Freeing trade in Asia - Pacific: comparative analysis of bilateral and regional trade agreements

Mia Mikic
TID, ESCAP

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Outline

- Motivation: why do we need to learn more on regionalism?

- APTIAD as a data source for:
  - Taxonomy
  - Stylized facts
  - Level of trade liberalization and sectoral coverage
  - Design of 'model' FTA

- Disentangling noodles – learning from spaghetti management

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Motivation- why do we need to learn more on 'regionalism'?

- The only (and in principle) second-best alternative to multilateral liberalization
- Effects depend on design
- Regionalism in Asia-Pacific mature enough to lend itself to scrutiny
- It stands at the cross-roads between wider (pan Asia) and deeper (East Asia) options
- ESCAP as the unique region-wide organization well placed to perform monitoring and tracking functions to be useful in consolidating the fragmented regional economy
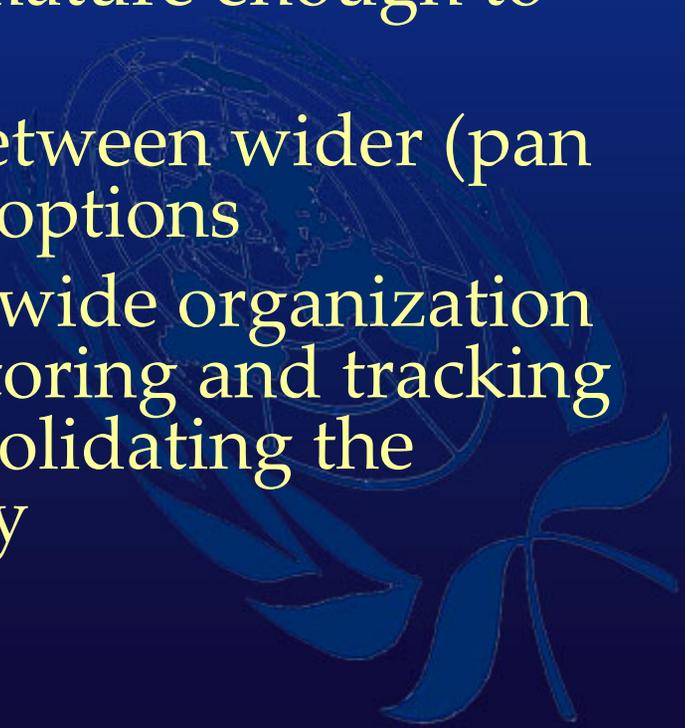
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APTIAD as a data source

- Qualitative and historical trade flow data
  - improve on taxonomy
  - identify stylized facts
  - identify degree of overlapping membership
  - underlying architecture of the regional integration in Asia and the Pacific
- Trade performance indicators
  - assess the implicit (ex-ante)
  - or actual (ex-post) effect of a proposed or implemented track of liberalization

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Qualitative data and historical trade flows

Taxonomy: from standard textbook…

Integration level:	Shallow	Intermediate	Deep		
	Elimination of trade barriers among members…	**and** adoption of common external tariff schedule …	**and** free factor mobility, some coordination ..	**and** common economic policies, primarily monetary and fiscal …	**and** fixed exchange rate or common currency
Free trade area	+				
Customs union	+	+			
Common market	+	+	+		
Economic union	+	+	+	+	
Monetary union	+	+	+	+	+

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…to complex reality

|	Shallow integration			Deep integration				
	Partial reduction of tariffs and other trade barriers on selected products	Initiation of negotiations on various aspects of regional cooperation including non-trade areas	Elimination of trade barriers among members…	Adoption of common external tariff schedule …	(Initiation of negotiations on) free factor mobility, some coordination of economic policies…	(Initiation of negotiations on) common economic policies, primarily monetary and fiscal …	Fixed exchange rate or common currency	Example from ESCAP region when available
Preferential agreement	+							APTA
Framework/ partnership agreement	+	+			+	+		Thailand-NZ
Free trade agreement			+					Singapore-NZ AFTA
Advanced free trade area			+		+	+		ANZCERTA
Customs union			+	+				EU-Turkey
Common /single market			+	+	+	+		East Asian Community?
Economic union			+	+	+	+		EU
Monetary union			+	+	+	+	+	EMU

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 are protectionist.

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.

