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# **Preferential trade agreements and agricultural trade liberalization in Asia and the Pacific**

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March 2007

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# **Preferential trade agreements and agricultural trade liberalization in Asia and the Pacific**

Dr Mia Mikic<sup>1</sup>

## **Abstract**

The paper addresses preferential trade agreements in Asia and the Pacific with the objective of identifying their characteristics which can be useful in assessing the effects of their implementation. The paper relies mostly on the Asia-Pacific Trade and Investment Agreements Database (APTIAD) in sourcing data and information for analysis. On 26 February 2007 APTIAD was tracking 125 preferential trade agreements one party of which was a member of ESCAP. Eighty seven of those agreements of various types are in force, 62 of them being bilateral agreements, 11 regional trade agreements (RTAs), and 11 country-bloc agreements (the residual is made up of agreements of different scope, i.e. global and country-plurilateral.). The paper utilizes information on membership and coverage of agreements as well as statistical data on goods trade flows in discussing selected important aspects of preferential trade in Asia and the Pacific: (a) the rapid proliferation of preferential trade and revealed preference for bilateral links; (b) strong tolerance for engagement in multiple trade agreements with the same trading partner; and (c) reluctance to commit to full and quick liberalization in merchandise trade, or expose other than industrial goods trade areas to preferential liberalization. The extent of liberalization of trade in agricultural goods through the PTAs in the region is focus of a separate section which also briefly discusses “new” arguments for agricultural trade protectionism in developing countries. Penultimate section discusses the ways in which PTAs could be harnessed to work as complementary with the multilateral trading regime. Some policy recommendations are offered as well.

JEL Classification: D78; F13; F14; F15

Keywords: preferential trade, multilateral liberalization, bilateral trade agreements, regional trade agreements, agriculture trade, Asia, Pacific, APTIAD.

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## **List of Abbreviations**

AFAS – ASEAN Framework Agreement on Services  
AFTA – ASEAN Free Trade Area  
ANZCERTA – Australia New Zealand Closer Economic Relations Trade Agreement  
APTA – Asia-Pacific Trade Agreement  
APTIAD – Asia Pacific Trade and Investment Agreements Database  
ASEAN – Association of South East Asian Nations  
BIMSTEC – Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation  
BTA – bilateral trade agreement  
CEPT – common effective preferential tariff  
CU – customs union  
EAEC – Eurasian Economic Community  
EBA – Everything but Arms  
ECOTA – Economic Cooperation Organization Trade Agreement  
EFTA – European Free Trade Association  
ESCAP – Economic and Social Commission for Asia and the Pacific  
FA – framework agreement  
FTA – free trade agreement or free trade area  
GATS – General Agreement on Trade in Services  
GATT – General Agreement on Tariffs and Trade  
GDP – gross domestic product  
GSP – Generalized System of Preferences  
MFN – Most Favoured Nation  
MSG – Melanesian Spearhead Group  
NAFTA – North American Free Trade Agreement  
NTB – non-tariff barriers  
PA – preferential agreement  
PICTA – Pacific Islands Countries Trade Agreement  
PTA – preferential trade agreement  
ROW – Rest of World  
RTA – regional trade agreement  
SAARC – South Asian Association for Regional Cooperation  
SAFTA – SAARC Free Trade Area  
SAPTA – SAARC Preferential Trade Agreement  
SPARTECA – South Pacific Regional Trade and Economic Co-operation Agreement  
TIFA – Trade and Investment Framework Agreement  
WITS – World Integrated Trade System  
WTO – World Trade Organization

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## INTRODUCTION

Preferential trade liberalization<sup>2</sup> dominates current trade liberalization. While unilateral trade liberalization has occupied the pedestal of orthodox trade theory since Adam Smith,<sup>3</sup> and while multilateral trade liberalization won the hearts of politicians in the second half of the twentieth century, preferential trade liberalization has been embraced by free trade pragmatists<sup>4</sup> (who prefer to be called realists) from all stakeholder groups since 1990s.

Derived from concessions (preferences) that existed in trade between colonies and the imperial powers (such as British Imperial Preferences), concessions today are extended through various channels with variable margins of preference to selected countries.<sup>5</sup> These comprise (a) eligible developing countries, for example, the Generalized System of Preferences (GSP); (b) the least developed countries, for example, Everything but Arms, (EBA); (c) countries fighting a war against drugs or terrorism; and (d) countries/members of the same trade agreements/areas. Consequently, most world trade today appears to be preferential trade of some type.<sup>6</sup>

Countries that are non-receivers of preferences can interpret trade preferences given only to selected countries as trade discrimination. It is for this reason that the founders of the General Agreement on Tariffs and Trade (GATT) installed the most favoured nation (MFN) system as the fundamental principle of the multilateral trading system. MFN assured that concessions given to any signatories of the then GATT had to be extended to other parties.<sup>7</sup> Nevertheless, part of the original GATT rules (Part III) included articles on the formation of customs unions and free trade areas (GATT Article XXIV) exempting countries forming such agreements from having to apply the MFN clause. Later, during the Tokyo Round (1973-1979), the Enabling Clause was adopted. It legalized partial trade preferences among developing countries and non-reciprocal partial preferences by developed to developing countries.<sup>8</sup> MFN treatment could still be seen as having a

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<sup>2</sup> The term “preferential trade liberalization”, “preferential trade” and “preferential trade agreements” (PTAs) are used loosely to refer to a wide variety of agreements also classed as “regional trade agreements” (RTAs). It should be noted that members of RTAs are not always in geographical proximity. The term “regional integration” is used in this paper as a synonym for RTAs.

<sup>3</sup> While theory labels a unilateral path to liberalization as superior under certain conditions, not many governments choose to take it. See also Sally (2007).

<sup>4</sup> Feridhanusetyawan (2005, p.13) is one of many to have commented on the fact that: “PTAs came to be seen as a pragmatic, second-best approach to advancing liberalization at a time when the multilateral route seemed slow to deliver and unilateral liberalization was politically difficult.” See also Emmerson (2005) for a political science perspective.

<sup>5</sup> Non-trade concessions or non-economic benefits are not directly addressed in this paper. Throughout the paper, the words “country”, “nation” and “economy” are used as though they are synonymous.

<sup>6</sup> According to Grether and Olarreaga (1998), 42 per cent of world trade during 1993-1997 was preferential; the share was as high as 70 per cent for Western Europe, and as low as 4 per cent for Asia and Oceania. Crawford and Fiorentino (2005) estimated that preferential trade comprised 90 per cent of some countries’ trade. See also G.C. Hufbauer and Y. Wong (2005). D. Medvedev (2006) uses different approach in his calculation which does not support this claim.

<sup>7</sup> “(...) any advantage, favour, privilege, or immunity granted by such country to any product originating in any other country shall be accorded immediately and unconditionally to a like product originating in the territories of all other Members.” GATT Article I.

<sup>8</sup> See also Limão (2006) for a comparison of the Enabling Clause and GATT Art. XXIV on the requirements of preferences. It turns out that the Enabling Clause is more restrictive as it requires that preferences “shall not constitute

discriminatory impact since it allows less favourable treatment of non-members. As membership in the multilateral trading system has increased more than five-fold from that at its establishment in 1947, trade concessions under the MFN today should apply to all countries that feature in the world trade because some members also extend them (unilaterally and conditionally ) to selected non-members.<sup>9</sup> The fact, however, is that the parallel rise in the number of free trade deals and other trade arrangements have, in effect, made MFN an exceptional treatment.<sup>10</sup> Nonetheless, MFN treatment extended unconditionally to all members as envisaged by the GATT, remains a standard or benchmark for non-preferential and non-discriminatory trade.

The Asian and Pacific region is no stranger to preferential trade. The Silk Road and trade in spices were developed with trade concessions. During the GATT era, however, preferences extended through trade agreements were not very evident in Asia and the Pacific. Following the establishment of the World Trade Organization (WTO) and the Asian financial crisis in 1997, readiness to liberalize trade through channels other than mainstream multilateral liberalization became much stronger. Thus, as a matter of choice, Asian and Pacific region countries embraced bilateral and other trade arrangements that very quickly produced a situation of entangled and overlapping preferential rules that have been informally named “Asian noodles”. This “Asian noodle bowl” situation closely mimics the “spaghetti bowl” phenomenon associated with the trade relations between Europe and its trading partners.<sup>11</sup>

Commentators suggest that instead of easing trade these preferential agreements tend to fragment markets and increase trade costs with adverse effects on trade volumes as well as global and national welfare. The paper addresses this issue in the Asian and Pacific context. It identifies major characteristics of the agreements in force and contrast them with ‘best practice’ principles. Additional objective of the paper is to zero-in on treatment of agricultural trade in preferential agreements and compare them to achievements of multilateral liberalization.

The paper is structured as follows. Section I identifies several stylized facts about the preferential trade in the Asia and the Pacific. Section II explores regional trade agreements with respect to their commitment to trade liberalization in goods and other standard areas of cooperation. Section III discusses preferential liberalization in trade of agricultural goods. Section IV offers some ideas on “multilateralizing regionalism” including the ‘best practice’ agreement design and provides recommendations to policymakers in area of preferential trade negotiations. The special feature of the paper is that it relies mostly on the Asia-Pacific Trade and Investment Agreements Database (APTIAD) in sourcing data and information for analysis.

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an impediment to the reduction of elimination of tariffs and other restrictions to trade on a MFN basis”. Limão shows that the American and the European GSP schemes impede their multilateral liberalization under MFN.

<sup>9</sup> Cf. Deardorff and Stern (2005), p.6.

<sup>10</sup> The Sutherland Report (p. 19) (World Trade Organization, 2004) suggests that MFN could be “...defined as LFN (Least-Favoured Nation) treatment.

<sup>11</sup> The term “spaghetti bowl” is credited to Bhagwati (1992). It appears that Findlay and Pangestu (2001) introduced “noodles” to the RTA vocabulary. Cf. Mikic (2002).

Before continuing, it is necessary to discuss taxonomy of PTAs used in the paper. It is not only that preferential trade as phenomenon has become complex, it is that now it comes under many different names. As discussed above, the idea of a multilateral trading system was simple – concessions were to be shared on MFN basis by the members of club, and there were only few exceptions envisaged from this principle. At that time practice of preferential trade recognized free trade areas, customs unions and economic and political unions.<sup>12</sup> Theoretical literature also followed this and a taxonomy was developed describing an extension of integration from shallow in free trade area, through intermediate in the customs union to deep in common market and economic/monetary union. The focus – reflecting also the spirit of GATT exceptions- was of course on deeper and regional (plurilateral) rather than bilateral agreements.

Experience of countries in Asia and the Pacific results in a slightly different outcome. Figure I indicates that of the 87 agreements in force, 62 (71 per cent) are BTAs, and 12.6 per cent comprises of each country-bloc agreements and RTAs.<sup>13</sup> Of those BTAs, 77.5 per cent are between two economies in the region and 22.5 of so-called cross-continental scope. There are 11 agreements (12.6 per cent) between a country and a bloc, and as many RTAs (11 or 12.6 per cent). Among country-bloc agreements, even six (55 per cent) are with ASEAN and three with EFTA (27 per cent). While RTAs are greatly outnumbered by the bilaterals, they do have relatively large membership (on average, 8.8 economies).<sup>14</sup> Nine (82 per cent) comprise membership from ESCAP only, while two (18 per cent) include non-ESCAP members.<sup>15</sup>

Looking at the type of the agreements (which should matter to compliance with the multilateral trading rules), in both the bilateral and regional categories majority are free trade agreements (FTAs) and framework agreements. Among 62 BTAs there are 50 (or 80 per cent) listed as FTA, and 7 (11.3 per cent) as framework agreements. The rest include preferential trading agreements (four, making 6 per cent) and one is a non-reciprocal agreement. In contrast, 14 cross-continental BTAs include 8 (57 per cent) of FTAs, 4 (28.6 per cent) of FAs and 2 other agreements. In the category of country-bloc PTAs, structure is very different with more than half being framework agreements (55 per cent), and rest made up of FTAs (36 per cent) and one customs union (EC-Turkey). The results for RTAs show a combination of the previous two class of agreements: there is one CU (EAEC) and four PTAs (within category ‘others’), four (36 per cent) of FTAs and two FAs (18 per cent).

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<sup>12</sup> Excluding so-called preferential clubs based on colonial trade concessions.

