



Asia-Pacific
Economic Cooperation

2005/FTA-RTA/WKSP/006

RTAs/FTAs in the Global Economy and the Asia-Pacific Region

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**Workshop on Identifying and Addressing
Possible Impacts of RTAs/FTAs Development on
APEC Developing Member Economies
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RTAs/FTAs in the Global Economy and the Asia-Pacific Region

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Multilateral, Unilateral and Preferential Liberalisation (1)

Multilateral Liberalisation

- Non-preferential approach to freer trade
- Trade barriers lowered among all members of the international trading system
 - complete removal of barriers unlikely in the short-term
- Based on non-discrimination
 - “most favoured nation” (MFN) treatment
 - GATT Article I
- Provides equality in market access opportunities
- Ensures imports from lowest-cost source

Multilateral, Unilateral and Preferential Liberalisation (2)

Unilateral liberalisation

- Individual countries lower their trade barriers without reciprocation
- Improves resource allocation within liberalising economy
- WTO members must still apply MFN

APEC

- Unique initiative aiming at regional liberalisation on a non-discriminatory basis
- “Concerted unilateralism”

Multilateral, Unilateral and Preferential Liberalisation (3)

Preferential trading arrangements (PTAs) (Regional or bilateral)

- Barriers lowered between members but kept in place against non-members
 - Preferences created in favour of members
- Market access implications
 - Preferential access to members
 - Discrimination against non-members
- Discriminatory → contradicts WTO’s MFN principle
- Non-reciprocal PTAs a special type of PTA
 - Usually between developed and developing economies
 - Preferential access granted by one partner (usually the developed economy partner), but not the other e.g. GSP

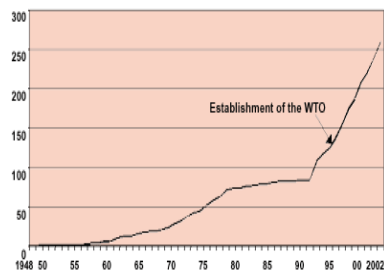
PTAs In Practice

- Basic units are free trade areas or customs unions
- Modern PTAs (often called Closer Economic Partnerships or CEPs) typically contain many additional provisions on issues like
 - Services
 - Investment
 - Competition policy
 - Government procurement
 - Trade facilitation (customs, standards, quarantine)
 - E-commerce
 - Intellectual property
- Common markets
 - Free trade in goods and services
 - Free movement of capital and labour

Recent Development of RTAs/FTAs in the Global Economy (1)

- Rapid proliferation since early 1990s, spreading to all regions of the world
- Europe
 - Enlargement of EU from 12 to 15 to 25 members
 - FTAs with South Africa, Mexico, Chile
 - “Barcelona Declaration” envisages FTA covering Europe and the Mediterranean region
 - Proposed conversion of non-reciprocal PTA (Lome Convention, Cotonou Agreement) with 77 ACP states into reciprocal FTAs
 - “Everything But Arms” (EBA) provides duty free access for least developed countries (delayed for sugar, rice and bananas)

Number of RTAs



Source: WTO Secretariat

Recent Development of RTAs/FTAs in the Global Economy (2)

• The Americas

- first and second “waves” of regionalism created complex patterns of overlapping PTAs
- NAFTA (1993): US, Canada, Mexico
- non-reciprocal preferences for Caribbean countries from USA (CBERA) and Canada (Caribbean)
- proposal for Free Trade Area of the Americas (FTAA)
- ongoing negotiation of bilateral and plurilateral FTAs by US (with Chile, Central America, Andean Group)

Recent Development of RTAs/FTAs in the Global Economy (3)

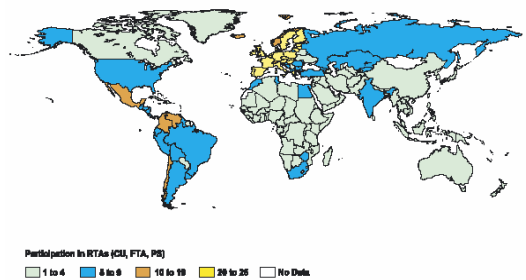
Asia-Pacific

- Longstanding FTAs in Southeast Asia (AFTA) and Australasia (ANZCERTA)
- Rapid proliferation of bilateral FTAs since 2000
- Proposals for larger regional groupings
 - “ASEAN Plus Three”
 - “ASEAN Plus One”
 - Free Trade Area of the Asia Pacific (FTAAP)

