Trade on Human Terms
Overview

The Asia-Pacific region has embraced free trade, but free trade will not embrace the poor unless countries pursue a bold new policy agenda harnessing economic growth to promote human development.

The Asia-Pacific region is at the forefront of globalization – with some of the world's fastest rates of growth in international trade. East Asia led the way, but now South Asia too is making its presence more strongly felt. Myriad goods, from shirts to footwear to computers, are criss-crossing the region – often in integrated international production systems – before being dispatched across the globe. Not just merchandise goods but services too: from Bangalore to Manila, hundreds of thousands of workers are assisting customers and clients in Europe or the United States or Japan as though they were sitting in an office just down the street. When the services cannot travel through the electronic ether, the service workers are taking to the air, travelling across the region and beyond – as domestic workers or nurses, construction workers or engineers, factory workers or accountants. Asia and the Pacific is thus rapidly becoming not just the workshop of the world, but the back office too.

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The rest of the world is watching this process with some amazement and not a little concern. In the richer countries of the West, the Industrial Revolution of the nineteenth century created huge new centres of global economic concentration: now, in the twenty-first century, the balance of power is not so much shifting as being far more widely dispersed. This is raising huge new questions: who will produce what, where and how? Above all, what impact 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? In sum: what will all this mean for human development? Looking at it from the other perspective, what contribution can higher standards of human development make to expanding trade and economic growth?

This Report responds to these questions from inside Asia and the Pacific. An extensive process of consultation among policymakers, academics, civil society groups, the private sector and other stakeholders has examined the most recent developments on trade and economic growth and tried to assess the impact on human development – more specifically, the effects on the region's poorest countries and on its poorest people.

This is no simple task. This is, after all, a huge region, accommodating more than 60 per cent of the global population. Asia-Pacific countries are also very diverse, ranging from third to 140th out of 177 countries ranked worldwide on the Human Development Index for 2003. Since the pace of social and economic change is so rapid and the processes so complex across one of the most dynamic regions in the world, it is hard to encompass all of these.

This Report, therefore, narrows the focus, for although it does consider patterns of trade and economic growth, it is primarily pre-occupied with the effects these are having on human development in the developing countries of the region. But it goes further – emphasizing

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that neither trade nor growth can ever be ends in themselves; instead, they are simply means towards the larger goals of expanded human development and combating poverty and deprivation.

Trade can certainly enhance human development – but it can also hinder it. Trade is, after all, a profit-driven activity, and there are many examples from history that demonstrate what can happen when commercial gain takes precedence over human well-being: slavery, colonialism and apartheid are some extreme forms. Today also, the drive to export and import more goods and services typically triggers a series of complex and dynamic processes that produce both winners and losers. For just as trade liberalization can increase the opportunities for exports, it also exposes local producers to foreign competition that, particularly in poorer countries, they may be unable to withstand. So as well as creating new opportunities, especially in the modern sector, it can also destroy the livelihoods of people working in simple manufacturing processes or in agriculture.

Faced with this potential damage, economic nationalists may argue for something close to autarchy – erecting higher trade barriers and aiming for national self-reliance; why depend on imports when you can make something very similar yourself? This has an emotional appeal but soon runs into practical limits. People in the twenty-first century have social and economic rights that can only be met through international trade: some exports will always be needed to generate the foreign exchange for essential imports, from pharmaceuticals, to food, to oil.

At the other extreme are the proponents of free trade who would opt for no barriers at all – letting the market dictate the most economically suitable production locations. This may seem more seductive and plausible, but this too is fallacious, for it involves trade between unequal partners, allowing the richest and most powerful countries and companies to set the terms and leaving the poorer and weaker participants to accept what they are offered, while risking further inequalities both between countries and within countries.

An Active State

It might be thought that the best solution would be a simple division of responsibilities: let free and liberal markets take care of economic growth while requiring governments to address market failure and take responsibility for the implications of rising inequality – for social concerns and for human development priorities.

