

NEW AGE REGIONALISM AND THE EVOLVING TRADE ARCHITECTURE: A POLICY PERSPECTIVE

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Introduction

■ Non-discriminatory treatment

- ✿ founding principle of GATT and fundamental principle of multilateral trading system
- ✿ embodied in concept of MFN and national treatment
- ✿ Non-discriminatory treatment fundamental to fairness and gaining confidence of all countries in a member-driven system

■ Discriminatory treatment

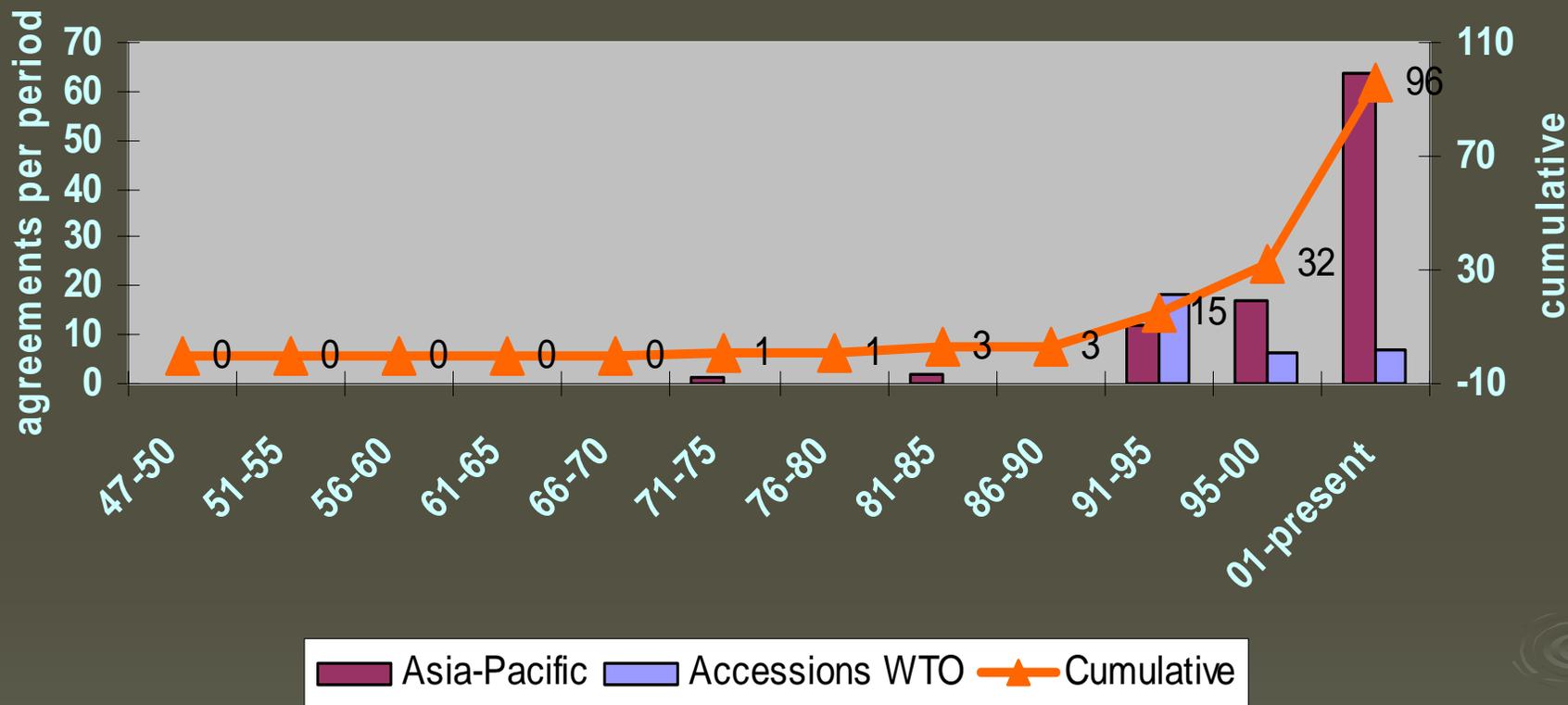
- ✿ Special and differential treatment (enabling clause)
- ✿ Regionalism based on discriminatory treatment in favour of a select group of members is a major departure from GATT/WTO founding principles
- ✿ permissible, provided that certain conditions are met:
 - GATT Article XXIV :
 - **(5) duties and other regulations of commerce are not higher or more restrictive after the formation of the CU/FTA than before**
 - **(8) duties and other regulations of commerce are removed on substantially all intraregional trade within a reasonable period of time**
 - **the formation of the CU/FTA is notified to the WTO, surveillance and**

■ GATS Article V:

● economic integration

similar to GATT article (essentially imposes same conditions) no mode of supply may be excluded a priori, must provide for elimination of substantially all measures violating national treatment (under sector specific commitments), should not result in higher barriers to third countries