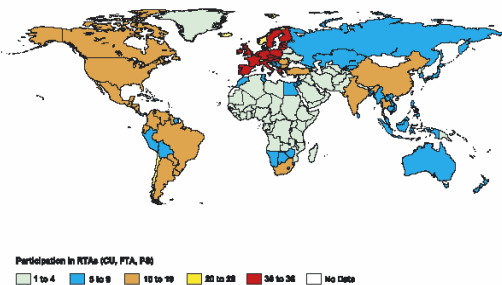
Africa, Middle East, South Asia, Central Asia

- also participating in the expansion of PTAs

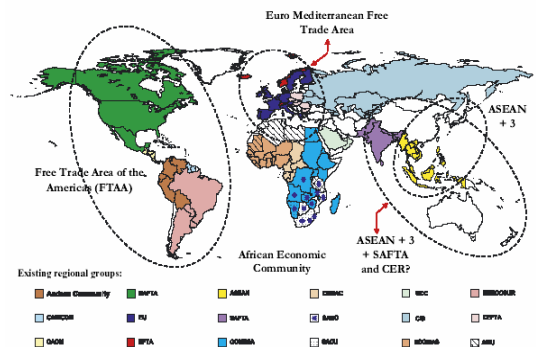
Map I: Participation in RTAs as of January 2005



Map II: Projected Participation in RTAs



Map IV: Establishment of Regional Trading Blocks



Advantages and Disadvantages of RTAs/FTAs (1)

- **Positive Economic Effects**
 - Trade creation
 - increased efficiency
 - Improved market access
 - Investment creation
 - Economies of Scale
 - More competition
 - Terms of trade benefits
 - Reducing costs of trade (facilitation measures)

Advantages and Disadvantages of RTAs/FTAs (2)

- **Negative Economic Effects**
 - Trade diversion
 - Reduces efficiency
 - Investment diversion
 - Discrimination
 - Harms non-members
- **Overall economic effect depends on:**
 - Depth of trade liberalisation
 - Sectoral coverage
 - Parallel MFN Liberalisation

Advantages and Disadvantages of RTAs/FTAs (3)

- Other factors important to overall impact
- **Design features**
 - rules of origin (restrictive or facilitative)
 - range of measures included
 - services (which modes?), investment, trade facilitation
 - appropriateness of rules
 - one size does not fit all
 - linkages to international “best practice” e.g. standards
 - effectiveness of facilitation measures
 - E.g. reducing cost of trade at borders
 - **Implementation**
 - link to domestic reform agenda

Advantages and Disadvantages of RTAs/FTAs (4)

Motivations for entering PTAs - Economic

- **Positive**
 - Accelerate liberalisation → reinforce outward-looking orientation
 - Support domestic reform
 - Improve market access
 - Value of market access depends on rules of origin
 - Attract more FDI
 - Lower costs of trade (facilitation)
 - Framework for regional cooperation
- **Defensive**
 - Protect market access by neutralising discrimination
 - Basis for the “domino effect”
- **Negative**
 - Exploit discriminatory preferences

Advantages and Disadvantages of RTAs/FTAs (5)

Motivations for entering PTAs – political

- **important in many PTAs (sometimes the main motivation)**
 - pursue foreign policy and strategic objectives (especially developed countries)
 - strengthen regional political processes/weaken traditional tensions/hostilities
 - EU, AFTA, Andean Community, Mercosur
 - increase bargaining power vis-à-vis other countries
 - Mercosur

Advantages and Disadvantages of RTAs/FTAs (6)

- **Attractions of PTAs to Governments**
 - ability to go further, faster
 - political economy
 - Easier to overcome opposition?
 - binding commitments (compared to APEC, for example)
 - forum for resolving difficult bilateral issues
 - ability to “customise” provisions
 - training ground for negotiations
 - regional public goods
 - locking in reforms
 - link to political and security objectives

Advantages and Disadvantages of RTAs/FTAs (7)

- **More dubious attractions**
 - Ability to exclude “sensitive” sectors
 - Ability to avoid “difficult” partners
- **Potential Problems**
 - rules of origin
 - “spaghetti bowl” of overlapping PTAs with inconsistent provisions
 - fragmentation of markets, increased business costs
 - “hub and spoke” patterns
 - disadvantages for the “spokes”

Relation of PTAs to the Multilateral Trading System (1)