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# Architecture
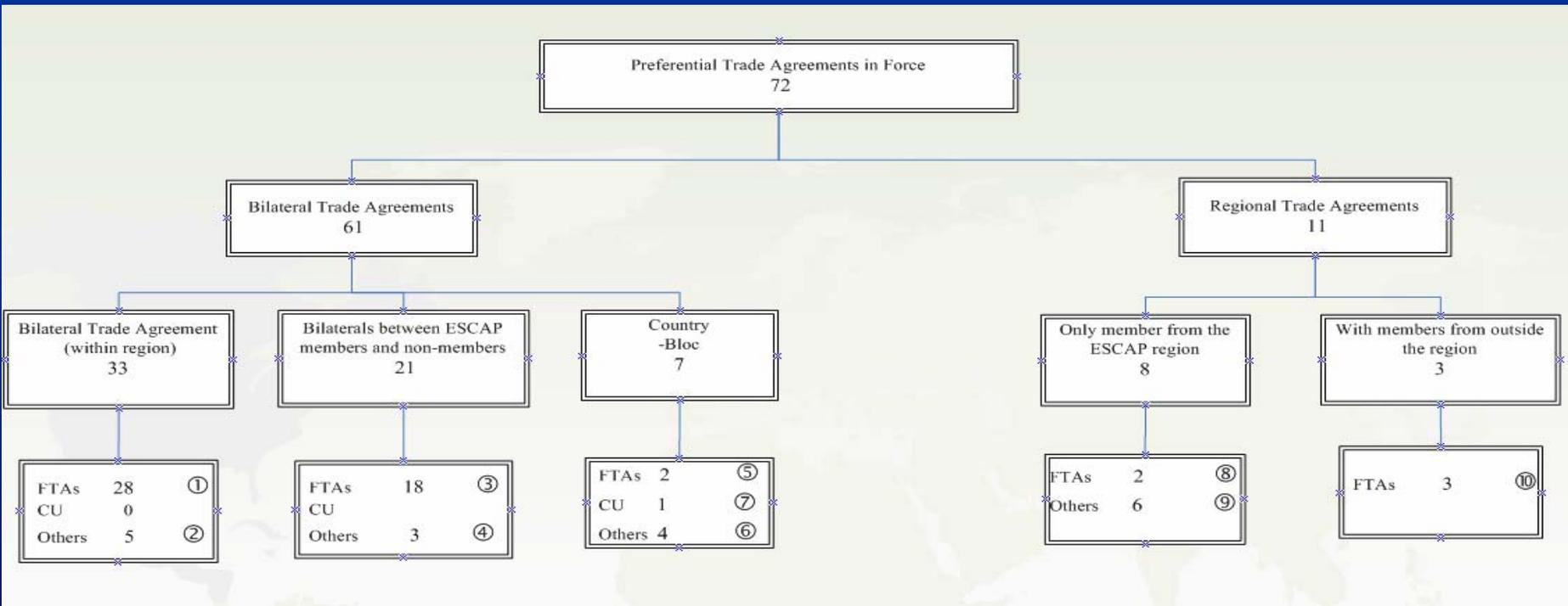
Trade covered
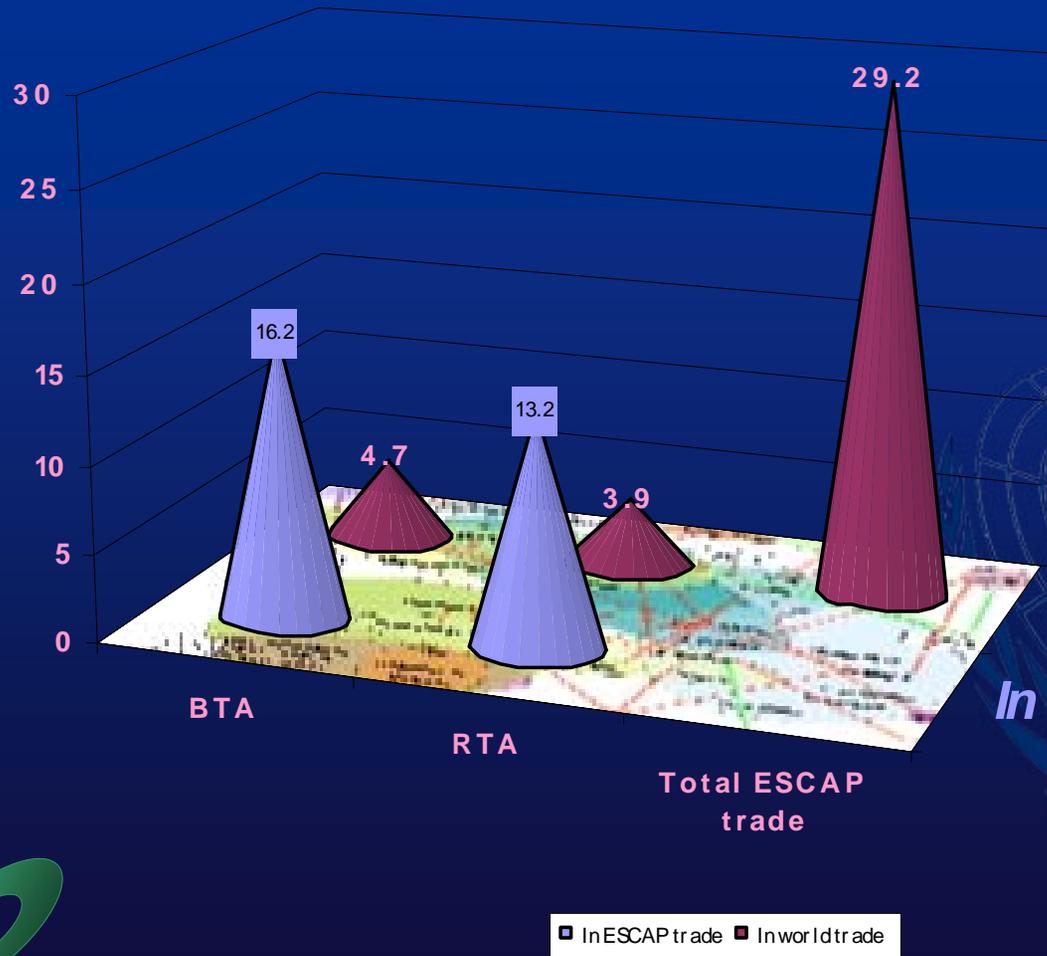
In world trade

In ESCAP trade

Chart data:
- BTA: 16.2, 4.7
- RTA: 13.2, 3.9
- Total ESCAP trade: 29.2

Legend: In ESCAP trade, In world trade

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Overlapping membership

ESCAP economies and multiple PTAs membership in 2004

From a few layers:


and apparently trade not adversely affected

...to more layers...

