

EXCERPTS

ASIA-PACIFIC HUMAN DEVELOPMENT REPORT 2006: TRADE ON HUMAN TERMS

Country Classification Used in the Report

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

The Report answers the questions: What does the increased trade in the Asia-Pacific region mean for human development? What impacts 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? From another perspective, what contributions can higher standards of human development make to expanding trade and economic growth?

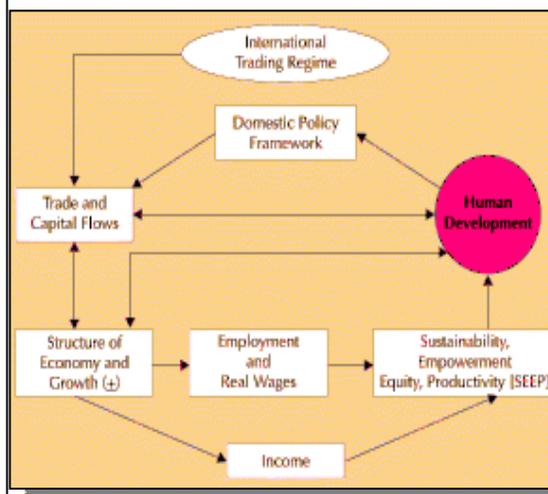


Chapter I

USING INTERNATIONAL TRADE TO PROMOTE HUMAN DEVELOPMENT

I.1. Trade is not an end in itself, but a means toward the goal of better lives for all. The Report argues that trade need not be – indeed, should not be – an end in itself. Rather, it should realize a broad range of human development objectives, 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 (p. 15).

I.2. 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 changes the structure of the economy as well as the rate of growth, which, in turn, has implications for employment both of labor and capital. Trade tends to reward skilled labor more highly than unskilled labor 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 policy makers. Finally, human development can also have a direct influence upon the structure of the economy, the rate of growth and trade itself (p. 16).



Chapter II
TRADE AND HUMAN DEVELOPMENT:
THE ASIA-PACIFIC EXPERIENCE

II.1. At the forefront of globalization. The Asia-Pacific region has been the world's most rapidly-growing region. During the period 1990-2003, GDP grew annually on average by more than 7% (Table 2.1) (p. 29).

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.

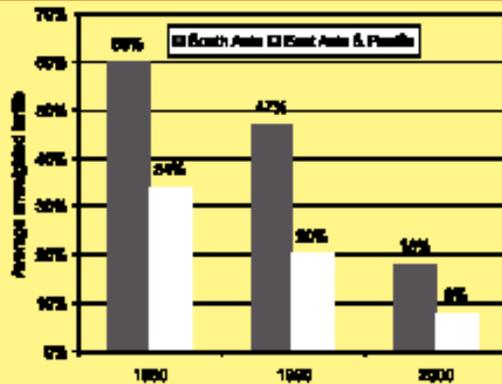


Figure 2.1: Import tariffs, 1980-2000

Source: World Bank 2005.

II.2. Rapid Growth of Trade.

Much of the 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% and by 2000 had fallen to 8% (Figure 2.1) (p. 29).

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

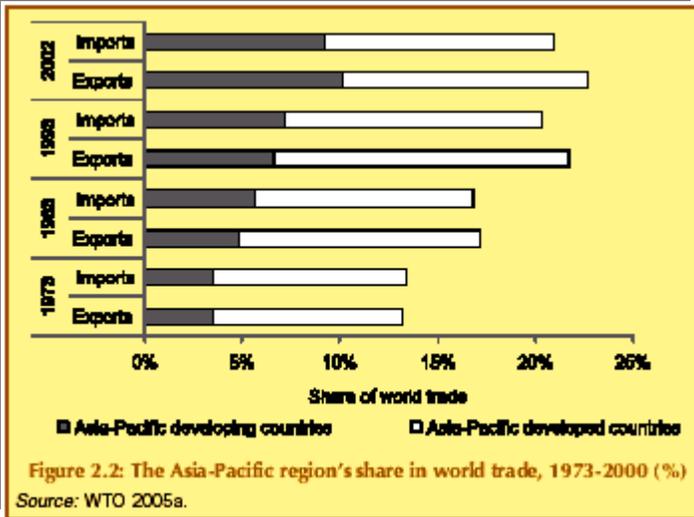
telecommunications equipment, 45 per cent in textiles, 47 per cent in clothing and 35 per cent in personal and household goods. The largest single category of exports is office and telecommunication equipment, which is also the fastest growing group of products in international trade.