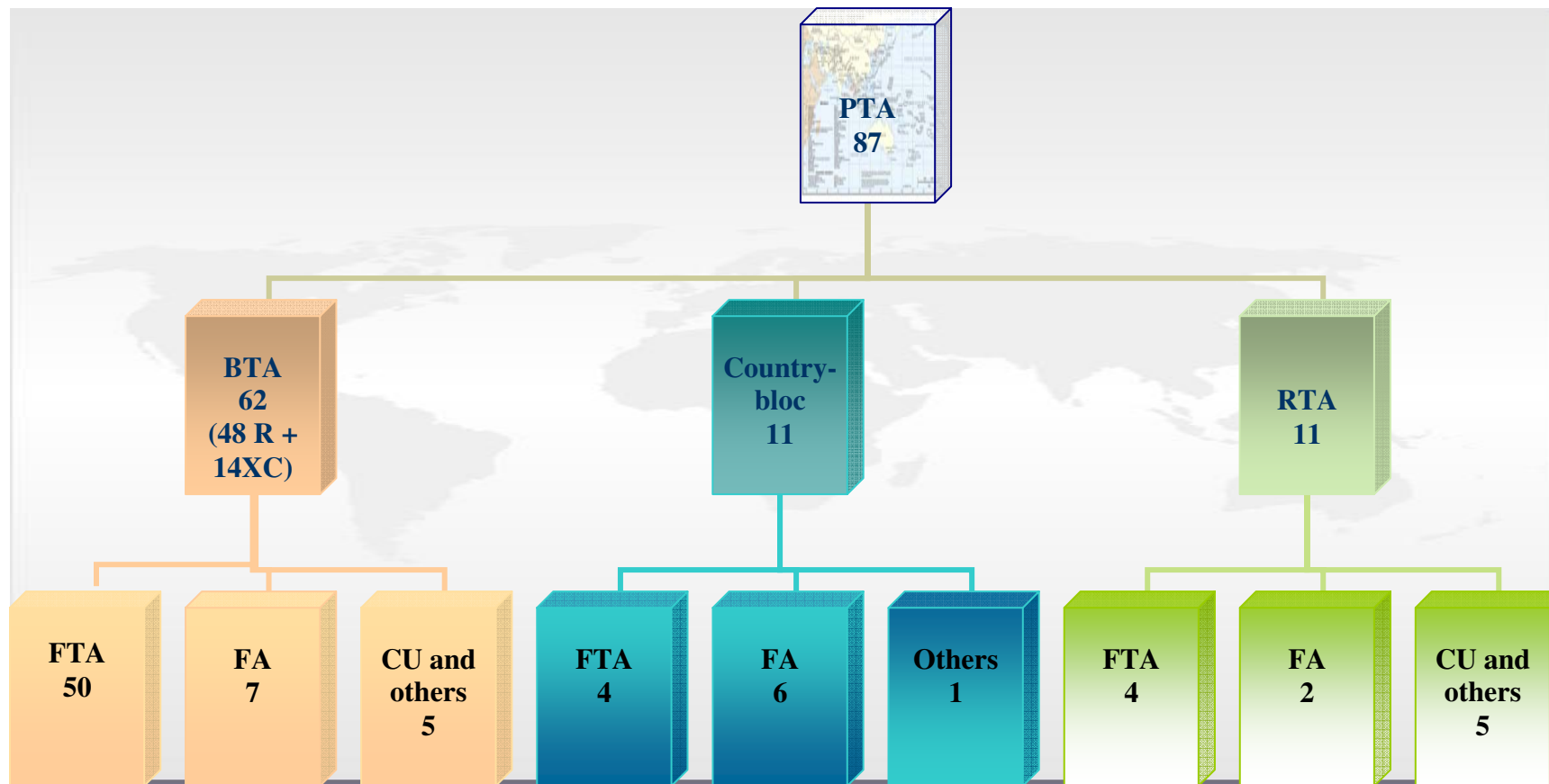
<sup>13</sup> Zhai (2006) comments that BTAs were preferred because of their lesser costs in terms of negotiation and enforcement efforts. While this might hold for every individual member of the BTA, the resulting costs for all BTAs might easily be higher compared with all RTAs. Bonapace (oral comm.) argues that this could be because of the lack of “peer pressure” as well as institutional framework often missing from the BTAs but built-in many of the RTAs. Feridhanusetyawan (2005) held that the faster increase in BTAs than in RTAs (plurilateral agreements) contributed to a complexity of the picture as many of those BTAs arose “within and across different regional agreements”.

<sup>14</sup> ASEAN FTA in Goods (AFTA) and in Services (AFAS) are counted as two RTAs; if only AFTA is counted, average membership is 9.7.

<sup>15</sup> Both are remnants of the former Union of Soviet Socialist Republics.



**Figure I. Mapping of Asia-Pacific preferential trade**



Source: APTIAD, February 2007;

Note: the number does not add to 87 as there are 3 other agreements not shown (1 global, and 2 country-plurilateral)

R = intra-regional bilateral agreements

XC = cross-continental bilateral agreements

## I. STYLIZED FACTS

There are four clear stylized facts about the Asian and Pacific approach to preferential trade arising from analysis of information in APTIAD:

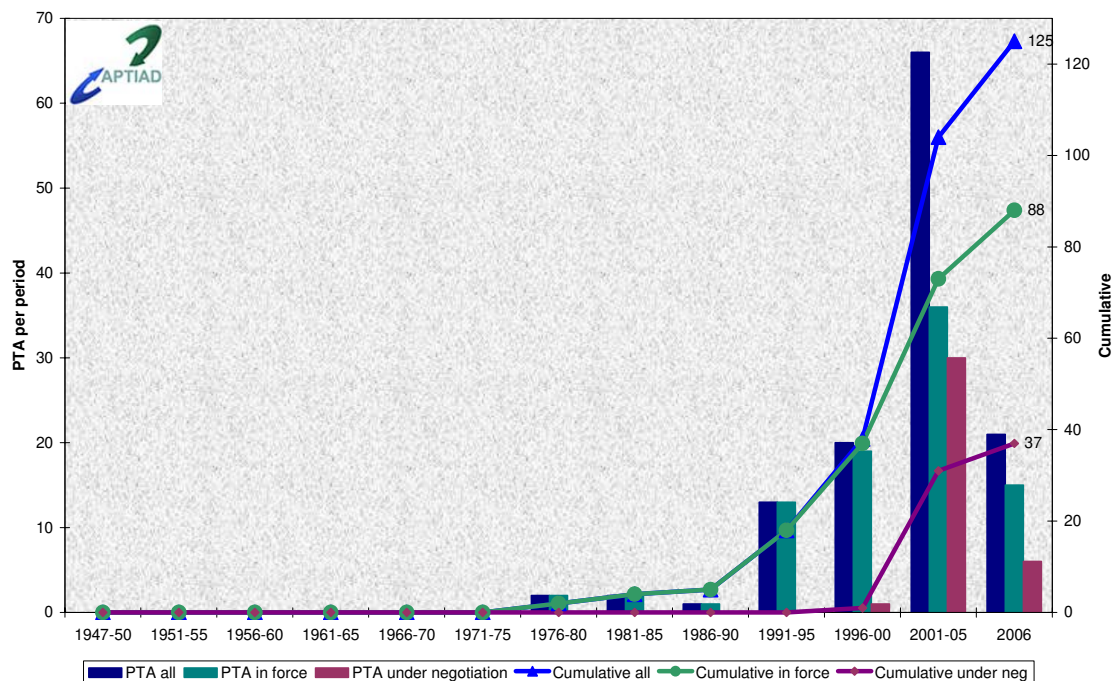
- A. Fast growth in number of preferential trade agreements in recent years.
- B. Multiple and potentially conflicting trading rules.
- C. Multiple memberships.
- D. Weak evidence of trade creation and even less of trade diversion.

We discuss and illustrate each one in turn.

### A. Proliferation of trade agreements

The process of regional integration in earnest started in the 1990s, more precisely during and after the Asian financial crisis in 1997 (figure II). Only one *trade* agreement dates back to 1975: the Asia-Pacific Trade Agreement (APTA), formerly known as the ‘Bangkok Agreement’. Other agreements predating the 1990s are Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, 1983) and the Association of South East Asian Nations (ASEAN, 1967); however, the latter grew more out of political rather than trade motivations.<sup>16</sup>

**Figure II. Asia and the Pacific – late bloomers in regionalism**



Source: APTIAD, February 2007

Note: 1971-1975 – Bangkok Agreement, now APTA; 1981-1985 – ANZCERTA and SPARTECA.

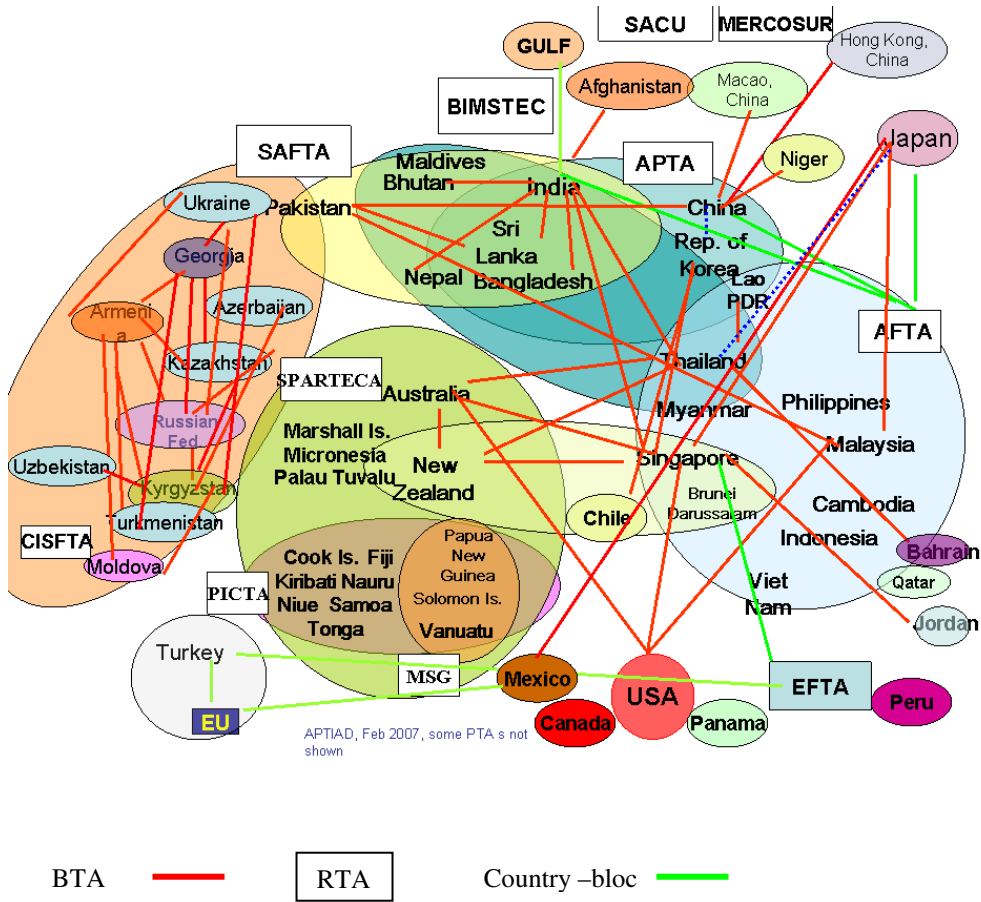
<sup>16</sup> Feridhanusetyawan, 2005 (p.14), stated that “ASEAN was established during the Cold War to maintain peace and security in the region, and the formation of AFTA in 1992 kept ASEAN relevant when the Cold War ended.”

This paper does not seek to explain in detail the proliferation of BTAs and RTAs in the region in the past decade. There were different factors at play. Some strongly believe that regionalism flourished because governments realized that BTAs and RTAs allowed for a faster, more tailored approach to specific country needs and were more flexible in terms of implementation time and inclusion of the behind-border measures. Another explanation refers to the political and strategic motivations, which enhanced intraregional cooperation during the Asian financial crisis in 1997. Yet another factor associated with the spread of regionalism is the so-called “domino effect” that increases the incentive for countries to join existing agreements (the “follow the crowd” effect), which explains why so many governments will engage in the process of BTAs and RTAs negotiation. Bonapace and Mikic (2005 and 2007-forthcoming) addressed these and other factors driving the proliferation of PTAs in the region in the past decade.

### **B. Multiple and potentially conflicting trading rules**

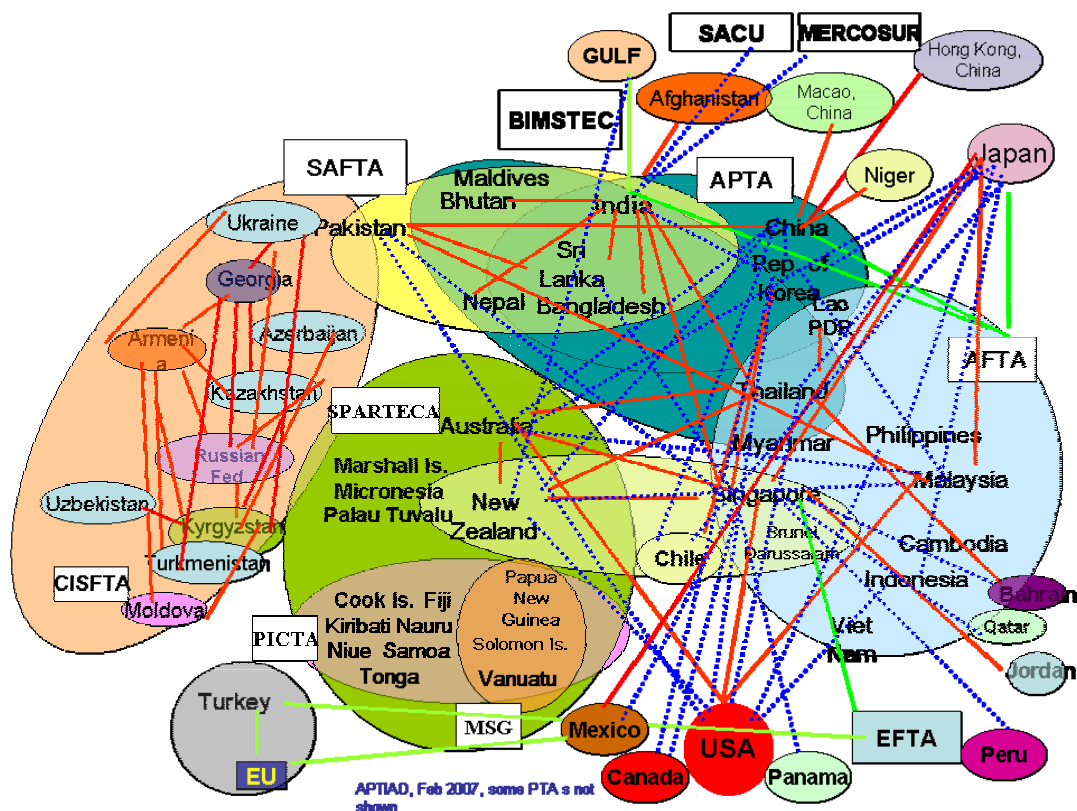
Fast multiplication of agreements shown in figure II resulted in an increasing density of the “noodle bowl” phenomenon associated with preferential trade. Figure IIIa illustrates this “noodle bowl” view of the preferential trade routes in this region. It shows the entanglement of bilateral and regional free trade and other types of agreements that are in force. There are about 40 more that are being negotiated, and many more that are considered in either political or policy circles (some analysts mention up to 200 cooperative agreements at different process stages to be related to Asia and the Pacific economies). Figure IIIb illustrates both the trade agreements in force and those that are under negotiation – a simple visual test that shows how density will increase as these agreements become signed and implemented. It is quite appropriate to describe this state of affairs as a “motley assortment” (Baldwin, 2006) working against trade creation rather than for it.