However, this division ignores the fact that trade, economic growth and human development have a symbiotic relationship. Each needs the other. One direct link is through tariff revenue. Removing or reducing tariffs can have a damaging impact on human development since many countries rely on customs and other duties for a high proportion of government income – in some Pacific Island countries, up to 70 per cent. Trade liberalization may thus demand dramatic cuts in public services as revenues fall.

A second link concerns sequencing. Countries may need to achieve certain levels of human development to prepare the ground for liberalization. Boosting international trade requires not only capital and technology but also a capable labour force. For this the state needs to take responsibility – ensuring that the basic capacities are in place to enable the private sector to take full advantage of liberalization.

Trade has thus never been a matter for private industry alone; it has always been subject to active intervention from the state. Governments usually recognize the value of the private sector as the main engine for economic growth, but they also know that it needs to be harnessed or guided to some extent if it is truly to serve human development.

An Era of Rapid Growth and Trade Liberalization

Keeping track of trade and economic development is a challenging task. These are often fast-moving processes, and Asia-Pacific has been the world's most rapidly-growing region. During the period 1990–2003, GDP grew annually on average by more than 7 per cent. Governments can take some credit for this since much of this rapid economic growth has taken place during a period of steady trade liberalization. In East Asia and the Pacific, liberalization started in the 1970s, and by 2000 average tariffs had fallen to 8 per cent. South Asia was slower to start liberalizing, but did so rapidly during the 1990s so that by 2000 average tariffs had fallen to 18 per cent.

The lowering of tariffs has contributed to a rapid growth in trade. During the earlier periods, export growth was faster in East Asia and the Pacific than in South Asia, but in the 1990s it was dispersed more across the region. Thus, 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 per cent – the proportion in South Asia also increased: from 20 to 34 per cent. As a result, all Asian economies have become more open.

Accompanying the increases in volume of trade have been dramatic transformations in the structure of trade. Some countries have moved on from merchandise exports and are also selling more services. Those exporting primary products are now turning more to manufactured goods; and within manufacturing many enterprises are now climbing the technological ladder towards more sophisticated products, though this is a phenomenon more evident in East Asia than in South Asia.

What effect has the rapid increase in trade had on human development? One of the most disturbing outcomes is that for most developing countries in the region a greater engagement with international markets has been accompanied by a rise in income inequality. On a more positive note, however, there has 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.

The slowest progress has been in the Least Developed Countries (LDCs). Despite increases in trade, many LDCs have had less success in reducing poverty. While in developing countries of the region the proportion of the population living below the $1-per-day poverty line is 22 per cent, for the LDCs it is 38 per cent.

Indeed, across the region there is still evidence of extreme deprivation. This is clear from data on food consumption. Liberalizing agricultural markets may have helped reduce the price of food – particularly of crops produced with the backing of agriculture subsidies in the US and the EU. But this does not seem to have led to any consistent improvement in food security. Many more countries now have food deficits, and Asia still has more hungry people than any other region of the world – over 510 million.

On the health front, the picture is generally positive. The period of trade-led growth has been accompanied by improvements in health, though these seem to have slowed in recent years. One looming problem, however, is that the WTO-induced agreements on intellectual property rights could start to restrict supplies of essential generic drugs.

Trade might have been expected to raise education standards by giving people greater incentives to improve their skills. But here too progress has been inadequate. The greatest problems are in South Asia, where one child in five fails to enroll in primary school.

Trade has also had a strong influence on gender relations. East Asia's export drive in the 1960s and 1970s relied heavily on the mobilization of female workers. By being able to earn an independent income, many women thus obtained greater personal freedom – but only up to a certain point. Working women the world over are all too familiar with the double burden of housework and wage work outside the home. Within the workplace they are often second-class citizens when it comes to the management and organization of work, and can also find themselves exposed to sexual harassment.

Expanding the Employment Channel

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Indeed, for both men and women, the main channel for all these effects of trade on human development, for better or for worse, is through employment. Ideally, more trade should mean more jobs and less unemployment. Unfortunately, in recent years this has often not been the case.