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.

II.3. Sharp growth in exports, but also in imports. 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% – the proportion of South Asia also increased, from 20 to 34% (Box 2.1).



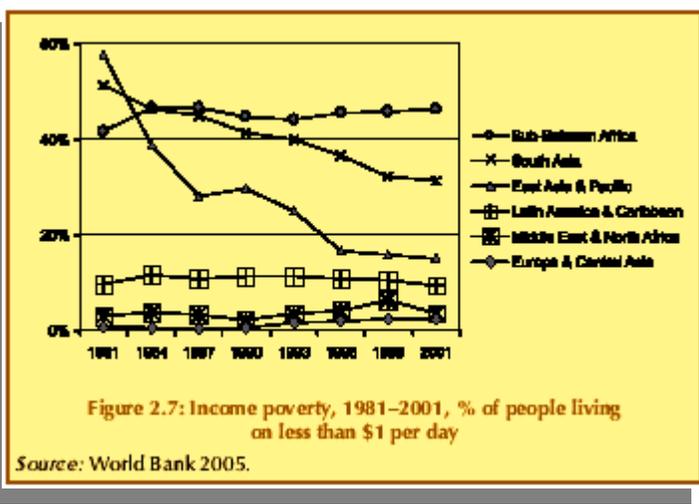
There has also been a **rapid growth in imports**. The region's share of imports rose from 13 to 21% between 1973 and 2003 (Figure 2.2) (p. 31).

II.4. 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 one (one person gets everything) (Table 2.7) (p. 38).

II.4. 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 one (one person gets everything) (Table 2.7) (p. 38).

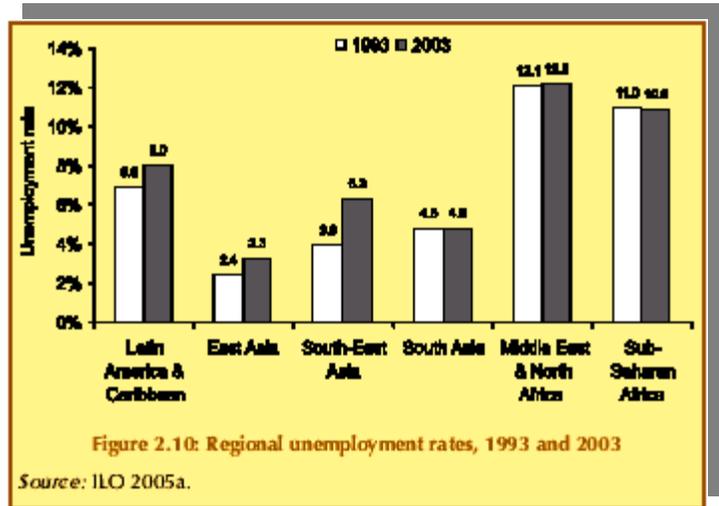
	1960s average	1970s average	1980s average	Early 1990s	Late 1990s
<i>North-East Asia</i>					
China	—	—	0.315 (i)	0.335 (i)	0.403 (i)
Republic of Korea	0.323 (i)	0.361 (i)	0.359 (i)	0.294 (i)	0.300 (i)
<i>South-East Asia</i>					
Indonesia	—	—	0.317 (e)	0.317 (e)	0.317 (e)
Lao PDR	—	—	—	0.296 (e)	0.365 (e)
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 (e)	0.361 (e)
<i>South and South-West Asia</i>					
Bangladesh	0.358 (i)	0.375 (i)	0.260 (e)	0.266 (e)	0.315 (e)
India	0.305 (e)	0.297 (e)	0.293 (e)	0.315 (e)	0.378 (e)
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 (e)	0.344 (e)

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



Despite increases in inequality, there has been 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 to sustained growth in China and the acceleration of growth in India (Figure 2.7) (p. 39).

