



RETHINKING TRADE AND INVESTMENT POLICIES FOR SUSTAINABLE DEVELOPMENT

International trade and investment¹ are key means of implementation of the 2030 Agenda for Sustainable Development. Their benefits are well recognized, particularly in the developing economies of Asia and the Pacific, where trade and foreign direct investment (FDI) have been main engines of growth. However, there are rising public concerns about globalization in major developed economies, as recently evidenced by Brexit in Europe and the withdrawal of the United States of America from the Trans-Pacific Partnership.² Policymakers need to more fully recognize that not everyone benefits from trade and investment liberalization, even as the overall economic pie expands as a result (IMF, World Bank and WTO, 2017; ESCAP, 2013). Additionally, the environmental impacts of international trade and FDI remain a long-standing concern.³



Selected trade- and investment-related targets and means of implementation specified in the 2030 Agenda for Sustainable Development

Goal 2.	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
2.a	Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries
2.b	Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round
Goal 3.	Ensure healthy lives and promote well-being for all at all ages
3.b	(...) provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health and, in particular, provides access to medicines for all
Goal 7.	Ensure access to affordable, reliable, sustainable and modern energy for all
7.a	(...) promote investment in energy infrastructure and clean energy technology
Goal 8.	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
8.a	Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least Developed Countries
Goal 10.	Reduce inequality within and among countries
10.a	Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements
10.b	Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes
Goal 14.	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
14.6	By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation
Goal 15.	Protect, restore and promote sustainable use of terrestrial ecosystems [...] and halt biodiversity loss
15.c	Enhance global support for efforts to combat the poaching and trafficking of protected species, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities
Goal 17.	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development
17.3	Mobilize additional financial resources for developing countries from multiple sources
17.5	Adopt and implement investment promotion regimes for least developed countries
17.10	Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda
17.11	Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020
17.12	Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

The Sustainable Development Goals (SDGs) include a number of trade and investment-related targets (table 4.1). However, many of these targets provide limited guidance on how developing economies should adjust their trade and investment policies towards sustainable development, especially considering the complex linkages between international trade, FDI and economic, social and environmental issues.

Accordingly, chapter 4 introduces a framework highlighting both the benefits and challenges of trade and FDI and how they may be addressed to achieve more sustainable development. Following an overview of the framework, each of the key components is discussed in this chapter. FDI linkages to growth and sustainable development are analyzed and discussed in more details in chapter 5. A quantitative analysis of the impact of trade and investment liberalization and complementary policies and sustainable development is then presented in chapter 6, followed by a way forward.

A. A FRAMEWORK FOR CHANNELLING TRADE AND INVESTMENT INTO SUSTAINABLE DEVELOPMENT

The linkages between trade, investment and sustainable development outcomes are complex and continue to be debated.⁴ It is, however, generally accepted that trade and investment are necessary but not sufficient conditions for inclusive development (ESCAP, 2013).⁵ As shown in figure 4.1, the link between trade growth and aggregate economic development is strong and positive, while the relationship between trade growth and inequality is weak, but marginally positive. FDI growth exhibits similar, although weaker, relationships with both economic development and inequality. In turn, trade growth and FDI growth are both relatively strongly and positively correlated with CO₂ emissions. This is explained by the fact that the increase in economic activity associated with international trade and investment tends to put more pressure on the environment and the limited stock of natural resources. Taken together, these simple correlations illustrate the need for policymakers to take proactive actions to channel trade and investment into activities and sectors that can help mitigate the environmental and social impacts while still capturing the economic benefits.

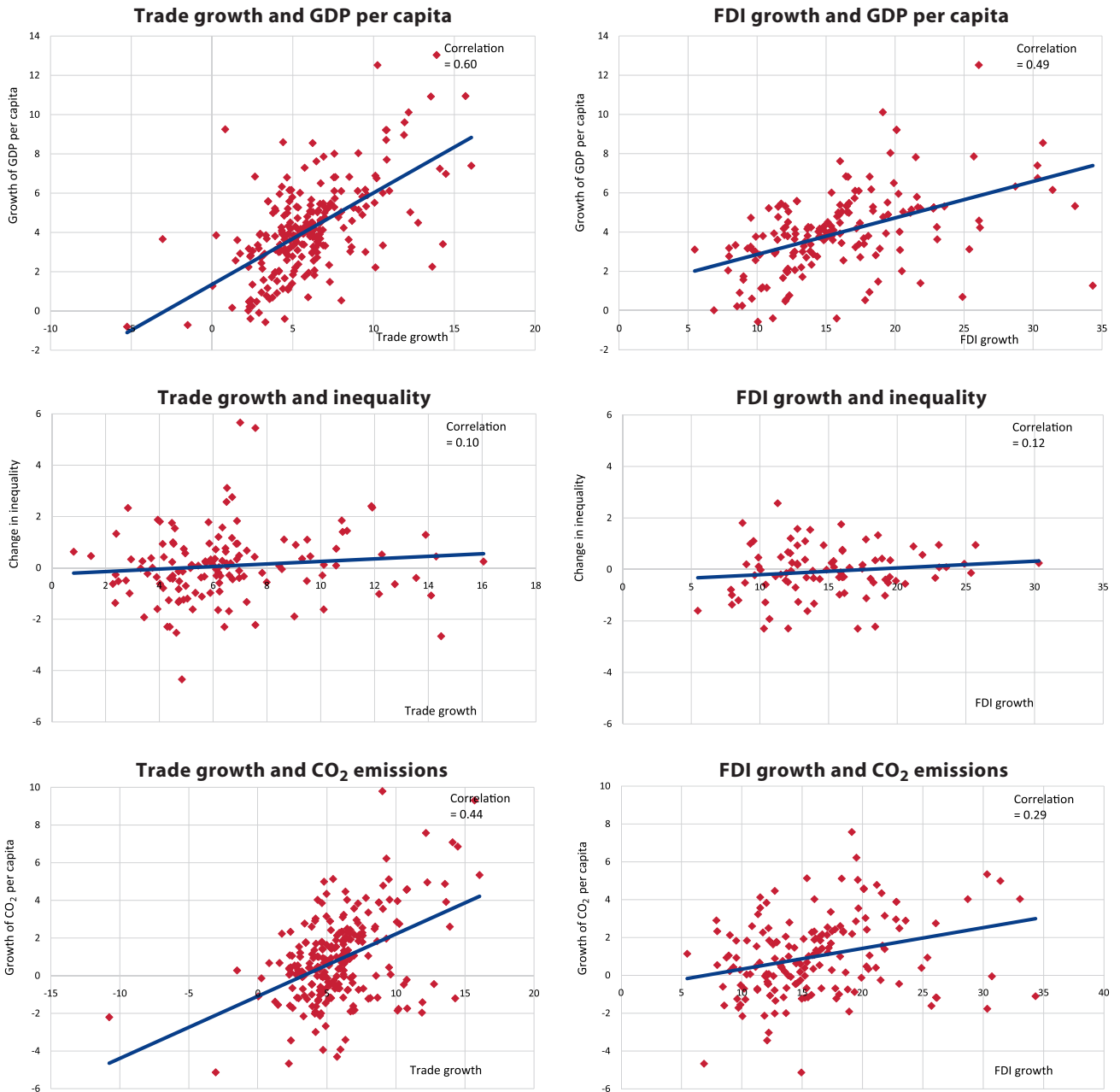
Figure 4.2 depicts a framework for understanding the impact of trade and FDI and how they can be channelled towards achieving sustainable development. The framework shows that a “business as usual” model of market-driven trade and investment policies, typically designed with aggregate-level economic impacts in mind, can effectively contribute to the overall economic growth of an economy. Trade can provide a greater variety of goods to consumers at lower prices. By enabling access to better technology and inputs, trade and FDI can increase production efficiency and lead to more and better-paying jobs. FDI can also help build the capital base and know-how often lacking domestically for large infrastructure or industrial development projects. Lower trade and investment barriers ultimately lead to reallocation of resources from low to high productivity firms and sectors, providing new opportunities for growth. The increase in economic activity and growth resulting from trade can boost tax revenue for the government, which may, in principle, be used to deal with social and environmental concerns.