Although Asian countries created jobs quite rapidly in the 1980s – 337 million in total – they created far fewer, 176 million, in the 1990s. This has not provided sufficient jobs for a rising population: between 1993 and 2003 in South-East Asia, unemployment increased from 3.9 to 6.3 per cent. Worryingly, the situation is often more serious in some of the most trade-intensive countries: China and Singapore, for example, have seen unemployment rates increase substantially. Most of this burden has fallen on young people: in 2004, while those aged 15 to 24 made up one-fifth of Asia-Pacific's labour force, they constituted nearly half of the unemployed. Women too have lost out: in most countries their unemployment rates are higher than men's.

Why is the region experiencing 'jobless growth'? Most of the problems are in East Asia and especially in manufacturing, for although manufacturing output increased by almost 180 per cent in the 1990s, the associated employment increased by only 3 per cent. This is principally because manufacturing has been moving from low-tech, labour-intensive industries, such as garments, to high-tech and more capital-intensive ones such as electronics – and even within more labour-intensive manufacturing, companies have continued to invest in labour-saving equipment.

The employment situation is different in South Asia. Here, despite a slight deceleration in the rate of economic growth, employment has continued to rise, if only modestly. This is because South Asia has yet to experience widespread structural change – continuing to rely on traditional labour-intensive and natural-resource-based industries. This may have led to slower growth, but has at least spread the benefits more evenly.

The experience of the Asia-Pacific region has thus clearly demonstrated that trade by itself cannot address inequalities; indeed, it may well make them worse. Governments are increasingly recognizing that they must devise complementary policies to ensure that increased engagement with international markets also generates jobs and promotes human development.

Making Agricultural Trade Work for the Poor

These jobs cannot be confined to the modern urban industrial or service sectors; they must also be generated in the rural areas and in agriculture. While setting their sights on international trade, many governments in the region have been neglecting agriculture and investing far less in rural development. In fact, trade liberalization itself has often undermined national food production by allowing imports of cheap food; these will benefit low-income consumers, but they can also threaten the livelihoods of poor farmers and fishing communities, with serious implications for equity.

The most striking evidence of rural neglect has been a serious deterioration in the balance of agricultural trade. In the early 1960s, the developing countries had an overall annual agricultural trade surplus of almost $7 billion, but since the beginning of the 1990s they have generally been net importers of agricultural products, with a deficit in 2001, for example, of $11 billion.

Countries in the Asia-Pacific region have contributed to this rising imbalance. True, in global markets they have never been major players. Indeed, of the truly successful Asian exporters only China has earned that success even partly through agricultural exports – though countries like Malaysia and the Republic of Korea have used surpluses from agriculture to invest in their export sectors. Even today, Viet Nam has agricultural exports as an important source of foreign exchange.

More worrying, however, is that a number of countries are not just exporting less. They, and particularly China, are likely to become major importers. As a result, global food supplies could become much tighter. This raises questions of food security. Food is not like any other tradable commodity, and most countries prefer something closer to national self-sufficiency. This will mean, therefore, putting more emphasis on local production and giving greater protection for farmers who find it difficult to compete at world prices, especially when these are distorted by subsidies in the US and the EU that have enabled them to export below the cost of production.

Asia and the Pacific has much to gain by promoting equitable agricultural trade generally, but this is particularly true in fish trade. Countries in the region account for more than one-third of global exports of fish and fish products. China is now the world's largest exporter of fish, while Japan is the world's largest importer, but the fish trade is important throughout the region. Indeed, the Asia-Pacific region is home to 85 per cent of the world's fishers and 95 per cent of its fish farmers.

In some respects, fishers are in a stronger position than farmers because they sell a larger proportion of their output on a regular and consistent basis. In other respects, however, they can be more vulnerable, whether as a result of natural factors such as variations in the fish catch, bad weather, and exposure to cyclones, or as a result of economic factors such as price fluctuations and variable access to markets.

Many fishing communities already have low incomes, but their situation could get worse as stocks are exhausted. Intense competition in open-access fisheries is leading to overfishing in several commercially important fisheries. The Asian fishing sector also faces problems accessing markets in developed countries where there are increasing demands for higher standards of food safety.