#### **Figure IIIa. The “noodle bowl”**



Source: Compiled by the author from APTIAD, February 2007.

**Figure IIIb. Adding more tangles to the “noodle bowl”**



BTA ——— RTA ——— Country-bloc ——— Under negotiation .....

Source: Compiled by the author from APTIAD, September 2006.

### C. Multiple memberships

The previous analysis discovers an important asymmetry. From 1994 to 2006, the number of all agreements in force expanded from 10 to 87, or a more than eightfold increase. Of the total 58 ESCAP regional members, the number of those involved in this proliferation of agreements increased from 41 to 50 during the same period, or 51 including the USA.<sup>17</sup> Only one ESCAP-cum-WTO member remains unattached to any of the trading blocs. In contrast, most ESCAP members, who are not WTO members, are members of at least one and up to 11 PTAs. The average number of agreements per ESCAP member is 5.6. This indicates multiple memberships and a significant overlap in the membership of agreements.

Overlapping memberships arise from parallel BTAs and RTAs for the same set of economies. One country ends up negotiating with another under several unrelated

<sup>17</sup> Non-regional members are France, the Netherlands, the United Kingdom of Great Britain and Northern Ireland and the United States of America. Their agreements are not covered in the analysis unless signed with one or more regional members, e.g. United States - Singapore FTA is included, while United States- Jordan FTA is not. This leaves only three ESCAP members (Mongolia, Palau and Timor-Leste) and five ESCAP associate members (American Samoa, French Polynesia, Guam, New Caledonia and Northern Mariana Islands) not involved in preferential trade at present. Only Mongolia is also a World Trade Organization member.

framework agreements. As an example of this option, consider the case of India and Sri Lanka which have at least four trade-related agreements. The oldest is APTA (1975), by type a preferential agreement, currently among six members. Other regional agreements include BIMSTEC (1997) and SAARC (1985)/SAPTA<sup>18</sup> (1995) and SAFTA<sup>19</sup> (2006) agreements among the same members. In addition, India and Sri Lanka signed a bilateral FTA in 2001.

A review of the agreements does not indicate that they have the same rules of origin, or the same approach to liberalization in trade of goods, services, customs procedures or dispute settlement (see Annex Table 1). Thus, even in this example of two countries, it is possible to infer how trade costs might be increasing because of the opaque rules covering trade between India and Sri Lanka. This is not to argue that trade cannot flourish in this environment. In fact, Sri Lankan exports to India increased fivefold from 2001 to 2004. Imports in the same period only doubled. The issue, however, is that with multiple agreements one does not know which particular set of rules drives trade growth or which set might act as an obstacle. In the India-Sri Lanka case, while it is plausible to associate trade growth with the 2001 FTA, it is important to be able to identify any contribution by other agreements. The question should also be asked whether an even larger increase in trade could have been achieved with fewer agreements and, arguably, lesser costs. Lastly, one should not ignore the impact of unilateral liberalization processes in both countries. Sri Lanka started to simplify and lighten its protective regime in late 1970s, and by late 1980s unilateral trade liberalization was reflected in sharp growth of Sri Lankan total imports.

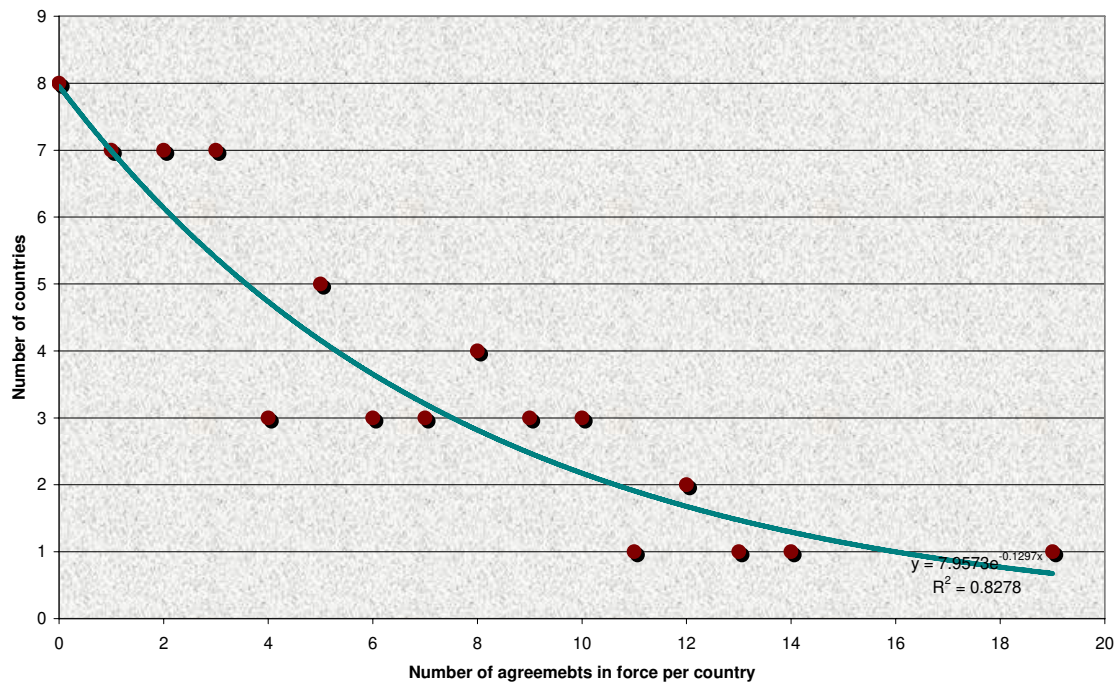
Multiple and overlapping membership is not isolated to these two countries; it is spread across the region. Only eight ESCAP members and associate members are not involved in PTAs process (Mongolia, Palau and Timor-Leste among the member and American Samoa, French Polynesia, Guam, New Caledonia and Northern Mariana Islands from the associate members list). It appears that signing and implementing between one and three agreements is either most beneficial, most popular or the easiest, as 21 countries implement from one to three agreements (seven in each category). Implementing more than three agreements is more demanding and the number of countries managing to do so decreases sharply as the number of agreements increases (see trend line in figure IV). The maximum number of agreements per single country is implemented by Singapore (19), followed by Thailand (14), India (13), Malaysia (12) and Turkey (12). The average number of agreements in force per country, not counting those countries without any agreements, is 5.6. The average number of all agreements per country, again excluding the eight without agreements, is 7.

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<sup>18</sup> South Asian Association for Regional Cooperation/ SAARC Preferential Trade Agreement.

<sup>19</sup> South Asian Free Trade Area.

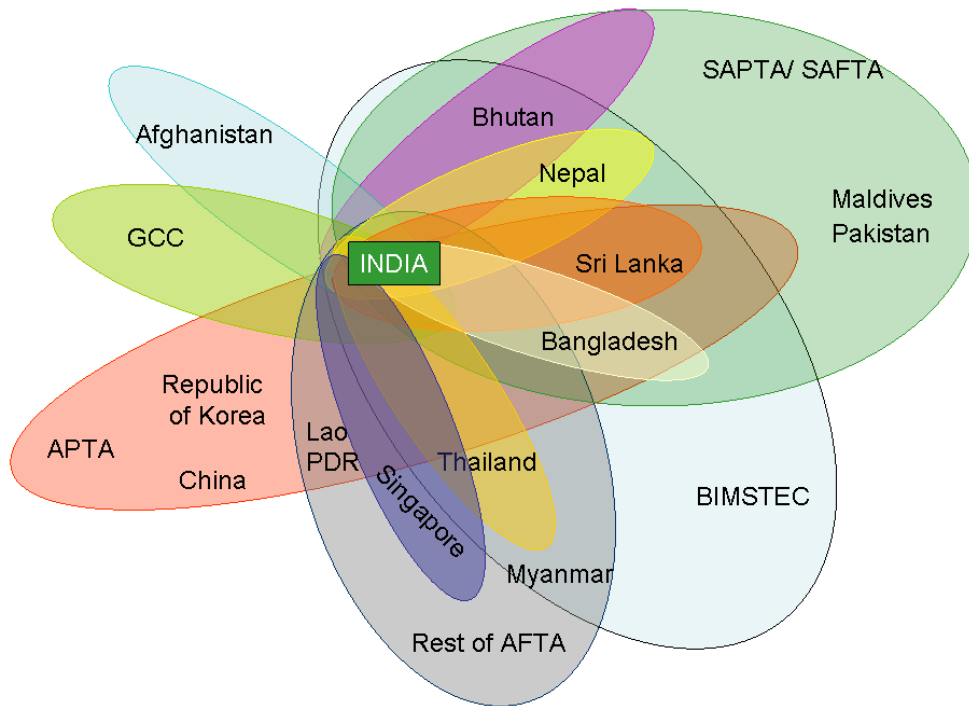
**Figure IV. ESCAP economies in multiple PTA memberships,  
2006**



While Singapore is implementing the largest number of agreements,<sup>20</sup> it seems to be not overlapping their members. A small degree of overlap appears in the case of deals with India (the Singapore–India BTA and AFTA–India agreement) and with New Zealand (one BTA and one plurilateral). India, however, lead with respect to overlapping memberships. This overlap occurs as shown with Sri Lanka but also in case of Thailand (BIMSTEC, AFTA-India and BTA). Furthermore, India has BTAs with almost all countries that are also members of SAPTA/SAFTA and BIMSTEC as well as with most members of APTA and some of AFTA. This is shown in figure V. The important question and not discussed in this paper is about economic and political reasons for a country to negotiate parallel and seemingly non-related agreements that include the same subset of members?

**Figure V. Leader in multiple memberships**

<sup>20</sup> Seven of these are bilaterals with various but mostly high-income economies (Australia, Japan, New Zealand, the Republic of Korea and the United States)



Source: Compiled by the author from APTIAD, August 2006.

#### D. Much ado about nothing – many agreements, little trade?

The objectives of trade agreements, as set out in legal documents and texts of the agreements, include expanding trade, promoting investment, developing economic integration, establishing regional cooperation and coordination, promoting human rights and democracy, and improving security (cf. Feridhanusetyawan, 2005). Newer agreements in particular are trying hard to broaden coverage of commitments from liberalization of merchandise trade to behind the border provisions in trade and other areas of cooperation. In many instances, as mentioned above, members have broad concessional aspirations; to reflect them, the members increasingly name agreements as “economic partnerships” or “closer economic relations” rather than FTAs.

Notwithstanding this intent to liberalize beyond trade in goods, in many cases it takes long transition /implementation periods for any real liberalization to take effect and to be reflected in the changed trade flows. It is not rare for the agreements to consist only of the agreement (often called a framework agreement) to start negotiation on cooperation or trade liberalization. Some anecdotal support exists for the claim that countries sometimes only intend to initiate regional cooperation without much commitment with regard to trade or even economic objectives. This practice introduces unnecessary trade discrimination to foster regional cooperation in areas that might not even require trade preferences, such as recognition of regulatory regimes, exchange of information and infrastructural provisions (cf. Schiff and Winters, 2003, p. 264). The cost of achieving such cooperation is then much higher than necessary (and sometimes even more than the benefits accrued through cooperation). Furthermore, it leads to “trade negotiation” fatigue

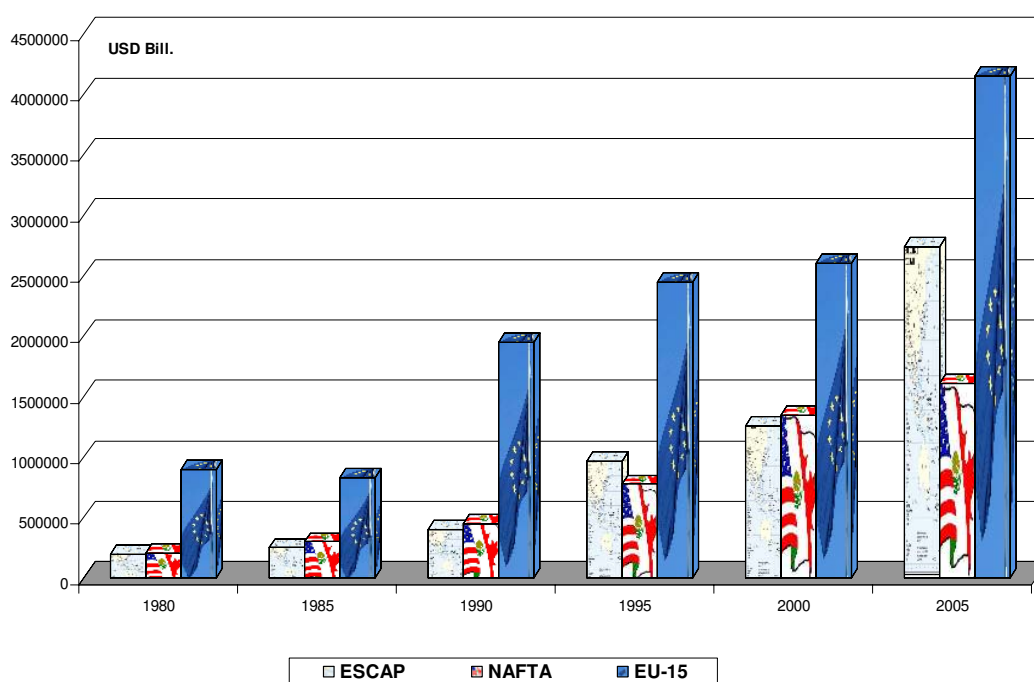


that sometimes tends to be cured by reducing efforts in multilateral trade negotiations, which are perceived as more difficult.

This section provides some additional information on intra- and extra-regional trade flows and trade dependence to enable a better understanding of the potential impacts of preferential trade agreements. The expectation that members have is that PTAs will help boost mutual trade (of those products awarded (more) liberal trade treatment) over and above the growth of their total trade.

Total trade of ESCAP members has increased in absolute terms and today accounts for almost 30 per cent of world exports and imports. The value of their intraregional trade increased (figure VI) dramatically from 1980 to 2005 also in absolute terms. Starting with slightly smaller value of intraregional trade than NAFTA in 1980, by 2005 the Asian and the Pacific region had surpassed NAFTA and had closed the gap with the EU15 intraregional trade from 4/5 to 1/3. However, as a share in total world trade, this intraregional trade remained stagnant (table 1).