However, as the framework shows, while at the aggregate level trade and FDI are likely to be beneficial, the liberalization of trade and investment also has some potential downsides. For example, lowering tariffs or extending too many FDI incentives in the form of tax breaks may adversely affect government revenue or distort sectoral allocation if not managed carefully. In addition, foreign investors may crowd out domestic investment, affecting the development of the small and medium-sized enterprises (SMEs). The reallocation of resources as a result of import competition may also lead to job losses in some industries or the disappearance of some activities or industries. Accelerated infrastructure development or industrialization through FDI may also negatively affect the livelihood of certain communities or their cultural heritage and also result in significant environmental degradation. Finally, the new growth opportunities generated by trade and investment might put pressure on the environment and increase health risks, for example through increased amounts of waste generated and polluting emissions.

In that context, the framework highlights four key elements needed to more effectively channel trade and FDI into sustainable development. The first is that general trade and investment liberalization



Relationship between trade and foreign direct investment and sustainable development

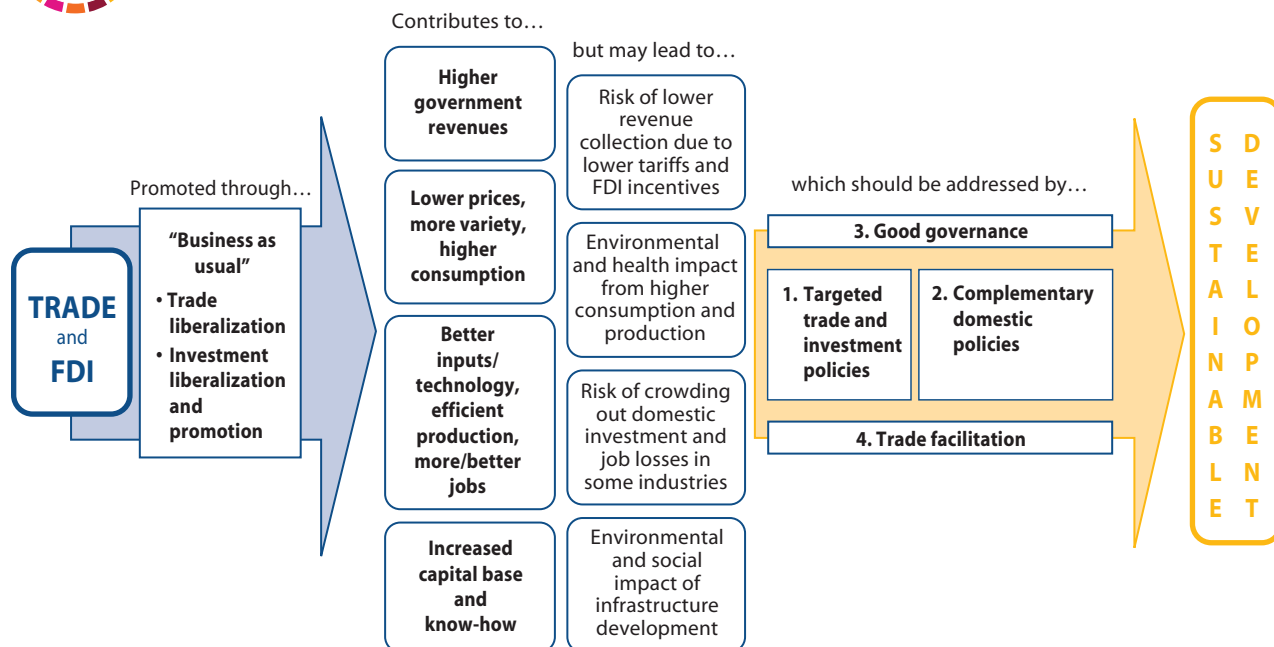


Sources: ESCAP, based on World Bank, World Development Indicators database (accessed September 2017).

Note: Dots represent individual economies.

Figure 4.2

Channelling trade and investment into sustainable development: a framework



policies should be accompanied by targeted trade and investment policies aimed at achieving specific Sustainable Development Goals.⁶ For example, achieving quality education for all (Goal 4) may involve liberalization of certain education services (Asian Development Bank Institute, 2017). Similarly, enhancing the potential for women employment generation (in relation to Goal 5), may be achieved by incorporating relevant targeted sustainable development criteria in the selection of FDI projects.

The second, and possibly most important, element in this framework refers to complementary domestic policies. These policies do not specifically relate to trade or FDI and apply more generally to all products, services, firms and people in the country regardless of origin. For example, domestic policies that make it easier for workers to move across industries or regions and to acquire new skills (a combination of labour market, education and public transport policies in this case) can help lower trade adjustment costs for displaced workers or firms. Domestic environmental regulations are also essential, as they can help ensure that foreign investors do not see a country as a pollution haven from which they can manufacture products without regard for the environment.

The third component is good domestic governance. It is needed to ensure that the aforementioned policies are actually efficiently implemented. Improving domestic governance implies that sufficiently strong public institutions are in place in order to strengthen the rule of law, make it easier to conduct business and involve all relevant stakeholders, including small and medium-sized enterprises and civil society, in shaping policies. Good governance is also essential for effective revenue collection and its subsequent use towards sustainable development (ESCAP, 2017).

The fourth element is simple and efficient trade procedures. This is key to ensure that trade is inclusive, and that the transaction process itself creates as few environmental impacts as possible. This is best accomplished by a broad approach to trade facilitation that covers (a) commercial procedures, including e-commerce; (b) regulatory procedures, including paperless trade; (c) transport procedures; and (d) payment procedures. Importantly, both import and export procedures should be facilitated to enable participation in regional and global production networks.

B. TARGETED TRADE AND INVESTMENT POLICIES FOR SUSTAINABLE DEVELOPMENT

1. Tariffs as a policy tool for channelling trade into sustainable development

Tariffs, which are taxes levied on imported goods, are arguably one of the most transparent and straightforward trade policy tools (UNCTAD, 2016). Policymakers set the level of tariff on various types of goods based on different policy objectives. In many developing countries, where tax collection systems are underdeveloped and tariff revenue account for a significant share of overall government revenue, tariffs may still be set primarily to ensure sufficient revenue.⁷ Tariffs may also be set to protect goods and sectors of key importance to the social and economic stability of a country, e.g. rice, on which many of the rural poor depend. Domestic business lobbies simply keen on avoiding foreign competition may also influence tariff rates.⁸

Regardless of why tariffs are set, they can affect progress towards sustainable development. As shown in table 4.2, the impact of tariffs on sustainable development is already acknowledged. Tariffs are the basis of three of the SDG implementation indicators.⁹ However, two of these indicators are essentially applicable to developed countries tariff policies (and to a lesser extent, developing countries in the case of indicator 17.12.1),

and the third is a worldwide average. They provide little guidance to developing countries, other than stressing the importance of reducing tariffs whenever possible.¹⁰

“Targeted tariff cuts can help increase energy efficiency and improve sustainable use of land, water, and the sea.”

As noted earlier, governments may need to review sector specific goals and targets to identify how tariffs may be used as a tool for implementation. For example, Goal 2 on ending hunger and achieving food security includes Target 2.b to “correct and prevent trade restrictions and distortions in world agricultural markets”. This implies that countries should try to reduce import and/or export tariffs on agricultural products. Trade policies in agriculture remain a sensitive matter, however, as the benefits of cheaper imported food have to be balanced with potential income and employment losses in already poor rural areas. A noteworthy effort led by Indonesia in the Asia-Pacific Economic Cooperation (APEC) is the formulation of a list of “development” products that contribute to poverty alleviation and rural development and for which tariffs can be lowered or eliminated. Many of these are agricultural products. However, the plan has received mixed support by other countries.¹¹

Ensuing healthy lives as envisaged in SDG 3 could be made easier by cutting tariffs on medicines, bandages and surgical equipment, in particular when



Table 4.2 Tariff-related Sustainable Development Goal indicators

	SDG Target	SGD Indicator
Goal 10 – Reduce inequality	10.a Implement the principle of special and differential treatment for developing countries (...)	10.a.1 Proportion of tariff lines applied to imports from least developed countries and developing countries with zero-tariff
Goal 17 – Partnership for sustainable development	17.10 Promote a universal, rule-based, open, non-discriminatory and equitable multilateral trading system (...)	17.10.1 Worldwide weighted tariff-average
	17.12 Realise timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, (...)	17.12.1 Average tariffs faced by developing countries, least developed countries and small island developing States

Source: United Nations, Statistics Division, SDG Indicators – Metadata repository (accessed September 2017).

they are not produced domestically (cf. Helble and Shepherd, 2017). Similarly, SDG Target 17.7 on the promotion and diffusion of environmentally sound technologies, as well as SDG 7 on promoting clean energy may also be achieved by lowering tariffs imposed on environmentally or climate-friendly technologies.¹² APEC members have led the way in this area, agreeing in 2012 on a list of 54 specific products that would contribute to green growth, such as high-efficiency biomass boilers and solar panels. APEC members also committed to reduce tariffs below 5% on these products by end

2015.¹³ Forty-eight members of the World Trade Organization (WTO) are also currently negotiating an environmental goods agreement which aims at cutting tariffs on products that can help achieve environmental and climate change related SDGs, e.g. products that can generate clean and renewable energy, control air pollution and help treat waste water.¹⁴ As shown in a recent ESCAP study, the Asia and the Pacific region is an emerging leader in export of these products, but tariffs on environmental goods remain high in least developed countries (see box 4.1).



