Regional Integration in Asian Perspective

WTO/ESCAP 5th ARTNET Capacity Building Workshop on Trade Research

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Trade and Investment Division
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Outline

- Trade flows – recent past and present
- Status of regional integration / RTAs in Asia-Pacific
- WTO disciplines on RTA - past, present and future
- Underlying issues in the field of RTA in Asia-Pacific
- Q&A
Asia-Pacific from ESCAP perspective

Trade Dependence

- 21 - 40
- 41 - 60
- 61 - 80
- 81 - 100
- 101 - 150
- 150 - 387
- Missing Data

* Trade dependence is calculated as (Exports + Imports / Gross Domestic Product).
Trade flows - recent past
Trade flows – present

Export Growth, Year-on-Year in per cent

China
India
Indonesia
Korea
Thailand
Singapore
Vietnam
Locomotive losing steam?

Percentage YoY, USD, 3mma

- Asia 8 export to China
- China export to US
Status of regionalism in Asia-Pacific
How did it happen?
Asia-Pacific at same speed as the rest
RTAs* landscape in Asia-Pacific

*Coverage: PTAs in force (pending ratification in brackets)
WTO disciplines on RTAs
Primacy of MTS as an optimal liberalization path

MTS is the pillar of non-discrimination – MFN (most-favoured nation principle)
*Why then over 100 agreements in AP and more than 250 in the world?

Several reasons (list non-exhaustive):
1. MTS too slow or not able to deliver market access
2. Competitive liberalization
3. Domino effect
4. Credibility for reforms/national security
5. Enabling learning among “willing partners”
6. Etc…
RTAs – Complementary to MTS or BAD idea?

- Free trade based on CA – many factors necessary to make it work; ‘policy space’ needed for LEARNING BY DOING (trading, negotiation, etc).
  ⇒ MTS “minus” variants

- MTS too restrictive (scope, extent of liberalization, etc).
  ⇒ MTS “plus” variants

In both cases justified from perspective of the parties involved; what about THIRD PARTIES?
Cannot say much A PRIORI

KEMP-WAN-VANEK theorem provides some solution but in practice not easy

This uncertainty about NET RESULT led to built-in waivers in GATT and WTO (exceptions):

- ART XXIV GATT
- ART V GATS
- Enabling Clause

No agreement in conformity with the WTO (?)

Flexibility resulted in proliferation of RTAs….
Exceptions conditional
– Art XXIV

- Article XXIV 1947 (at least 3 stories on how it appeared)
- Conditions:
  - Neutrality requirement (5 a and b)
  - Transparency requirement (7a)
  - Commitment to deep integration - substantially all trade in a reasonable time (8 a and b)
  - Compensation requirement (6 ref to Art XXVIII)
- Uruguay Round Understanding
- Establishment of CRTA in 1996
Enabling Clause 1979

- Notification (4a and b)
- UR-
- For partial scope agreements
- CTD
GATS V 1995

- Substantial sectoral coverage (1a)
- No a priori exclusion of any mode of supply (footnote to 1a)
- Eliminate substantially all discrimination – provide national treatment within a reasonable time (1b)
- Note that agreements are called EIAs, notified to CTS for all members (no separate treatment of Ding countries)
Waiver clause

- GATT XXV:5 – members jointly can waive an obligation, including MFN, imposed upon another member
- In pre-WTO history 28 waivers granted, most for non-reciprocal preferences
Present…based on DDA Declaration

(a) Issues of systemic (substantive) nature;
(b) Issues of a procedural nature with a focus on:

(i) Improving transparency with respect to RTAs; and

(ii) Improving procedures for the consideration/surveillance of RTAs by WTO.
Systemic issues

(a) Issues related to the interpretation of the existent disciplines under Article XXIV of GATT and Article V of GATS;
(b) Issues related to coherence between the existent RTAs rules, and between those rules and other disciplines in the WTO agreements;
(c) Issues related to potential institutional tensions and potential conflict between RTAs and MTS;
(d) Identification of the “developmental aspects” of RTAs and how to best reflect these aspects in RTAs rules in WTO.
Procedural issues - Transparency Mechanism

- One tangible result of DDA negotiation (so far)
- Offers systematic way of gathering information and surveying; but no ground for DS?
- Factual presentation distributed for a number of RTAs
  - Thailand - NZ (goods)
  - Thailand – Australia (goods and services)
  - Armenia – Moldova (goods)
  - Republic of Korea - Chile (goods and services), etc.
- Many more Factual Abstracts and presentations “in preparation; equally many ‘on hold’
Subsequent notification and reporting \(^f\)