- PTAs can complement multilateralism by:
 - Allowing economies to reduce their barriers more quickly with some partners
 - PTAs eventually reduce most tariffs to zero (if developed economies are involved), whereas multilateral liberalisation proceeds more slowly
 - Encourage trade within “natural trading blocs” (effects debated)
 - Inclusion of “WTO-Plus” provisions in a wide range of areas
 - Services, investment, competition policy, trade facilitation, government procurement, intellectual property, environment, labour

Relation of PTAs to the Multilateral Trading System (2)

- PTAs can also be a threat to multilateralism
 - Undermining non-discrimination
 - Fragmentation of trade relationships
 - Reduce incentives for multilateral liberalisation
 - Create vested interests benefiting from preferential liberalisation
 - Multilateral liberalisation erodes preferences
 - Implications of large trading blocs
 - What about those countries left out?
 - Danger of destructive trade wars
 - “Innocent bystander” problem
- Ways to maximise positive factors/minimise negative factors
 - Ensure MFN barriers to not increase (as WTO rules require)
 - Parallel reduction of MFN barriers would be better
 - Adopt “best practices” in RTA design
 - E.g. APEC “Best Practice” guidelines
 - Strong emphasis on trade facilitation (reducing the costs of trade)

WTO Obligations Relating to PTAs (1)

- GATT Article XXIV allows preferential trade in goods (via customs unions and free trade areas) under certain conditions
 - must eliminate (not just lower) tariffs on “substantially all trade” between members
 - elimination must occur within a “reasonable period of time”
 - normally within 10 years according to 1994 Understanding
 - must not raise barriers on goods from non-members

WTO Obligations Relating to PTAs (2)

- GATS Article V allows preferential trade in services, again under certain conditions
 - “substantial sectoral coverage”
 - elimination of “substantially all discrimination” in the sectors covered
 - in practice interpreted to allow relatively modest liberalisation commitments

WTO Obligations Relating to PTAs (3)

- GATT Part IV and Enabling Clause of 1979
 - Developed countries may give one-way partial preferences to all developing countries as a group
 - Generalised System of preferences (GSP) legitimised under this provision*
 - (EBA and AGOA also justified under this provision)*
 - Developing countries may give partial two-way preferences to each other (i.e. do not have to eliminate barriers on “substantially all trade” as required by Article XXIV
 - This dispensation not available for free trade areas or customs unions which include developed as well as developing countries*
 - (no “Enabling Clause” for services)*

WTO Obligations Relating to PTAs (4)

- Agreements failing to meet any of the above criteria may be authorised by a “waiver” granted by WTO members
 - conditions for securing waiver fairly stringent
 - usually concessions are needed to secure a waiver
 - Lomé Convention and Cotonou Agreement required a waiver because they included a developed country member (the EU), and involved one-way preferences granted by EU to a subset of developing countries (not to developing countries as a whole, as with GSP)
 - (EU unwilling to seek further waivers → requirement to convert non-reciprocal to reciprocal PTAs)
 - US preferences for Caribbean countries also required a waiver

WTO Obligations Relating to PTAs (5)

Notification Requirements

- Agreements between developing countries may be notified under the “Enabling Clause” to WTO Committee on Trade and Development
- All other agreements must be (and agreements between developing countries may be) notified under GATT Article XXIV and/or GATS Article V to the WTO Committee on Regional Trade Agreements (CRTA)
 - To be examined for consistency with GATT Article XXIV and/or GATS Article V

WTO Obligations Relating to PTAs (6)

Lack of Consensus on Article XXIV

- What is meant by “substantially all trade”?
 - Can it be defined in percentage terms
 - e.g. 80% or 90% of total trade between members, or 90% of total tariff lines?
 - Can a major sector (e.g. agriculture) be excluded?
- Many other issues – consensus very unlikely in the near future
- CRTA has reached consensus on only one of the many agreements notified to it
- RTA rules on DDA negotiating agenda
 - Agreement to change the rules unlikely
 - Focus on transparency

State of Play on RTAs/FTAs in the Asia-Pacific Region: AFTA

- initially (1992) involved ASEAN-6
- extended to include CLMV (Cambodia, Laos, Myanmar, Vietnam) as they joined ASEAN
- divides products into inclusion and exclusion lists
- exclusion lists progressively whittled down
 - some outstanding problems e.g. autos for Malaysia
- most products eventually transferred to inclusion lists (some special provisions for sensitive products)
- timetable accelerated several times in 1990s
 - Longer timetables allowed for CLMV countries
- target changed from 0-5% to zero tariffs
- AICO introduced to facilitate expansion of production networks
- recent moves to accelerate progress on services, investment, non-tariff barriers motivated by desire to claim leadership in East Asian integration processes