Developing countries face some complex choices for policies on agricultural trade – deciding to what extent they can rely on imports. Some have chosen to invest outside agriculture, or even within agriculture, but have concentrated on exportable commodities. This may seem rational from the point of view of economic efficiency, but it may be irrational from the perspective of human development. For while increasing agricultural trade might boost economic growth and benefit poor consumers, it is also likely to depress local prices and undermine the livelihoods of poor farmers.

Adjusting to a New Era for Textiles and Clothing

Another area of critical importance to many poor households is the textiles and clothing industry, which in so many countries has served as the launching pad for industrial development. In this case the Asia-Pacific region finds itself in the midst of a potential upheaval now that the elaborate quota system under the Multifibre Arrangement (MFA) has come to an end. The MFA deliberately constrained imports from the region's larger producers, notably China and India, but offered quotas to many other countries such as Bangladesh and Nepal, which used them as the basis for new industries. The outcome was a highly dispersed textiles and

These jobs cannot be confined to the modern urban industrial or service sectors; they must also be generated in the rural areas and in agriculture clothing industry across the region, providing employment for hundreds of thousands of disadvantaged and lower-skilled workers, most of whom were women – 90 per cent in both Bangladesh and Cambodia and 87 per cent in Sri Lanka.

Since that era concluded at the end of 2004, many of these new producers are struggling to adjust to direct competition, particularly with China. Thus far, the outcome for some countries has not been as bad as had been feared. Indeed, Asian producers overall have fared better than those in other regions and have increased their share of exports to the US and the EU. But, as expected, the benefits were unequally shared. The main winners have been China and India; the main losers have been Nepal, Philippines, Thailand and Pakistan. Nevertheless, it is notable that a number of countries that had also relied on quotas have been able to maintain or even increase their shares – Cambodia, Viet Nam, Indonesia, Sri Lanka and Bangladesh.

Even now, however, it is difficult to envisage the future shape of the textiles and clothing trade, since the developed countries have been defending themselves against rising imports with temporary restrictions. What is clear, however, is that the only way to survive in a competitive global market is by upgrading the industry and increasing both the quality and quantity of output. This will also mean improving working conditions, not least because exporters are coming under pressure from fair-trade organizations to guarantee that their goods are not produced under exploitative conditions. Higher levels of trade in textiles and clothing can promote human development, but only if governments and employers take the necessary action.

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Selling Services Across Borders

Asian countries continue to rely on the international trade in goods. But over the last three decades they have been taking advantage of the opportunities to boost the trade in services, and international trade has consequently become much more complex. Three forms of cross-border services are discussed: either the seller moves, as in international labour migration; or the work moves, as with business outsourcing; or the buyer moves, as with international tourism.

All three types of movement have increased significantly. For migration, millions of lower-skilled workers continue to travel abroad on short-term contracts: an estimated 10 per cent of the Philippines labour force and 12 per cent of the Sri Lankan labour force now work overseas. Many labour migrants have improved their standard of life, and even some of the poorest have earned enough to lift their families out of poverty. But they can also work under exploitative conditions and have their home lives severely disrupted. Both source and destination countries can make migration a more productive and fulfilling experience: 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 trans-parent.

Asia has also been a pioneer in the off-shoring of IT and business process services: in some cases IT workers continue to travel overseas on short-term assignments in developed countries, but advances in information and communications technology, and falling internet connectivity costs, have allowed more and more of these services to be delivered remotely – providing jobs for highly educated young people as well as drawing into the workforce other groups such as retirees. However, this too has human costs: for example, long night shifts can lead to adverse health effects and preclude a normal social life, isolating workers from their communities. Moreover, the rapid growth of the outsourcing industry is also widening regional disparities. Governments will also be concerned that they are not producing enough skilled people to keep expanding the industry. They do, however, have a range of policy options that can ensure outsourcing makes a stronger contribution to human development, including building infrastructure, training the workforces and ensuring the best regulatory and fiscal environment.

In tourism too, the Asia-Pacific region is one of the global leaders – increasing its share of global traffic from less than 10 per cent in the 1950s to 40 per cent in 2004. Tourism can offer new sources of employment even to the remotest regions. But here too there are potential costs, for example, of cultural dislocation, and of environmental destruction. Many of the problems can be resolved or minimized with proper planning and management – for example, building the appropriate infrastructure, providing training to people working in smaller enterprises, and ensuring better economic links between larger tourist operators and poor communities.

