographic presence in the major services sectors (such as banking, insurance,

telecommunication, and professional services) will be gradually lifted; and laws and regulations have been or will be amended to be consistent with the various WTO Agreements. One estimate showed that PRC's GDP growth would be 2% higher than the base case by 2010, and much of the gain would accrue to urban households and coastal provinces, thus widening income disparity. **To harvest the benefits of WTO accession, PRC must double the effort to put in place a sound social safety net system and confront the challenges of rising disparity between the rural and urban areas and between the coastal and inland regions.**

28. As regards the impact on the rest of Asia, the discussions pointed out a number of ways through which Asia could benefit from PRC's WTO entry. Rapid economic development will boost PRC's purchasing power and therefore create greater demand for imports from the rest of Asia. Already ASEAN economies as a whole have generated a huge trade surplus with PRC. PRC's rising economic affluence also benefits Asia through outflows of FDIs and tourists destined to Asia. However, PRC's entry will also raise the intensity of global competition and this will pose challenges to Asia's economies competing with PRC in the global market. Some Asian economies competing with PRC in textiles and clothing might suffer a welfare loss. However, it was suggested that some of the quantitative assessments on PRC's impact should be interpreted with caution, because they are fraught with measurement problems, omission of important economic sectors such as services, and inability to capture structural changes over time. **To maximize the benefits of PRC's WTO entry, Asian economies must accelerate their structural reforms to adapt to rising international competition; RTAs with PRC are considered a tool to benefit more from PRC's openness and accelerate domestic reforms.**

C. Behind-the-Border Issues

29. Behind-the-border issues such as services liberalization, trade facilitation, and domestic policy and regulatory regimes are pertinent not only to future WTO negotiations, but more importantly to poverty alleviation and sustainable development. These issues underpin the fundamental economic structure and overall development environment in individual economies. A large amount of assistance from MDBs is aimed at improving the domestic development environment. The Doha Round will broaden and deepen services liberalization, and open the possibility of negotiations on behind-the-border issues such as trade facilitation, investment regulations, competition policy, and government procurement. However, WTO negotiations on these behind-the-border issues are extremely complex. Most WTO developing members demanded further studies on these issues to understand the implications of WTO Agreements for trade and long-term economic development. The Forum focused on three behind-the-border issues: (i) trade facilitation; (ii) policy and institutions concerning intellectual property right regimes and FDI; and (iii) services liberalization concerning energy, telecommunications, and finance.

1. Trade Facilitation

30. Both transport and logistics (of processing documentation and moving goods through ports) can facilitate trade by reducing transaction costs. The dramatic decline in the cost of transport, logistics, and telecommunication is not only changing decisions on business location but also creating new services trade such as back-office support services. **Effective trade facilitation reduces poverty by improving prices of goods produced by the poor and contributing to economic growth.** The Doha Agenda recognizes the importance of trade facilitation for growth and poverty reduction and calls for technical assistance in various areas of trade facilitation.

31. The importance of transport and logistics is illustrated by a study on their impact on intratrade among the economies of the Asia Pacific Economic Cooperation (APEC). It shows that intra-APEC trade would increase by an estimated \$280 billion through an improvement of various trade facilitation measures, half of which derived from improvements in port logistics. This represents about a 10% increase from the current level of intra-APEC trade. The increase would be sustained over time. The study suggests that well-conceived investment in trade facilitation could have high economic payoff. **The discussions underscored the importance of governments' role in trade facilitation, and effort in this should be an integral part of country development strategies.**

2. Trade and Investment

32. Foreign direct investment policy is a major behind-the-border issue that might be included in WTO negotiations after the 2003 WTO Trade Ministerial Meeting in Mexico. The case for including FDI in WTO negotiations rests on the fact that the bulk of international trade is conducted by and among transnational corporations (TNCs) and therefore is influenced by their FDI decisions. Developing economies recognize the complementary relationship between trade and FDI, and the positive impact of FDI on their economies. But they are unsure whether a WTO rule on investment could be tailored to each country's circumstances to effectively promote domestic production and innovative capacity. The WTO's Agreement on Trade-Related Investment Measures (TRIMs) could be viewed as a modest attempt to prepare for WTO negotiations on investments. The TRIMs Agreement included a list of restrictive measures and development provisions such as (joint venture) ownership restriction and technology content requirements aimed at accelerating technology transfers and nourishing domestic production capacity. There was no consensus among developing economies on how these restrictive measures could best work for development.