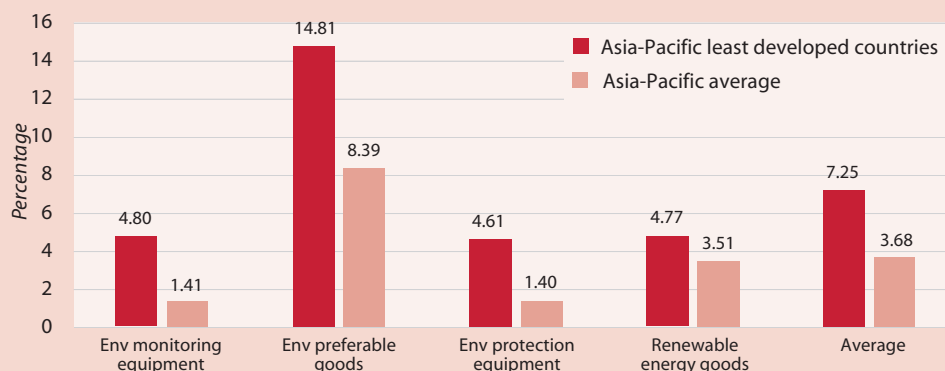
Box 4.1

Policy landscape of trade in environmental goods in Asia and the Pacific

The Asia-Pacific region has been a frontrunner in terms of recognizing the positive impact of supporting environmental goods trade through proactive public policies. In September 2012, the 21-member Asia-Pacific Economic Cooperation group concluded the first-ever trade agreement to cut tariffs on environmental goods. Due to these and other policy measures, the region has emerged as dominant player in both exports and imports of environmental goods^a in the world, representing 42% and 44%, respectively.

ESCAP research analyzed the trade policy landscape of the trade in environmental goods and found that in general, average tariffs imposed by the region have declined, while the tariffs in least developed countries remain higher than the rest of the region (see figure). However, the research also showed that non-tariff measures (NTMs) are a significant impediment to trade in environmental goods, especially for exporters from low income economies. The negative impact of NTMs on trade in these goods seems to be much more significant than that of tariffs. At the same time, the use of environmental goods also requires use of a variety of services, such as engineering services. Restrictions on trade in services therefore also impede trade in environmental goods. Hence, reduction of non-tariff measures, liberalization of service trade and reduction in tariffs will all be critical to boost trade in environmental goods.

Figure. Weighted average applied tariffs on environmental goods categories in 2014, contrasting the Asia-Pacific region (as a whole) and least developed countries in the Asia-Pacific region



Source: Trade Analysis Information System (TRAINS) data accessed through World Bank, World Integrated Trade Solution (WITS) database (accessed September 2017).

Source: Jacob and Möller (2017).

^a This refers to the APEC list of 54 goods.

2. Non-tariff measures as policy tool for sustainable development

Non-tariff measures (NTMs) are policy measures other than ordinary customs tariffs that can affect international trade. As such, NTMs cover a wide range of policy measures.¹⁵ There is some evidence that countries have been using NTMs with protectionist intent, transforming them into de facto non-tariff barriers (NTBs).¹⁶ In fact, the number of NTMs has risen significantly at the same time that tariffs have been reduced or eliminated through various reciprocal trade agreements. Every preferential or free trade agreement necessarily comes with its own set of rules of origin (RoO) and related certificates of origin (CoO), which are classified as one type of NTMs.

Importantly, however, NTMs are normally put in place to pursue very important and legitimate domestic policy objectives, such as protecting human and animal health through sanitary and phytosanitary (SPS) measures; or ensuring product safety or quality by setting certain technical and production requirements. Such NTMs are often referred to as technical barriers to trade (TBT). While sometimes making trade more difficult, they also make traded products safer and healthier, which contributes to sustainable development (UNCTAD, 2016).

“The number of legitimate NTMs can be expected to increase as countries strive to implement SDGs.”

In this spirit, NTMs could be used to pursue a variety of policy objectives consistent with the SDGs. While none of the 232 or so indicators in the current SDG framework refers to NTMs, a number of SPS and TBT measures can be directly linked to implementation of SDGs (table 4.3). For example, measures to protect human health from risks associated with certain food additives or toxic contaminants directly support SDG 3. While the number of such legitimate NTMs can be expected to increase as countries strive to implement SDGs, new technical measures should be based on accepted international standards and recommendations when they exist, such as the one issued by the CODEX Alimentarius.¹⁷ They should also be consistent with the provisions set out in the WTO Agreements on SPS and TBT, so as to limit their potentially negative impact on trade.

“Addressing the procedural obstacles associated with new NTMs should be a top priority.”

However, NTMs may make it especially difficult for SMEs to benefit from trade given the procedural obstacles typically involved in complying with such




Potential targeted SPS and TBT measures in support of the Sustainable Development Goals

Goal 2: Zero hunger	SPS measures to protect ecosystems from pests and invasive species
Goal 3: Good health and well-being	SPS measures to reduce risks from additives, contaminant or hazardous materials in food, drinks or pharmaceuticals, and/or to inform consumers (e.g. labeling requirements)
Goal 12: Responsible consumption and production	TBT measures to regulate imports of products with hazardous substance or pollutants
Goal 13: Climate action	TBT measures to regulate imports of products which could increase greenhouse gas emissions and affect implementation of commitments under the Paris Agreement of the United Nations Framework Convention on Climate Change, including through climate labeling (UNFCCC, 2015).
Goal 14: Life below water	TBT and traceability measures to combat illegal, unreported and unregulated (IUU) fishing (FAO, 2017)
Goal 15: Life on land	TBT measures to support implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

Source: ESCAP, updated and extended from UNCTAD (2016).

measures.¹⁸ Governments therefore need to streamline the procedures associated with these new measures. Business surveys conducted by the International Trade Centre (ITC) in various developing countries in the region and beyond show that the administrative procedures involved in complying with technical requirements or other NTMs, such as rules of origins, can be as, or more, burdensome and challenging than the requirements themselves.¹⁹ To simplify SPS and TBT procedures, countries may enter into mutual recognition arrangements (MRAs) of conformance procedures to avoid repeated and unnecessary laboratory testing and certifications. The experience and guidelines issued by the Association of Southeast Asian Nations (ASEAN) for the development of such arrangements are a useful reference in this context.²⁰

 *“Voluntary Sustainability Standards are fast emerging as a useful tool for implementation of the SDGs.”*


As individual consumers globally have become more aware of sustainable development issues, they have demanded that products meet higher standards in terms of health, safety and respect for labour rights and the environment during the production process. As a result, private sustainability standards have emerged. These voluntary sustainability standards (VSS) are in addition to the NTMs put in place by governments. These VSS have been developed by various private or non-governmental organizations, and they are often backed by large companies or network of companies involved in global sourcing of agricultural and food products. For example, 50% of global coffee production is now subject to VSS (Potts and others, 2016).

The rapid growth of VSS has led to the establishment of the United Nations Forum on Sustainability Standards (UNFSS). According to the latest UNFSS flagship report, there are now more than 400 VSS (UNFSS, 2016). A search in the online database of voluntary standards maintained by ITC returned 62 VSS for rice or dried mangoes and 54 for silk.²¹ Moreover, VSS are not limited to agricultural and food products. Increasingly, they also cover other types of products, including construction products, electronics and pharmaceuticals, among others.

