Unmasking the Regional Trade Agreements in Asia and the Pacific

Dr. Mia Mikic
ARTNeT Deputy Coordinator Trade Policy Section
Trade and Investment Division
mikic@un.org
Presentation outline

- Back to origins – rationale behind RTAs
- Landscape of RTAs in Asia-Pacific
- Features of RTAs
- Main concerns / risks
- Policy options for management of RTAs and enabling region-wide trade and production (if possible)
Back to origins

RTAs only as a second best

Some reasons for opting for RTAs (as opposed to unilateral or MFN liberalization):
1. First-mover advantages in a world of spreading RTAs
2. Market access insurance
3. Flexibility (and export of regional products)
4. Synergies between different tiers of liberalization
5. Positive externalities (regional and global public goods, in particular regional infrastructure networks)
6. Private sector preferences
Non-economic / nontraditional gains

- Anchoring for domestic reforms (transition economies / emerging markets)
- Improvement in international bargaining power
- Many other possible objectives
Landscape of RTAs in Asia-Pacific
Singapore
Sri Lanka
Bangladesh
Rep. of Korea
Lao PDR
Thailand
Philippines
Singapore
Malaysia
Indonesia
Bangkok Agreement
ASEAN
PATCRA
Australia

Source: APTIAD, April 2008,
RTAs explosion in Asia-Pacific

Proliferation of RTAs has brought concerns about incoherence, confusion, unnecessary business costs, instability, and unpredictability in trade relations.

Interest of countries in Asia-Pacific to negotiate had one peak in mid 1990s and then started to rise exponentially after 2002.
Countries in Asia-Pacific one of the drivers of the global spree of RTAs
Features of RTAs in Asia-Pacific
Types and scope of Asia-Pacific RTAs

<table>
<thead>
<tr>
<th></th>
<th>Bilateral</th>
<th></th>
<th>Country-block</th>
<th></th>
<th>Regional</th>
<th></th>
<th>Global (GSTP)</th>
<th>Total</th>
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<tr>
<td></td>
<td>within region</td>
<td>cross-region</td>
<td>within region</td>
<td>cross-region</td>
<td>within region</td>
<td>cross-region</td>
<td></td>
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<td>13</td>
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Notes: * “FTA & EIA” stands for Free Trade Agreement and Economic Integration Agreement- a category of agreements that are notified both under goods and services; * * includes six agreements between Central Asian countries and members of CIS not in ESCAP Source: Compiled from APTIAD, August 2009
Number and make up of memberships:

• Only one Asian WTO Member (Mongolia) has no RTAs (as yet!)

• Asia-Pacific non-WTO members: from 1 to 11 RTAs

• Average per ESCAP ≈ 6 RTAs in implementation per economy, minimum=0 RTA, maximum= 22 RTA

• 8 members per one RTA

• Often partners from outside the region: Only 14 BTAs among countries that share borders
RTAs regulate about ½ of global trade* and

- Nearly all intraregional trade in Americas
- Most of trade in some of the key integrator countries such as Chile and Mexico, both of which have entered into RTAs with all of their main trading partners*
  
- Increasing, but still not dominant share of intraregional trade
- Not more than half of trade in larger AP trading economies, China or Republic of Korea, which still trade more with countries with whom they have no RTAs

“RTA systems”- subregional, hemispheric, trans-Pacific, and trans-Atlantic*

* Estevadeordal and Suominen, 2009
Change in trade orientation

APTIR 2009 discusses at length the directions of trade of AP countries, also the issues of “decoupling”- there is some evidence that some trade flows are diverted from Europe/US towards Asia; there is also evidence of growing South-South trade.

- Trends different for exports and imports and vary with respect to type of products.
### Volume of trade covered

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of exports under RTAs (in %)</th>
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<tbody>
<tr>
<td>Bangladesh (10)</td>
<td>9.9</td>
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<tr>
<td>Japan (8)</td>
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<td>India (11)</td>
<td>18.5</td>
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<td>Republic of Korea (10)</td>
<td>27.1</td>
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<td>China (19)</td>
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<td>Viet Nam (12)</td>
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<td>Singapore (22)</td>
<td>57.8</td>
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<tr>
<td>Brunei Darussalam (14)</td>
<td>75.7</td>
</tr>
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</table>

As shares of exports to PTA partners in total country’s exports
Proportion of IR imports and exports for major RTAs

Source: SYB ESCAP 2010
<table>
<thead>
<tr>
<th><strong>RTA</strong></th>
<th><strong>NTMs</strong></th>
<th><strong>Investment</strong></th>
<th><strong>Services</strong></th>
<th><strong>Competition</strong></th>
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</table>
Difference between RTAs in terms of coverage:

- Singapore issues
  - bilateral and country-bloc cover more sectors

\[ N_{BTA} = 66 \]
\[ N_{RTA} = 11 \]
\[ N_{C-B} = 14 \]
Major risks / concerns
Risks common in all RTA systems

- Imposition of undue transaction costs for traders, investors, and governments operating in several RTA markets simultaneously.

- The rise of hub-and-spoke systems preventing cumulation of production *among* the spokes (ASEAN plus 3 etc?)

- At least some degree of discrimination/preference erosion for any given country
Concerns - at national levels:

- Disconnect in pursuit of trade liberalization through multilateral trade system and RTAs:
  - 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 – joint committees but not always functioning well)
- High number of failure to ratify
Managing the “noodle bowl”
Options

- Continue trading amid the “noodle bowl”, or pursue proactive policies that could overcome the potential noodle bowl problems and expand their market access and production possibilities.

- The most feasible policy option in the short run would be to build bridges among the existing RTAs—strive to achieve some form of convergence or gradual harmonization of the various RTAs and to implement cumulation of production among them.

- Starting point market access and rules of origin.
Three tracks

- Global – WTO and rules for ensuring that RTAs are “building blocks” (TM, notification, rules)

- Regional – consolidation /enlargement of RTAs: HOW?
  - Bridging, docking, rules and market access...
  - WHAT IMPACTS?
    - impact on members vis-à-vis non-members
    - sectoral impacts

- National – inclusive decision making for growth with more balanced effects ("Trade needs to be governed to produce benefits to all.")
Regional: Consolidation

Before consolidation

After consolidation

friction-creating borders disappear
Regional: Building bridges

Role of APTA
Summary

Appears that we have too many agreements, but are they all doing the same harm/benefit?
  - Small-small
  - Medium-small
  - Large-large

“They are here to stay” attitude should shift towards policies of convergence/harmonization making these RTAs positively impact regional production and trade AND regional cooperation (if not integration)

Governance
Thank you!

www.unescap.org/tid/aptiad

www.artnetontrade.org