33. Based on the new empirical evidence gathered over the past two decades, the discussions suggested an alternative set of conditions through which developing economies could attract FDI and strengthen its linkage and spillover effects on domestic production and innovative capacity. Contrary to some of the restrictive measures in the TRIMs Agreement, it was argued that removal of some restrictive conditions imposed on FDI has a number of *surprising* positive development impacts. An FDI strategy with less restrictive measures allows TNCs to integrate their local subsidiaries into their global production and distribution networks, and provides greater incentives for TNCs to train local workers and transfer technology and managerial know-how. It enables the host economies to attract large amount of FDI, and build local production capacity that can compete internationally rather than being used to supply often protected local markets. However, this strategy will not be successful in the absence of other host country policies conducive to private sector-led economic development. This new empirical evidence is expected to have important implications for the review of the TRIMs Agreement and future WTO negotiations on investment.

3. Intellectual Property Rights

34. The discussions recognized *knowledge* as the central factor for achieving higher economic growth and sustained poverty reduction. Intellectual property rights (IPRs) have an important role in encouraging research and turning knowledge into new economic activities, and in helping the poor to earn more from their traditional knowledge such as folk art and music. However, protection of IPRs must find a balance between offering incentives for knowledge generation and promoting the diffusion of knowledge and cross-border trade on products crucial

to social and economic development. In this context, an important development dimension of the Doha Agenda was the recognition that the WTO Agreements should not prevent developing economies from addressing their public health concerns, and that efforts should be made to protect traditional knowledge and accelerate technology transfers under the current international property right regime.

35. Two case studies were presented to examine the impact of IPRs on Korea's innovative capacity, and on Indonesia's software and music industries. In the case of Korea, there was an upsurge in the number of patents in 1990s. However, the patents mostly belonged to a few large companies (such as Samsung) in the electronics and semiconductor sectors. During the same period, there were no major changes in the IPR regime, nor notable changes in innovative capacity in other sectors such as chemistry and biotechnology where large companies were also present. This suggests that neither the IPRs nor the industrial concentration provides satisfactory explanation of Korea's strengthened international competitiveness. The discussions underscored the need to carry out further research to better understand the underlying factors of Korea's international competitiveness. A comparative study on corporate strategy could be fruitful, because Korea's improved international competitiveness seems to be closely associated with corporate success of few companies in seizing the opportunities provided by the international electronics market. A survey of Indonesia's software and music industries reveals that the country's copyright regime in some ways goes beyond the WTO requirements. However, enforcement is weak due to lack of funding and human capacity, and limited access to enforcement procedures. The weak enforcement is hurting the development of local software industry because the price differentials between legitimate and pirated copies are large and incentives to copy will continue. The music industry suffers even more from weak enforcement. An encouraging piece of evidence is that a small number of musicians did manage to earn more from the current copyright regime. However, it is difficult to link this evidence with poverty of musicians in the rural areas.

4. Services Liberalization

36. The Doha Round of negotiations on services liberalization is under way. Building on the momentum of the Uruguay Round, the Doha Round will expand the number of services sectors for negotiations. The negotiations will be based on proposals submitted by the WTO members and therefore, give sufficient flexibility for developing economies to determine their choice of services sectors and speed for liberalization. Such flexibility helps achieve a balance between government's right to regulate according to their country circumstances and the need to build efficient services infrastructure for cross-border trade and sustainable economic growth. Striking such a balance is a delicate choice, even though most Asian developing countries have increasingly recognized the benefits of greater competition and openness in services development. Three important sectors were discussed during the Forum: energy, telecommunications, and financial services.

a. Energy

37. Key issues in energy services are (i) difficulty to separate the service component from the goods involved in supplying energy services, (ii) natural monopoly characteristics of energy services provision in most developing economies, and (iii) national security concerns.

38. To realize the potential benefits for the poor from energy trade, it is important to increase competition in the sector to improve efficiency and lower costs of provision in the domestic energy sector. In this process, the unbundling of the different stages in energy delivery becomes

critical, as does the sequencing of reforms. Increasing competition may also involve facilitating investment and innovation, including FDI and technology transfers.

39. The discussion stressed that **the use of subsidies to improve affordability of energy consumption of the poor rarely works well in practice, and should be employed only if subsidies are well-targeted and trade distortion effects are carefully considered.** Realizing benefits for the poor may also involve diversification of energy sources and smoothing regional supply unevenness within an economy. It was pointed out that consumer subsidies in Asia are not well targeted and sometimes push prices below world market levels (which has been the case in PRC, India, Indonesia, Kazakhstan, and Korea).