**Figure VI. Growth of intra-regional trade for selected regions**



*Source:* Calculated by the author from COMTRADE data

Nevertheless, the growth in intraregional trade can be combined with an indicator of trade dependence to tell us more about “fortress building” attitude of trade agreements. As table 1 shows, total trade dependence,<sup>21</sup> which is a contribution of total trade to the region’s collective gross domestic product, increased by coefficient 1.7 over this time. Similarly, an indicator showing only the contribution of extra-regional trade to the region’s gross domestic product grew by slightly less than the total trade dependence

<sup>21</sup> This indicator is often interpreted as “trade openness”. See Bowen, Hollander and Viaene (1998, pp.12-15).

(coefficient of 1.64 over the same 10 years). Despite small difference, this points to an increase in the reliance on intraregional trade by ESCAP economies, giving support to a claim of “appearance of the third mega trading bloc” to join the European Union and NAFTA. Thus, intraregional trade is growing in both the absolute and relative sense. However, no fall in trade with the rest of the world makes it difficult to identify this trend of growing intraregional trade as trade diversion. Furthermore, a reliable measure of a link between the increase in intraregional trade and the existence of preferential trade, that is, BTAs and RTAs is still missing. Also, does trade growth among members of the agreements precedes or follows preferential agreements? These questions remain high on the list of future empirical research topics.<sup>22</sup>

**Table 1. ESCAP trade performance basics**

<b>Group</b>	<b>1994</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>	<b>2006***</b>
Total trade as a percentage of world trade	26.81	27.77	24.78	27.31	26.91	29.17	29.4
Intraregional trade as a percentage of world trade	13.02	13.29	10.99	12.74	12.88	14.45	12.9
Total trade dependence	27.39	33.05	35.34	39.36	39.69	46.46	..
Extraregional trade dependence	14.07	17.24	19.27	20.32	19.99	23.28	..
Total number of BTAs* in force	6	17	22	26	30	46	73
Total number of RTAs in force	4	5	6	6	6	8	11
Members with membership in GATT/ WTO	20	22	24	25	26	27	28**
Regional members and associate members involved in PTAs	41	44	44	44	45	49	50

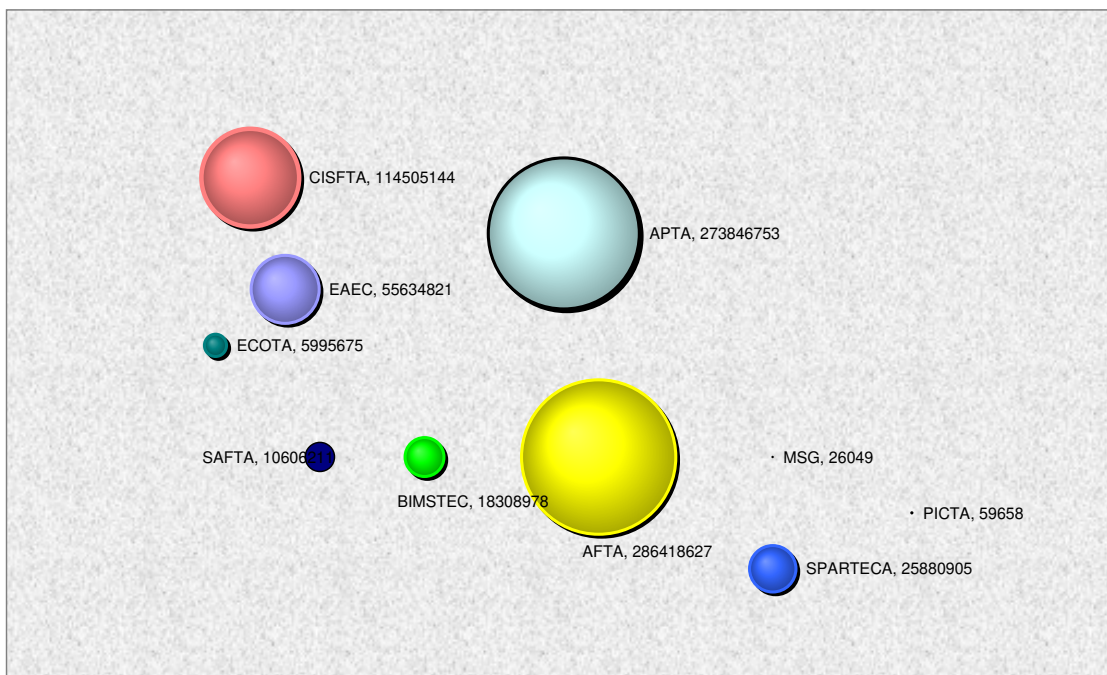
*Source:* Compiled by the author from APTIAD and WITS, August 2006.

**Note:** \* includes cross-continental BTAs; \*\* Viet Nam accession process finalized in 2006, but it formally acceded 30 days after completion of internal ratification process, i.e. on 11 January 2007. Tonga’s accession process was finalized in 2005, but ratification is pending; \*\*\* GDP figures not available for 2005 and 2006, and trade figures refer to 2005

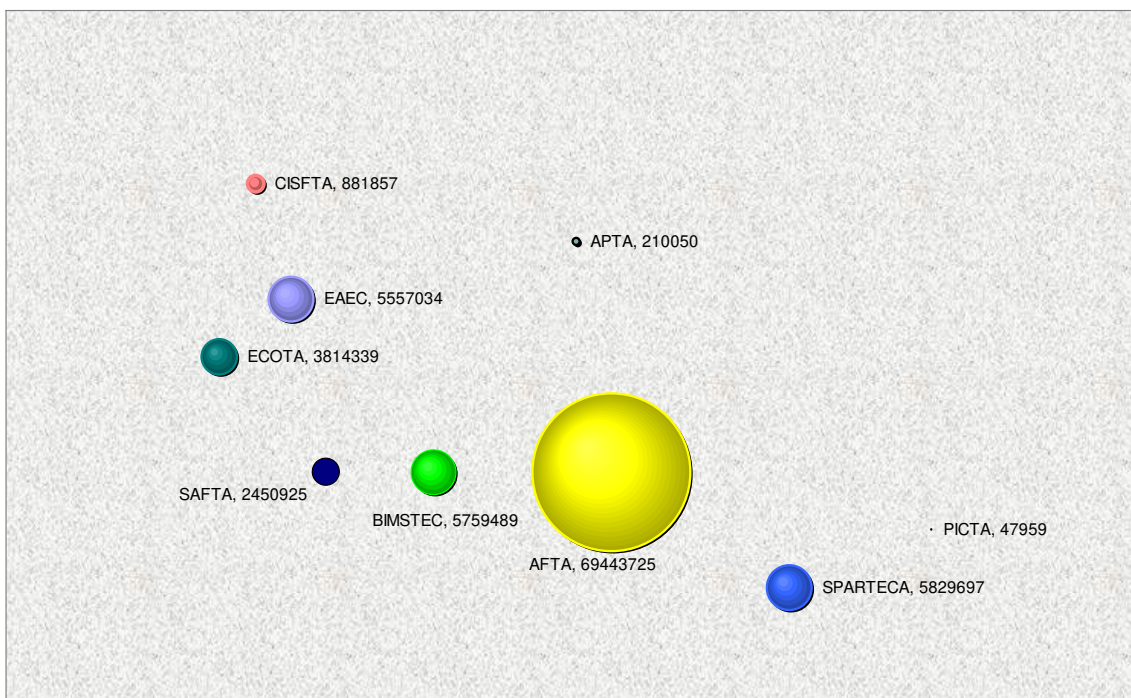
Figure VII panel a shows total trade among the members of each one of the 10 RTAs in the region in 2005, and panel b shows those values for the years in which those RTAs were signed. In 2005 AFTA leads with almost USD300 billion worth of intra-bloc trade but members of APTA are not much behind. It is however not possible to assert how much of this trade in any of the blocs is done under the preferential terms negotiated (in that sense the bubbles present the maxima). Identification of the share of trade associated with the establishment of the preferential trade area is still one of the most tedious empirical trade research (cf. Mayda and Steinberg, 2007, DeRosa, 2007).

<sup>22</sup> See Mayda and Steinberg (2007) for lack of evidence for an across-the-board new trade creation in response to Common Market for Eastern and Southern Africa, and DeRosa (2007) for slightly different arguments.

**Figure VII. Value of intra-bloc trade in 2005**



Panel a – Size of bubbles reflect values of intraregional trade in USD thousands in 2005



Panel b – Size of bubbles reflect values of intraregional trade in USD thousands in years when the RTAs were signed: AFTA 1992, APTA 1975, BIMSTEC 1997, CISFTA 1994, EAEC 1995, ECOTA 2003, MSG 1993, PICTA 2001, SAFTA 1993, SPARTECA 1981

Source: Calculated by the author from COMTRADE and APTIAD

In 2005, as table 2 shows, slightly less than 30 per cent of total ESCAP trade was associated with BTAs and RTAs; this amounted to less than 9 per cent of world trade.<sup>23</sup> While close to 60 per cent of PTA-linked intraregional trade was done by members of the BTAs, more than half of that was linked to BTAs that had one extra-regional member (e.g., the United States, EU/EFTA etc.). This might indicate that there was still a great deal of untapped potential for developing intraregional trade linkages among ESCAP members.

**Table 2. Trade of BTAs and RTAs in force, 2005<sup>a</sup>**

	Share in total ESCAP trade (%)	Share in total world trade (%)
BTAs (61 BTAs)	<b>16.2</b>	<b>4.7</b>
- Regional (33 BTAs)	6.6	1.9
- Other (28 BTAs)	9.6	2.8
RTAs (11 RTAs)	<b>13.2</b>	<b>3.9</b>
- Regional (6 RTAs)	10.2	3.0
<b>Total preferential trade</b>	<b>29.4</b>	<b>8.6</b>
<b>Total ESCAP trade</b>		<b>29.2</b>
Memorandum items:		
- Total ESCAP trade (US\$ billion)	5 077	
- Total world trade (US\$ billion)		17 405

Source: Computed using APTIAD and COMTRADE data, February 2007.

<sup>a</sup> Where 2005 trade data are unavailable, the most recent available year is used.

## II. LIBERALIZATION PATTERNS

There is a simple test for determining whether an agreement is efficient or “good” – it must create trade for the members of the agreement without diverting trade from the rest of the world (ROW).<sup>24</sup> The literature over time has also identified the conditions under which the net trade creation would be more likely. The World Bank (2004) summarizes these as:<sup>25</sup>

- Number and type of members. More members with dissimilar economies is preferable to fewer homogenous economies;
- MFN tariffs faced by ROW. Lower MFN tariffs after the formation of agreement will minimize trade diversion;

<sup>23</sup> Note that table 4 shows intra-ESCAP trade as 12.9 per cent of world trade. Intra-ESCAP trade is larger than the sum of trade of members of BTA and RTA in implementation (which makes 8.6 per cent of world trade).

<sup>24</sup> This is, of course, dramatic simplification. Trade creation and trade diversion should reflect changes in welfare that are sourced through replacement of inefficient with more efficient production among the partners (trade creation) and the opposite in relation to the ROW (trade diversion). As static measures of welfare changes, they do not reflect all efficiency changes that could be arising from RTAs. Needless to say, it is problematic to derive general conclusions based on partial equilibrium analysis. Calculation of trade creation and trade diversion is complex and is not among the objectives of this paper.

<sup>25</sup> GATT Article XXIV stipulates some of these in form of “WTO compliancy”. See in particular para 5 (a), (b), (c), 8 (a) and (b). Similarly GATS Article V para 4.

- Coverage in terms of measures, sectors and products. A negative list with as few exemptions as possible is preferred, and with reduction/elimination of all border trade barriers in a short period of time;
- Rules of origin. Flexible, transparent and liberal allow for more trade creation;
- Measures to facilitate trade. Inclusion of areas and measures beyond good trade will facilitate cross-border competition and permit more trade creation.<sup>26</sup>

How do Asian-Pacific trade agreements measure against those conditions? We comment on them in turn, starting with summarizing conclusions of the already discussed first point .

### **A. Membership**

As discussed in section I, most of the region’s large number of trade agreements in force are bilateral (precisely, 71 per cent). The largest share of those agreements pair together developing economies (or transition economies). Less than 30 per cent are between two “diverse economies”, e.g., developed and a developing economy. On the other hand, even though there is only a small share of RTAs in the region, on average they comprise about nine members; this would go some way towards meeting the criteria on large memberships.

Taking into account the fact that around 40 agreements are being in the process of negotiation only in this region, and that most of them include one or more of the major trading economies of the region (or world), closure of those negotiations might bring global efficiency improvement in line with this condition on numbers and types of members. This improvement would arise because of the increasing number of countries able to generate trade creation would be leaving the “outsiders” camp and entering the camp of “regional partners” (thus reducing the potential for trade diversion, *ceteris paribus*). However, this extension of membership cannot happen automatically because typically existent agreements are designed as “closed clubs”. For example, most RTAs in the region remind closed for the current members or future members of the association underlying the trade agreement (ASEAN in case of AFTA, BIMSTEC in case of BIMSTEC FTA, ECO for ECOTA, SAARC for SAFTA and the South Pacific Forum for SPARTECA). Only two agreements allow for expansion through direct members in the trade agreement: APTA only to the developing members of ESCAP, and PICTA to any state or territory. Even with open access to membership, the efficiency-improving outcome would be more clear-cut in case of parallel consolidation of these agreements under harmonized enforcement rules. Additionally, it is necessary that the agreements satisfy other conditions, particularly the extent of liberalization.

### **B. MFN tariff levels**

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<sup>26</sup> Trade facilitation in the regional PTAs is a theme of a separate working paper and it is not discussed here (see IIBE&L, 2006). Competition policy and government procurement provisions in PTAs of ESCAP are also not discussed in this paper.

