

East Asia Integrates: A Trade Policy Agenda for Shared Growth

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Thank you, Jamil.

Instead of going through all of the details of the report, let me instead try to leap ahead to the bottom line of what we are recommending. Specifically, I'd like to take off from Jamil's last point – the linkage between trade and development strategies.

Globally, the Doha agenda is called a development agenda – or the development round. In Singapore, as Sharman mentioned, trade linkages have always been an integral part of the nation's development strategy. Unfortunately, this has not been as true elsewhere in the Region.

And there really is a need here for a proactive, trade and development strategy.

To adopt a more proactive strategy, countries in the Region need to take action in new areas. There has already been a lot of progress in the traditional areas of trade policy – such as liberalization of the goods sectors. But now the real benefits, the real bang for the buck, if you will, is coming from other areas. And these are some of these areas we are trying to tackle in this report.

One thing to be clear about: we don't try to cover the whole trade agenda. A lot of what the trade agenda entails, especially on tariffs and non-tariff barriers, is really important but simply not addressed in this volume. But I think it is important to try to put an empirical basis to some of the other areas of emphasis today in the Region.

There are four big areas that I feel really need more attention: agriculture, services sector, logistics and cross-border trade, and institutional changes.

First, agriculture: of course globally, this has been one of the most contentious issues. What's very interesting right now is under their WTO commitments, China has taken a very liberal approach to agriculture. China now is probably the only really large and rapidly growing market that is reasonably open to agriculture – and the potential in benefits that can offer to the rest of East Asia, and in particular to Southeast Asia, we feel are really quite significant.

[For example, some of Thailand, Vietnam and Indonesia's top agricultural exports—rubber, sugar, oilseeds, rice – will face fewer barriers, as a result of China's liberalization. If agriculture can be liberalized in a regional setting, then a favorable political dynamic can be set in place that will lead to more open agricultural sectors overall.¹

Progress on agricultural liberalization in a new Doha Development Agenda is critical. Important issues for East Asia are the degree of cascading tariffs in agricultural processing in rich countries, and the ability to meet sanitary and phytosanitary standards for their exports. Thailand's \$7 billion agricultural exports, for example, could be substantially raised if more appropriate food safety standards could be negotiated and better market access achieved.]

Second, services. East Asia has always had the reputation, deservedly so, for being very open in terms of its manufacturing sector. And it has built its manufactured exports on the back of that openness. It has lagged behind, however, other regions in terms of its openness and efficiency in the services sector. Now increasingly, especially as regional production networks become the basis for manufacturing strength and greater

¹ Benefits from agricultural liberalization within ASEAN+3 estimated at \$12 billion (1996 \$) or 0.8% GDP. Benefits to emerging East Asia from agricultural liberalization by developed countries is estimated at \$10 billion (1997 \$), and global liberalization by low and middle income countries \$73 billion (1997 \$) or 3 percent of GDP.

competitiveness, there's a realization that weaknesses in the services side can seriously undercut one's competitiveness more broadly.

If there could be improvements in the efficiency of the services sector – and we think that the kinds of measures that are discussed in broader trade agreements could yield those kinds of efficiency improvements – then it will help not just the service sector itself, it will really help to underpin manufacturing. So I think there is a strong sense that this needs to be addressed.

Not because it is a developed country agenda – and there's always been some sense that services liberalization is to benefit the developed countries – but it's really also a developing country agenda. And perhaps an agenda that can be pursued at a regional level, because at the end of the day, some of the real benefits on the services sector side will come from helping to give a more solid foundation to the regional production networks that were earlier discussed.

Third, logistics. There seems to be a huge agenda on logistics and cross border trade. Again, the speed with which the value of East Asia's exports have grown have to some degree outpaced the speed with which the logistics industry has grown in the region. And the costs of logistics in this region remain high, probably about double the equivalent costs of logistics in the more advanced countries. So in terms of averages for all products, logistics account for about 8% from East Asia – this compares to about 4% in the developed world – that's a substantial lag.

When you get into the details of some of the countries, logistics becomes a much bigger issue. In places like China, for example, as soon as you move away from the coastal areas, the costs of logistics become really quite prohibitive.

[Reducing inland transport and logistics costs offers the greatest scope for increasing trade. These costs are currently large multiples of those in competitor locations--and particularly onerous for poor, remote areas and landlocked countries.]