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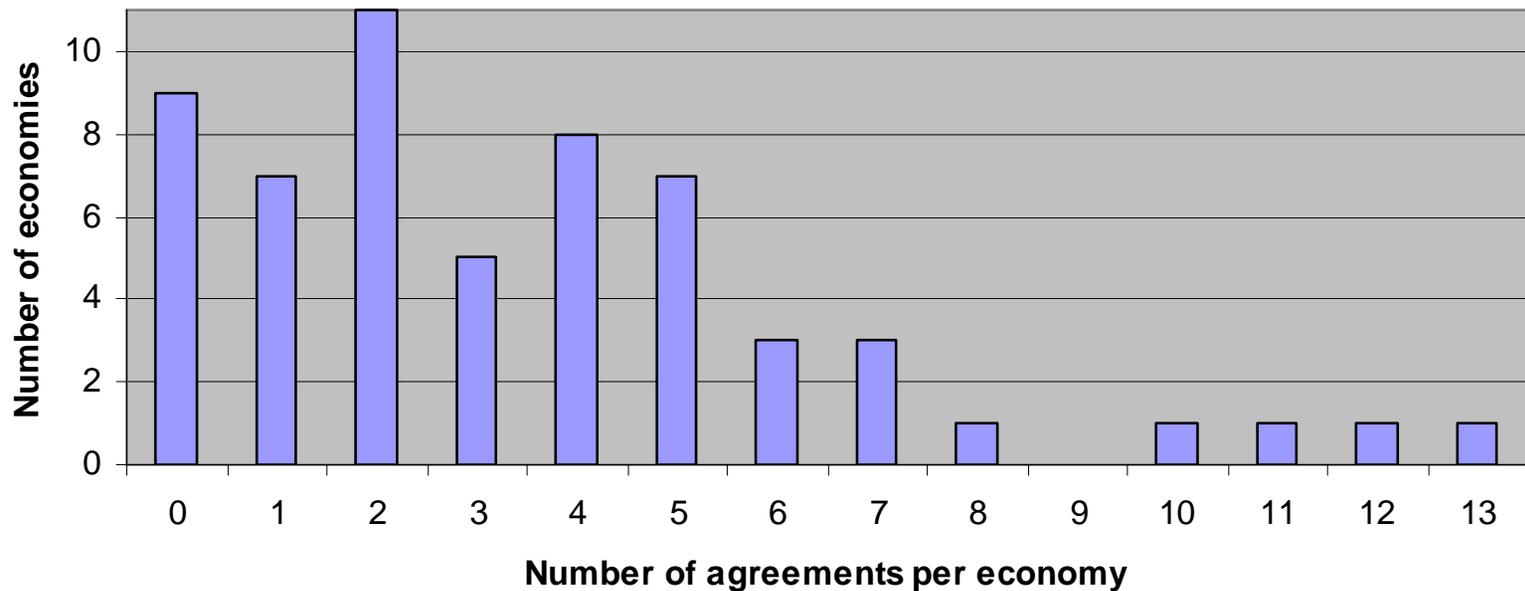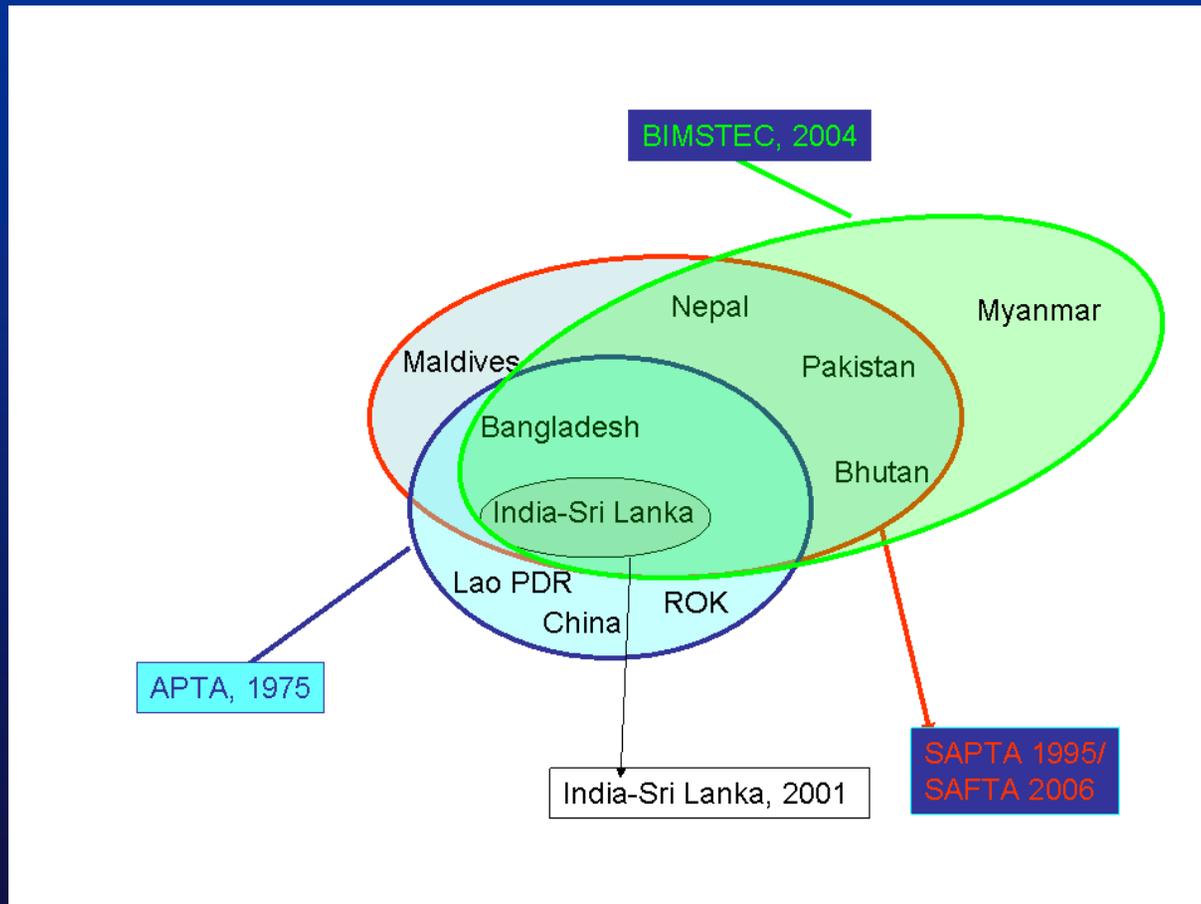