Notification

Consideration \(^b\)
(data \(^c\) per Annex and factual presentation \(^d\)) in a dedicated session \(^e\)

Early announcement \(^a\)

Notes:
\(^a\) No later than directly following the parties’ ratification and before the application of preferential treatment.
\(^b\) In a period not exceeding one year after notification date.
\(^c\) Data submission not exceeding 10 weeks (20 weeks for developing countries) after notification date.
\(^d\) Data circulated not less than eight weeks in advance of the meeting; questions transmitted at least four weeks before the meeting, and together with replies distributed three working days before the meeting.
\(^e\) A single session; convened by CRTA for RTAs falling under Article XXIV of GATT or Article V of GATS; under CTD for RTAs under #2(c) of the Enabling Clause.
\(^f\) Of changes affecting implementation as soon as they occur.
## Notifications to GATT/WTO of RTAs in force

<table>
<thead>
<tr>
<th></th>
<th>Accessions</th>
<th>New RTAs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GATT Art. XXIV (FTA)</td>
<td>2</td>
<td>116</td>
<td>118</td>
</tr>
<tr>
<td>GATT Art. XXIV (CU)</td>
<td>6</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Enabling Clause</td>
<td>1</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>GATS Art. V</td>
<td>3</td>
<td>53</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
<td><strong>201</strong></td>
<td><strong>213</strong></td>
</tr>
</tbody>
</table>


*Notes:* FTA = free trade area; CU = customs union.
### Table 4. Record of consideration process (as of August 2008)

<table>
<thead>
<tr>
<th>Status</th>
<th>Enabling Clause</th>
<th>GATS Article V</th>
<th>GATT Article XXIV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP to be done</td>
<td>4</td>
<td>20</td>
<td>29</td>
<td>53</td>
</tr>
<tr>
<td>FP on hold</td>
<td>2</td>
<td>5</td>
<td>27</td>
<td>34</td>
</tr>
<tr>
<td>FP distributed</td>
<td>0</td>
<td>10</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>FA in preparation</td>
<td>11</td>
<td>21</td>
<td>24</td>
<td>56</td>
</tr>
<tr>
<td>FA distributed</td>
<td>0</td>
<td>0</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Report adopted</td>
<td>1</td>
<td>0</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>No report</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Grand Total</td>
<td>26</td>
<td>56</td>
<td>131</td>
<td>213</td>
</tr>
</tbody>
</table>

*Source: Online WTO data accessed at [www.wto.org/english/tratop_e/region_e/regfac_e.htm](http://www.wto.org/english/tratop_e/region_e/regfac_e.htm).

*Note: FP – factual presentation; FA – factual abstract.*
Figure 3. Notification and type of agreements: Asia and the Pacific

Future?

- Transparency, transparency and transparency
- Developmental aspects?
Underlying issues in Asian RTAs
Asian BTAs compared to RTAs deliver

- ‘Deeper’ cuts in trade barriers, but selective – and thus more protectionism through exemptions
- More trade restrictive rules of origin, thus potentially neutralizing liberalization efforts as make utilization of preferences “expensive”
- Cooperation in more policy areas covering many directions spanning economic, social, political, security policy making
RoO in Asia-Pacific

• Although very diverse, generally less sector-specific, relatively liberal, less complex than in other regions, but recent bilateral agreements are changing the landscape and bringing warning signs about RoO increasing costs of trade.

• Rules of origin for textiles and clothing are more restrictive than for other goods in most RTAs and GSP schemes.
Multiple memberships

- One Asian WTO Member: no PTAs
- Asian non-WTO members: from 1 to 11 PTAs
- Average per ESCAP member $\approx 6$ PTAs
- Often partners from outside the region

But what rules of origin to apply?
“Beyond the goods” sectoral coverage

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of agreements</th>
<th>All agreements</th>
<th>RTAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour mobility</td>
<td>11</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Competition</td>
<td>22</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Gov. procurement</td>
<td>23</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Services</td>
<td>24</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Trade facilitation</td>
<td>26</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>IPR</td>
<td>28</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Investment</td>
<td>33</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
### Services PTAs (signed*)

<table>
<thead>
<tr>
<th></th>
<th>BTA</th>
<th>RTA</th>
<th>Country-bloc</th>
<th>X-cont pl</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FTA</strong></td>
<td>22</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td><strong>CU</strong></td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PTA</strong></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FA</strong></td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NN</strong></td>
<td>2 (10)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NS</strong></td>
<td>15 (12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SS</strong></td>
<td>11 (6)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TN</strong></td>
<td>1 (1)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*excl. Turkey  