Trade Opportunities for the Least Developed Countries

All of these trade issues have a particular resonance in the Least Developed Countries (LDCs). For many LDCs, trade represents a significant proportion of economic activity. In fact, their trade-to-GDP ratios are often higher than those in many developing countries, or even developed ones. They also tend to have very open trade regimes, with low tariff or non-tariff barriers.

Unfortunately, integrating with international trade does not seem to have produced a commensurate reduction in poverty. When it comes to integrating into international trade, the LDCs are in a very vulnerable position – typically they have small economies, difficult topographies, and are located far from international markets in which they are minor and weak players.

In these circumstances, why would LDCs want to gain access to the World Trade Organization and the further liberalization that this implies? Because the likely alternative is worse – marginalization or bilateral control by one or two major powers. With all its limitations, the multilateral WTO is still a better option if it offers some basic and consistent ground rules.

However, later entrents have found the process of accession to the WTO very arduous. They lack the trained people needed to understand the implications of trade agreements. And because the rules for accession to the WTO are vague, the incumbent members have been able to exploit acceding members by imposing onerous conditions – generally narrowing their freedom of action on issues not just of tariffs but also intellectual property rights, and even on how they should run their economies, for example, on the pace and extent of privatization.

The LDCs of the region can engage more fruitfully with the international trading system, but this will need more determined action at both national and international levels. This will mean, for example, giving a higher priority to trade issues, increasing investment and building stronger alliances. But above all, both the LDCs and the developed countries should ensure that trade initiatives and negotiations are based less on reciprocity and more on a human development perspective, taking advantage of opportunities for 'aid for trade'.

An Eight-Point Agenda

How should the countries of Asia and the Pacific respond in a demanding new environment for international trade? Clearly, there can be no standard blueprint, especially for such a huge and diverse region. Nevertheless, there is a way of encompassing this diversity by viewing trade issues through a human development lens. The analysis in this Report suggests eight priorities that have a degree of general application:

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1. *Invest for Competitiveness*

In a globalizing world, public investment needs to take into account both national and international considerations. Generally the type of investment will remain much the same, but it may need adjusting with an eye to international competitiveness. Thus, when looking at basic infrastructure, governments will need to ensure that they have the roads, railways, ports and telecommunications systems that align with national needs and also with the requirement of getting goods and services quickly and cheaply to international markets.

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But just as important as the physical infrastructure is human capital. The most successful trading countries have invested heavily in the basics of human development – generating a healthy and well-educated workforce that has the stamina, the skill and the flexibility to cope with a changing trading environment. Education has to start with strong and universal primary schooling, but nowadays all countries need to make sure they have sufficient people with technical and managerial skills. People with good primary or secondary education can only make use of their potential for international trade if they have the support of others with higher levels of education, for example, in engineering, telecommunications, or accountancy.

At the same time, many countries will need to invest more in research and development that raises productivity and specifically addresses the needs of poor people – continually assessing the most appropriate technologies that can capitalize on national strengths. Some of this can be carried out through public-private partnerships, though most of the research into opportunities specifically for the poor is likely to take place in the public sector.

2. *Adopt Strategic Trade Policies*

In a world of giant global players and fierce competition, no developing country now has the luxury of entering global markets and hoping for the best. Instead, states have to identify a few sectors and industries that have both short- and long-term potential in international markets and guide enterprises towards them. The chosen industries will vary from country to country but should be those with the greatest potential linkages with other industries so that they can also train more people in essential skills and thus offer important spillover benefits for the rest of the economy.

Picking 'winners' is not, of course, a simple task. The aim should be to achieve a transparent policy compact between government and the private sector that uses a carrot-and-stick approach. The carrot will include the opportunity to operate behind tariff walls until companies are strong enough to compete internationally. The stick is that such industries will be closely scrutinized to ensure that they are living up to their side of the bargain and are developing steadily more competitive products and services for export. Enterprises should also be subject to a domestic competition policy designed to prevent them from abusing a monopoly position.