Table 3 demonstrates trends in unweighted average applied tariff rates in most of the countries in the region. It is true that most countries show declining average tariff rates. This is a result of combined working of the following forces:

- (a) Multilateral trade negotiation of the Uruguay Round and accession to WTO;
- (b) Preferential trade liberalization;
- (c) Unilateral trade liberalization efforts that many economies in the region have followed since the early 1990s.

**Table 3. Trends in average applied tariff rates, 1996-2005 (unweighted in %)**

Code	Economy/group	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 (est.)
1	Bangladesh		26.7	26.7	21.3	21.2	19.3	19.9	18.8	16.4	16.8
1	Bhutan	17.5	15.3	15.4	15.4	15.4	15.4	17.7		22.2	22.2
1	Cambodia	35.0		18.0	18.0	17.0	16.5	16.1	16.0	15.6	
1	India	37.0	34.2		32.4	32.7	30.9	28.3		28.3	16.0
1	Kyrgyz Republic					4.6	4.5	8.2	4.3		
1	Lao PDR	9.5			9.5	9.3	9.6			9.4	9.2
1	Mongolia		5.0			4.9	6.9	6.8	4.9	4.9	4.2
1	Myanmar	4.5	4.8	4.5	4.7	4.7	4.6	4.6	4.6	4.4	4.5
1	Nepal	14.8	17.3	21.7	14.2	14.2	14.7	14.6	14.8	14.8	14.7
1	Pakistan	41.7	46.6	45.6	24.1	23.6	20.2	17.2	16.8	16.2	14.3
1	Papua New Guinea	20.7	20.4		20.0	7.1	7.1	7.2	6.1	6.1	5.7
1	Solomon Islands **	22.7	45.0	24.0	24.0	22.7	22.7	22.7	22.2		
1	Tajikistan **		8.3	5.0	5.0	8.0	8.3	8.3	8.3	8.0	
1	Uzbekistan	21.0	21.0	29.0	29.0	29.0	10.4	10.6			
1	Viet Nam		13.0	13.0	15.6	15.1	15.0	14.3	13.8	13.6	13.1
2	Armenia			5.0	3.7	4.3	3.2	3.3	3.4	3.6	3.6
2	Azerbaijan			12.0	12.0	12.0	10.8	9.8	10.1		10.0
2	China	22.0	16.7	16.6	16.3	16.2	15.2	12.3	10.5	9.6	9.0
2	Fiji **	12.4	12.4	12.4	12.4	12.4	12.4	12.4	8.3	8.8	7.9
2	Georgia		10.0	10.0	9.9		9.7	9.8	7.6	7.4	
2	Indonesia	10.8			9.9	7.8	6.1	6.6	6.3	6.6	6.5
2	Iran, Islamic Rep. of		28.0	30.0	30.0	37.4	30.0	27.3	18.9	17.7	
2	Kazakhstan **	10.0	9.3	9.5	7.8	7.8	7.9	7.9			
2	Malaysia	8.4	8.9		8.2	8.0	7.5	7.5	7.4		7.5
2	Maldives	20.8		22.0	22.0	21.3	21.1	21.2	21.1	21.1	21.2
2	Philippines	14.0	12.7	10.4	9.5	7.1	6.9	5.3	4.5	5.5	5.4
2	Russian Federation	11.2	14.0	13.9	12.6	11.1	10.7	10.3			10.0
2	Samoa **		18.0	18.0	12.0	12.0	12.0	12.0	12.0		
2	Sri Lanka		19.6	11.1	10.9	9.3	8.9	8.9	8.7	9.9	10.8
2	Thailand				16.9	16.4	14.4		13.5		9.9
2	Turkey	7.0	6.7		7.2	3.2	3.1	2.6	2.7		2.5
2	Turkmenistan		0.5	0.5	0.5	0.5	0.5	5.4	5.3		
2	Vanuatu		29.0	22.8	22.8	22.8	22.8	17.0	13.8		
3	Brunei Darussalam	3.1	3.1	3.1	3.1	3.1	3.1	3.0	2.9	3.1	3.1
3	Hong Kong, China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Macao, China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Singapore	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Australia	6.8	6.6	6.2	5.9	5.6	5.3	5.0	5.0	5.1	4.2
4	European Union	3.0	2.4	2.9	3.6	2.2	3.1	1.7	1.7	2.5	2.5
4	Japan	2.9	2.8	2.7	2.6	2.5	2.8	2.8	2.7	2.7	2.7
4	Korea, Rep. of	9.7	9.2	9.7	9.5	9.4	9.3	9.1	8.9	8.6	8.6
4	New Zealand	6.3	6.0	4.7	3.9	3.0	3.8	3.7	3.7	3.7	3.8
4	United States	4.3	4.3	4.3	3.7	3.6	3.5	3.7	3.3	3.1	3.0
1 to 2	<b>Memo: average</b> Developing countries (142)	17.9	17.7	16.5	14.8	13.7	12.4	12.1	10.5	11.9	10.2
1	Low income (56)	22.4	21.5	20.3	17.9	15.3	13.7	14.0	11.9	13.3	12.1
2	Middle income (86)	13.0	14.3	13.9	12.5	12.3	11.3	10.6	9.6	10.0	8.7

3	High income non-OECD (14)	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.8
4	High income OECD (10)	5.5	5.2	5.1	4.9	4.4	4.6	4.3	4.2	4.3	4.1

Source: extracted from Francis K.T. Ng, 2006, *Data on Trade and Import Barriers*, World Bank (<http://siteresources.worldbank.org/INTRES/Resources/tar2005.xls>)

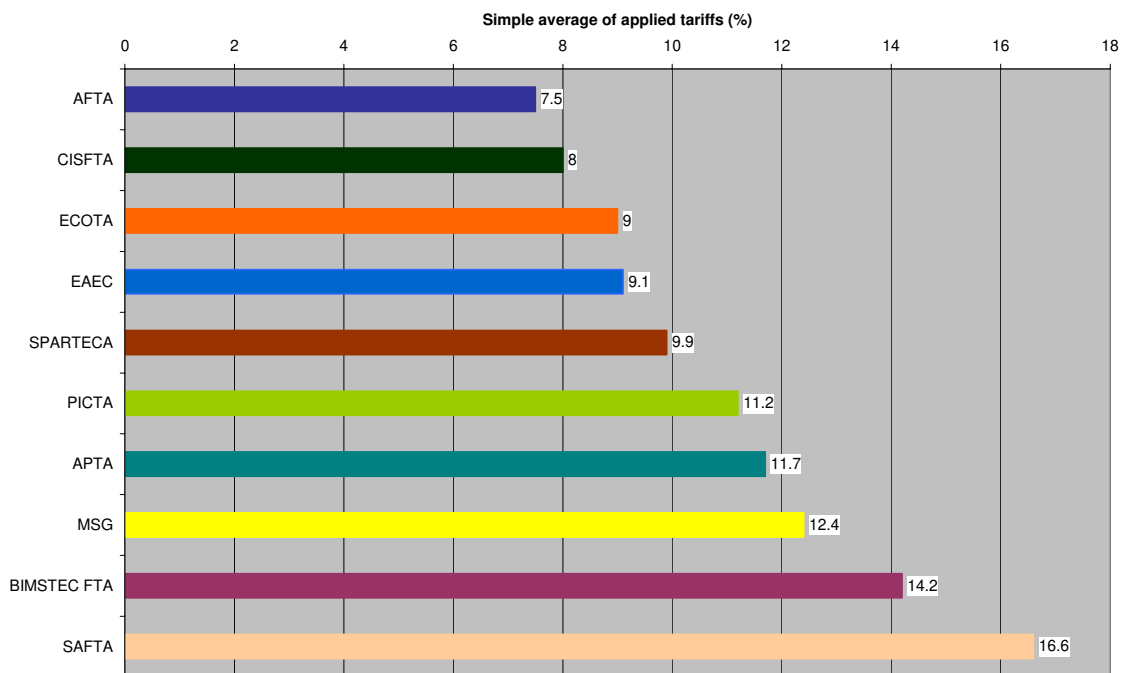
**Notes:** All tariff rates are based on unweighted averages for all goods in ad valorem rates, or applied rates, or MFN rates whichever data is available in a longer period. Tariff data is primarily based on UNCTAD TRAINS database and then used WTO IDB data for gap filling if possible. Data in 1980s is taken from other sources.

\*\* Tariff data in these countries came from IMF Global Monitoring Tariff file in 2004, which might include other duties or charges.

Country codes are based on the classifications by income in WDI 2006, where 1 = low income, 2 = middle income, 3 = high income non-OECD countries, and 4 = high income OECD countries.

With respect to MFN tariffs faced by ROW after the conclusion of the agreements, it is difficult to acquire exact and reliable data. The fact that among the regional RTAs there is only one partially functioning customs union (EAEC) means there is no real threat from creating high common external tariffs. Figure VIII shows the level of average applied tariffs of 10 RTAs (AFAS not included) calculated from table 3 for 2005 or in the most recent year when 2005 was not available (Annex figure 1 shows individual countries in each of the 10 RTAs). This average ranges from 7.5 per cent for AFTA to 16.6 per cent for SAFTA. SAFTA is also the only RTA in which all individual members' averages stand at above 10 per cent, while in AFTA only Cambodia and Viet Nam have over 10 per cent average applied tariff. APTA on average has slightly higher protection than the RTAs taken together mostly because relatively high averages of Bangladesh and India.

**Figure VIII Simple average of applied unweighted tariffs of individual countries grouped in the RTAs (2005)**



Source: Calculated by the author from data in Table 6.

### C. Approaches to reduction of tariffs in PTAs

How important is the contribution of preferential trade liberalization to opening of a country? As noted above, declarative aspirations of all agreements are to transform trade among partners into duty-free trade. In many agreements, in fact, this is expressed as an ultimate goal; however, partners are taking many different routes to achieve this end. Table 4 summarizes the difference in approaches to tariff reduction in the enforced agreements that provide this information. A positive list approach is considered, in principle, less liberalizing and it consists of members agreeing to the list of products on the (positive) list whose tariffs will be reduced or eliminated. A negative list approach assumes a reduction/elimination of tariffs on all products except on those that are included in the negative list. This approach is closer to the spirit of GATT, even though it may often include a long list of excluded products. Another important factor is the determination of a base tariff rate as a benchmark for reduction. In most cases, the MFN-applied rates are used for this purpose (cf. Feridhanusetyawan, 2005, p.16). In an effort to comply with the WTO rules on regional agreements, most of them contain an intention to eliminate tariffs within what is considered a reasonable period. When an LDC is involved, it is provided with either longer transition periods (e.g., AFTA) or lesser or no reduction commitments (e.g., APTA). Another interesting feature, and supporting previous claims about “made-to-measure” agreements, refers to asymmetrical reciprocity in tariff reduction even when there is no LDC involved. Feridhanusetyawan (2005, p.17) describes how, in the Singapore-United States FTA, which follows “negative list approach” the United States kept tariffs on about 8 per cent of products over the transition period of eight years, while Singapore eliminated all tariffs immediately, binding them to zero. In the Singapore-Japan FTA, which follows a positive list approach, Singapore again reduced all tariffs to zero immediately while Japan committed to eliminating its tariffs gradually over a 10-year period.

**Table 4. Tariff reduction approaches in PTAs in ESCAP**

<b>PTAs</b>	<b>Positive list</b>	<b>Negative list</b>
All in force with information available	31	33
BTA	22	25
Cross-continental plurilateral	0	1
Country-bloc	3	2
RTA	5	5
Global	1	0
FTA	20	29
Framework agreement	4	1
Preferential trading arrangement	6	2
CU	0	1
Non-reciprocal arrangement	1	0

*Source:* Compiled by the author from APTIAD, February 2007.

### D. Rules of origin



The current proliferation of agreements has spun a complex rules-of-origin web (table 5). Not only does each agreement have its own rules of origin; in addition, a bewildering array of product-specific rules of origin is emerging. Adopting the less restrictive rules of origin could result in significant trade deflection and redundancy of a trade agreement, while adopting the most restrictive rules of origin may result in no trade taking place under the agreement. Several chances have been missed, at both the WTO and regional levels, to bring some uniformity to the formulation of preferential rules of origin. GATT Article XXIV, quite remarkably, is silent on the use of preferential rules of origin. Should rules of origin not be viewed as other regulations of commerce that should not raise barriers to third countries any higher than they were prior to the formation of the PTA? The most that is said is embodied in a non-binding common declaration on principles.

This increases the urgency of establishing an overarching, region-wide, common framework of principles, guidelines and procedures to which BTAs and RTAs would be anchored. Notwithstanding its non-binding nature, the point of departure should be the WTO common declaration. Ongoing work, notably in APEC, and other useful trade and development elements found in other agreements should be built on. For example, APTA recently agreed to common rules of origin (representing a wide spectrum of industrial development among the members) that are relatively simple, general and liberal – i.e., a flat rate of a minimum 45 per cent of local value content (35 per cent for least developed countries) in bilateral rules of origin, and at least 60 per cent (50 per cent for least developed countries) of regional content with full cumulation (cf. Baldwin, 2006).

**Table 5. Rules of origin provisions in selected trade agreements**

PTA	Change in tariff class.	Specific man. process	Local value addition	Cumulation
<b>BTAs</b>				
ASEAN-China	Yes	---	40%	Full
ASEAN-Republic of Korea	Yes	---	40%	Full
Australia-New Zealand	---	---	50%	Bilateral
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
Malaysia-Japan	Yes (product specific)	---	40% (product specific)	Bilateral
Singapore- Republic of Korea	Yes	---	45-55%	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
Thailand-New Zealand	Yes (product specific)	Yes		Bilateral
<b>RTAs</b>				
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
Trans-Pacific Strategic Economic Partnership TRANSPACSEP	Yes	Yes	45-55%	Diagonal (bilateral)

Source: Compiled from table 2 in Bonapace and Mikic, 2006, and APTIAD.