(..<) ROK and Singapore=N
## Features of the ‘model’ FTA

<table>
<thead>
<tr>
<th>GOODS</th>
<th>SERVICES</th>
<th>OTHERS</th>
</tr>
</thead>
</table>
| ➢ trade in goods, including trade remedies (safeguards, anti-dumping measures and countervailing duties)  
➢ customs procedures  
➢ rules of origin  
➢ technical barriers to trade  
➢ sanitary and phytosanitary measures | ➢ trade in services, and in particular:  
➢ trade in financial services  
➢ trade in telecommunications services  
➢ commercial presence  
➢ movement of natural persons | ➢ intellectual property  
➢ competition policy  
➢ government procurement  
➢ trade facilitation  
➢ investment |
| ➢ electronic commerce | | |
| ➢ transparent administration of laws and regulations  
➢ consultations and dispute settlement and legal and institutional issues | | |
Where next – towards multilateralization of PTAs?

- Global – WTO and TMRTA
- Regional – consolidation of PTAs:
  - Geographical
  - Functional
  - Institutional
- National – inclusive decision making for inclusive growth
At national levels:

- Disconnect in pursuit of trade liberalization through MTS and PTAs:
  - Policy space (investment, competition, services, IPRs, etc)
  - Market access BUT restrictive Rules of Origin

- Weak institutional dimensions
  - Consultative processes during negotiations
  - Monitoring and evaluation of implementation (no appropriate bodies)
National level policy coherence

Government; including possible subcommittee on trade issues

High-level advisory body

Ministry of trade

Trade negotiators

Trade policy advisory council

Subgroup (industry)
Subgroup (agriculture)
Subgroup (etc)

Chambers of commerce
Consumer groups
NGOs etc
Research and academia
Purpose of APTIAD

- **Source of information**
  - Mapping
  - Factual data and descriptive information
  - Glossary

- **Analytical tool**
  - A common framework of analysis for assessing PTA developments in the ESCAP region, both ex-ante evaluation and ex-post performance monitoring

- **Policy guidance**
# Note on terminology

<table>
<thead>
<tr>
<th>WTO notification</th>
<th>APTIAD</th>
</tr>
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<tbody>
<tr>
<td>FTA Custom union</td>
<td>Art. XXIV GATT</td>
</tr>
<tr>
<td>Economic integration agreement</td>
<td>Art. V GATS</td>
</tr>
<tr>
<td>Partial scope</td>
<td>Enabling clause</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Export propensity shows the degree of reliance of domestic producers on foreign markets. It is measured by dividing exports by gross domestic product and expressing the ratio as a percentage. Export is either total or intraregional exports of a single country or the given preferential trade agreement.
Summary of provisions in area of goods and services liberalization, trade facilitation, other areas and on rules of origin.

### Goods

**Tariffs**
- Negative list: tariff elimination by 1999
- Agriculture: covered by Article 16 (Agricultural stabilization and support) and by Annex E.
- Tariff reduction through negotiation

**Rules of Origin**
- No tariff for change necessary
- Value added percentage: minimum 50%
- No specific manufacturing process

**Contingency Measures**
- Anti-Dumping: Not allowed
- Countervailing Duties: Not allowed unless under GATT conditions or CER, Art 16
- Safeguards: Last resort. Only in the transition period

**Standards**
- Cells for harmonization

**Notes:**
- No specific sectors covered.
- Specific sectors excluded.

### Services

**Modes Covered**
- Cross-Border Supply: Yes
- Consumption Abroad: Yes
- Commercial Presence Abroad: Yes
- Movement of Natural Persons: Yes

**Specific Sectors Covered**
- Negative list approach. See sectors excluded.

**Specific Sectors Excluded**
- Australia: Some telecommunications, air and airport services, coastal shipping, and some types of insurance. New Zealand: Airways services, telecommunications, coastal shipping and postal services.

**Notes:**

### Other Areas

**Government Procurement:** Yes

**Investment:** No

**Competition Policy:** No

**Intellectual Property:** No

**Dispute Settlement:** No

**Trade Facilitation:** Yes

**Provisions on:** customs procedures and cooperation, technical regulations, standards and SPS measures, NTBs including administrative fees and charges.