State of Play: Emergence of East Asian Regionalism

- reaction to East Asian crisis 1997-98
 - need seen for greater East Asian economic independence
 - initial focus on monetary cooperation, then trade
 - “ASEAN Plus Three” (China, Japan, Korea and ASEAN-10)
 - solidified sense of East Asian identity
- market-based rationale increasingly prominent
 - rapid-growth of intra-East Asian trade
 - production networks
 - growing inter-dependence
- willingness of NE Asia to engage in preferential trade a crucial factor
 - Japan-Korea FTA first proposed 1998, though not yet concluded
 - “ASEAN Plus Three” followed by rival ASEAN-China and ASEAN-Japan free trade proposals
 - Japan and Korea both concluded bilateral FTAs with other partners and are pursuing more
 - China now also pursuing bilateral FTAs

State of Play: Parallel Developments on Early 2000's

- Proliferation of bilateral FTAs in both East Asia and Asia-Pacific
- Region-wide Initiatives
 - East Asia: alternative frameworks
 - “ASEAN Plus Three”
 - “ASEAN Plus One”: ASEAN-China, ASEAN-Japan, then ASEAN-US, ASEAN-Korea, ASEAN-India, ASEAN-CER (Australia, NZ)
 - ASEAN seeking central role
 - Americas
 - FTAA
 - Asia-Pacific
 - APEC's mid-term stock-take 2005
 - APEC Business Advisory Council (ABAC) proposal for Free Trade Area of the Asia-Pacific (FTAAP) i.e. converting APEC into an FTA

State of Play: Proliferation of Bilateral FTAs Assessment (1)

- Proliferation is accelerating
 - 16 PTAs concluded since 2000, many more “on the way”
- Diverse regional linkages
 - Trans-Pacific (5)
 - Intra-E. Asia (6)
 - SE Asia-Australasia (4)
 - Intra-American (1)
- i.e. not reflecting any single concept of regionalism
- Absence of FTAs covering key regional trade flows
 - NE Asia – N. America (except Japan-Mexico)
 - Intra-NE Asia
- Avoidance of trade flows involving “sensitive sectors”
- Emerging tendency toward “hub and spoke” patterns
 - Based on US, Japan, China, some “secondary hubs”
 - obvious disadvantages for “typical” spoke

State of Play: Proliferation of Bilateral FTAs Interpretation (2)

- strategy of smaller APEC economies to pursue liberalisation while circumventing sensitivities of larger economies
 - FTAs between pairs of smaller economies
 - FTAs between larger economies and smaller economies that are “acceptable” to the larger economy due to
 - absence of highly “sensitive” sectors in bilateral trade
 - absence of political conflicts or difficulties
 - importance of “domino effect”

State of Play: Proliferation of Bilateral FTAs Assessment (2)

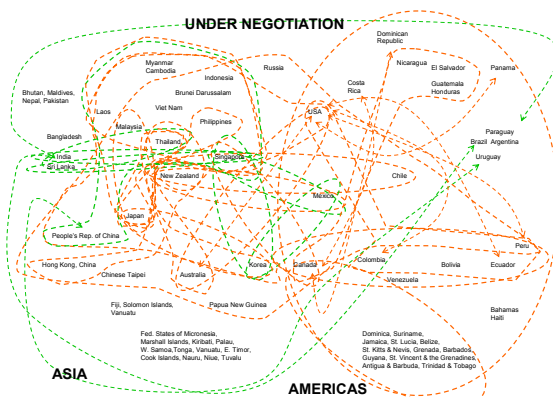
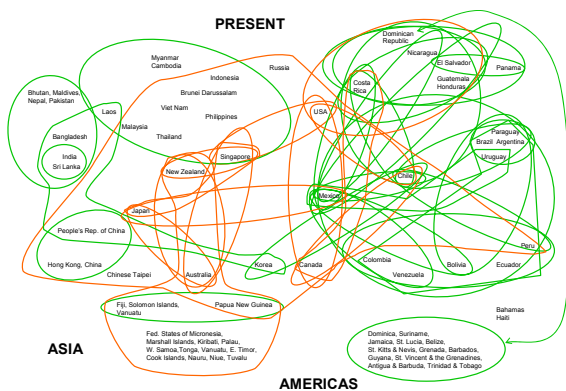
Wide variations evident