40. The discussions highlighted a number of positive developments at country and regional levels. ASEAN has a number of agreements to promote intraregional energy trade, a broad policy commitment to provide an ASEAN power grid, and a trans-ASEAN gas pipeline project. The APEC Energy Working Group has facilitated information exchanges on electricity regulatory arrangements, tariff setting methodologies, and a guide on “best practice” principles on institutional and regulatory structures. Indonesia removed electricity production, transmission, and distribution from its “negative investment list,” opening it to 100% foreign ownership. However, private producers must still sign a power purchase agreement with the state power utility and artificially lower tariff levels which makes it unlikely to attract much foreign investment in the sector. PRC awarded a \$12 billion natural gas contract to Australia in August, diversifying energy sources as demand grows, while Exxon recently initiated a \$3 billion refinery joint venture with Sinopec.

41. In moving toward greater energy trade in Asia, it will be important for the Region’s economies to learn from the mistakes of others (such as the perverse incentive structure that led to California’s energy crisis, or the lack of transparency and reliability in wholesale energy pricing and reporting highlighted by the Enron scandal). The importance of independent regulators to avoid regulatory capture, should be stressed. One point which should be clarified is whether electricity distribution has characteristics of a natural monopoly, as transmission does. Most economies in Southeast Asia maintain monopoly power in distribution. To promote competition, it is essential to have a level playing field at least between government and private energy sectors. Finally, economies in the Region should take advantage of support from suppliers and possibly from bilateral and multilateral financial institutions for exploring alternative technologies and technology transfer opportunities, while keeping an eye on related environmental impacts.

b. Telecommunications

42. Globalization and technological progress have deeply affected the telecommunications sector over the past decade. It is vital for Asian developing economies to mobilize sufficient capital and develop human resources to upgrade national information infrastructure and avoid the negative impact of a worsening “digital divide.” Because of its population and pent-up purchasing power, Asia is the most attractive market for telecommunications. Increasingly the three major market segments, namely content, communication and application, are getting blurred, offering opportunities for new suppliers to enter local communications services. **The main issues in the sector are deregulation, privatization, entry of new providers and competition, establishment of an independent regulatory body, and access to various services at affordable prices.**

43. Technology and consumer demand are driving reforms in the sector in commercializing and separating operations from government, increasing participation of private enterprises and capital, containing monopolies, diversifying services, developing competition and shifting the government responsibility from ownership and management to policy and regulation. **Market access and national treatment are key competition policy issues in the telecommunications sector.** Major restrictions that serve as nontariff barriers are restrictions on the: (i) number of suppliers, (ii) types of legal entity, and (iii) participation of foreign capital. Many Asian developing economies maintain restrictions on the number of suppliers and types of legal entities. Other restrictions include requirements to use monopoly network facilities, resale of excess leased circuits capacity and interconnections of leased circuits. Mainly for political economy reasons, many Asian countries have adopted policies of “managed competition” in the telecommunication sector.

44. Experience shows that the largest welfare gains are achieved through increased competition rather than a change in ownership, and this remains a priority in many Asian economies. In the newly industrialized economies, competition in nonvoice services should be introduced along with relaxation of foreign ownership rules for privatization. New modalities for private-public partnerships must be developed as in the case of Thailand with its build-operate-transfer arrangements. In most Asian economies, regulatory systems have to be developed to regulate competition among different operators. An interesting case to observe will be that of PRC and its commitment to the liberalization of telecommunications services. A general conclusion was that there is no single model for liberalization and competition as political economy concerns differ among Asian economies.

c. Financial Services

45. Financial liberalization has enormous policy implications. As demonstrated by the Asian financial crisis of 1997/98, mismanagement of financial opening may lead to disastrous economic consequences. The Forum examined the liberalization efforts by ASEAN economies, PRC, India and Korea, and drew policy lessons useful for other developing economies and the Doha Round of negotiations on financial services. The discussions stressed that **WTO negotiations on financial services liberalization are not concerned with capital account liberalization**; foreign companies allowed to provide financial services will be subject to capital controls in force. **Financial liberalization in general will not undermine financial stability; on the contrary, financial services liberalization was seen as part of answer to many Asian economies for a quick resolution of the Asian financial crisis of 1997/98.** It was suggested that financial services liberalization efforts should be pursued with a view to (i) encourage market competition, (ii) mobilize FDI, and (iii) maintain financial market stability. Within this context, the Forum made several policy recommendations, including sequencing of liberalization, formulation of appropriate regulatory and macroeconomic frameworks, focus on commercial presence in the liberalization process, and gradual opening of equity markets.