Negotiating liberalization in AP



Primacy of Multilateral Trading System

- Core issue is how to recognize the existence of RTAs and impose disciplines so that they are complementary to WTO system
- Ensure that supportive role of regionalism in multilateralism can be given a more solid legal foundation.
- WTO rules highly ambiguous and subject to varying interpretations: WTO rules “dead”, “creaky”, “perverse”
- Uruguay Round Understanding on the Interpretation of Article XXIV of GATT 1994 sought to clarify meanings
 - completion of FTA is in principle 10 years
 - when a member of a CU raises tariffs as a result of joining the CU, negotiations with third countries are in accordance with Article XXVIII of the GATT
 - a third country that benefits from a reduction in tariffs due to a member joining a CU is under no obligation to offer compensation

WTO Negotiating Group on Rules

- Doha Declaration makes provision for negotiations on CU/FTA rules
- Perhaps single most important difficulty centres around interpretation of GATT Article XXIV:8 what is “substantially all trade”. Similar difficulties with GATS Article V “substantial sectoral coverage”
- Is it a quantitative requirement?
 - statistical benchmark: e.g 96 per cent of trade should be covered by 10 year mark, or xx percent, by xx stage of implementation, or a threshold limit of HS tariff lines at six digit level, or
 - Implication is that as long as agreed benchmark is reached, the exclusion of a particular sector (e.g. agriculture or marine products) is not of concern

WTO Negotiating Group on Rules (cont'd)

- ▶ Is it a qualitative or quantitative requirement?
 - Qualitative: no major sector should be excluded.
 -
 - Quantitative threshold could imply that a major sector could be excluded.
- ▶ Another difficulty: not on the whole higher or more restrictive for third parties after than before. Uruguay Round clarified this aspect, (average weighted applied duties, based on import statistics), but lack of data makes it difficult to assess implications for third countries
- ▶ Harmonize external tariffs to lowest level applied by a member
- ▶ Link RTA tariff reductions to MFN tariff reductions
- ▶ RTAs should be open for any member to join

WTO Negotiating Group on Rules (cont'd)

Notification and examination of RTAs

- Surge of RTAs, requires review under relevant GATT/GATS relevant articles (CRTA instead of Committee on TD)? Proposal opposed by developing countries because principle of S and D is an integral part of WTO agreements. Need policy space and flexibility to allow domestic sector to adjust to liberalization. Also added burden to CRTA, small percentage of trade covered in S-S RTAs
- Transparency mechanism for RTAs WT/L/671 : Adopted by General Council as provisional mechanism with permanent mechanism to be adopted as part of overall results of the Round.
- Inform WTO of intention to negotiate a PTA, upon completion of negotiations notify RTA as early as possible and no later than directly following ratification, WTO secretariat to prepare factual presentation on RTA
 - expost-facto notification raises problems if RTA not in compliance with WTO rules?
 - added burden two step approach could entail?
- ESCAP role: can support members and WTO: serve as a “mapping agency”, more effective link between region and WTO notification process