The essential requirement for engagement in international trade, however, is that the process should be strategically planned and carefully sequenced. Thus, higher tariffs should be rigidly time-bound: in order to avoid creating cosy monopolies that never mature into vigorous export enterprises, tariffs should automatically be scaled down after a predetermined period.

3. *Restore a Focus on Agriculture*

A trade strategy based on human development has to have agriculture at its core. This is not because agriculture offers export opportunities, but because in many countries farming is still the primary source of income for the poor; so no trade strategy that undermines rural livelihoods can claim to be promoting human development. For food-importing countries in particular, it will often, make sense to maintain tariffs on food imports so as to protect poor producers. If this results in higher prices that cause hardship for the poorest consumers, governments will need to prepare appropriate social safety nets. This also has the strategic advantage of preserving national food security in a world that in just a few years could be moving towards higher food prices. As well as protection, farmers also need progress. In many countries investment in rural development has been on a steep downward curve. This has to be reversed – particularly through investment: for example, in irrigation, in village electrification and in farm-to-market roads.

4. *Combat Jobless Growth*

Most countries that embark on industrialization typically do so with labour-intensive production in industries like garments, textiles and footwear that take advantage of ample supplies of low-cost labour. But as industrialization proceeds, they tend to move higher up the value chain and also become more capital-intensive. As a result, the most successful trading countries, primarily in East Asia, are now creating jobs far more slowly – the phenomenon of 'jobless growth'.

To some extent this process is understandable. Less comprehensible, however, is why governments should exacerbate this trend by maintaining low interest rates – effectively giving capital preference over labour. This may seem like the best strategy for rapid growth but it is storing up problems for the future. By all means allow enterprises to choose the lowest-cost option for production, but this choice should not be biased away from labour: interest rates should, therefore, reflect the real price of capital, not the rate that industrialists would prefer. In a similar vein, states should phase out fiscal incentives to enterprises since these raise the return on capital and again encourage capital-intensive investments.

Another reason why enterprises may be reluctant to take on new workers is that labour contracts can be too rigid. This creates a persistent duality – a small and protected group of 'insiders' with secure employment influenced by national regulations, and a large casual, and often exploited, workforce employed on piece rates. Instead, more workers should steadily be absorbed into formal employment but on contracts sufficiently flexible that they can readily be deployed to other sectors or companies as trading conditions change. Governments can assist in this process by providing some support for workers through health insurance and social security and by active labour market policies to encourage retraining and redeployment.

5. *Prepare a New Tax Regime*

Liberalization is a common prescription for economic success, but it has a debilitating side effect – it means foregoing a predictable and easy-to-collect source of government revenue. Instead governments need to have an alternative tax regime in place before embarking on liberalization.

Care will need to be taken, however, to ensure that these new taxes are progressive and do not hurt the poor. Customs duties, for example, are often quite progressive since they are typically highest on the luxury items that are of greater interest to the rich. Corporate taxes too can be levied progressively, though many people escape the net since the lawyers of the largest corporations are skilled at techniques of tax planning, while most enterprises in the informal sector simply evade tax collectors altogether. Much the same is true for income tax, which tends to be paid more by middle-income workers in government or the formal sector.

Garnering more income from corporate or income tax will mean overhauling the tax codes to close loopholes and also considering other options such as 'withholding taxes'. In addition,

States have to identify a few sectors and industries that have both short- and long-term potential in international markets and guide enterprises toward them governments can consider taxes on real estate or on capital gains. And the more advanced can adopt value added tax (VAT) – though this assumes a thoroughly documented economy and needs to be developed with care; in any case, it should exempt food and other necessities of the poor.

The key point is that these new sources of revenue should be up and running prior to liberalization or countries face the risk of severe cuts in public services that will harm human development.

6. Maintain Stable and Realistic Exchange Rates

One thing that hampers international trade and discourages investment is a volatile exchange rate that makes it difficult for states or enterprises to plan ahead. But it is important too that the rate is realistic: too high and it will jeopardize employment prospects for the poor by penalizing exporters as well as farmers and other local producers who will face increased competition from imports; too low and it will raise the domestic price level and affect the cost of living of the poor.