III. CONCLUSIONS

46. The Forum is proven to be valuable to the DMCs as it brings together scholars, policymakers, and members of civil society to meet each other, share development knowledge and identify major issues for policy dialogues. An event with broad-based participation of development players and stakeholders also helps build policy consensus in addressing the overarching goal of poverty reduction. ADB's sponsorship is in line with its regional cooperation mandate and its endeavor of becoming a knowledge catalyst for the DMCs.

47. The Forum in Seoul was particularly timely in light of the intensified debates on trade and poverty, potential expansion of WTO negotiations on the behind-the-border issues, and several trade events affecting the regional development environment. It achieved the objective of instilling a sense of urgency among the participants that trade and trade-related issues must be addressed in a broad development context, and regional cooperation and integration initiatives must become a vital part of country development strategies.

**The Fourth Asia Development Forum
Seoul, Republic of Korea: 3-5 November 2002**

Program

Opening Ceremony

Welcome Remarks:

- Mr. Jemal-ud-din Kassum, Vice-President, East Asia and Pacific Region, WB to introduce videotaped address by Mr. James Wolfensohn, President, WB
- Mr. Myoung-Ho Shin, Vice-President, ADB
- Mr. Choongsoo Kim, President, KDI
- Mr. Choong Yong Ahn, President, KIEP

Plenary Session: Asian Integration Beyond the Border

- Keynote Speech: H.E. Jeon Yun-churl, Deputy Prime Minister and concurrent Minister of Finance and Economy, Republic of Korea

Seminar Series A: Trade and Poverty

Trade and Labor Market Vulnerability

- Moderator: Mr. Emmanuel Jimenez, Sector Director, Human Development, East Asia and Pacific Region, WB
- Speaker: Mr. Francois Bourguignon, Professor of Economics, School for Advanced Studies in Social Sciences, Paris
- Discussants: Mr. Dae Il Kim, Associate Professor of Economics, Seoul National University
Mr. Jomo Kwame Sundaram, Professor of Economics, University of Malaya

Effects of Trade on Poverty Reduction

- Moderator: Mr. Ifzal Ali, Chief Economist, Economics and Research Department, ADB
- Speaker: Mr. Surjit Bhalla, Managing Director, Oxus Research and Investment
- Discussants: Mr. Medhi Krongkaew, Professor of Economics, National Institute of Development Administration
Mr. M.G. Quibria, Advisor, Operations Evaluation Department, ADB

Assuring Benefits for the Poor in Liberalizing Developing Economies

- Moderator: Mr. M.G. Quibria, Advisor, Operations Evaluation Department, ADB
- Speaker: Mr. Ramkishan Rajan, Senior Lecturer, University of Adelaide
- Discussants: Mr. Arvind Virmani, Adviser, Planning Commission, Government of India
Ms. Kanokpan Lao-Araya, Economist, Development Indicators and Policy Research Division, ADB

Agricultural Trade and Rural Poverty Reduction: Market Access

- Moderator: Mr. Homi Kharas, Chief Economist and Director, East Asia and Pacific Region, WB
Speaker: Mr. Kym Anderson, Associate Dean, School of Economics, University of Adelaide
Discussants: Mr. John Wilson, Lead Economist, Development Research Group, WB
Mr. Ippei Yamazawa, President, Institute for Developing Economies

Agricultural Trade and Rural Poverty Reduction: Domestic Geography

- Moderator: Mr. Jitendra Bajpai, Sector Director, Transport, East Asia and Pacific Region, WB
Speaker: Mr. Martin Ravallion, Senior Advisor, Development Research Group, WB
Discussants: Mr. Wang Sangui, Professor and Division Director, Chinese Academy of Agricultural Sciences
Mr. Francois Bourguignon, Professor of Economics, School for Advanced Studies in Social Sciences, Paris

Seminar Series B: Major Trade-Related Events

PRC's WTO Entry: Impact on PRC

- Moderator: Mr. Jemal-ud-din Kassum, Vice-President, East Asia and Pacific Region, WB
Speaker: Ms. Li Shantong, Director General, Development Research Center, The State Council, People's Republic of China
Discussant: Mr. Masahiro Kawai, Deputy Vice Minister for International Affairs, Ministry of Finance, Japan