APTIAD

Asia-Pacific Trade and Investment
Agreements Database

<http://www.unescap.org/tid/aptiad/>



Searchable database of 125 PTAs

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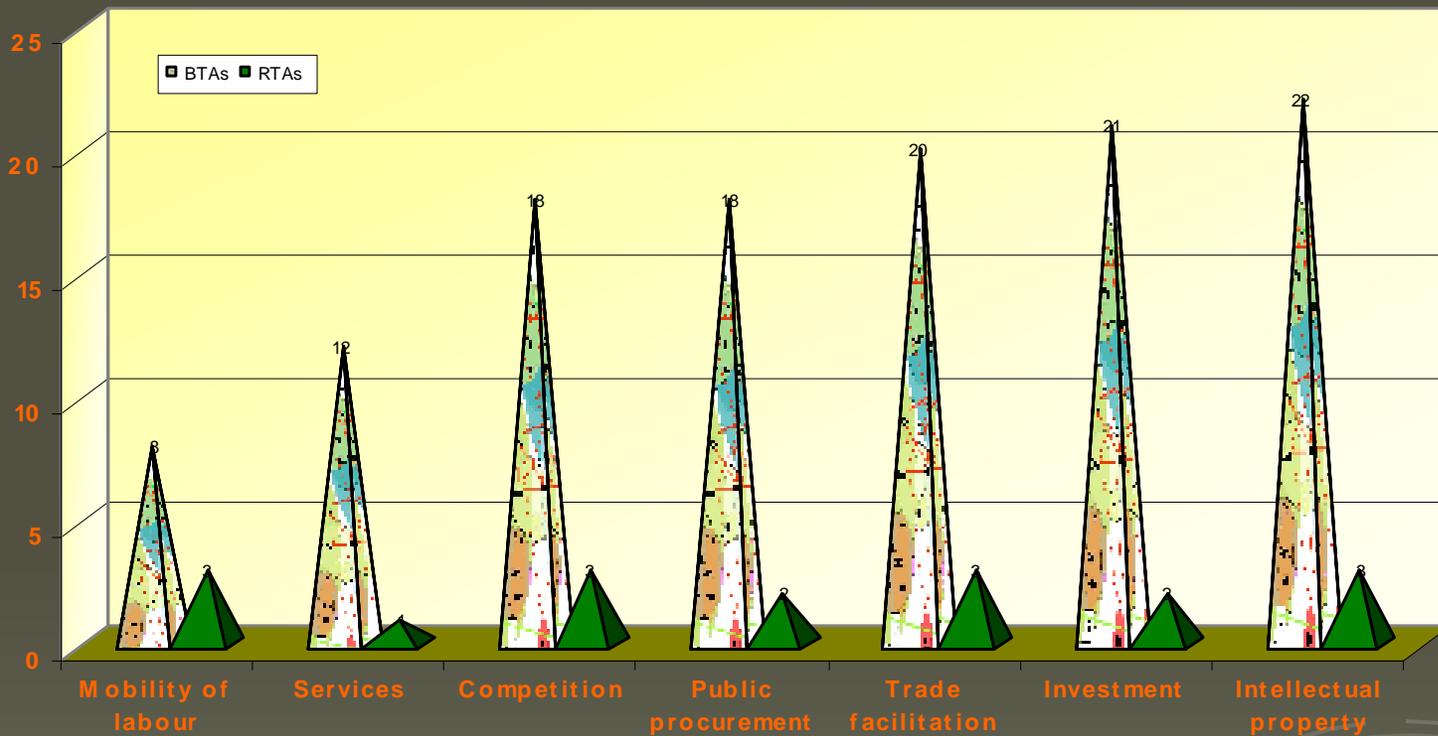
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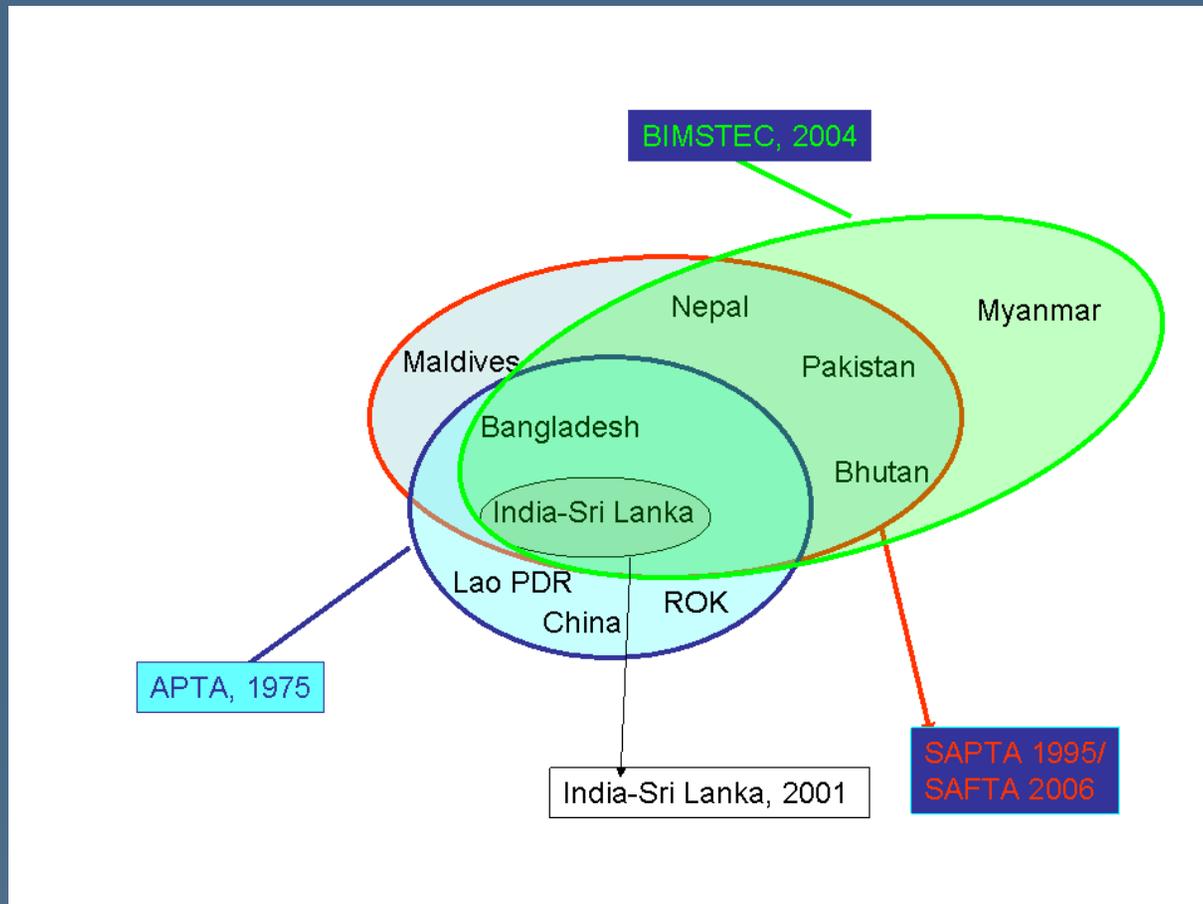
Stylized facts

1. Process of regional integration started in earnest in the 1990s.
2. Strong preference for BTAs.
3. Strong preference for FTAs (in name) rather than customs union.
4. Multiple memberships are a norm. Average number of agreements per country is 3.9.
5. BTAs in force focus on industrial goods, while RTAs might have slightly broader but equally shallow approach to trade liberalization. Extent of tariff liberalization is variable and rules of origin tend to be protectionist (although less so in AP compared to US/EU).
6. BTAs tend to be core of much wider economic partnerships.
7. IP especially in FTAs with the US gets most coverage and mobility of labour the least.