- Trade in Goods
 - Product coverage
 - From 100% coverage (e.g. Singapore FTAs with Australia and New Zealand to substantial exclusions e.g. Japan-Singapore)
 - Treatment of Sensitive Sectors
 - Extended transition periods and/or special safeguards in some cases (e.g. Thailand FTAs with Australia and New Zealand)
 - Complete exclusion in some FTAs involving larger countries (e.g. US-Australia FTA, Japan-Malaysia FTA)
 - Limited but important “breakthroughs” in some cases (e.g. Korea-Chile FTA, Japan-Mexico FTA)
 - Transitional Period
 - full liberalisation immediately in some cases (e.g. Singapore’s agreements with Australia and New Zealand)
 - some conclude within 10 years or even before 2010
 - others extend for 18 years even between developed economies (US-Australia) or 20 years (Australia-Thailand)
 - Rules of Origin
 - Different models (NAFTA style, ASEAN-style etc)
 - Varying degrees of emphasis in CCH, area content and specific process rules
 - Trade remedies
 - Anti-dumping eliminated in a few agreements but specifically not covered in others
 - Special safeguards an increasingly popular way to deal with sensitive sectors

State of Play: Proliferation of Bilateral FTAs Assessment (3)

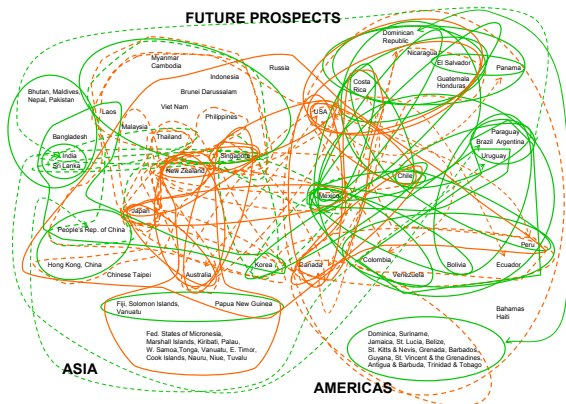
Wide variations (cont)

- Services
 - included in some but not all bilateral FTAs
 - different “models” (“GATS-based v. “NAFTA-based”)
 - degree of actual liberalisation varies from substantial to very limited
- Other issues
 - Big differences over inclusion/exclusion and treatment of issues such as
 - Investment
 - Competition policy
 - Trade facilitation (customs, standards etc)
 - Intellectual Property
 - Environmental and labour issues
- Dispute settlement procedures also vary



Source: Integration and Regional Programs Department, Inter-American Development Bank

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Proliferation of Bilateral FTAs: Relationship to Regional Processes

- ASEAN-China, ASEAN-Japan and ASEAN-CER negotiations proceeding in parallel with negotiation/conclusion of bilateral FTAs with individual ASEAN countries
- relationship between regional and bilateral processes appears unclear
- ASEAN seeking to advance its own integration in order to promote its own leadership role
 - but bilateral negotiations of individual ASEAN members are proceeding faster
- (cf parallels in the Americas: parallel pursuit of FTAA, US-Central America, US-Andean group)

Responses to Proliferation of Asia-Pacific PTAs (1)

- Identify best practice – aim to minimise negative effects, maximise positive effects
 - PECC “Common Understanding” 2003
 - APEC “Best Practice for RTAs/FTAs in APEC”
- Aim at common provisions where possible
 - Interest within APEC in development of “model provisions”
 - ASEAN effort to establish ASEAN rules of origin as basis for rules of origin in “ASEAN-Plus” initiatives
 - not easy

Responses to Proliferation of Asia-Pacific PTAs (2)

- Explore “plurilateralisation” of bilateral initiatives
 - Not easy
 - Individual ASEAN economies negotiate separately with non-ASEAN partners
 - Australia and New Zealand negotiate separately with new partners despite close integration through CER
 - Singapore-Chile-New Zealand FTA just concluded a rare example of “trilateralisation”
 - Negotiations were not easy
- Open accession
 - Also not easy
 - Brunei joined Singapore-Chile-New Zealand FTA at conclusions of negotiations – rare case so far

Responses to Proliferation of Asia-Pacific PTAs (3)

- Identify and promote larger and more economically beneficial PTA configurations
 - ASEAN Plus Three in East Asia
 - FTAAP in Asia-Pacific region (but obstacles to both are obvious and well-known)
- Question: is the objective East Asian integration or Asia-Pacific integration?