II.5. Many of the open economies of Asia-Pacific, particularly in East Asia, are creating far fewer jobs and experiencing “jobless growth.” 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. Young women and men aged 15 to 24 bore the brunt of rising unemployment. While youth made up one-fifth of Asia-Pacific’s labor force in 2004, they constituted nearly half of the region’s total jobless population. Employment is one of the chief indicators of the effects of trade (Figure 2.10) (p. 43).



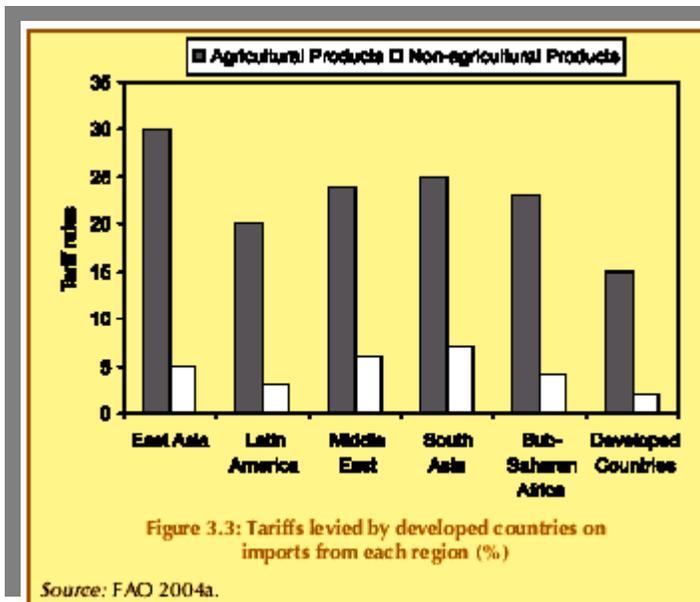
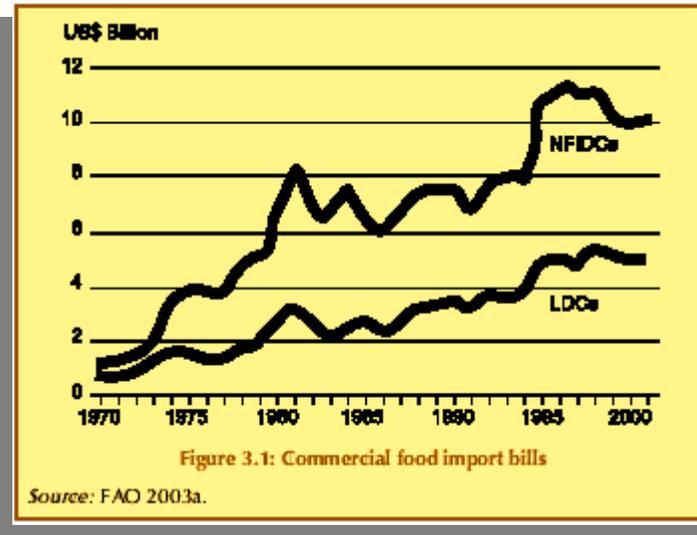
II.6. Generally, the period of trade-led growth has been accompanied by improvements in health, though this seems to have slowed in recent years. The most rapid progress has been in Southeast Asia, where between 1990 and 2003, the under-five mortality rate per 1,000 live births fell from 78 to 56. In 2003 in Southeast Asia, malnutrition was still sapping the strength of close to one-third of children.

