

## China's Trade Dynamism Poses Challenge to Poorer Asian Neighbours, New UNDP Report Finds

**GENEVA, 29 June 2006**—The poorest countries of Asia are being out-competed by exports from China and selling little back to China in return, making it harder to benefit from their opening to international trade, says a report published today by the United Nations Development Programme (UNDP).

UNDP's new Asia-Pacific Human Development Report 2006, *Trade on Human Terms*, was launched in Phnom Penh, Cambodia, which like most of Asia's Least Developed Countries (LDCs) has been suffering from a severe trade imbalance with China. Cambodia exported US\$30 million only to China in 2004, but imported US\$452 million; similarly, Bangladesh exported US\$57 million to China, while importing a record US\$1.9 billion.

More than 20 percent of imports by these poor countries are from China. This has led to a displacement of domestic industries like leather and footwear, wood products, plastic products, paper and paper products, glass products and cycles and motorcycles.

“China's stunning economic growth, in so many ways an inspiration to its Asia-Pacific neighbours, is not delivering reciprocal benefits to its Asia-Pacific trading partners – and is in some cases creating difficulties for them,” says the Foreword to the Report. “One of the messages of this report is that success in the global marketplace brings with it new opportunities and responsibilities, especially toward the least developed nations.”

### Trade balance of selected LDCs in Asia with China, 2004

	Exports to China	Imports from China	Trade Balance
Bangladesh	\$57m	\$1906m	\$-1849m
Cambodia	\$30m	\$452m	\$-422m
Lao PDR	\$12m	\$101m	\$-89m
Myanmar	\$207m	\$938m	\$-731m
Nepal	\$8m	\$163m	\$-155m
Total for 5 LDCs	\$314m	\$3560m	\$-3246m

Source: IMF, 2006 (figures in US\$ millions)

Following the demise of textile quotas, China also has rapidly expanded its share of textile and clothing exports in the US and EU markets. Chinese textile and clothing

exports to these markets increased by more than \$15 billion in 2005, while those of Asian LDCs have shown hardly any growth. Countries like Bangladesh, Nepal, Lao PDR and Cambodia, which had benefited from quotas, are increasingly vulnerable to competition from China in export markets.

China's trade with its Asian neighbours now comprises the bulk of its global trade – but more than 75 per cent of its exchange with the region is with high-income nations such as Japan, the Republic of Korea and Singapore. In part, the Report said, this is because the poorest countries of Asia-Pacific have a very narrow range of exports and cannot meet Beijing's high-tech and other import needs.

The Report makes a case for special and differential treatment of LDCs' exports to large markets in Asia, such as China. In addition, it emphasizes the need for cooperation among Asia's developing countries to maximize benefits to the poorest nations. A case also is made for pooling of the massive foreign exchange reserves that countries such as China hold, in order to finance the higher oil import bill that is causing an oil price "shock" to the region's poorer countries.

"Trade integration alone is not sufficient to ensure economic growth or poverty alleviation for the Least Developed Countries," cautioned Hafiz A. Pasha, United Nations Assistant Secretary-General and Director of the United Nations Development Programme Regional Bureau for Asia and the Pacific.

While trade has been the engine of Asia's economic dynamism, it also has contributed to increased inequalities in the Asia-Pacific region, not only between countries but also within national borders, the Report shows. The Report was developed by a team of experts from the region under the auspices of the UNDP Regional Centre in Colombo, Sri Lanka.

Because a number of poor Asia-Pacific countries have had problems implementing their agreements with the World Trade Organization (WTO), many are negotiating regional and bilateral trade agreements, the Report also noted.

"The launch of the Report comes at a critical time, with only a few months left before the end-of-year deadline for the completion of the Doha Development Round," noted UNDP Administrator Kemal Dervis. "We are at the midpoint of the 10-year Brussels Programme of Action for Least Developed Countries and have less than a decade to achieve the targets of the Millennium Development Goals." The universally endorsed Goals seek to halve poverty by 2015.

Despite Asia's overall economic growth and rising share of world trade in recent years, the region's poorest countries have struggled to maintain their share of global commerce, the Report says. The Report emphasizes the economic consequences for Asia's LDCs of what it says is a neglect of the agricultural sector, noting that Asia is becoming a net food importer, while agricultural subsidies and tariffs policies in advanced economies continue to pose major obstacles to farm exports from poor Asian nations.

There are 14 LDCs in the Asia-Pacific region: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu. These countries, home to 260 million people, face severe challenges from poor infrastructure, a high degree of vulnerability to natural disasters, inadequate diversification of the economy, unsatisfactory health and education facilities, and generally low savings rates. Despite some human development improvements, the per-capita annual Gross Domestic Product of Asia-Pacific's lowest-income nations was only US\$375 in 2003, less than half that of even other Asia-Pacific developing countries.

It is time for developed countries to address the vulnerability of the poorest nations in the current global trade environment, the Report says. However, even an ambitious international package can only complement, not substitute for, a global trade deal under the WTO's struggling Doha Round, the Report stresses. Many observers feel that prospects for such a deal are all but gone. The five-year-long talks currently face a deadline at the end of June for a WTO framework agreement on agricultural market access and industrial tariffs, but are mired in a three-way standoff among the European Union, United States and a group of larger developing countries.

"It may not be obvious why LDCs would want to gain access to the World Trade Organization – and the further liberalization that this implies," the Report states. "For most, however, the alternative is worse – marginalization or bilateral control by one or two major powers. The multilateral WTO is still a better option if it offers some consistent basic ground rules."

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