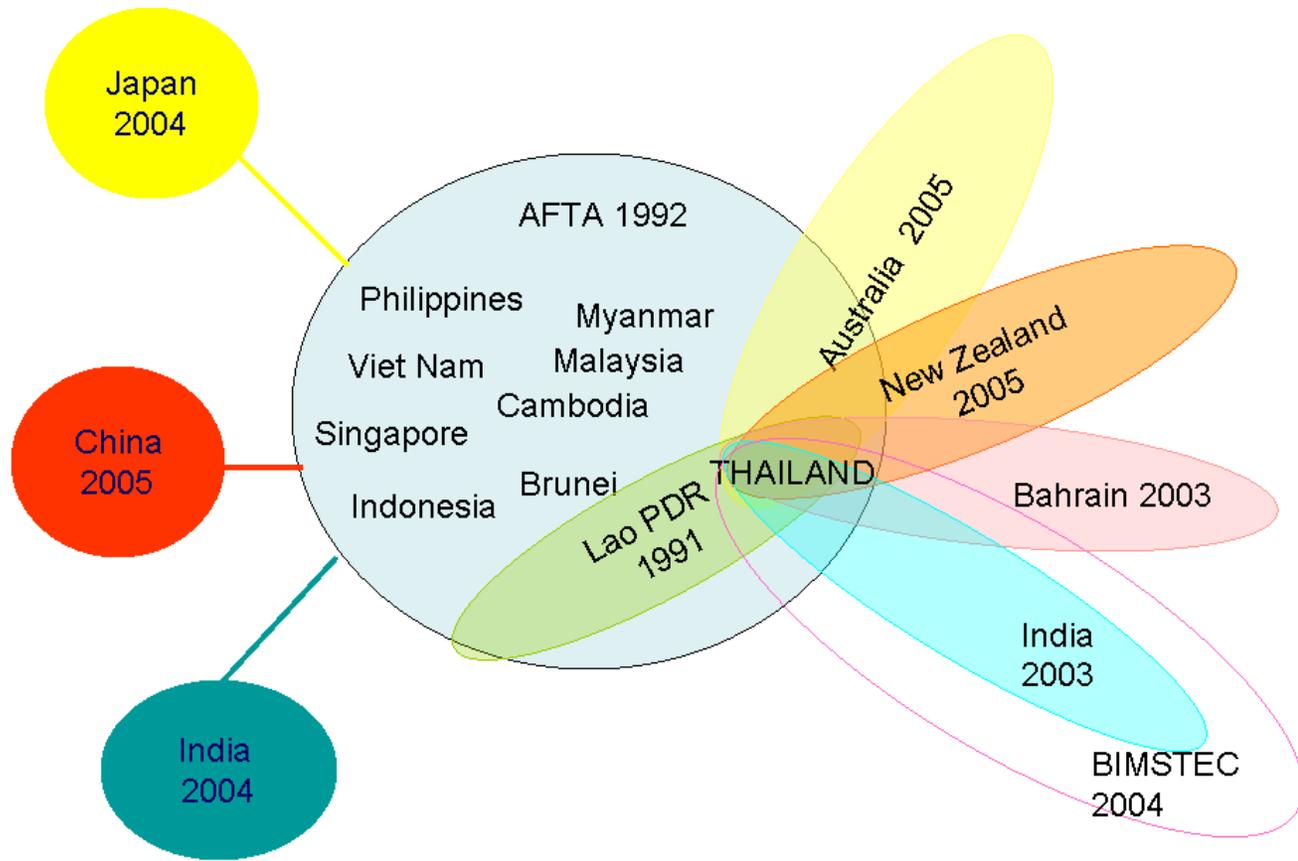
“Beyond the goods” sectoral coverage



From a few layers:



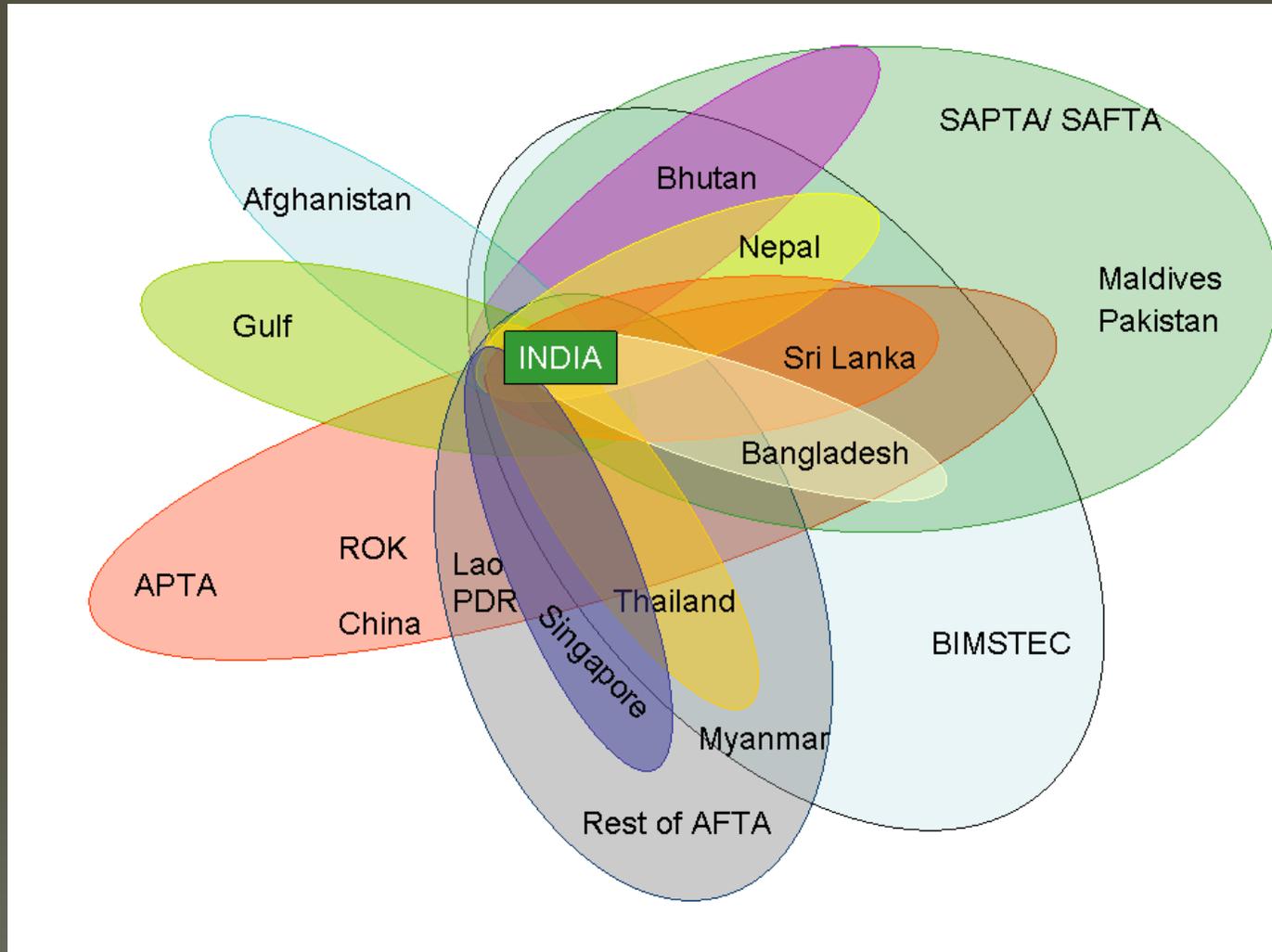
and apparently trade not adversely affected



...to
more
layers

...

and the frontrunner is:



Architecture

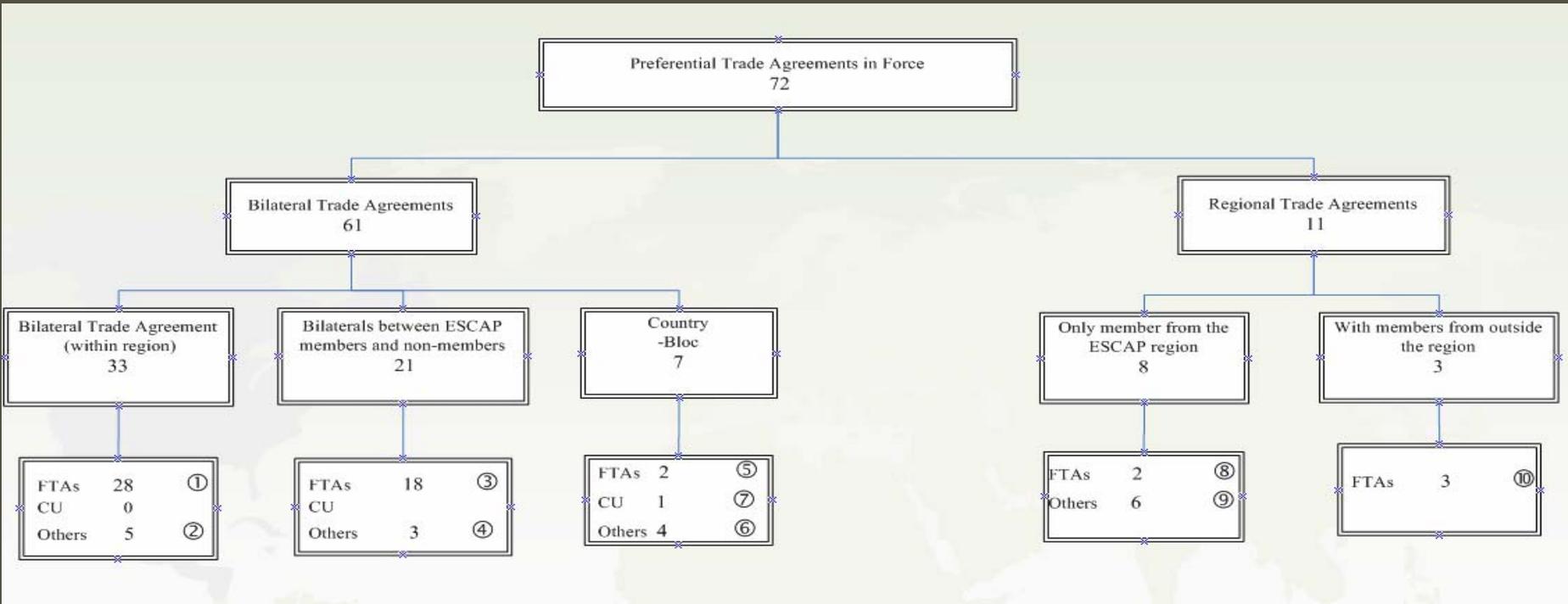
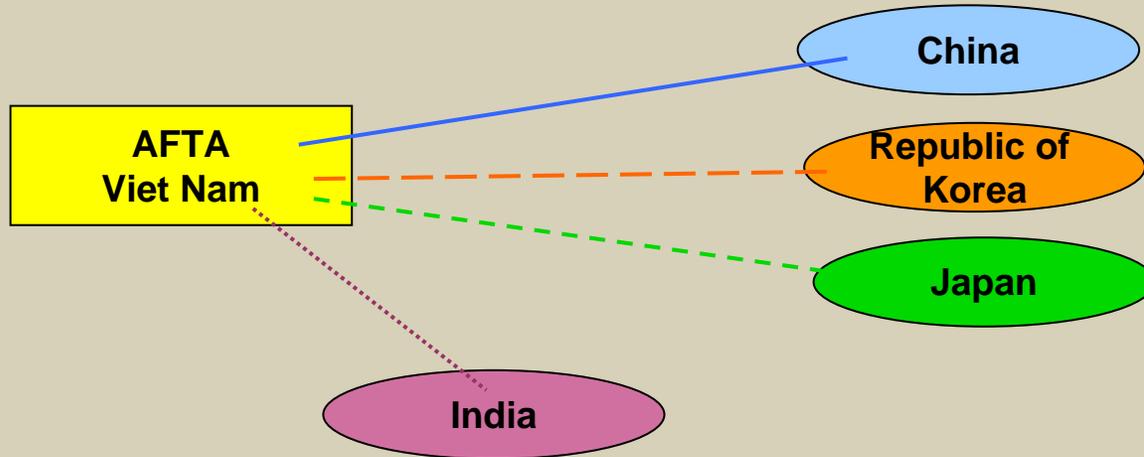


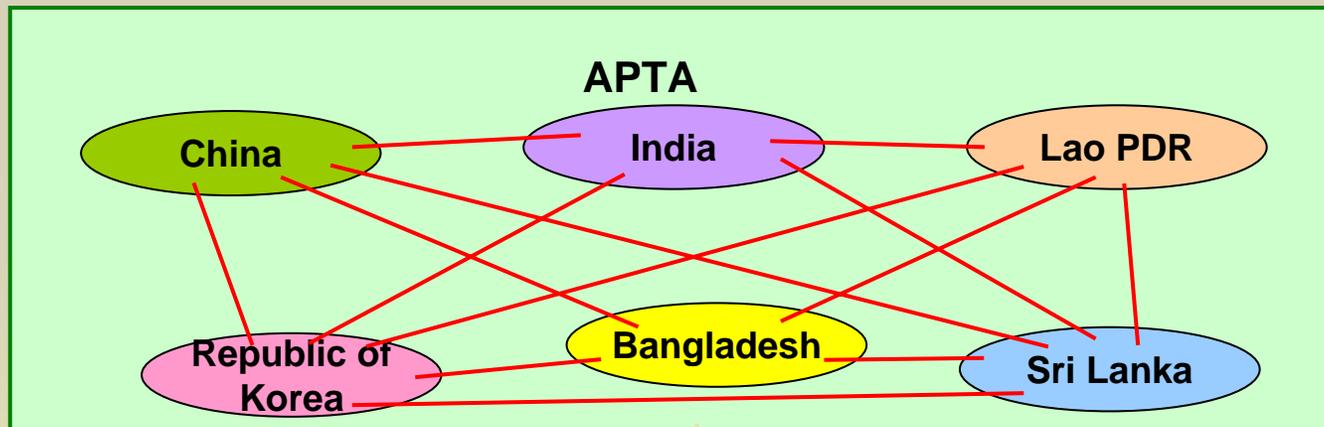
Figure 1

I. Spoke pattern of market access



VS

II. Inclusive pattern of market access



Under APTA – Viet Nam exports gain access to 6 new markets simultaneously.