PRC's WTO Entry: Impact on Rest of the Region

- Moderator: Mr. Choongsoo Kim, President, KDI
Speaker: Ms. Mari Elka Pangestu, Director, Centre for Strategic and International Studies
Discussants: Mr. Narongchai Akrasanee, Chairman, Seranee Holdings Co., Ltd.
Mr. Tan Kong-Yam, Senior Economist, WB

Doha Round: What is Critical for Asia

- Moderator: Mr. Murray Gibbs, Project Coordinator, Asia Trade Initiative
Speakers: Mr. Kenneth Abbott, Professor of Law and Commerce, Northwestern University
Mr. Joseph Michael Finger, Resident Scholar, The American Enterprise Institute for Public Policy Research
Mr. Oh-Seok Hyun, President, Trade Research Institute, Korea International Trade Association

Bilateral and Regional Trade Agreements: Implications for Asia

- Moderator: Mr. Choong Yong Ahn, President, KIEP

Speakers: Mr. Nakgyoon Choi, Director, Department of Trade and Investment Policy, KIEP
 Mr. Robert Scollay, Director, Asia Institute, The University of Auckland Business School
 Mr. Zhang Yunling, Professor of International Economics, Chinese Academy of Social Sciences

Regional Cooperation and Integration: Issues and Prospects for Asia

Moderator: Mr. Kim Hak-Su, Executive Secretary, Economic and Social Commission for Asia and the Pacific

Speakers: Mr. Seiji Naya, Director, Department of Business, Economic Development, and Tourism, State of Hawaii
 Mr. Soogil Young, Research Advisor, Korea International Trade Association
 Mr. Augustine Tan, Vice Provost, Office of Research, Singapore Management University

Seminar Series C: Behind-the-Border Issues

Innovation and IPRs

Moderator: Mr. Shahid Yusuf, Research Manager, Development Economics Research Group, WB

Speaker: Mr. Keith Maskus, Professor of Economics, University of Colorado

Discussants: Mr. Phillip McCalman, Assistant Professor of Economics, University of California, Santa Cruz
 Mr. Jaeyong Song, Faculty Member, Yonsei University

Transport and Logistics

Moderator: Ms. Carole Brookins, Executive Director, WB

Speaker: Mr. David Lee Hummels, Associate Professor of Economics, Purdue University Krannert School of Management

Discussant: Mr. John Wilson, Lead Economist, Development Research Group, WB

Energy and Telecommunications

Moderator: Mr. Jean-Pierre Verbiest, Assistant Chief Economist, Macroeconomics and Finance Research Division, ADB

Speakers: Ms. Linda Low, Associate Professor, National University of Singapore
 Ms. Alexandra Sidorenko, Postdoctoral Fellow, Australia-Japan Research Centre

Discussants: Mr. Douglas Brooks, Principal Economist, Macroeconomics and Finance Research Division, ADB
 Ms. Deunden Nikomborirak, Research Director, Economic Governance Section, Thailand Development Research Institute

Financial Services

Moderator: Mr. Oh-Seok Hyun, President, Trade Research Institute, Korea International Trade Association

Speakers: Mr. Yun-Hwan Kim, Principal Economist, Macroeconomics and Finance Research Division, ADB
Mr. Won-Am Park, Professor of Economics, Hong-Ik University
Ms. Sayuri Shirai, Professor of Economics, Keio University

Trade and Investment

Moderator: Mr. Joseph Michael Finger, Resident Scholar, The American Enterprise Institute for Public Policy Research

Speaker: Mr. Theodore Moran, Professor of International Business and Finance, Georgetown University

Discussants: Mr. Gerardo Sicat, Professor of Economics, University of the Philippines
Ms. Mikyung Yun, Research Fellow, Department of Investment Policy, KIEP

Keynote Speech: Mr. Kim Hak-Su, Executive Secretary, Economic and Social Commission for Asia and the Pacific

Closing Ceremony

Observations on Seminar Series

A: Mr. Jomo Kwame Sundaram, Professor of Economics, University of Malaya

B: Ms. Chia Siow Yue, Director, Institute of Southeast Asian Studies

C: Mr. Shahid Yusuf, Research Manager, Development Economics Research Group, WB

Closing Remarks:

Mr. Ifzal Ali, Chief Economist, Economics and Research Department, ADB

Mr. Homi Kharas, Chief Economist and Director, East Asia and Pacific Region, WB

Mr. Choong Yong Ahn, President, KIEP