II.7. Progress in raising education standards has been inadequate. In Southeast Asia, enrollment declined from 92 to 92% from 2001 to 2002.

II.8. Women’s share in non-agricultural wage employment between 1990 and 2003 increased by a few points, 37 to 39% in Southeast Asia.

Chapter III MAKING AGRICULTURAL TRADE WORK FOR THE POOR

III.1. With trade expansion, Asia-Pacific has become an overall food importer after being an exporter for many years. When agriculture is weakened, this also has a serious effect on food security. Asia is already home to 65% of the world's food insecure – over 510 million people around the region (Figure 3.1) (p. 51).



III.2 Poor countries continue to face determined and unfair protectionism in global agricultural markets. As a result of their selective protection, the developed countries overall apply higher tariff rates to goods from developing countries than they do to goods from other developed countries. As is clear from the graph, the rates are highest for goods from East Asia and South Asia (Figure 3.3) (p. 57).

III.3. New focus is necessary on agricultural development to defend rural livelihoods and promote food security. 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 positions of such farmers through land reforms and investment in rural development infrastructure, processing and storage facilities and inputs and, where necessary, offer price support (p. 73).

Chapter IV
ADJUSTING TO A NEW ERA FOR TEXTILES AND CLOTHING

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.

IV.1. In the new quota-free era for textiles and clothing, Asia-Pacific has gained overall, but most of these gains have been pre-empted by China and India. The tables show the importance of Asia in global trade in the textile and clothing 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 (**Tables 4.2 and 4.3**) (p. 81).

IV.2. Many countries in Asia are now highly dependent on the textile and clothing trade. This is less of an issue in the larger countries. For China, for example, T & C exports are only 16% of total merchandise exports and for India they are 21 %. Other smaller countries rely on this sector much more heavily: Cambodia, 71%; Pakistan, 68%; Bangladesh, 59%; Sri Lanka and Nepal, around 50%. A similar pattern emerges when textile and clothing exports are considered as a proportion of manufactured exports, with the percentages being higher (**Figure 4.2**) (pp. 81-82).

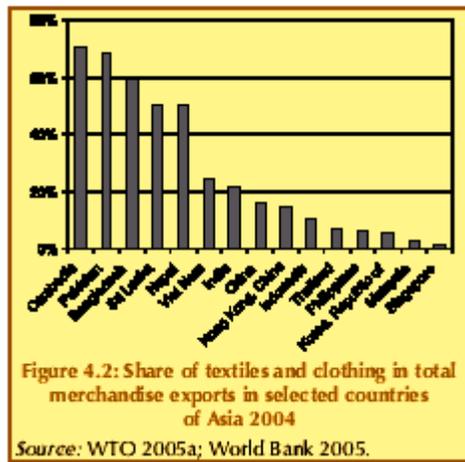
TABLE 4.3

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.



IV.3. If countries are to survive in the post-quota era, they will have to become more competitive. Higher levels of trade in textiles and clothing can lead to higher levels of human development, but only if government 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 (p. 91).

Chapter V SELLING SERVICES ACROSS FRONTIERS

V.1 What was previously non-tradable has become tradable, i.e., labor migration, outsourcing, and the tourism industry.

- **Labor 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% of the Filipino labor force and 12% of the Sri Lankan labor force now work overseas (p. 99).

Problems: exploitation of migrants, socially disruptive, can increase local income inequalities, reintegration difficulty, and brain drain (pp. 102-103).

Policy options: 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 transparent (pp. 104-107).

- **Outsourcing** – According to one study, five out of 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 \$0.3 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, namely: Bangladesh, Cambodia, China, India, the Philippines, Singapore, and Viet Nam (pp. 109-110).

Constraints: lack of infrastructure, lack of skilled manpower, and weak regulatory frameworks (p. 111).