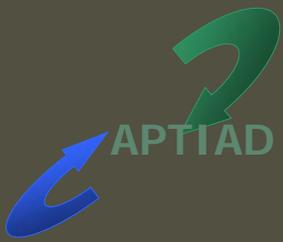
Viet Nam imports can be sourced from cheapest supplier in 6 markets simultaneously.

Under AFTA+1+1+1 – the terms and conditions of market access are spoke-specific, and one country at a time only.



ANALYSIS

- **Currently simple approach (2 variants):**
15 INDICATORS based on GTAP or COMTRADE trade flows:
 - Trade Dependence
 - Trade Intensity
 - Complementarity
 - Revealed Comparative Advantage
 - Regional Orientation
 - Regional Market Share,
 - etc.

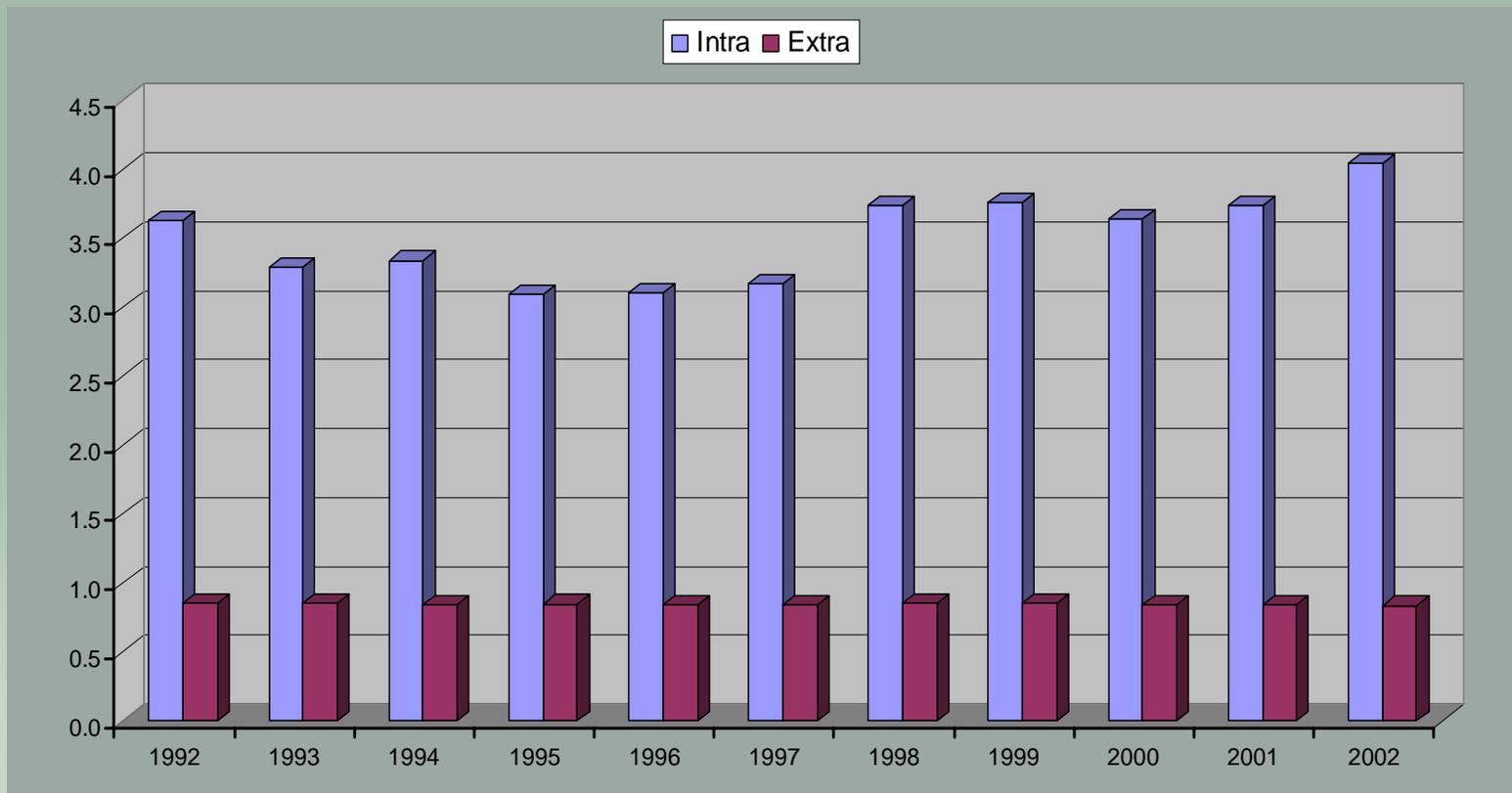


- Can we identify those sectors in which members have comparative advantage?
 - Revealed comparative advantage, if greater than 1, indicates a country exports more of that good than the world average

- Can we identify those sectors that might be significant sources of trade diversion?
 - Regional orientation (with RCA), the relative degree to which exports of a good intra-regionally compare to those extra-regionally

Type of questions:

- Has intra-regional trade intensified post-formation of a preferential agreement?
 - Trade intensity looks at trade share relative to world average trade share; if greater than 1, then regional trade is “intense” and for AFTA we have



Limitations

- **Indices with trade statistics can help to understand what is happening to trade patterns within RTAs, but they cannot demonstrate causality**
- **Should be used as a tool in identifying potential areas of progress / concern for more in depth analysis using**
 - **Econometric and general equilibrium modelling approaches**

Are there avenues that would allow disentanglement of noodle bowl?