Consolidation of multiple membership agreements around more liberal rules of origin will serve as a tool for diminishing noodle bowl-related costs of trading under preferential regimes. One such example is provided with recent consolidation of bilateral trade agreements among the Southern European countries and a replacement by the common rules as part of an amended CEFTA deal. The new Central European Free Trade Agreement (CEFTA) consolidates 32 bilateral free trade agreements into a single regional trade agreement. The free trade area shall be established in a transitional period ending at the latest on 31 December 2010. New consolidated agreement replaces the network (aka spaghetti bowl) of bilateral free trade agreements to improve conditions to promote trade and investment by means of fair, clear, stable and predictable rules. The agreement consolidates and modernizes the region's "rule book" on trade and includes modern trade provisions on issues such as competition, government procurement and protection of intellectual property. It facilitates convergence of relevant trade-related rules, notably with regard to industrial and sanitary-phytosanitary rules. A simplified single system of rules of origin (and other rules) makes it easier to trade within the region. Increased trade is necessary to promote growth, job creation and reduced youth unemployment. It is foundation for stability and peace. Such harmonization and simplification of rules of origin in the subregions of Asia could contribute to deepening of integration, as they are associated with increase in "seamless production".

### **E. Going beyond the goods trade<sup>27</sup>**

Many of the newer initiatives declare intention to go well beyond reduction/elimination of tariffs and NTBs, including anti-dumping and safeguards, harmonization of competition policies and standards, and customs; however, a large number still just remain a collection of aspirations towards liberalization that tend to be associated with a longer negotiations process. In addition, despite these intentions to go deeper than trade integration, there is only an occasional mention of the formation of a CU or a common market in the Asian-Pacific region.<sup>28</sup> Furthermore, while in the context of multilateral liberalization a number of countries strongly argue for more freedom in movements of labour (referring to Mode 4 liberalization), when it comes to BTAs and RTAs only few cover this area. A comparison of BTAs/RTAs of this region to existing deals in the Americas also illustrates a type of reluctance to negotiate all-inclusive comprehensive agreements. Instead, trade agreements are often accompanied by separate agreements on services, investments, intellectual property protection, customs procedures etc. Most of the new agreements cover trade in services (but pre-General Agreement on Trade in Services [GATS] agreements still have separate agreements on trade in services, such as the ASEAN FAS).

Most of the newer agreements could be described as WTO-plus agreements as they extend concessionary coverage beyond multilaterally agreed disciplines – such as

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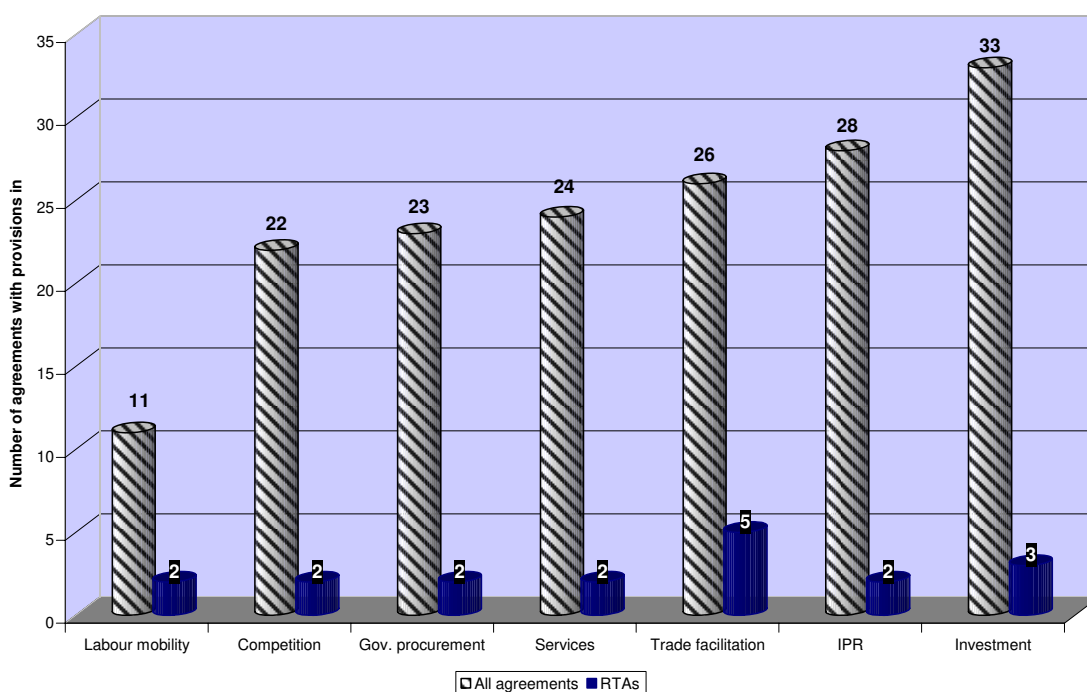
<sup>27</sup> Some of the agreements do not have legal texts publicly available in English or at all and therefore might not have been captured properly in counting the sectors covered.

<sup>28</sup> Such as the already cited "single economic market" of Australia and New Zealand. In the zenith of the 1997 Asian financial crisis, there were also calls for the establishment of a currency union. They were later merged into proposals for an East Asian Community.

government procurement, competition policy and the environment. This is true for trade agreements between developed economies and between developed and developing economies (Leshner and Miroudot, 2006). It is important to note that most agreements mention a number of WTOplus sectors when describing objectives of the agreement (typically in the preamble of the agreement text). However, a significant number of agreements only include a statement of intention to negotiate liberalization in certain areas. These agreements have been excluded from the scope of this study because they do not count for “substantive commitments”.

The overview that is provided in figure IX only shows whether a concessionary commitment has been made in particular sectors or not. In order to provide a better assessment of the beyond-the-goods commitments, a more detailed analysis of the legal texts of the agreements is required. The most frequently covered area are investments provisions followed by IPRs and trade facilitation. Other areas which also get some coverage are government procurement, competition policies and labour mobility. Services are covered only in 24 agreements, including separate agreements for some parties. Table 6 provides a summary of treatments of four sectors (investment, IPR, labour mobility and services) with a view of differentiating between BTAs and other agreements in terms of these sectors’ coverage.

**Figure IX. Overview of sectoral coverage by the PTAs**



Source: Compiled by the author from APTIAD, February 2007.

**Table 6. Summary of treatments of selected sectors in the preferential trade agreements in Asia and the Pacific**

Intellectual property protection						
	Total	Type of agreement				Notified to WTO
		FTA	FA	CU	Other	
BTA	19*	16 (7)	1	-	2	17 (7)

Country-bloc	6**	3 (1)	2	(1)	-	5 (3)
RTA	2	1	-	-	1	2
Other	1	1	-	-	-	-
<b>Total</b>	<b>28(9)</b>	<b>21 (8)</b>	<b>3</b>	<b>(1)</b>	<b>3</b>	<b>24(10)</b>
<b>Investment</b>						
	Total	Type of agreement				Notified to WTO
		FTA	FA	CU	Other	
BTA	23+	17 (4)	5	-	1	17 (4)
Country-bloc	6	2	4	-	-	3
RTA	3	2	1	-	-	1
Other	1	-	1	-	-	-
<b>Total</b>	<b>33* (4)</b>	<b>21 (4)</b>	<b>11</b>	<b>-</b>	<b>1</b>	<b>21 (4)</b>
<b>Mobility of labour</b>						
	Total	Type of agreement				Notified to WTO
		FTA	FA	CU	Other	
BTA	8	7	1	-	-	7
Country-bloc	1	-	1	-	-	-
RTA	2	1	1	-	-	-
Other	1	1	-	-	-	-
<b>Total</b>	<b>12</b>	<b>9</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>7</b>
<b>Services</b>						
	Total	Type of agreement				Notified to WTO
		FTA	FA	CU	Other	
BTA	18	17	1	-	-	14
Country-bloc	3	2	1	-	-	3
RTA	2	-	2	-	-	-
Other	1	1	-	-	-	-
<b>Total</b>	<b>24</b>	<b>20</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>17</b>

Source: APTIAD and Annex tables 2-5 in Mikic (2007)

() = Number of agreements involving Turkey.

\* Includes seven BTAs between Turkey and Bosnia and Herzegovina, Bulgaria, Croatia, FYROM, Israel, Romania and Tunis.

\*\* Includes one agreement between Turkey and EFTA, and one between Turkey and the European Union.

+ Includes four BTAs between Turkey and Bulgaria, FYROM, Romania and Tunis.

In terms of scope of agreement, it is obvious that the ‘beyond-the-goods’ sectors get captured by agreements that are bilateral, i.e. between two countries and between an established bloc and a country. It is mostly the FTAs that venture beyond the goods liberalization, except in investment where FAs feature too. It also appears that BTA-FTA get notified to the WTO faster than other agreements, contributing towards transparency of trading rules at global level.<sup>29</sup>

### III. PREFERENTIAL TRADE IN AGRICULTURE

With regard to the coverage of goods liberalization, available empirical literature shows that most of the agreements focus on reducing or eliminating tariffs and other barriers to industrial goods or manufactures. In contrast, agricultural products tend to be included in the exemptions of the negative lists or excluded from the positive lists of tariff reductions.<sup>30</sup>

<sup>29</sup> For some comments on content of provisions on these sectors, see Mikic (2007).

<sup>30</sup> The ARTNeT study undertaken in 2005 and 2006 (forthcoming), “Agricultural trade: Planting the seeds of regional liberalization in Asia”, reflects this selectivity and relatively weak liberalization in both the South Asian and the South-

The five reasons why agriculture does not feature prominently on the agenda for full and/or quick liberalization through PTAs are that:

- (a) Agriculture was excluded from the multilateral trade liberalization efforts until the Uruguay Round, leaving the space for protectionist policies in this sector, which is one of the most supported sectors in many developed economies. This combination of policies earned the sector the attribute of being the “most distorted” in the world economy. Obviously, the removal of trade barriers and domestic support in such circumstances is not a simple matter. The task is complicated equally by the influence of vested interests, and a need for a coherent set of policy measures and financial resources to provide corrective support during the adjustment period, which could extend over a decade;
- (b) Agriculture produces food that is considered indispensable to human life, thus giving rise to concern over food safety and security. These issues are easier to include in multilateral negotiations with more players (and coalitions) and more possibilities for *quid pro quo* than in similar negotiations with fewer members, particularly when the negotiations are among those with similar interests in this area;
- (c) Agriculture appears to offer more fertile ground than other sectors for quantitative and export barriers as well as sanitary and phytosanitary (SPS) barriers and standard IPRs (that is, geographic indicators). Historical evidence shows that these issues are easier to deal with at the global or multilateral level than at the regional level;
- (d) Continuous support and protection of agriculture in developed economies has been justified by the so-called “multifunctionality” argument of agriculture. The sector is also often linked to environmental quality. It is easy to see that when two countries with same “defensive” approach in relation to multifunctionality negotiate a bilateral agreement, the scope for liberalization in agriculture will remain narrower than in negotiations at the multilateral level among countries with diverse interests in this area;
- (e) Last, but far from least relevant, in many developing countries, agriculture is still a very important, if not the most important sector of the economy in fighting poverty. In many developing countries, agriculture provides opportunities for people to grow their own food and to exchange surpluses in informal transactions without being registered as part of an official economy (e.g., in employment or tax revenue records). For example, while agriculture provided paid employment in India to only 5 per cent of the labour force during 2004, its rural population forms the largest part of the total population. This means the sector is instrumental in ensuring rural development and provision of livelihood security. When it comes to the negotiation of preferential liberalization, which often embraces “made to measure” liberalization, this sector (is more likely than others) to be granted longer

transitional periods, lesser tariff cuts and other exemptions in order for it to become a vehicle for rural development.

In developing this last point further, it would appear that preferential trade liberalization is more in line with the objectives of strategic intervention in agricultural trade than is multilateral liberalization. As argued in Dhar (2007) and literature cited therein, concern over food security, livelihoods and rural development in developing countries can be responded to by adopting the twin instruments of Special Products (SP) and the Special Safeguard Mechanism (SSM) as a variant of a strategic agricultural trade policy. The goal of this policy is primarily to secure food and safeguard livelihoods rather than create trade. Judging by the difficulties surrounding multilateral negotiations on these points as well as the comparatively easier introduction of SP and SSM into preferential trade agreements (cf. OECD, 2005, pp.16–17), PTAs ought to be ranked superior to multilateral liberalization in delivering this particular goal. However, further empirical research is desirable in order to shed more light on the welfare-improving effects of this particular strategic approach.

### **A. Market access**

Annex table 2 contains information on average applied and bound tariffs for manufactures and agriculture goods for a selection of ESCAP member countries and for some other country groupings in recent years. These rates are the result of the combined impact of the multilateral negotiations under the Uruguay Round and national unilateral liberalization efforts. Only a handful of countries have average applied tariffs on agriculture goods that are lower than rates on manufactures (notably Australia, Hong Kong, China, Macao, China, Malaysia, Maldives, New Zealand, Pakistan and Singapore). Even fewer of them bind agriculture goods tariffs at a lower level than manufactures (Australia, Brunei Darussalam, Hong Kong, China, Islamic Republic of Iran, Macao China, Malaysia and New Zealand). More often, countries that show little reluctance towards reducing manufactures tariffs do not follow suit with tariffs on agricultural goods (Japan, the Republic of Korea, Sri Lanka and Turkey, among others). Obviously, tariff protection remains an obstacle in agricultural trade.

Are PTAs more successful in reducing or eliminating these tariffs? In reviewing 18 PTAs, including six from this region, the Organisation for Economic Co-operation and Development (2005) found that PTAs offered some “progress even in traditionally difficult sectors such as beef, cotton, dairy, rice and sugar”, albeit with long transition periods.

The ARTNeT study (forthcoming in 2007), which focuses on selected South Asian and South-East Asian PTAs, puts forward a similar finding that liberalization achieved in agriculture is lagging behind industrial goods liberalization. In fact, Samarasinghe and others (2006) found that South Asia remained the most protective region with regard to agricultural trade. The most advanced RTA in that subregion, SAPTA (replaced by SAFTA in 2006) provided tariff concessions on 866 agricultural products; however, according to the authors, it is unlikely to boost agricultural trade because it neither removes NTBs nor uses simple rules of origin. A network of BTAs that evolved between India or Pakistan and other countries in the subregion in principle excludes “many of the major agricultural products in which the countries had [a]

comparative advantage, such as rice, wheat, sugar, cashew nuts, shrimps and prawns, while imposing tariff-rate quotas on many others, such as black tea and cotton”. A summary of the findings on tariffs and other areas of liberalization for the South Asian PTAs is given in annex table 3.