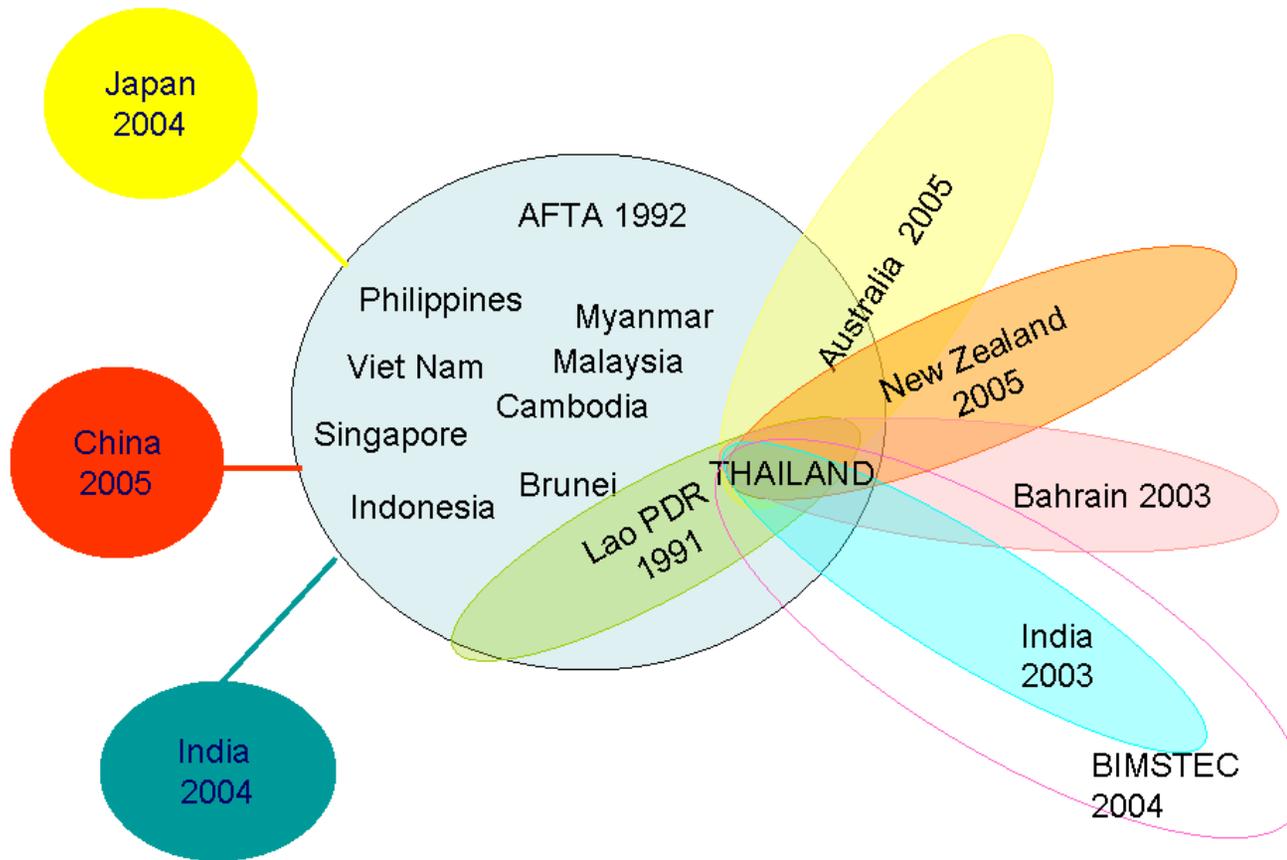
and the frontrunner is:
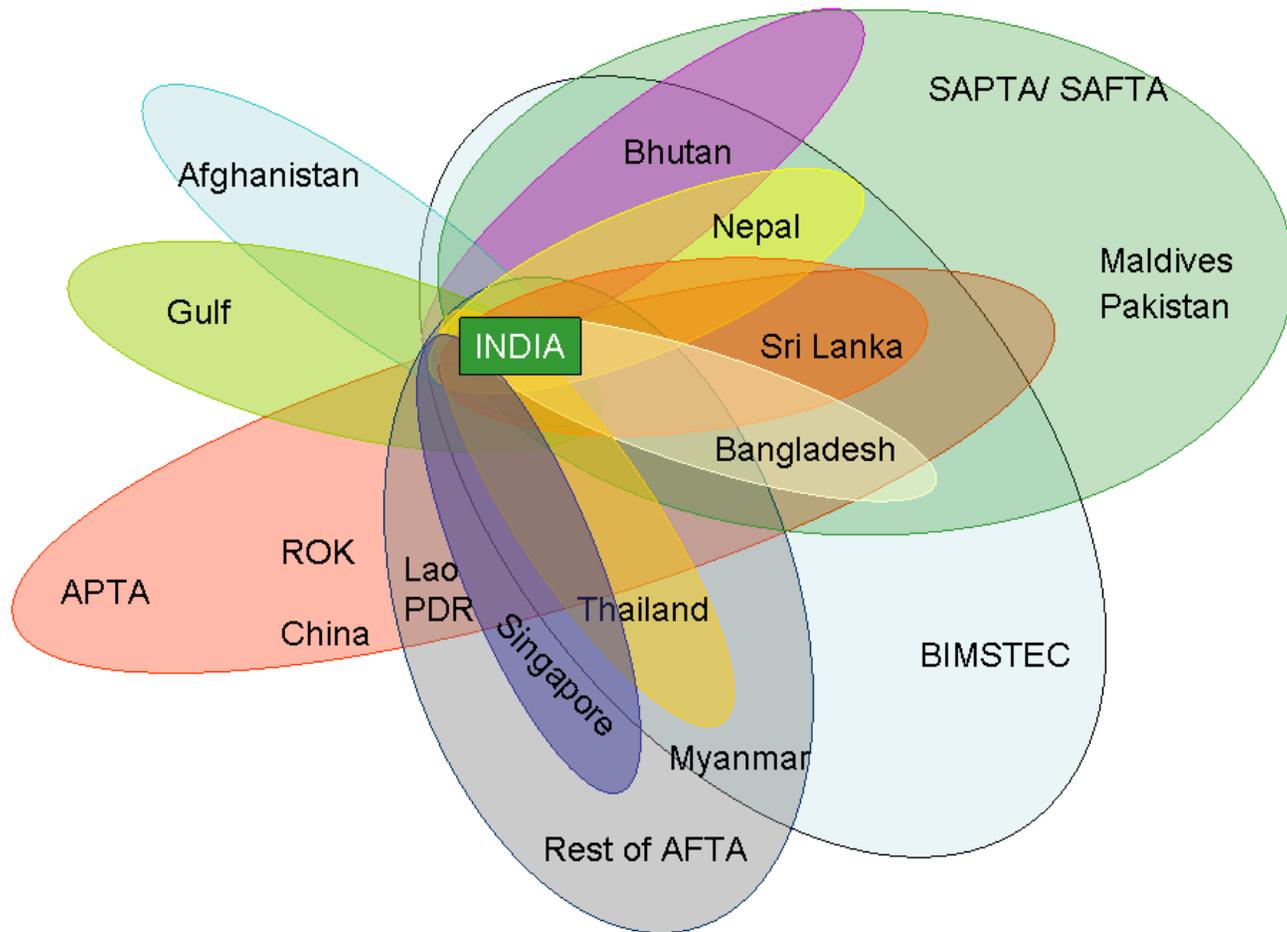
Trade performance indicators