**Labor Mobility:** No

**Labor and Environment Standards:** Yes

**Trans-Tasman Mutual Recognition Arrangement:** deals with labour issues. There are no environmental policy provisions.

**Technology Transfer:** No

**Capacity Building:** No

**Notes:**
- No specific rules or regulations are mentioned.
Glossary

Definitions contained in Deardorf's *Glossary of International Economics* have been consulted and used as a source for a number of the terms in this glossary.

Total: 119
Printable version

1. **Accession**
   A process through which a country needs to satisfy conditions on becoming a member to the World Trade Organization or a regional trade agreement agreed to by other members.

2. **Accumulation**
   When a good is produced by two or more producers located in territories of different members of a trading bloc, the value added in both (all) members may be taken into account.

3. **Ad valorem equivalent tariff**
   AVE tariff is a tariff presented as a percentage of the value of goods cleared through customs, even though the duty imposed was originally in a form of a specific tariff. The ad valorem equivalents are sensitive to the method of calculation and changes in product prices.

4. **Ad valorem tariff (AVT)**
   Duty or tariff expressed in terms of per unit of value (i.e., a certain per cent of value or price).

5. **African, Caribbean and Pacific (ACP) countries**
   A group of African, Caribbean and Pacific less developed countries that were parties to the Lomé Convention and now of the Cotonou Agreement with the EU. As of July 2009, the group included 77 countries. See www.acps.org

6. **Agreement on Customs Valuation**
ITI – analytical tool

The Interactive Trade Indicators (ITI) component of APTIAD is designed to help policymakers calculate some of the most commonly used indicators related to the real side of an economy's performance. To get started, select an indicator from the list on the left, the appropriate fields for selecting countries/regions, products and years will appear, along with an explanation of the index. Details on the data coverage in APTIAD can be found here. Once you have made your selection, click the run query button.

For further details on the construction and interpretation of trade indices, the Trade and Investment Division of ESCAP has produced the volume entitled Trade Statistics in Policy-making: A Handbook of Commonly Used Trade Indicators and Indices. This is available in electronic form, or a hard copy can be ordered.

Indices:
- Export Value
- Import Value
- Export Growth
- Import Growth
- Export Share
- Import Share
- Trade Share
- Trade Intensity
- Regional Herfindahl
- Sectoral Herfindahl
- RCA
- Regional Orientation
- Complementarity
- Competitiveness
- IT (Sectoral)
- IT (Aggregated)
- IT (Sectoral Marginal)
- IT (Aggregated Marginal)
- Regional Market Share

Downloadable
<table>
<thead>
<tr>
<th>Liberalization in Goods</th>
<th>Negative listing (i.e., only goods <em>excluded</em> from the PTA are listed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Addressing both tariff and non-tariff barriers</td>
</tr>
<tr>
<td>Rules of Origin</td>
<td>Regional / diagonal cumulation</td>
</tr>
<tr>
<td></td>
<td>Simplicity, transparency, and symmetry in compliance and documentation requirements</td>
</tr>
<tr>
<td></td>
<td>Consistency across PTAs</td>
</tr>
<tr>
<td>Coverage of Agreement</td>
<td>Comprehensive scope that addresses goods, services, and other areas including, but not limited to, investment and movements of labour</td>
</tr>
<tr>
<td></td>
<td>Addressing ‘beyond the border’ barriers to trade</td>
</tr>
<tr>
<td>Consultation and Dispute Settlement</td>
<td>Non-duplication of WTO dispute settlement mechanisms</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Consistency and Compliance with WTO</td>
<td>Application of the norms set by Transparency Mechanism</td>
</tr>
<tr>
<td></td>
<td>Speedy notification and regular updates</td>
</tr>
<tr>
<td></td>
<td>Provisions to ensure efficient inclusion of additional parties to PTAs</td>
</tr>
</tbody>
</table>
## Transparency and Monitoring

<table>
<thead>
<tr>
<th>Transparency and Monitoring</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particular and inclusive negotiation and ratification process</td>
<td></td>
</tr>
<tr>
<td>Parties must ensure the availability of a full and current version of the PTA: in English and in other languages as applicable; and in electronic format</td>
<td></td>
</tr>
<tr>
<td>PTA establishment of agency/body to serve as a focal information source/agency for traders</td>
<td></td>
</tr>
<tr>
<td>Monitoring body in charge of enforcement, revisions and extensions of liberalizing provisions</td>
<td></td>
</tr>
</tbody>
</table>
Thank you for your feedback.

www.unescap.org/tid/aptiad
www.artnetontrade.org