Exchange rates are likely to fluctuate, especially in small and open economies that are powerless against the rise or fall in international commodity prices. With floating exchange rates, these economies are also susceptible to the 'Dutch disease' in which inflows of capital without sufficient investment opportunities to absorb them can appreciate the exchange rate to unrealistic levels. This may happen as a result of rising commodity prices as, for example, with the oil price for Timor-Leste. But it can also be the result of inflows of aid, say, or of the arrival of funds for disaster relief as with the tsunami.

Most of the successful Asian trading countries have benefited from long periods of relative exchange-rate stability based on active currency management. For this purpose, during the initial process of liberalization, rather than having freely floating exchange rates, countries that are becoming more involved with international trade can consider 'managed floats' that permit their currencies to depreciate gradually – since in the early stages of liberalization imports typically rise faster than exports. The overall priority, however, is to ensure that the exchange rate remains stable and realistic.

7. Persist with Multilateralism

The slow pace of progress in the Doha round of multilateral trade negotiations has discouraged many developing countries. They can see this 'development round' running into some familiar impediments, especially the resistance from the developed countries over agricultural subsidies. This is leading at best to pessimism and at worst to a crisis of falling expectations that could cause the developing countries to abandon multilateralism altogether.

Despairing of the WTO negotiations, many countries are also seeking bilateral trade agreements with the developed countries. Some would argue that in trade terms these are better because they give preferential access. But in human development terms they may impose high costs: bilateral agreements typically involve much deeper tariff concessions from the developing countries and make demands on issues like intellectual property rights that go far beyond what WTO members require of each other, and can threaten the health and livelihoods of the poor.

Better to resist the immediate temptations of a bilateral embrace and build up slower but ultimately more productive multilateral relationships

Many countries of the region would do better to resist the immediate temptations of a bilateral embrace and build up slower but ultimately more productive multilateral relationships that can lead to more durable human development outcomes.

8. Cooperate with Neighbours

Another good alternative is to seek trade and other agreements with other countries in their region or subregion. These could include regional pacts such as the South Asian Free Trade Agreement, the ASEAN Free Trade Agreement, or the Pacific Island Countries Trade Agreement. These have the advantage of being quicker to negotiate than multilateral agreements while posing less of a risk to human development than bilateral ones. In addition, they dovetail well with the region's many integrated cross-national production systems and lead to trade creation.

Regional trade agreements can also be complemented by other forms of cooperation, particularly in the financial area. Many countries in the region have accumulated vast foreign exchange reserves – $1.9 trillion in total, half of which is in China – partly to protect themselves against another Asian financial crisis. These funds could be put to better use if they were pooled so that countries facing sudden balance of payments crises caused, say, by a spike in oil prices could draw on this shared Asian resource. Governments can also consider using the reserves to expand the Asian Development Fund, which could put resources to work for investment in large-scale infrastructure and in human development priorities such as health and education.

Reaching a Different Frontier

With or without new multilateral agreements, globalization will continue to power ahead. And millions more workers in the Asia-Pacific region will find themselves producing goods for people on the other side of the globe as well as buying at lower prices goods their parents could scarcely have dreamed of.

The main hazard, however, is that millions of others will fall by the wayside – abandoned in rural areas whose agricultural economies have drifted into decline, or scratching a living on the fringes of Asia's megacities as a permanent underclass. Even those currently in work may find themselves later discarded from ever-more sophisticated production systems. This not only denies people their basic rights to decent work and a reasonable standard of living, it also heightens the risk of future unrest: globalization does not just distribute products; it also disseminates new ideas and information that change people's expectations.

The countries of the Asia-Pacific region are renowned for the speed at which they have developed economically. Now they find themselves at a different frontier – trying to combine accelerated trade-driven economic growth with equally rapid poverty reduction and, more broadly, human development. In many ways this is a more complex and difficult task, and just as before, they will need to work out their own solutions. Some of these are highlighted in this Report; others will only emerge in the light of experience. One thing is certain – that Asia and the Pacific will remain at the forefront of global development and will offer fresh lessons to the rest of the world.

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