INDICATORS used to answer various questions

- ## Has intra-regional trade intensified post-formation of a preferential agreement?

- **Index:** Trade Intensity

- **Definition:**
$$TI_k = \frac{\sum_{i,r} x_{ikr} / \sum_{i,d} x_{ikd}}{\sum_{i,s,r} x_{isr} / \sum_{i,s,d} x_{isd}}$$

- **Interpretation:** Trade share relative to world average trade share (if greater than 1, then the regional trade is 'intense').

- **Usefulness:** Ex-ante potential for trade diversion/preference dilution (if intense trade with non-members), success in promoting regional trade, ex-post occurrence of trade diversion.

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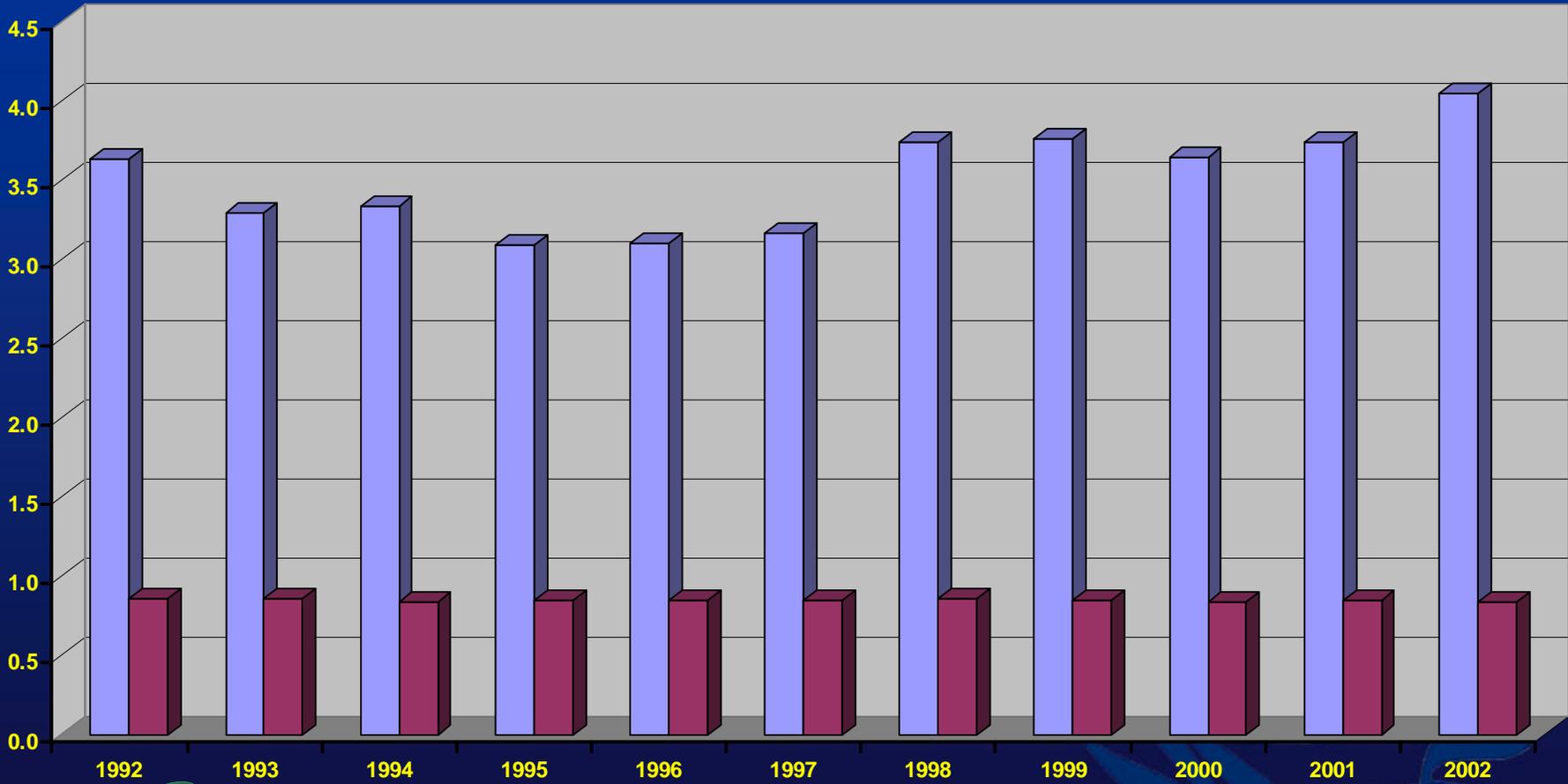
- Are the trade profiles of current or prospective members of a preferential trade agreement compatible?