When we talk about logistics, it's important to realize we are not just talking about the hard infrastructure efficiencies. It's not just a more efficient port, a more efficient airport. It's also about the regulatory environment, about bringing goods from factories and farms to these trans-shipment points. The whole multi-modal arrangements, the efficient use of those kinds of transport services – and if goods are going to cross national boundaries, the issues of the delays and the costs of each of the cross-border transactions – all of this becomes increasingly important.

And if you have a regional production network where the goods have to cross national boundaries several times before the final shipment is sent out to consumers, these cross-border transactions become all the more crucial in terms of efficiency and competitiveness.

And these issues are very important for some of the poorer countries in the region. I do want to emphasize that there appears to be a recognition and a determination that as East Asia grows, that of course it is easier for some of the more advanced countries to move on some of these agenda items more rapidly than some of the lower income countries, but one shouldn't forget the issues that are important to bring lower income countries along with the progress in other areas. Among those agenda items, logistics is really very high on the list.

Countries like Cambodia, for example, are an integral member of ASEAN – and probably an economy whose exports are under severe threat once garment quotas are abolished. Most of Cambodia's exports have been built on the back of preferences in their ability to penetrate the US market. [97% of Cambodia's exports to US are either in direct competition or in categories where China no longer will be quota-constrained.] Once the value of those preferences erode with greater trade liberalization in the world, which is likely to happen in 2005, there is a real need for countries like Cambodia to adjust and adapt.

So along with the global trade liberalization, I think we have to understand one of the things that will bring with it is a reduced value of the preferences that have been given to the poorest countries of the world as a way to try to bring them along in the global system. That wasn't a terribly effective strategy, as I think most people now recognize, as the poorest countries weren't really able to avail too much of those preferences. However, these countries will still be hurt, and that means the attention needs to shift to these other areas, like logistics, where they can gain some real benefits.

And last, institutional changes: I'd like to emphasize the imperative for looking at the institutional changes that can help bring the benefits from trade down to everyone, and share these benefits much more broadly.

When we think and look at China, and its accession to the WTO, it's clear that this will be hugely positive for China. When you look more specifically, it's also clear that there may well be certain areas in China – households in certain rural counties, for example, which don't have many family members who can migrate to cities and send back remittances, etc. – those kind of places may actually be made worse off. Understanding these impacts, who these people are and where they are – is extremely important in terms of devising policies to then strengthen the broader distribution of the benefits of trade.

And there are several other examples in the report of this kind of institutional strengthening needed to bring the benefits down to the poorest groups and ensure that certain groups don't get left behind.

Let me end by just giving a couple of remarks on what we hope to achieve by doing a study.

In some sense, there is already a recognition that this is an important agenda. So why don't we just get on and do it?

First, I think what we are trying to achieve with this work is to build awareness and broaden the coalition of the people who should be engaged and proactive in supporting trade liberalization. I think it's unfortunate that there's been opposition by people who think that it will damage environmental standards or damage core labor standards – so we've tried to address some of those issues in the report. There have been people who have said that trade brings along with it vulnerabilities for workers – and we've tried to address some of those issues practically. It's important to move this dialogue from the ideology of these positions to what has been the practical experience of East Asia. And I would hope that many of you will participate and do your own studies to demonstrate that trade has, in fact, been a positive force for growth and stability.

Second, we hope to really help focus on which are the key priority areas. As soon as you begin discussing trade for development, you open up such a huge range of issues that you need to get a sense of the priorities. And I think as we went through this exercise we ourselves have become much more aware of the importance of agriculture, services, logistics, cross-border trade facilitation, and the institutions that are important for the poor.

And last, I think it's always important when one moves into negotiations, which often have more of an 'I win, I lose' type of approach, to emphasize that trade negotiations may perhaps be different from other types of business negotiations, and that often in trade negotiations, you can really have 'win win' solutions for everyone. And I think if the negotiators go forward with that kind of attitude, and it's precisely the kind of attitude that says there is no trade off between a bilateral agreement and a multilateral agreement, we can use these to build upon, and ensure that there are benefits for everyone.

If more people would understand and approach the negotiations from that framework, I think there would be very good prospects for really making more progress on these fronts.

Thank you.