The credibility and legitimacy of VSS varies widely. For instance, there are concerns about transparency,

the lack of scientific basis, and the cost and credibility of the assessments because of the direct link between those who develop the standards and those who provide certification and accreditation.²² Also, small producers and new entrants may not be able to bear the costs if different buyers require different certifications for the same product. Despite these valid concerns, VSS are arguably at the “frontier” of standardization for achieving the SDG’s social and environmental objectives. Some of them have become accepted global “good practices” as a larger number of producers have adopted them, and as organizations maintaining VSS have gradually established their credibility by complying with accepted certification and management standards.²³

Going forward, policymakers may rely more on VSS when setting new technical requirements in line with the objectives of the SDGs.²⁴ Some countries are in fact already using VSS in government procurements (Pande, 2017).²⁵ However, to avoid trade disputes at WTO arising from governmental use of VSS, these VSS should comply with Article 2 of the TBT Agreement, which holds WTO member States responsible for ensuring that the standards do not create “unnecessary obstacles to international trade.” Similarly, governments may need to ensure that the organizations developing VSS follow the Code of Good Practice in Annex 3 to the TBT Agreement, which applies to all standards.

 *“Regional consensus building and coordination on the use of voluntary sustainability standards needs to be strengthened.”*

In the context of the SDGs, closer cooperation between international standard setting bodies, such as the International Organization for Standardization (ISO) and VSS, should be strengthened. This would help broaden the consensus and acceptability of some of the existing VSS and avoid WTO disputes such as the one between the United States and Mexico on eco-labeling of tuna imports. In this case, the voluntary use of eco-labelling of dolphin-safe tuna was ultimately found to be a technical barrier to trade (WTO, 2015). Additionally, consensus building at the regional level, including through relevant regional trade agreements such as the Asia-Pacific Trade Agreement (APTA), the Trans-Pacific Partnership (TPP) or the Regional Comprehensive Economic Partnership (RCEP) should also be considered.²⁶

Although technical NTMs are often perceived to be the main barriers to trade,²⁷ other NTMs also impact the achievement of the SDGs. For example, intellectual property measures, including copyrights, patents, trademarks and geographical indications,²⁸ support SDG 9 on fostering innovation as well as target SDG 17.6 on technology innovation. Similarly, patents provide the incentive needed for companies to make costly long-term investment in research and development to develop the new medicines needed to achieve SDG 3 on health and well-being, while geographical indications allow producers in a particular region to protect their investments in producing and marketing high-quality agricultural products.²⁹ However, as with other NTMs, intellectual property measures can also become barriers to trade and increase prices; thereby, limiting access for consumers in developing countries to products and technologies that may be essential to achieving several of the SDGs. Additionally, intellectual property measures can reduce competition and limit new producers' entry and participation in a market.

3. Targeted foreign direct investment policies for sustainable development

Foreign direct investment is one of the key means of implementation of the 2030 Agenda for Sustainable Development. FDI is an essential source of financing for development,³⁰ and it is also a mechanism for technology transfer and capacity building (Lee and Tan, 2006; Su and Liu, 2016). However, "traditional" FDI policies have focused on attracting investment in sectors thought to be most promising for generating economic growth, boosting employment and increasing exports. As a result, FDI projects have often been evaluated and monitored almost exclusively in terms of their economic impact, and some developing countries have lowered their regulatory standards in an effort to attract more FDI.

 *"Attracting FDI in the sectors specifically identified in the SDGs should be prioritized."*

There is some evidence that FDI helps increase wages. Several studies in Indonesia, for example, have shown that a foreign acquisition of an Indonesian manufacturing plant resulted in higher wages for the plant's employees (Javorcik, 2013). However, FDI can in some cases have significant

negative social or environmental impacts, even if not necessarily more so than domestic investments. These may include displacing or exploiting local communities, or polluting and degrading ecosystems through intensive production or use of inappropriate technologies and standards.³¹ In order to channel FDI towards sustainable development, FDI policies should be targeted at sectors that are directly related to the SDGs (table 4.4). For example, prioritizing FDI in the energy sector would support SDG 7.

 *"The social and environmental impact of FDI projects should be systematically considered."*

Importantly, FDI projects in the SDG-related sectors should be evaluated and monitored based on a balanced set of economic, social and environmental criteria (table 4.4). For example, selection and approval of FDI in the food and agriculture sector – in relation to SDG 2 as well as 8 – may be based on whether investors have obtained the relevant international quality certifications (e.g. Hazard Analysis and Critical Control Points (HACCP) certifications) or whether they will apply sustainable farming practices. These criteria may vary depending on each country's unique situation.

Enhancing the sustainable development impact of FDI is not easy, as the effect of FDI are complex, vary greatly across sectors and depend on the quality of the domestic business environment and its absorptive capacity. While FDI may indeed increase the stock of physical capital available in an economy allowing it to grow further, important benefits such as employment generation and technological spillover may only be achieved in a conducive domestic environment, e.g. where the local workforce has adequate skills and education, or where intellectual property rights are sufficiently protected.³²

Overall, targeted trade and investment policies, including providing particularly incentives to attract FDI to prioritized SDG sectors, should be actively considered. However, such sector-specific or product specific policies and measures may create unnecessary market distortions and unintended impacts on different sectors and stakeholders. It is therefore important that they are designed and adopted based on careful impact analysis (see annex).



Table 4.4 Target sectors for foreign direct investment in support of the Sustainable Development Goals

SDG	Target sectors for FDI (possible evaluation criteria)
Goal 2. End hunger, achieve food security, improve nutrition and promote sustainable agriculture	Food and agriculture, including related machinery, technology and services (Quality control certifications; focus on sustainable agricultural practices/organic production)
Goal 3. Ensure healthy lives and promote well-being for all at all ages	Health sector, including hospital services and pharmaceutical production (Investment in rural areas; management quality certifications)
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Education sector, including infrastructure and services (Focus on empowering women and girls (Goal 5); investment in rural areas)
Goal 6. Ensure availability and sustainable management of water and sanitation for all	Water management, including sanitation and distribution (Compliance with environmental standards; potential for technology transfer)
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all	Energy sector, including related power generation and distribution (Contribution to development of renewable energy)
Goal 8. Promote inclusive and sustainable economic growth, full and productive employment and decent work for all	All labour intensive sectors, e.g. garment manufacturing or call-centre services (Sustainability standards certification covering labour management and environmental standards)
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Transport sector (Environmental impact assessment); Telecommunication sectors (Affordability; coverage of rural areas)

Source: ESCAP, expanded and modified from UNCTAD (2015).

C. DOMESTIC POLICIES, GOOD GOVERNANCE AND TRADE FACILITATION AS ESSENTIAL ENABLERS

1. Importance of complementary domestic policies

As specified in the framework in figure 4.2, targeted trade and investment policies are useful, but they are unlikely to be sufficient for achieving sustainable development. Such policies should be supported by domestic policies. In fact, following the principle of non-discrimination that is central to the multilateral trading system and the WTO, TBT and SPS Agreements, targeted non-tariff measures should be fully grounded in domestic policies so that technical and other requirements apply to both foreign and domestic firms.

The effective channelling of trade and investment into sustainable development crucially depends on how well the domestic policy framework already reflects the economic, social and environmental pillars and

goals of the 2030 Agenda for Sustainable Development. For example, if a comprehensive national environmental policy is already in place, imports and foreign direct investment into the country are much more likely to be respectful of the environment and contribute to achievements of SDGs 11 to 15, among others.

“Sound domestic environmental and labour policies are essential to channel trade and FDI into sustainable development.”

In terms of the social pillar of the 2030 Agenda for Sustainable Development, a key issue is how to ensure that trade is inclusive and that its benefits are properly shared within and between countries of the region.³³ The benefits from trade come essentially from enabling countries to produce goods and services for which they have a comparative advantage. However, this also leads in some cases to the displacement of entire industries and the creation of new ones for which those who lost their jobs may not be prepared. Therefore, domestic policies that will make it easier for those negatively

affected to adjust, such as stronger social safety nets, should accompany trade liberalization. At the same time, it may also include more active adjustment policies, such as access to retraining programmes to facilitate mobility of labour across sectors and assistance for job search. Over the longer term, labour market rigidities should be removed given that they typically hamper resource reallocation across sectors, slow trade and investment growth and undermine employment prospects in an open economy regime.³⁴

“Strengthening social safety nets as well as trade adjustment assistance programmes should be considered to support those affected by trade liberalization.”

In addition to other social welfare programmes, certain countries, such as the United States or the Republic of Korea, have maintained trade adjustment assistance (TAA) programmes. The TAA in the United States focuses directly on workers by extending unemployment benefits and providing other temporary assistance so that workers have sufficient time to adjust and find new employment.³⁵ In contrast, the TAA in Republic of Korea has focused on the domestic firms adversely affected by free trade agreements. It provides eligible companies with financial and other support to restructure (Cheong and Cho, 2011). Both of these programmes are useful initiatives for countering adverse effects of trade liberalization.