- **Index:** Complementarity

- **Definition:** $$C_{kr} = \left(1 - \sum_i \left[\left|\frac{\sum_s m_{isr}}{\sum_{j,s} m_{jsr}} - \frac{\sum_d x_{ikd}}{\sum_{j,d} x_{jkd}}\right| \div 2\right]\right) \times 100$$

- **Interpretation:** The degree to which the export profile of country A matches the import profile of Country B (%).

- **Usefulness:** Indicator of potential for trade creation, degree of adjustment costs, changes in economic integration.

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2002

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Indonesia	-	43.6	54.3	48.5	46.6	46.0
Malaysia	38.7	-	61.1	71.7	54.9	34.4
Philippines	33.9	69.0	-	65.1	50.3	32.2
Singapore	51.8	81.1	71.2	-	67.1	49.4
Thailand	55.0	72.7	76.2	70.6	-	53.7
Vietnam	34.2	23.7	33.2	28.5	27.0	-

1992

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Indonesia	-	30.0	44.4	42.8	36.1	33.9
Malaysia	37.5	-	54.2	68.0	49.0	36.9
Philippines	35.7	57.5	-	59.2	45.3	36.9
Singapore	44.7	66.5	56.1	-	54.4	55.4
Thailand	36.5	50.4	50.2	54.4	-	40.6
Vietnam	18.8	15.4	26.9	26.3	21.2	-

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- **Can we identify those sectors in which members have comparative advantage?**

- **Index:** Revealed Comparative Advantage (RCA)

- **Definition:** $$RCA_{jk} = \frac{\sum_d x_{jkd} / \sum_{i,d} x_{ikd}}{\sum_{s,d} x_{jsd} / \sum_{i,s,d} x_{isd}}$$

- **Interpretation:** Greater than unity if the country exports more of the commodity than the world on average.

- **Usefulness:** Can highly protected sectors be matched to strong comparative advantage in at least one member economy ex-ante? If so, there is potential for trade creation.

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- Can we identify those sectors that might be significant sources of trade diversion?

- **Index:** Regional Orientation (with RCA)

- **Definition:**
$$RO_{jk} = \frac{\sum_r x_{jkr} / \sum_{i,r} x_{ikr}}{\sum_u x_{jku} / \sum_{i,u} x_{iku}}$$

- **Interpretation:** The relative degree to which exports of a commodity intra-region compare to those extra-region.

- **Usefulness:** Indicator for trade diversion (when used in combination with RCA).