Question is fundamentally linked to ESCAP's mandate of promoting regional economic cooperation

The background of the slide is a solid dark blue. In the lower right quadrant, there are several decorative elements consisting of concentric circles, resembling ripples in water. These circles are lighter in color than the background and vary in size and opacity, creating a subtle pattern.

Laissez-faire: wait and see at what configuration proliferation of BTAs will come to rest?

- Emergence of a natural hub: large trading country (developed country) as trade hegemon linked to a series of spokes (developing countries)
- Trade and investments flow between hub and spoke according to terms dictated by hub. Spoke country locked into a pattern of trade and investment that may not be in its best interests
- Trade between spokes (south-south trade) displaced, spokes turn into spikes, wheels of trade grind to a halt

II. Policy-induced consolidation and rationalization

- Three avenues are explored
- Drawn from EU theory and experience of integration

A. Geographical integration

- Intuitively obvious: one RTA folds into a larger RTA which in turn folds into an even larger RTA until all world trade is covered
- Expansion of EU: EEC-6, EEC-12, EU-15, EU-25
- BTAs between EU and aspiring members were precursors to wider integration
- More than 65 bilateral trade agreements abrogated when EU expanded to 25

A. Geographical Consolidation

- **The larger the economic space, the higher the likelihood of trade creation and minimized trade diversion**
- **Historical conflicts, differences in political, legal systems, cultural values can be overcome if -**
- **External push factor (e.g. two distinct periods of progress in European integration linked to search for peace after destruction of World War II and again in 1990s after Balkan Wars)**
- **Willingness of existing members to allow new members to share benefits. Do net benefits really increase upon expansion? (e.g. EU-25 redistribution of agricultural subsidy payments, young nations politically unstable?)**

A. Geographical Consolidation

- **A crucial difference between EU and Asia is that EU integration designed around concept of customs union (single market and common external trade policy), a much deeper form of integration than FTAs of Asia**
- **Axis of integration in Asia revolves around
ASEAN ASEAN+3: Proposal by China
ASEAN+3+India+AUS+NZ: Proposal by Japan**
- **Should ASEAN evolve into a Customs Union:
deeper vs broader integration**

A. Geographic Consolidation

- **ASEAN individual members are unable to overcome internal differences required to forge single market**
- **ASEAN akin to spinning top: a centrifugal force driven by an inertia – at the center- that acts outwards and draws energy from a body moving about the center.**
- **How can the force be directed towards the center so that ASEAN can harmonize policies and achieve deep integration?**
- **Need to examine other avenues of cooperation that extend beyond geographical consolidation**

B. Functional cooperation and consolidation

- Draws on functional school of thought and European integration. Cooperation in one area induces cooperation in other areas in ever widening concentric circles of integration: from trade to monetary cooperation to fiscal coordination to political unity with common foreign and security policy

- 3 pillars of European integration

Pillar 1: Common single market (traditional),

Pillar 2 and 3 introduced after Maastricht Treaty: Common foreign and security policy (and defence); and Justice and home affairs

- RTAs/BTAs have non-trade objectives that lay groundwork for wider forms of economic cooperation and integration

- Based on incrementalism: pragmatic and flexible

Adoption of common framework of principles, practices and procedures, intergovernmentalism

C. Integration through supranational institutions

- Economic integration requires the setting up of institutions (e.g. European Commission) that are centralized and endowed with authority to propose and legislate region-wide policies.
- Regional organizations (e.g. UNESCAP, ADB, ASEAN etc) are intergovernmental, member driven. Lack supranational authority to forge integration
- Counterargument: costs from imposing harmonized policies on a heterogenous group, the more heterogenous the group the higher the cost
- While not all integration objectives need to be implemented by centralized authority, not all forms of intergovernmental policy coordination will have same effectiveness
- Need for balancing vision with realism: more effective use of existing institutions.

C. Integration through supranational institutions

- **Intergovernmental regional organizations, such as UNESCAP are in good position to draw out commonalities and work on common principles, best practices, modal agreements**
- **Rules of origin one key area. APTA representing a wide spectrum of industrial development across the region has evolved a set of common rules of origin, based on flat percentage rate 45 per cent (35 per cent for LDCs) local content that may imply an acceptable commonality**
- **Investment (proliferation of BITs) and coherence with investment provisions in BTAs?**