Aside from labour policies, evidence from countries of the Organisation for Economic Co-operation and Development (OECD) suggests that other domestic policies help the labour force adjust to trade-induced reallocation of resources. These include: (a) housing market policies that make it easier for workers to be more geographically mobile; (b) credit policies that finance education and entrepreneurship; and (c) education policies that ensure that children and students acquire the skills they need to participate in the global economy and to promote lifelong learning (IMF, World Bank and WTO, 2017). Importantly, policies that can boost competitiveness and growth should always be actively considered as it is always much easier for displaced workers to adjust in a fast growing economy.

“Besides labour and environmental policies, a wide range of other policies can help maximize the contribution of trade and FDI to sustainable development.”

Competition policies are another essential complement to foreign investment policies. These ensure that domestic companies, and particularly SMEs, who provide the great majority of jobs in both developed and developing countries, can continue to thrive in a competitive but well-governed market environment.³⁶ Such policies are important for achieving SDGs in an open economy context. Otherwise, some large agribusiness firms could take control of the international value chains through FDI. This would undermine competition and leave other actors and small farmers little choice but to take the low price offered by them for their products (WTO, 2013).

Finally, tax policies are crucial for maximizing the contribution of trade and FDI to sustainable development.³⁷ Underdeveloped tax systems lead many developing countries to charge higher tariffs on imports (as well as sometimes on exports) to generate sufficient revenue. However, these tariffs are often not optimal from a sustainable development perspective. Not only do they hinder trade and the participation of firms in global and regional production networks, but they also limit access to cleaner and more advanced technologies. Taxation can provide an effective means of addressing inequalities or encouraging more sustainable consumption and production.

2. Improved domestic governance as a pre-requisite for sustainable trade and FDI

As noted, domestic policies are essential to provide both a basis for and a complement to trade and FDI policies. However, policy implementation depends on the strength of the domestic institutions responsible for enforcing all related laws and regulations in an effective and coherent manner.

“Strong and reliable institutions are a pre-requisite for channelling trade and investment into sustainable development.”

In this context, SDG 16 on ensuring peace, justice and strong institutions may be considered a prerequisite to the effective channelling of trade and investment into sustainable development. Unfortunately, the Asia and Pacific region is not doing very well on this SDG according to the United

Nations Sustainable Development Goals Report 2017. The report reveals that East and South-East Asia, followed by Central and South Asia, are the two regions globally with the highest proportion of bribery payment requests (see figure 4.3).



Proportion of firms that paid or were expected to pay a bribe, 2016

(Percentage)



Source: United Nations (2017).

3. Simpler and more efficient trade procedures as essential enablers of sustainable trade and FDI

One of the key components of a policy framework for channelling trade and FDI into sustainable development is trade facilitation, i.e. making trade procedures as simple and efficient as possible. The economic benefits from trade facilitation stem directly from reducing trade transaction costs, which increases trade competitiveness and trade. Predictable import and export procedures enable participation in global and regional production networks, and they also help attract foreign direct investment (Duval and Utoktham, 2014). While

estimates vary widely, the potential intraregional trade gains from removing cumbersome procedures and increasing their transparency have been estimated at over \$250 billion annually in Asia and the Pacific, resulting in an increase in per capita GDP of about 2.5% (ADB and ESCAP, 2013).

“Making trade procedures simpler and easier for all has economic, social and environmental benefits.”

Simplifying, harmonizing and standardizing the trade process also have important social and environmental benefits. A recent firm-level study by ESCAP found that reducing customs and trade

clearance times increased SMEs likelihood of participation in export and international production networks relatively more than that of larger enterprises; thereby, making trade more inclusive (ESCAP, 2015). Digitalization of trade procedures and more efficient transport and border crossing procedures can also reduce the environmental impact of trade by decreasing the use of paper for preparation and exchange of documents as well as the emissions of pollutants associated with the movement of goods.


Based on data from the United Nations Global Survey on Trade Facilitation and Paperless Trade Implementation, the WTO Trade Facilitation Agreement could reduce trade costs for Asian and the Pacific economies by 6% to 9% (ADB and ESCAP, 2017). In turn, the digitalization of trade transactions between countries of the region could cut trade costs by an additional 7%. Enabling the seamless flow of electronic trade data and documents within and between countries of the region has the potential to reduce export time by 24% on average, with total direct cost savings in the Asia-Pacific region ranging from approximately \$1 billion to \$7 billion annually (Shepherd and Duval, 2014).

 *“Enabling cross-border paperless trade can facilitate trade while also ensuring compliance with sustainability standards.”*

Enabling cross-border paperless trade is particularly relevant for sustainable development. Indeed, by facilitating government-to-government exchange of information, it can help cut costs for both traders and Governments, as well as significantly increase the ability of control authorities to detect fraud and non-compliance with trade regulations. These may include, for example, new SPS or TBT measures linked with the implementation of particular SDGs and/or some of the voluntary sustainability standards discussed earlier. Achieving cross-border paperless trade is a difficult endeavour, however.³⁸ The *Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific*, a new United Nations treaty finalized at ESCAP in 2016 and now open for accession to all ESCAP Members, provides a unique and potentially very useful collaboration platform to accelerate progress in that respect.³⁹

In addition to cross-border paperless trade, several other ways to facilitate trade in the region have been identified. For instance, a meta-analysis of over 50 business process analysis (BPA) studies of import and export procedures in Asia and the Pacific, which covers more than 15 least developed and developing countries in the region, yielded several important recommendations.⁴⁰ These include: (1) Healthy competition among transport, logistics and other trade-related service providers should be encouraged; (2) Hard infrastructure investments need to accompany and support implementation of more efficient trade procedures (and vice versa); (3) Industry-specific trade facilitation programmes should be considered, in particular for agricultural products since different sectors face different procedural bottlenecks; (4) Reviewing payment systems and their efficiency may reveal new opportunities for improving trade facilitation performance; and (5) National trade facilitation performance monitoring mechanisms, with full and inclusive private sector participation, are needed to identify the real and most important barriers to trade efficiency.

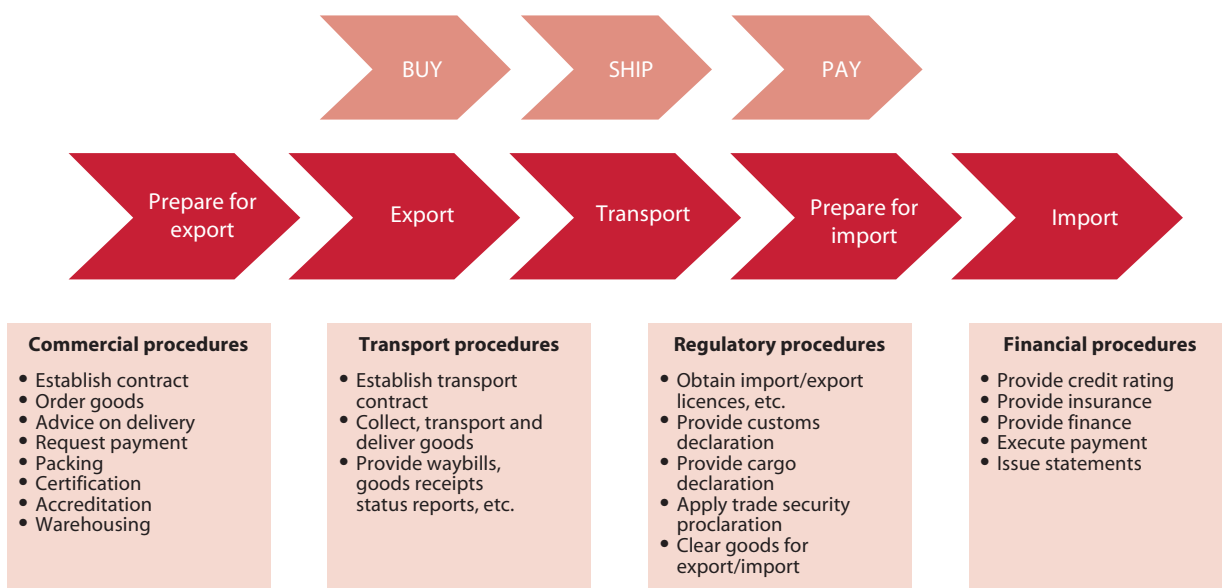
Indeed, a key implication of this analysis is that trade facilitation should not be limited to streamlining regulatory procedures and implementing paperless trade. Other procedures involved in international trade also need to be improved. These include, transport, payment and commercial procedures, as shown in figure 4.4. Importantly, countries and stakeholders may face different bottlenecks, necessitating different approaches for different contexts. For example, the transport process may be the key issue for a landlocked country with poor road or rail infrastructure, whereas the payment process, including getting credit and the management of financial risks associated with an international transaction, is often a key bottleneck in countries with underdeveloped financial sectors.