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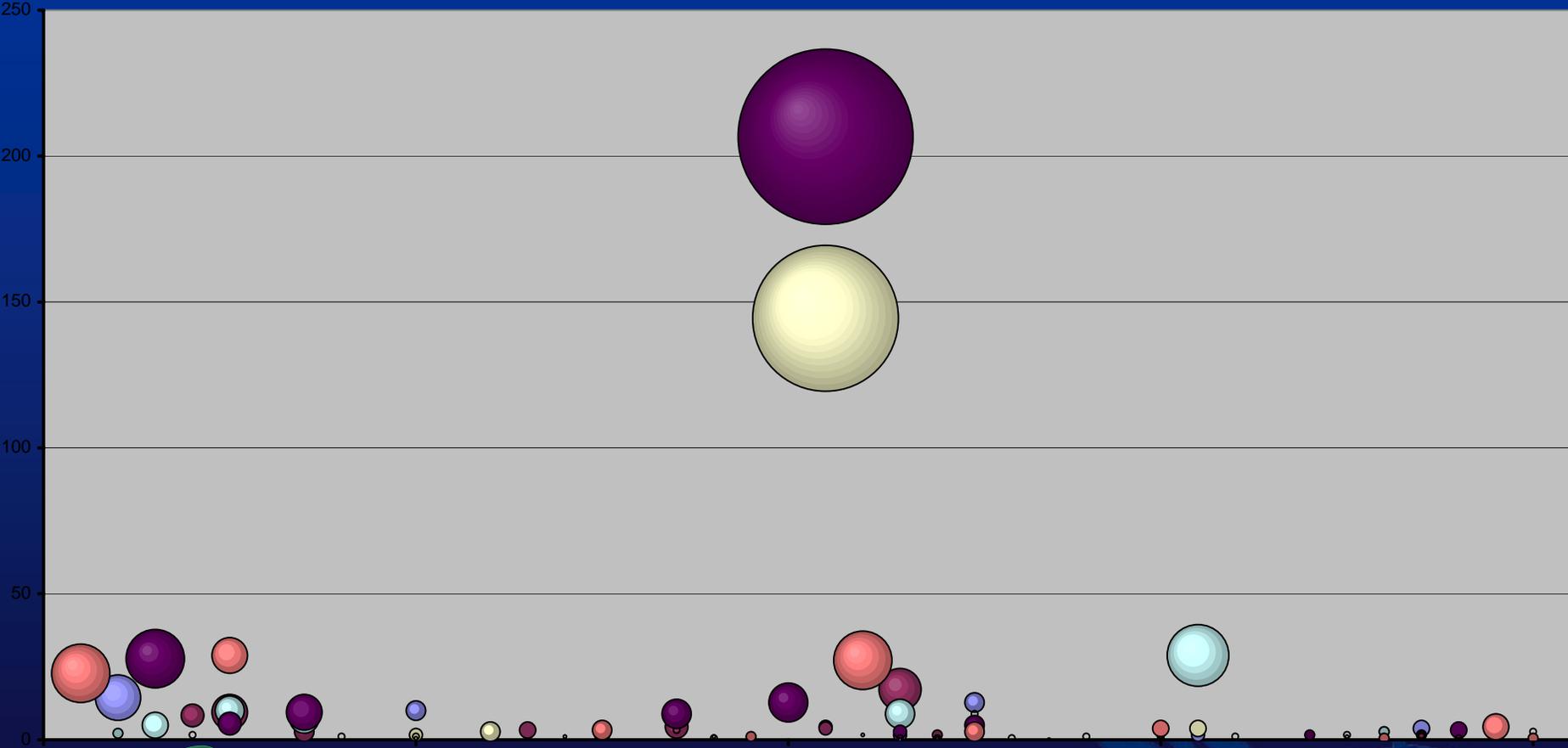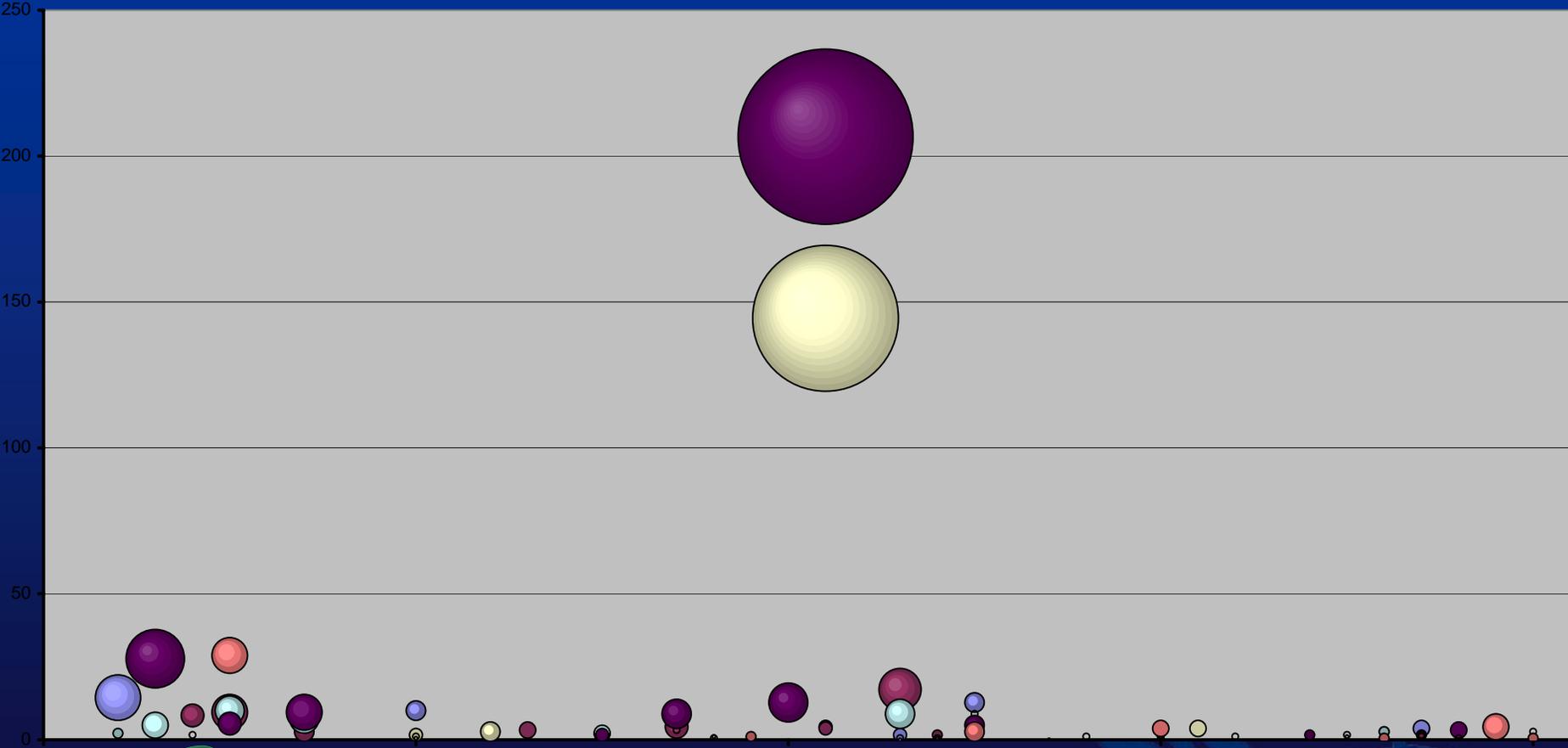
And more…

- To what extent are individual economies dependent on regional markets and how has this changed post PTA?

- To what extent are individual economies or regions dependent on particular products?

- Are some economies regionally dominant, and what might this mean for negotiations?

- What is the structure of competitiveness?

- Has intra-industry trade expanded or contracted? What are the implications for adjustment costs?