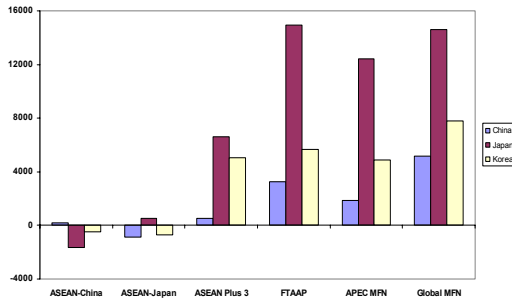
Region-wide Approaches: Advantages (1)

- simplify the “spaghetti bowl”
- welfare effects

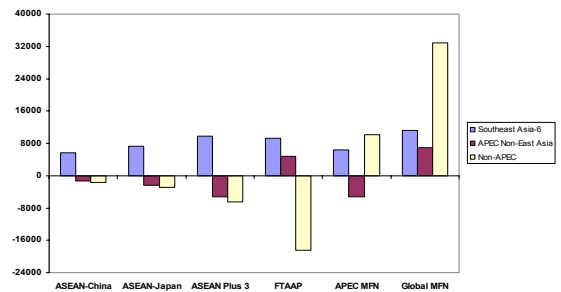
Gains for members, losses for non-members

East Asian FTA	>	ASEAN + 1 or Bilaterals
FTAAP	>	East Asian FTA
FTAAP	>	APEC MFN
WTO	>	FTAAP

Welfare Effects of Alternative Trade Liberalisation Scenarios: Three Major Northeast Asian Economies
(Equivalent Variation: US\$million)



Welfare Effects of Alternative Trade Liberalisation Scenarios: Southeast Asia, APEC Non-East Asia, and Non-APEC
(Equivalent Variation: US\$million)



Region-wide Approaches Advantages (2)

- East Asian trade bloc a logical objective for East Asian regionalism
 - interdependence with US remains to be addressed
- APEC-wide integration also a logical objective
 - potential for better economic outcome than East Asian bloc
 - integration via APEC likely to be incomplete
 - FTAAP a basis for more complete integration (free trade)

Region-wide Approaches Qualifications to Apparent Advantages

- In East Asia, ASEAN Plus 3 FTA produces best economic outcome for members, worst economic outcome for other Asia-Pacific economies
 - Move to FTAAP turns losses to gains for other APEC members and yields greater gains overall
 - But not all ASEAN Plus Three economies gain more from FTAAP
- In Asia-Pacific, FTAAP produces best economic outcome for Asia-Pacific economies, worst for rest of world
 - Move to global liberalisation benefits most groups and yields greatest gains overall
 - Basis for pressuring rest of the world to allow faster progress in WTO?
 - But not all APEC members gain more from global liberalisation
- Implications of potential “three bloc” world need to be addressed

Region-wide Approaches Difficulties

- Practical
 - structuring of negotiations
 - design problems for any eventual agreement
 - “multi-tier” approaches may offer potential solutions but are problematic
- Political
 - economic, geopolitics and security issues all inter-linked
 - US-E Asia
 - US-NE Asia relations an obstacle to Asia-Pacific integration
 - US-E Asia relations an unresolved dilemma for East Asian integration
 - China-Japan
 - Problematic for both East Asian and Asia-Pacific integration
 - Taiwan

Concluding Remarks (1) Larger Asia-Pacific economies hold the key

- as region’s major markets they are the magnets for PTA activity (the “hubs”)
- “political factors” closely tied to their strategic and foreign policy objectives
- hold the key to feasibility of wider integration
 - China v Japan in East Asia
 - China and Japan v US in Asia-Pacific
- trade flows between them are largest in Asia-Pacific regions but so far untouched by the new “wave” of PTAs
 - Are they serious about liberalising these trade flows?
- requirement for reciprocity a key factor
- decisive actors in WTO

Concluding Remarks (2)

Steps Toward Progress?

- Three key meetings in late 2005 may be decisive
 - APEC Leaders' Meeting (Busan, November)
 - East Asian Summit (Kuala Lumpur, December)
 - WTO Ministerial (Hong Kong, December)