 *“A broad approach to trade facilitation is best, as different countries and stakeholders may face different bottlenecks.”*

In turn, commercial procedures, starting with finding a potential buyer, are often the first challenges faced by micro and small enterprises in engaging in trade. E-commerce holds much promise in this regard, as



UN/CEFACT international supply chain model and related procedures



Source: ADB and ESCAP (2013).

e-market places and increasingly sophisticated e-trade platforms enable enterprising small farmers in remote villages to sell goods around the world, as shown by the experience of the Taobao villages in China.⁴¹ Among the different means of facilitating trade in the region, improving transport, payment, and commercial procedures will play an equally important role.

D. CONCLUSION

Trade and FDI are key means of implementation of the 2030 Agenda for Sustainable Development. The positive links between trade and economic growth, and to a lesser extent between FDI and economic growth, are well established. Although trade and investment liberalization are necessary, the social and environmental impacts of trade and investment liberalization are less clear. In addition, there is growing recognition that liberalization creates both winners and losers even when economies grow in aggregate.

In this context, this chapter introduced a framework on channelling trade and FDI into sustainable development the framework further stresses the need for targeted trade and FDI policies to complement

traditional trade and investment policies, which are typically focused on generating aggregate economic gains. Such targeted policies may include tariff cuts on environmental goods, adoption of non-tariff measures based on relevant sustainability standards, or the prioritization for FDI of SDG-related sectors such as the renewable energy sector. Careful assessments of the impacts of such targeted measures should be carried out to avoid unnecessarily distorting the market.

The framework also stresses, however, that targeted trade and FDI policies alone are not sufficient to channel trade and FDI into sustainable development. Complementary domestic policies are also essential. These include not only environmental policies to encourage more sustainable consumption and production activities, but also social and labour policies to enable workers from uncompetitive sectors to adjust and find work in other sectors. Other domestic policies such as education policies, tax policies and competition policies are also essential to fully capture the sustainable development benefits of trade and investment.

Finally, the framework highlights the importance of two other key enablers in achieving more sustainable



**Box
4.2**

Trade facilitation and paperless trade implementation 2017: state of play in Asia and the Pacific

The United Nations Global Survey on Trade Facilitation and Paperless Trade Implementation, led by ESCAP, covers 120 countries globally and 44 countries in Asia and the Pacific. It provides information on implementation of 47 trade facilitation measures, including measures specified in the WTO Trade Facilitation Agreement as well as paperless trade and cross-border paperless trade measures. The 2017 Survey also included a number of “inclusive trade facilitation” measures, i.e. measures aimed at facilitating trade for agriculture, SMEs and women.

The 2017 Survey shows that implementation of trade facilitation measures varies widely across the region. Highest implementation rates are found in East and North-East Asia (73.7% of measures considered), followed by South-East Asia (60.1%), North and Central Asia (51.8%), and South and South-West Asia (46.5%). The Pacific, excluding Australia and New Zealand, lags behind at 28.2%. Many of the measures included in the WTO Trade Facilitation Agreement are relatively well implemented across the region, in particular transparency measures. However, measures related to the digitalization of trade procedures and electronic exchange of data and documents across borders often remain at an early stage of implementation. Similarly, implementation of specific trade facilitation measures for SMEs, or to support the participation of women in trade facilitation, remain very limited, with regional implementation rates not exceeding 30%.

For more details, please visit the Survey website at: <https://unnex.unescap.org/content/un-global-survey-trade-facilitation-and-paperless-trade-implementation-2017>.

trade and FDI: good governance and broad trade facilitation. Without good governance, enabled by effective public institutions as envisaged in SDG 16, policies will not be enforced, no matter how sustainable they may be. Similarly, without cutting red tape and reducing trade transaction costs, attracting

FDI and enabling participation of more firms and people in international trade will not be possible. It is hoped that the framework presented in this chapter can help policymakers envision how sustainable development can be effectively pursued through forward thinking on trade and FDI policies.

Endnotes

- ¹ In this chapter, all references to investment refer to FDI, unless domestic investment is specified.
- ² Developing countries have been generally more positive about globalization. See, for example, www.pewglobal.org/2014/09/16/global-views-of-trade/.
- ³ See, for example, Muradian and Martinez-Alier (2001).
- ⁴ For example, see ADBI (2017).
- ⁵ WTO (2017) also provides a comprehensive review of the literature on welfare impacts from trade liberalization, including labour outcomes. It consistently points to net overall gains from trade, although data availability remains an issue. See also, ADBI (2017).
- ⁶ Developed economies are already expected to provide preferential treatment and tariff exemptions to least developed countries (targets 10.a and 17.11) and to establish policies that promote FDI to these economies (target 17.5).
- ⁷ Customs and other import duties accounted for nearly 30% of tax revenue in Bangladesh, over 15% of tax revenue in Nepal, but less than 2% of tax revenue in Malaysia, according to IMF Government Finance Statistics 2015 (available from <https://data.worldbank.org/>; accessed 22 September 2017).
- ⁸ See Amador and Bagwell (2012) for a more detailed discussion.
- ⁹ SDG indicators are an evolving and non-mandatory list. As of the last revision issued in March 2017, there were 232 indicators. Updated information and data on these indicators is available in document E/CN.3/2017/2 from <https://unstats.un.org/sdgs/metadata/>.
- ¹⁰ Given that developing countries often have a more limited set of policy instruments at their disposal, eliminating tariffs across the board may not be a realistic course of action.
- ¹¹ See also APEC (2015) for results of a study on the impact of tariff reduction in the proposed products on rural development.
- ¹² The ESCAP secretariat encouraged member States to reduce tariffs on a list of climate-smart goods aimed at reducing greenhouse gas emissions in 2011 (ESCAP, 2011). Most of these items were included in the subsequent APEC list for environmental goods liberalization.
- ¹³ The list of products is available from https://www.apec.org/Meeting-Papers/Leaders-Declarations/2012/2012_aelm/2012_aelm_annexC.aspx.
- ¹⁴ See Environmental Goods Agreement (EGA). Available from https://www.wto.org/english/tratop_e/envir_e/ega_e.htm.
- ¹⁵ These measures can be broadly classified as technical and non-technical measures. See UNCTAD (2013).
- ¹⁶ See ESCAP (2016) for a review of the situation on NTMs in Asia and the Pacific. See also chapter 1 in this publication.
- ¹⁷ See CODEX Alimentarius: www.fao.org/fao-who-codexalimentarius/en/.
- ¹⁸ See, e.g. a recent survey of businesses by ITC on NTMs in the Philippines, which shows that trade rules and procedures pose challenges to nearly 75% of over 1,000 firms surveyed (ITC, 2017).
- ¹⁹ A list of procedural obstacles related to NTMs is available from ITC, www.intracen.org/itc/market-info-tools/non-tariff-measures/procedural-obstacles/.
- ²⁰ To support implementation of the Framework Agreement on Mutual Recognition Arrangements, ASEAN has issued guidelines for the development of MRAs. See ASEAN Secretariat (2014).
- ²¹ ITC Standards Map, www.standardsmap.org/identify. Search conducted on 23 September 2017.
- ²² See, for example, Weissinger (2016).
- ²³ For example, Fairtrade certification meets ISO 17065 standards. See also <http://www.standardsimpacts.org>.
- ²⁴ A 4-year study of VSS in the global tea and cocoa supply chain between 2009 and 2014 confirmed that, although the impacts of VSS are highly context specific, VSS generally bring positive benefits to individuals and producer organisations achieving certification. However, there are currently limits to their effectiveness in tackling poverty and responding to environmental challenges. Complementary investments in capacity building would be needed to scale up impact. For details, see Natural Resources Institute (2014).
- ²⁵ See box 6 on sustainable government procurement in Germany in Pande (2017).
- ²⁶ Article 20.11 of the TPP, in the chapter dedicated to the Environment, allows for “private sector entities or non-governmental organizations to develop mechanisms for the promotion of products based on environmental qualities” as long as the mechanisms promote competition and are based on relevant international standards, guidelines, and practices.
- ²⁷ See, for example, ITC business surveys on NTMs, where TBT, SPS and rules of origins are typically identified as the main non-tariff barriers to trade.
- ²⁸ WIPO provides an introduction and definition of these terms, see WIPO (2003). Similarly see Grosse Ruse-Khan and Puutio (2017, forthcoming).