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Features of the 'model' FTA

GOODS	SERVICES	OTHERS
➢ 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: o trade in financial services o 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		

Tariff reduction

PTAs	Positive list	Negative list		Full elimination
Total	24	24		26
BTA	19	17		22
BTA (CB)	2	2		2
RTA	3	5		2
FTA	18	20		22
Other	6	3		3
CU	0	1		1

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Rules of origin

PTA	Change in tariff class.	Specific man. process	Local value addition	Cumulation
BTAs				
India-Thailand	Yes (or VA) 4,6 digit level product specific	---	20-40% product specific F.O.B. value	Bilateral
India-Sri Lanka	Yes (or VA) 4 digit level	---	35% F.O.B. value	Bilateral
Japan-Mexico	---	No specific process required	50% with some exception F.O.B value	Bilateral
Republic of Korea-Chile	---	No specific process required	45% build down method calculation, 30% build up method calculation	Bilateral
Singapore-Japan	Yes (or VA) 4 digit level	Yes	60% F.O.B. value	Bilateral
Singapore-USA	Yes (or VA) 2, 4, 6 digit level	Yes	30-60% Product specific	Bilateral
Singapore-New Zealand	---	---	40% Factory cost	Bilateral
Singapore-Australia	---	---	30-50% product specific factory cost	Bilateral
Thailand-Australia	Yes (and/or VA) 4,6 digit level Product specific	Yes	40-55% product specific F.O.B. value	Bilateral
RTAs				
Asia-Pacific Trade Agreement	No tariff heading change necessary	No specific process required	45% (35% for LDC)	Full
ASEAN Free Trade Agreement	No tariff heading change necessary	No specific process specified	40% F.O.B. value	Full

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"Beyond the goods" sectoral coverage
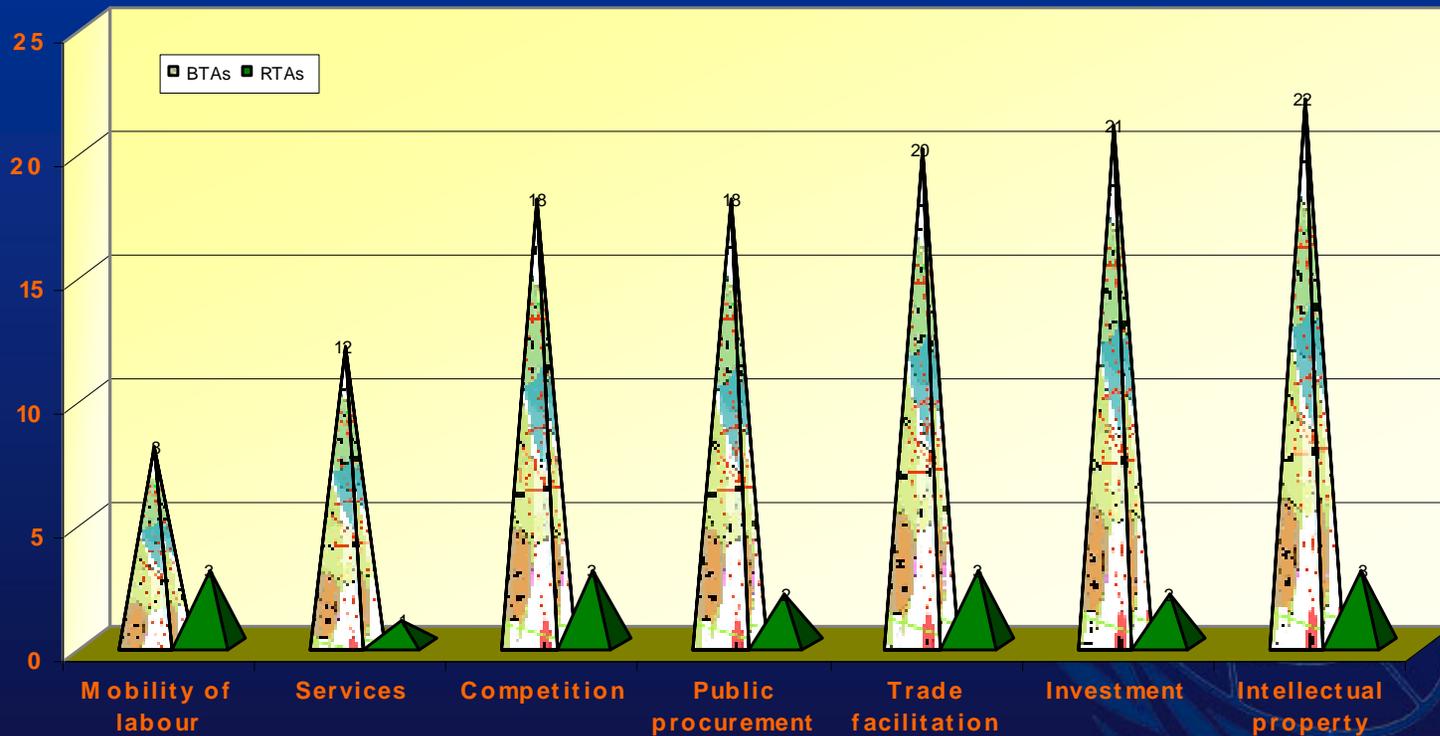
Example of 'beyond the goods' - IP

	Total number	Type of Agreement			Coverage	
		FTA	**CU**	**Other**	**Broad**	**Very broad**
BTA	19* (7)	12 (7)	-	7	10 (5)	7 (1)
BTA (country-bloc)	5** (2)	3 (1)	1 (1)	1	4 (2)	1
RTA	3	-	-	3	2	1
Total	27	15	1	11	16	9
Total Excluding Turkey	18	7	-	11	9	8

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In summary, 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
- Cooperation in more policy areas covering many directions spanning economic, social, political, security policy making

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Your feedback would be welcome and much appreciated - thank you!

bonapace.unescap@un.org and mikic@un.org

Asian noodles