Policy options: Build infrastructures, train the workforces, and ensure the best regulatory and fiscal environment (pp. 115-116).

- **Tourism** – In tourism, too, the Asia-Pacific region is one of the global leaders – increasing its share of global traffic from less than 10% in the 1950s to 40% in 2004. Tourism can offer new sources of employment even to the remotest region (p. 99).

Negative Impacts: can cause inflation, resource conflicts, burden on services, environmental destruction, spread of disease, cultural issues, and exploitation of women (pp. 121-122).

Policy options: Build the appropriate infrastructure, provide training to people working in smaller enterprises, and ensure better economic links between target tourist operators and poor communities (pp. 122-123).

Chapter VI TRADING OPPORTUNITIES FOR THE LEAST DEVELOPED COUNTRIES

VI.1. The causes of vulnerability of least developed countries of the Asia Pacific region in international trade:

- **Economic** – exposure to exogenous shocks that adversely affect incomes, employment, domestic production, distribution, markets, consumption, and the stock of wealth.
- **Environmental** – exposure to calamities induced by natural or man-made factors.
- **Social** – exposure to factors that undermine social cohesion, introduce systemic social pathologies, and erode social capital.
- **Institutional** – limited capacity of domestic institutions, including the state, to respond to the complexity and intensity of pressures flowing from globalization (p. 127)

VI.2. Why do LDCs not benefit sufficiently from trade? 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 sector; and
- Lack of financial sector that can provide capital at reasonable interest rates (pp. 129-130).

VI.3. LDCs' experience with trade integration: Difficult

- Lack trained people needed to understand the implications of trade agreements.
- The rules for accession to the World Trade Organization are vague.
- Incumbent members exploit acceding countries through the impositions of onerous conditions, i.e., "WTO-minus" and "WTO-plus". "WTO minus" are conditions 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. (pp. 130-132)

VI.4. Initiatives to Address LDC Vulnerability

- **Special and Differential Treatment** – applying special and differential treatment rules of trade to unequal trading partners
- **Preferential Market Access** – various concessions that allow duty-free access for certain goods for developing countries
- **Trade-related Technical Assistance** – (1) help the LDCs compete more effectively in the international arena, e.g., building better infrastructure or improving skill in the workforce; and (2)

improve the capacity of public officials to deal with trade issues and to operate more effectively at the WTO and other trade negotiations (pp. 136-137).

The poorest countries require fairer treatment by the global trade regime, redirected aid for trade and a wider range of exports in order to promote better lives for all.

Chapter VII TRADE FOR HUMAN DEVELOPMENT: AN EIGHT-POINT AGENDA

1. **Invest for competitiveness**, including in education as well as in research and development, especially for agriculture and trade-related infrastructure.
2. **Adopt strategic trade and industrial policies**, by not opening up too early strategic industries and by introducing properly sequenced tariff barriers with a clear timeframe.
3. **Refocus on agriculture**, emphasizing investment in rural development, maintaining tariffs on food imports, and ensuring that global trade negotiations agree on special safeguard mechanisms.
4. **Combat “jobless growth,”** by recalibrating interest rates; phasing out fiscal incentives that artificially raise the return on capital and result in moves away from labor; and adopting labor-market policies to encourage flexibility and retraining.
5. **Prepare a new tax regime**, ensuring that new taxes are equitable and protect the poor; develop income taxes and curb evasion, while exploring promising new areas such as real estate, capital gains and value-added tax to compensate for revenue losses from trade liberalization.
6. **Maintain stable exchange rates**, providing realistic exchange-rate management that values a currency neither too high nor too low and maintains real stability.
7. **Persist with multilateralism**, for more durable human-development outcomes, building up slower but ultimately more productive relationships under the multilateral global trade regime rather than seeking highly imbalanced bilateral agreements with rich nations.
8. **Cooperate with neighbors**, strengthening regional trade agreements, pooling of foreign-exchange reserves and development of an Asian bond market.