- ²⁹ An update on the development and benefits of GIs in South-East Asia is available from www.unescap.org/sites/default/files/Session16_GI%26Development.pdf. See also new legal framework of the Lao People's Democratic Republic on GIs (Santaniello, 2017), and ARTNeT (2017).
- ³⁰ The Monterey Consensus on Financing for Development (United Nations Department of Economic and Social Affairs, 2002) already highlighted the importance of FDI.
- ³¹ For example, see FAO study by Liu (2014) on the effect of agricultural FDI on local communities.
- ³² For developing countries, negotiating bilateral investment treaties with the European Union, among others, may be particularly useful in this regard, as the process often include detailed FDI sustainability impact assessment studies. See, for example, European Commission (2016) on the Sustainability Impact Assessment (SIA) in support of an investment protection agreement between the European Union and the Republic of the Union of Myanmar.
- ³³ This is a long-standing issue and ESCAP already examined it at some length in the *Asia-Pacific Trade and Investment Report 2013* (ESCAP, 2013).
- ³⁴ One way to do this is to make it easier and cheaper for firms to hire and fire while ensuring laid-off workers have access to unemployment benefits. See, among others, Helpman and Itskhoki (2007).
- ³⁵ An introduction to the trade adjustment agreement in the United States is available from <https://www.doleta.gov/TRADEACT/factsheet.cfm>. Also see ESCAP, 2013.
- ³⁶ Stiglitz (2007), among others, has argued that promoting “market-oriented reforms” without such policies in place would be a self-defeating strategy that risks undermining support for globalization and the market economy worldwide.
- ³⁷ “Tax Policy for developing countries” from IMF (2001).
- ³⁸ The implementation of the ASEAN Single Window Agreement confirms this. The regional single window was supposed to be completed in 2012, but remains at the pilot stage as of January 2017.
- ³⁹ Latest information about this United Nations treaty is available from www.unescap.org/resources/framework-agreement-facilitation-cross-border-paperless-trade-asia-and-pacific.
- ⁴⁰ Summary note for reducing trade costs from www.unescap.org/sites/default/files/Summary%20Note%20-%20Key%20findings%20from%20ESCAP%E2%80%99s%20TPAD%2B.pdf.
- ⁴¹ See Hofman (2016), World Bank speech delivered at Taobao Summit, October 2016.

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Annex – Towards better assessments of trade and investment policies for sustainable development: missing data and the need for new indicators

Based on the 2030 Agenda for Sustainable Development, the Inter-Agency and Expert Group on Sustainable Development Goal Indicators (IAEG-SDG) proposed a global indicator framework which associate 232 universal SDG indicators.^a Some of the IAEG-SDG indicators relate to trade and investment.^b Overall, trade- and investment-related

indicators cover about 10 different targets in five SDGs. However, those IAEG-SDG indicators narrowly focus on four areas (table A.1): (1) removing market distortions, (2) reducing import tariff barriers, (3) enhancing global export share of least developed countries, and (4) increasing development assistance.



**Table
A.1**

Focus of trade-related Sustainable Development Goals indicators

Focus	Related SDG goals and targets	IAEG-SDG indicators
1. Remove market distortions	SDG 2 End hunger 2.b. Correct and prevent trade restrictions and distortions in world agricultural markets	2.b.1 Agricultural export subsidy
2. Reduce tariff barriers	SDG 10 Reduce inequality 10.a Implement the principle of special and differential treatment for developing countries	10.a.1 Proportion of zero-tariff lines applied to imports from least developed countries and developing countries
	SDG 17 Global partnership 17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system 17.12 Duty-free-quota-free market access for all least developed countries	17.10.1 Worldwide weighted tariff-average 17.12.1 Average tariffs faced by developing countries, least developed countries and small island developing States
3. Increase export share	SDG 17 Global partnership 17.11 increase the exports of developing countries, in particular doubling the least developed countries' share of global exports by 2020.	17.11.1 Developing countries' and least developed countries' share of global exports
4. Enhance cooperation through official development assistance	SDG 7 Energy 7.a International cooperation to facilitate access to clean energy research and technology	7.a.1 International financial flows in support of clean energy
	SDG 8 Employment 8.a Increase Aid for Trade	8.a.1 Aid for Trade commitments and disbursements
	SDG 10 Reduce inequality 10.b Official development assistance and financial flows, including FDI, to States where the need is greatest	10.b.1 Total resource flows for development
	SDG 17 Global partnership 17.3 Mobilize additional financial resources for developing countries 17.5 Adopt and implement investment promotion regimes for least developed countries	17.3.1 FDI, official development assistance and South-South Cooperation as a proportion of total domestic budget 17.5.1 Number of countries that adopt and implement investment promotion regimes for least developed countries

Source: ESCAP's compilation from the official list of IAEG-SDGs global indicator framework (<https://unstats.un.org/sdgs/indicators/indicators-list/>).

Data availability for measuring several of these indicators is an issue. Table A.2 shows data availability of trade-related indicators in the Asia-Pacific region, including in subregions and countries with special needs (CSNs). Data availability is a serious issue for the trade-related indicators under SDG 2. In contrast, trade-related indicators that use trade flows/shares and tariff data (SDGs 10 and 17) are available for prediction in most economies in the Asia-Pacific region.^c The data for trade-related indicators under SDG 8 are also mostly available.

South and South-West Asian (SSWA) economies have better data availability than other subregions. The data is available for all economies in that subregion for trade-related indicators under SDG 8,

and most of indicators in SDG 17. In contrast, several developing economies members of the Pacific Forum do not have sufficient data for prediction in most of trade-related indicators.^d

Countries with special needs including least developed countries, landlocked developing countries and small island developing States need to strengthen the availability of tariff and bilateral trade data. These data are necessary for the trade-related indicators under SDG 17. In addition, developed economies and upper-middle income developing economies in the region are not aid recipient countries but donors, and may be well-placed to provide data on commitments and disbursement of official development assistance (ODA) and Aid for Trade.^e



Table A.2 Data availability of selected trade-related Sustainable Development Goals indicators and their proxy

(Percentage of countries in the respective area)

SDG Indicators	Asia-Pacific	ENEA	SEA	SSWA	CA	PF	LDC	LLDC	SID	Developing Asia-Pacific
2.b.1 Agriculture export subsidy	5.2	14.3	0.0	20.0	0.0	0.0	0.0	0.0	0.0	5.5
2.b.1 Produce support estimate (proxy)	17.2	42.9	18.2	10.0	22.2	9.5	0.0	9.1	0.0	12.7
8.a.1 Aid for Trade (commitment and disbursement)	81.5	60.0	81.8	100	88.9	73.7	100	100	91.7	81.5
10.a.1 Share of duty-free tariff lines (proxy)	100	100	100	100	100	100	100	100	100	100
17.10.1 Average tariffs	65.5	85.7	72.7	90.0	66.7	42.9	50.0	63.6	58.3	63.6
17.11.1 Share in global exports of goods	98.3	100	100	100	100	95.2	100	100	91.7	98.2
17.11.1 Share in global exports of services	82.8	85.7	100	100	88.9	61.9	100	90.9	83.3	81.8
17.12.1 Average tariffs faced by exports to developed countries	100	100	100	100	100	100	100	100	100	100

Source: ESCAP's compilation and calculation using raw data from various databases maintained by international organizations. More information on the SDG global indicators is available from <https://unstats.un.org/sdgs/metadata/>.

Notes: ENEA – East and North-East Asia; SEA – South-East Asia; SSWA – South and South-West Asia; NCA – North and Central Asia; PF – Pacific Forum; LDC – least developed countries; LLDC – landlocked developing countries; and SID – small island developing States.

Although data availability for existing IAEG-SDG indicators is already limited, more data will be needed to calculate other indicators. Indeed, the current list of IAEG-SDG indicators seems to neglect the importance of domestic regulatory and policy reforms, non-tariff barriers, the efficiency of services sectors, export diversification and upgrading, the ability to adopt new technology and absorptive

capacity, all of which are essential factors for strengthening the competitiveness of least developed countries, integrating them to the global value chains (GVCs), and translating the global value chain participation into sustainable economic and social development. Table A.3 gives examples of indicators that could fill the gap left by current official SDG indicators in relation to trade and investment.