In contrast, South-East Asia has a better record in agricultural trade liberalization, at least based on the achievements of AFTA and the ASEAN plus China Early Harvest programme (EHP). According to Pasadilla (2006), the average agriculture MFN tariff for AFTA members is higher than the CEPT mean with 95 per cent of CEPT tariff lines being below 5 per cent, and half of which are already traded tariff-free. It remains true, however, that more industrial goods are traded duty-free and almost 100 per cent of industrial tariffs are less than 5 per cent. Annex table 4 provides a summary of the provisions covering the agricultural sector in selected agreements in South-East Asia.

## **B. Other aspects of agricultural trade liberalization**

The Uruguay Round approach to liberalization of trade in agriculture was aimed at three sources of distortions: market access barriers (tariffs and quantitative restrictions), export subsidies and domestic support. This turned out to be a difficult combination for the current multilateral negotiations as illustrated by the stop-go cycles linked to the various proposals on the agricultural segment of negotiations.

Preferential trade agreements have “solved” the problem by not attempting to combine all three pillars of agricultural trade liberalization; PTAs rarely go beyond the market access aspect. This is true for PTAs both in this region and globally unless they are linked to “deeper” integration such as the European Union. Because it is such a sensitive area of liberalization, agriculture appears to require institutional frameworks of deeper integration.

Therefore, it is not surprising to find that none of the PTAs analysed in the two subregions (see annex tables 3 and 4) handles aspects of domestic support or export subsidies (except ANZCERTA, which does not permit domestic support or exports subsidies, and New Zealand–Singapore and Australia–United States, which do not permit export subsidies).

As with other more narrow areas of trade disciplines, it would seem that PTAs have an advantage over the multilateral system. This would particularly apply in cases where harmonization and mutual recognition of national policies and practices is required, as this is achieved more easily among a smaller number of countries (with similar interests). The evidence gleaned from observed PTAs in the above-mentioned studies goes some way to supporting this claim as a number of agreements — particularly in South-East Asia and when one or more parties are developed economies — contain provisions related to SPS and technical cooperation such as harmonization, equivalence and mutual recognition.

The above-mentioned ARTNeT study discusses the developmental impacts of improvements in the level and structure of intraregional agricultural protection. It cannot be denied that there are obvious advantages for a community and individuals when production and trade is enriched by processing raw agricultural materials into semi-

finished and finished items such as processed food. The importance of workable rules of origin, traceability, technical standards and SPS for developing this processing capability in the region cannot be overstressed. Yet, countries, including developing nations, continue to adopt complicated rules of origin and other rules that prevent the establishment of regional production chains. This means countries that take a long time to develop an efficient, complete chain within the national economy will be unable to benefit from cumulation across the region as a shortcut to achieving that goal.

#### **IV. MAKING PREFERENTIAL TRADE AGREEMENTS IN ASIA AND THE PACIFIC TO WORK IN LINE WITH MULTILATRAL TRADING RULES<sup>31</sup>**

##### **A. ‘Best practice’ principles**

‘Best practice’ principles are increasingly used in analytical work. This task is by no means straightforward. The term best practices is fraught with value connotations. Even the legally binding and internationally adopted GATT Article XXIV is known to be “creaky” and “extremely elastic”. At worst it has been described as “full of ambiguities”, “a contradiction” and “a failure, if not a fiasco”. Perhaps that is why it was often disregarded, if not in letter, then in spirit by the members. Yet it constitutes the best available approximation of how a “good” or “best practice” preferential trade agreement, should be designed so that they can be complimentary in their impacts to the multilateral trading system.

Following on the analysis above, table 9 summarizes basic information on the approach each agreement takes with regard to tariff liberalization, sectoral coverage and treatment of WTO and WTO+ issues. In addition to policy-content recommendations from the GATT Article XXIV, we also draw on principles emanating from trade theory and econometric models as well as empirical findings to come with the set of ‘best practice’ principles (second column of the table). The third column contains information compiled for “real world” agreements (as already explained, the information was compiled for only those agreements for which a legal text was available in an updated and electronic format in English). A comparison between the two columns not only shows what types of preferential trade agreements are emerging in Asia and Pacific, but more specifically highlights the gap between reality and ‘good practice’ or model agreements. While most agreements aspire towards an eventual “free” trade area (typically 10-15 years down the road), increasingly, countries are settling for framework agreements that are lacking in operational details. Typically, and more so for agreements between developing countries, they are short on modalities of implementation, lack agreement on rules of origin, with little known on what recourse is available in the case of disputes arising from non-compliance. These agreements thus appear to be signaling that free trade and trade integration is perhaps not the core issue at stake. Governments may be using the format to put together a framework of cooperation in several (non-trade-related) areas that often have strategic political and foreign policy objectives as the driving forces. Consequently, the general reluctance to commit to full and quick liberalization in merchandise trade is tempered by the willingness to expose other sectors and policies (notably WTO-plus) to preferential liberalization and regulatory reforms.

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<sup>31</sup> Part of this section was prepared by T. Bonapace and M. Mikic as a background paper for the ESCAP Survey 2007 (forthcoming).



**Table 9. Comparisons of the “best practice” and actual trade agreements in Asia and the Pacific**

<b>Area</b>	<b>Aspiring state of affairs (best practice)</b>	<b>Current state of affairs (actual agreements)</b>	<b>Number of PTAs included in evaluation</b>
Liberalization in goods trade- listings and coverage	Full liberalization taking place at enforcement of the agreement or with short transition period based on negative listing and covering both tariffs and NTBs	Liberalization based on positive more than on negative listing; full liberalization over longer transition of 10 years	*24 BTAs and RTAs with positive listings * 6 BTAs and RTAs with negative listings *22 BTAs and RTAs with liberalization implemented on either positive or negative listing (incl. 12 with “full” elimination)
Rules of origin	Simple and transparent in style; low and symmetrical in terms of demand; consistent across all agreements	Bilateral cumulation, some diagonal cumulation; Product-specific ROO	*15 BTAs *3 RTAs
Comprehensive coverage of the “other than goods” sectors	Comprehensive scope accounting for all sectors with exclusions necessary only for appropriately designed policy space	Only smaller share (rarely more than 1/3) of agreements include preferential commitments in the “other than goods” areas; coverage is variable and far from comprehensive	See Figure XXII for breakdown of agreements covering “other than goods” areas
Consultations and Dispute settlement	Avoid duplication with the WTO dispute settlement whenever possible	Only 1/3 of agreements cover DS and mainly through reliance on consultations	*32 PTAs *17 BTAs and 4 RTAs cover this area in more details
Consistency and compliance with the WTO	Notification to the WTO and regular update of non-members; open for accession of third parties	About 1/3 of the BTAs and RTAs are not notified to the WTO	*20 BTAs and 4 RTAs are not notified
Transparency	Making full text available to all partners in English and electronically	Some countries do not publish (original and/or updated) electronic versions of the legal texts of the agreements in English on the Internet	About 10-15% per cent of the agreements lack updated information

*Source:* compiled by the author from the APTIAD, November 2006 and Goode (2005)

## **B. Some questions answers to which should matter to policymakers**

Since there is no doubt that preferential trade will remain one of preferred trade policy options, there is a need to turn towards designing them in a way to work complimentary to multilateral trading system. There in no harm of repeating that this in the first place implies maximization of benefits from PTAs (trade creation) and minimization of their costs (trade diversion). Furthermore, whenever possible PTAs should be aiming for WTO+ level of integration thus going beyond the expected level of multilateral liberalization, not coming short of it. Without ambitions to provide “how to” manual for trade negotiators<sup>32</sup>, this section outlines the four areas of issues most relevant in negotiating preferential trade liberalization agreements: why (including with whom and for whom), what, how and at what cost.

### **i. Why preferential trade, with whom and for whom?**

Preferential trade agreements may offer “some appropriate solutions to national policy needs, they may confer credibility on policy regimes, help to solve political problems or increase competition” (Schiff and Winters, 2003, p.261). There are, however, many other situations where trade agreements unnecessarily increase the economic price payable for non-economic (and uncertain) gains and/or increase the costs of an inappropriately chosen trade liberalization path. Therefore, even before approaching the agreement design and negotiation phase, a difficult policy choice facing policymakers is whether to enter into negotiations and if yes, with whom. The following, represents a non-exclusive, list of questions that need to be posed and answered prior to entering into negotiations:

- 1) Why is the proposed trade agreement with a particular trading partner(s) important to the economy, i.e. is it mostly motivated by
  - a. Needs to enhance goods trade
  - b. Needs to enhance services trade and /or foreign direct investment
  - c. Needs to ensure support for overall economic reform (as a stability anchor)
  - d. Needs to enhance political and security cooperation.
- 2) Is it not possible to obtain the same results through other liberalization tracks (unilateral, multilateral)?
- 3) Are there any sectors and social strata in the economy which might be particularly adversely affected by the agreements and what are the planned measures to ease those effects? Will this require excluding such sector(s) from the agreement?
- 4) Which are the sectors that will benefit? Are direct transfers between winners and losers possible so to ensure a more equitable distribution of the gains from trade?
- 5) Are the likely post-facto production structure, employment, revenue and other socio-economic welfare effects in consonance with the objectives of a long term development plan for the economy?

Obviously the above and similar questions can be answered only if proper analysis of the agreement’s potential effects has been undertaken. A first step in the preparation of any changes in economic and social policy must therefore be a rigorous analytical preparation, including securing sound and reliable statistics and other (soft) data.

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<sup>32</sup> See for example “Negotiating Skills Manual – Market Access in an Economic Partnership Agreement”, Institute of Development Studies, University of Sussex or Goode (2005).

APTIAD's extension in performance indicators is potentially helpful tool in such analysis.

## **ii. What design?**

Design of the agreement should be modeled on the above discussed 'best practice' or model designs. The arguments for the above list are contained in a long list of literature on preferential trade liberalization published over 50 years, including the most recent ones like Baldwin (2006), Limão (2006), Plummer (2006) and Zhai (2006). They all (from different approaches and using different techniques of analysis) tend to support the finding that preferential trade "as is now" probably impedes multilateral liberalization and has ambiguous welfare effects on participating and non-participating members. However, with a corrective action preferential trade can be made complimentary to the multilateral system and their implementation can contribute to development. These actions should include, inter alia:

- minimizing positive listing approach as "limited number of sectors and sequencing issues could lead to important adverse effects on effective protection and other indirect efficient effects (Plummer, 2006, p.3)
- maximizing the diagonal cumulation in rules of origin which will allow defragmentation of production and multilateralization of regionalism (Baldwin, 2006),
- deepening the regional integration to allow for more positive effect for freeing global trade (Zhai, 2006).

## **iii. How?**

In terms of the negotiation process, policymakers should be prepared to stay the course on the long haul. Besides the need for long term planning, this requires the setting up an administrative, legal and judicial institutional structure with the requisite human resource expertise. However, the best policy-making is perhaps that one which is based on a full understanding of the domestic economy, and the transmission mechanisms through which changes in trade policy work their way through the economy. A quantitative estimation of the effects of possible liberalization scenarios, if based on sound theoretical constructions of models can play a useful role. It is important for trade negotiators and policy makers to factor into their decision-making that gains from liberalization come from opening of a domestic market as much as (if not more) from opening foreign markets. It is however crucial to understand that a) gains and costs of liberalization have asymmetrical time dimensions, with costs typically appearing much sooner than the gains; and b) effects of a policy change cannot be contained to a sector to which they originally apply but do have impacts on the rest of the economy. Negotiations will be successful if an agreement is implementable with net gains for the economy and this can be achieved only if before, during and after negotiations, policymakers maintain full consultation and information sharing with the stakeholders.<sup>33</sup>

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<sup>33</sup> More research is also needed on the best practices in inclusive decision-making in regard to negotiation PTAs. Some governments invite public to voice their concerns and interest in a preparatory phase of negotiations. See for example a call for public views on the New Zealand- GCC trade negotiations to start later in 2007 at <http://www.mfat.govt.nz/Trade-and-Economic-Relations/Business-gateway/0-NZ-GulfCoopCouncilFTA-Publicview.php>.

#### **iv. At what cost?**

Finally costs cannot be ignored. Proliferation of agreements is expensive. Costs are direct and indirect (or opportunity costs). Direct costs arise from a need to adequately finance negotiating machinery which – depending on country’s ambitions – could grow into employing significant number of skilled people in specialized and more general government departments. Opportunity costs have already been experienced at national and global level as the ineffective negotiation in the Doha round by many is assigned to inability of number of countries to focus equally on both – multilateral and preferential – fronts. There are also other sources of costs as important social, economic and political areas could become neglected because of the policy focus on the preferential trade negotiations. While it is very difficult to build reliable time-series data for proper cost-benefit analysis of trade liberalization negotiations, experts opinion is that “expenditure incurred on such negotiations is regressive with the smaller countries losing a relatively bigger chunk out of the total pie of government expenditure for undertaking regional trade ventures” (Chadha, 2005, p.3).

#### **CONCLUDING REMARKS**

The late 1990s was a period when Asia and the Pacific were just discovering the phenomenon of regionalism as a policy-driven management of their international trade and investment. Prior to that time, regionalism had been mostly experienced as a spontaneous process (autonomous from policy makers and driven by markets and entrepreneurs). This regionalism was also limited to geographical areas where, due to the lack of political relations, policy-led regionalism could not have been practiced (e.g., the Chinese triangle). From Box, which compares trade flows in 1980 and 2001, it is clear that trade between China and Hong Kong, China, and Taiwan Province of China, (which set the direction for intraregional trade) evolved in a short period.