Table A.3 Examples of additional indicators to track the progress of trade- and investment-related Sustainable Development Goals

Focuses	Examples of indicators	Sources of methodology and data
Domestic regulatory reforms	Product market regulation index, FDI regulatory restrictiveness index	OECD
	Doing business indicators	World Bank
	Global competitiveness index	World Economic Forum
Non-tariff barriers to trade	Bilateral comprehensive trade costs	ESCAP-World Bank
	Number of trade restrictive non-tariff measures targeted towards a country, aggregate and disaggregated level by type of NTMs	WTO
Services	Services trade restrictiveness index	OECD, World Bank
	Logistics performance index	World Bank
	Financial market efficiency indicator	World Economic Forum, World Bank
Technology and absorptive capacity	Human development index	United Nations Development Programme
	ICT development index	International Telecommunication Union
	Human capital index, Technology adoption indicators	World Economic Forum
	Innovation-input index, Innovation-output index	Global Innovation Index
	Infrastructure indicators	World Bank
GVC engagement and upgrading	GVC participation index	OECD
	Export complexity indicators	Observatory of Economic Complexity
	FDI flows and shares by sector and partner	UNCTAD
	Share of processed goods, Value reach of exports, Product and market concentrations	WITS

Source: ESCAP's compilation.

While determining the causal relationships between a change in trade and investment policies and the sustainable development outcome is difficult and challenging, the following three dimensions should be systematically considered:

- Economic outcome** includes poverty reduction and improvement of people's well-being. In this regard, indicators should measure whether trade and investment policy change contributes to the advances in health, education, and labour force capabilities among the groups most likely to be affected by the
- Social outcome** considers whether there has been a reduction of inequalities as a result of trade and investment. For example, does the establishment of export-oriented industries create new jobs? Does it provide safe work environment and opportunities for workers to obtain better skills?
- Social outcome** considers whether there has been a reduction of inequalities as a result of trade and investment. For example, does the establishment of export-oriented industries create employment and opportunity for skill development in rural area, or for vulnerable groups such as women and minor ethnic group?

- **Environmental outcome** includes the ability to maintain or preserve developmental achievements for the future generation. For example, is the rapid trade-led economic growth depleting the natural resources? Do the FDI projects irreversibly damage the environment?

Figure A.1 provides a standard framework that may be used to evaluate sustainable development impacts of trade and investment policies. As shown in figure A.1, assessing impacts requires a broad range of data to answer four questions sequentially: First, which policy measures are being assessed? Second, which sectors are likely to be affected? Third, what are the expected effects of policy changes? Finally, which groups are affected?

In terms of what policies to assess, this would encompass the range of policies related to the obligations and commitments under WTO, those that are implemented by the Government unilaterally, and those undertaken in response to commitments under bilateral and regional trade agreements. In addition to the policy measures on goods, it is important to identify policy measures on FDI, services, intellectual property rights, etc.

For sectoral coverage of the impact assessment, some policy measures may affect only a particular sector while other policy changes may have impacts across several industries. It might be too costly in terms of financial and time resource to cover all affected sectors in the impact assessment. In such cases, only some sectors selected for detailed analysis. The selection may be based on the economic importance of a sector, or the likelihood of it being affected by the policy measures being assessed.

Regarding channels, trade and investment policy changes can affect development through one or

more channels. For example, trade policy change can affect the prices of imports, exports, and other goods connected through the input-output relationship. Changes in prices can, in turn, lead to a change of production and consumption levels. Change in production levels would have different impact on employment across different skills, genders and other groups.

As the policy changes likely affect different stakeholders differently, sufficient level of data disaggregation is necessary for identifying those who will be most directly affected by the changes, followed by an identification of those who will be subject to important indirect effects. Example of required data disaggregation include sectoral, sub-sectoral, and industry levels. There may also need data disaggregated by region, income or skill levels, and gender.

Endnotes

^a An Inter-agency and Expert Group on SDG Indicators (IAEG-SDGs) was created on 6 March 2015, at its 46th session of the United Nations Statistical Commission. The IAEG-SDGs has a mandate to develop and implement the global indicator framework for the Goals and targets of the 2030 Agenda for Sustainable Development. For more information, please see <https://unstats.un.org/sdgs/iaeg-sdgs/>.

^b The global indicator list is contained in the Report of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators (E/CN.3/2017/2), Annex III. The document is available from <https://unstats.un.org/sdgs/indicators/indicators-list/>

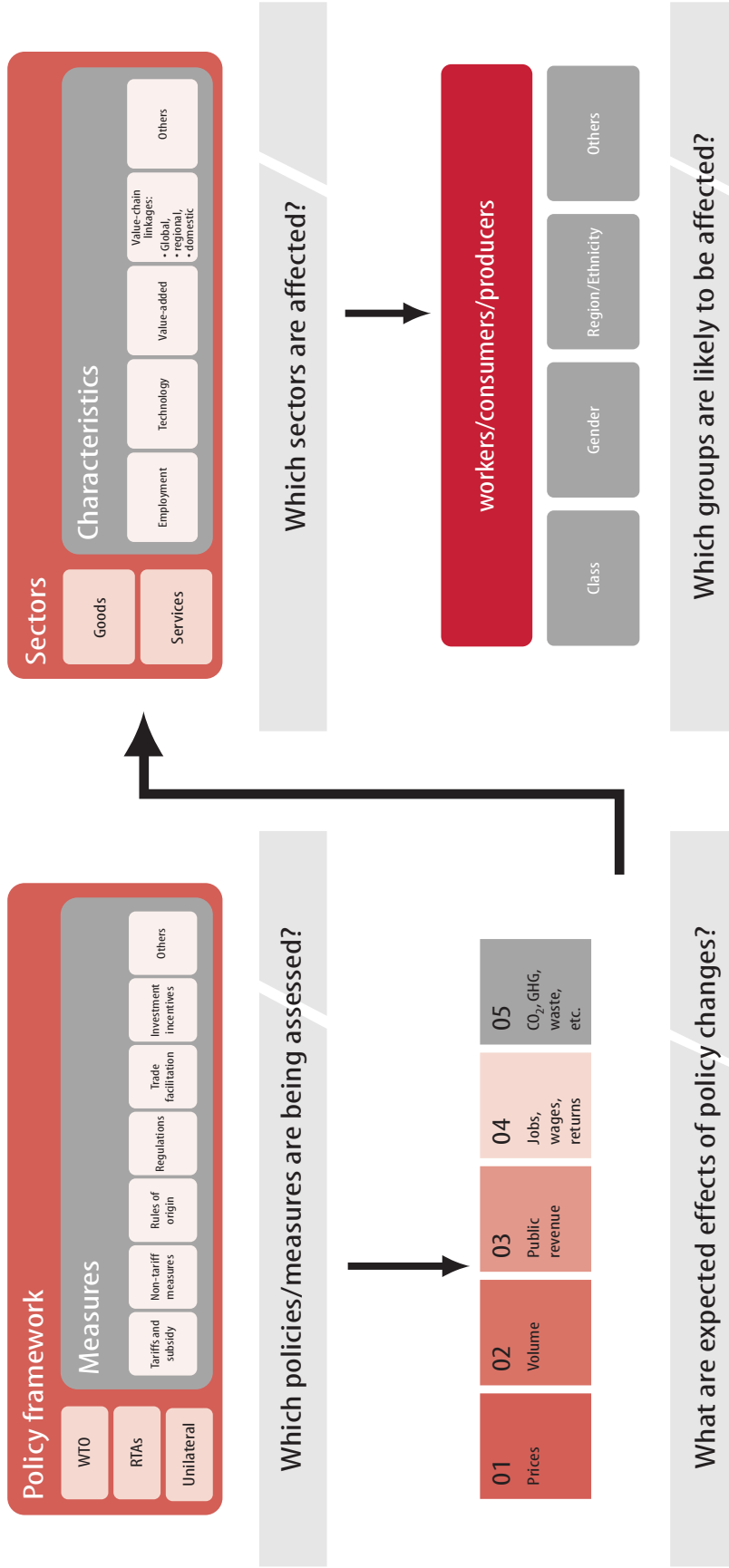
^c The data is available for prediction if there are at least 2 data points available from the first global development agenda (MDGs) until 2017.

^d Data is not available in most cases for American Samoa, Guam, Marshall Islands, Nauru, Niue, Northern Mariana Islands.

^e Aggregated statistics of Aid for trade commitments and disbursement by donors are also available from the OECD database, <https://data.oecd.org/oda/net-oda.htm>.

Figure A.1

Data framework for impact assessment of trade and investment policy on sustainable development



Source: ESCAP's compilation.