However, recent developments ended this spontaneity – contemporary preferential trade in Asia and the Pacific is definitely policy-led and unfortunately often by non-economic objectives without wisdom of long-term economic policy design. Notwithstanding the fact that PTAs may be completely “appropriate solutions to national policy needs, they may confer credibility on policy regimes, help to solve political problems or increase competition” (Schiff and Winters, 2003, p.261). However, there are many other situations where PTAs unnecessarily increase the economic price payable for non-economic (and uncertain) gains and/or increase cost of an inappropriately chosen trade liberalization path. Low (2006) suggests that before preferential trade agreements could be harnessed to work for global benefits, the PTAs must multiply to such a degree to increase trade costs sufficiently for business sector to “overturn the current and growing mosaic of criss-crossing RTAs and move towards a more rational generalized set of arrangements that would come back into a multilateral framework.” This is “multilateralizing regionalism” à la Baldwin (2006).<sup>34</sup>

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<sup>34</sup> Cf. also Bonapace and Mikic (2005), and (2006). See also Batra (2006) for possible options.

This paper clarifies what types of preferential trade agreements are emerging in Asia and Pacific, and it establishes the fact that they vary widely in motivation, form, coverage and content. The paper finds that PTAs in Asia and the Pacific leave much to be wished for in terms of meeting established criteria for ‘best practice’ or model agreements. Bilateral agreements are much preferred to plurilateral or regional ones, while “free” trade areas/agreements are the most frequent form, but they in most cases push achievement of “free” trade for several years in future. Increasingly, countries opt for a partnership or framework agreement – in principle to signal that either they mean much more than trade integration or that they really do not mean serious trade integration but are using the format to put together a framework of cooperation in several (non-trade-related) areas. More often, the latter is the case. This probably explains to some degree why a number of countries sign multiple agreements with the same partners! Analysis has also discovered a reluctance to commit to full and quick liberalization in merchandise trade and to expose other than goods trade areas (including WTO plus) to preferential liberalization. A necessary next step is to establish empirically if and by how much this chosen format of preferentialism is more costly in terms of transaction and implementation costs.

To sum up, often the choice to freer global trade is given through two processes: multilateral trade negotiations under the governance of WTO, or a spontaneous process of “globalization of regional free trade” (via domino effect). We suggest that the third way, increasingly discussed among academics, policy makers, and especially business. It involves the creation of a relatively small number of large trading blocs through policy-led consolidation of binding rules for series of PTAs (currently with heterogeneous rules) without trade-diverting effects for those economies left outside.

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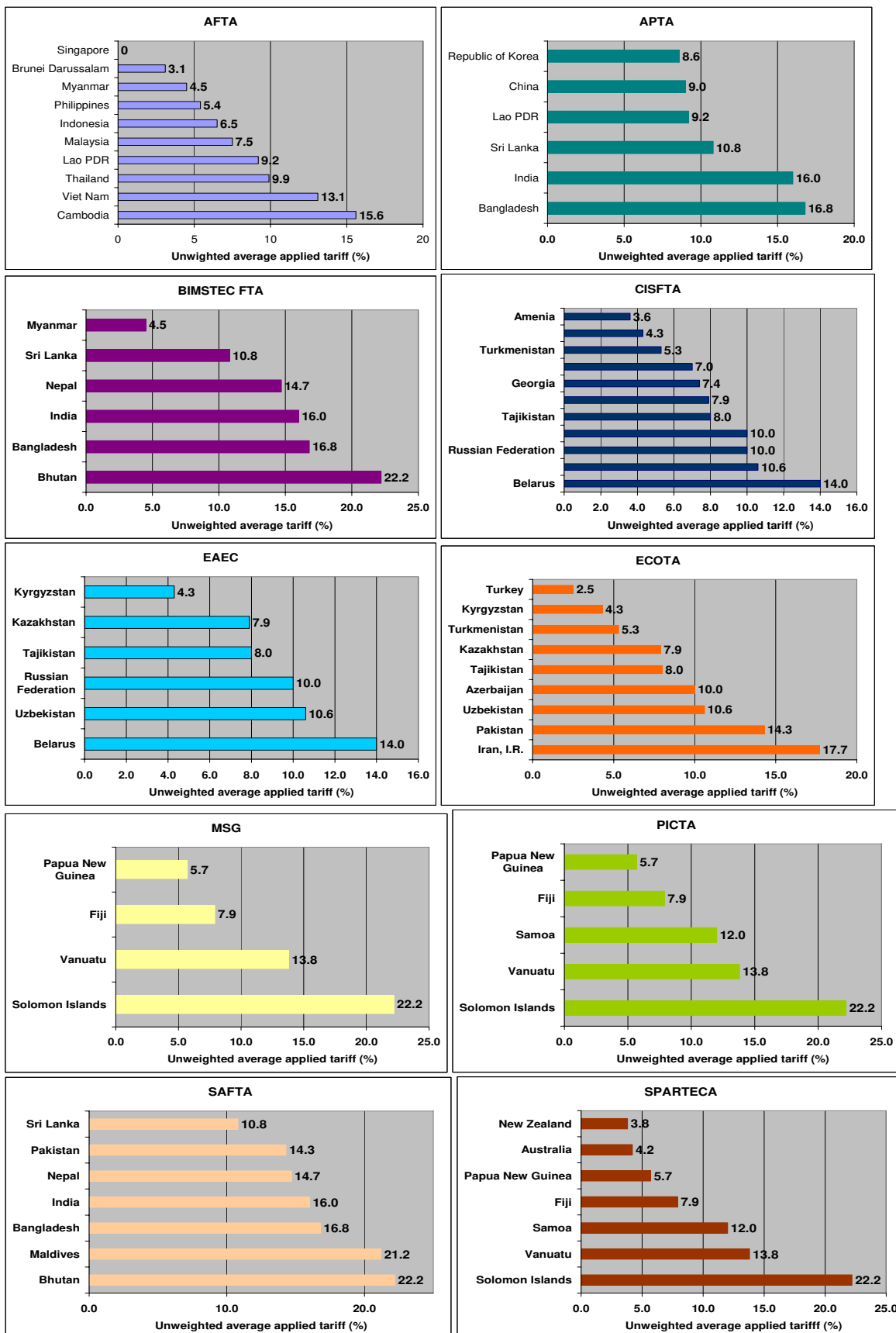
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**Annex figure 1. Unweighted average applied tariffs of members in RTAs in 2005**



**Annex table 1: Comparison of rules of origin applicable to trade between India and Sri Lanka\***

FTA between India and Sri Lanka	APTA	AFTA
<b><i>Determination of origin of not wholly obtained products:</i></b>		
Article 7.a ...products worked on or processed as a result of which the total value of the materials, part or produce originating from countries other than Contracting parties or of undetermined origin used does not exceed <b>65%</b> of the f.o.b. value and the process of manufacture is performed within the territory of the exporting contracting party	Rule 3 (a) ...products worked on or processes as a result of which the total value of the materials, parts or produce originating from non-Participating States or of undetermined origin used does not exceed <b>55%</b> of the f.o.b. value of the products produced or obtained and the final process of manufacture is performed within the territory of the exporting participating state	Rule 8 (a) (ii) ...products worked on or processed as a result of which the total value of the materials, parts or produce originating from other countries or of undermined origin used does not exceed <b>60%</b> of the f.o.b. value of the products produced or obtained and the final process of manufacture is performed within the territory of the exporting contracting state ( <b>70%</b> for LDC and <b>65%</b> for Sri Lanka)
Article 7.b Non-originating materials shall be considered to be sufficiently worked or processed when the product obtained is classified in a heading, at the four digit level, of the HCDCS, different from those in which all the non-originating materials used in its manufacture are classified	Rule 3(c) Formula: $\frac{Value_M + Value_O}{f.o.b.price} \times 100 \leq 55\%$ Where M= imported non-originating materials, parts or produce; and O=undetermined origin materials, parts or produce (65% for LDC)	Rule 8 (a) (i) The final product is classified in a heading at the 4-digit level of the HCDCS differently from those in which all the non-originating materials used in its manufacture are classified
Article 7.e The value of the non-originating materials, parts or produce shall be: i. the c.i.f. value at the time of importation of the materials, parts or produce where this can be proven, or ii. the earliest ascertainable price paid for the materials, parts or produce of undetermined origin in the territory of the Contracting Parties where the working or processing takes place.	Rule 3(d) The value of the non-originating materials, parts or produce shall be: i. the c.i.f. value at the time of importation ...where this can be proven, or ii. the earliest ascertainable price paid for...in the territory of the participating State where the working or processing takes place	Rule 11 (a) The value of the non-originating materials, parts or produce shall be: i)The c.i.f. value at the time of importation of the materials, parts or produce where this can be proven or ii) the earliest ascertainable price paid for the materials, parts or produce of undetermined origin in the territory of the Contracting States where the working or processing takes place
<b><i>Cumulation</i></b>		
Article 8 The value addition in the territory of the exporting contracting party shall not be less than 25% of the f.o.b. value of the product under export, and aggregate value addition in territory of the contracting parties is not less than 35% of the f.o.b. value of the product under export.	Rule 4 The aggregate content originating in the territory of the participating states is not less than 60% of its f.o.b. value (50 % for the LDC)	Rule 9 The aggregate content (value of such inputs plus domestic value addition in further manufacture) is not less than 50% of the f.o.b. value; The domestic value contents (value of inputs originating in the exporting contracting state plus domestic value addition in further manufacture in the exporting contracting state) is not less than 20% of the f.o.b. value; And the final product satisfies the condition of change in classification at the 4-digit level CTH

Source: Compiled from respective rules of origin of each agreement downloadable from APTIAD

\* While these two countries are also members of BIMSTEC (other members include Bangladesh, Bhutan, Myanmar, Nepal, and Thailand), there is no electronically accessible legal text of that agreement and furthermore rules of origin are yet to be negotiated so they could not have been included in the above table.

**Annex table 2: Average MFN applied tariffs and Bound rates by major sectors in recent years**

Code	Country/Group /b	Year	Average Tariff Rate (unweighted in %) /a			Bound Tariff Rate (unweighted in %)			Binding Coverage (in %)		
			All Goods	Agriculture	Manufactures	All Goods	Agriculture	Manufactures	All Goods	Agriculture	Manufactures
1	Bangladesh	2003	19.5	21.7	19.2	163.8	188.5	35.7	15.8	100.0	3.0
1	Bhutan	2002	16.6	20.1	16.1						
1	Cambodia	2002	16.4	19.7	15.9						
1	India	2004	28.3	30.0	25.3	49.8	114.5	34.3	73.8	100.0	69.8
1	Kyrgyz Rep.	2003	5.3	8.8	4.4	7.4	12.3	6.7	99.9	100.0	99.9
1	Lao PDR	2003	8.6	15.9	8.2						
1	Mongolia	2004	5.0	5.1	5.0	17.6	18.9	17.3	100.0	100.0	100.0
1	Myanmar	2003	4.8	8.7	4.1	83.6	102.8	22.3	17.3	100.0	4.7
1	Nepal	2003	13.8	14.0	13.8						
1	Pakistan	2004	15.9	13.9	16.1	52.4	97.1	35.3	44.3	92.6	37.0
1	Papua New Guinea	2004	6.0	14.9	4.6	31.8	43.2	30.1	100.0	100.0	100.0
1	Solomon Islands	2003	22.2	34.0	20.5	78.8	70.7	80.0	100.0	100.0	100.0
1	Tajikistan	2004	8.0	9.9	7.8						
1	Uzbekistan	2003	10.6	10.8	10.7						
1	Vietnam	2004	13.7	18.1	12.9						
2	Armenia	2004	2.7	7.8	2.0	8.5	14.7	7.5	100.0	100.0	100.0
2	Azerbaijan	2002	8.7	12.7	8.1						
2	China	2004	10.3	15.0	9.5	10.0	15.8	9.1	100.0	100.0	100.0
2	Fiji	2004	7.9	10.4	7.5	40.1	40.4	40.0	52.3	100.0	45.0
2	Georgia	2004	7.8	11.4	6.7	7.2	11.7	6.5	100.0	100.0	100.0
2	Indonesia	2004	6.4	8.0	6.1	37.1	47.0	35.6	96.6	100.0	96.1
2	Iran, Islamic Rep.	2004	17.8	14.3	18.0						
2	Kazakhstan	1998	9.5	9.0	9.5						
2	Malaysia	2003	7.3	2.1	8.1	14.5	12.2	14.9	83.7	99.9	81.2
2	Maldives	2003	20.2	18.3	20.5	36.9	48.0	35.1	97.1	100.0	96.7
2	Philippines	2004	7.5	11.8	6.9	25.6	34.7	23.4	66.8	99.4	61.8
2	Russian Fed.	2002	10.3	10.8	10.1						
2	Sri Lanka	2004	10.2	15.4	9.6	29.8	49.7	19.3	37.8	100.0	28.3
2	Thailand	2003	14.7	16.2	14.6	25.7	35.5	24.2	74.7	100.0	70.9
2	Turkey	2004	10.0	42.9	5.0	29.4	60.2	17.5	47.3	100.0	39.3
2	Turkmenistan	2002	5.1	13.5	3.8						
2	Vanuatu	2002	13.8	15.7	13.5						
3	Brunei	2002	2.6	0.0	3.0	24.3	23.2	24.5	95.3	97.6	95.0
3	Hong Kong, China	2004	0.0	0.0	0.0	0.0	0.0	0.0	45.7	100.0	37.5
3	Macau, China	2004	0.0	0.0	0.0	0.0	0.0	0.0	26.8	100.0	15.6

3	Singapore	2004	0.0	0.0	0.0	6.9	9.5	6.3	69.2	100.0	64.5
4	Australia	2004	4.2	1.1	4.6	9.9	3.2	11.0	97.0	100.0	96.5
4	Japan	2004	4.7	10.4	3.3	5.0	10.9	3.6	99.6	100.0	99.5
4	Korea, Rep.	2004	11.9	42.5	6.6	16.1	52.9	10.2	94.4	99.1	93.7
4	New Zealand	2004	3.2	1.7	3.4	10.3	5.7	11.0	99.9	100.0	99.9
4	United States	2004	4.3	8.2	3.7	3.6	6.9	3.2	100.0	100.0	100.0
1-2	<b>Memo Items: Average</b> Developing countries (134)	1998- 2004	11.4	15.0	10.8	39.5	53.6	26.0	74.1	99.6	70.2
1	Low Income (51)	2000- 2004	13.0	16.4	12.3	60.7	81.0	32.7	68.9	99.1	64.3
2	Middle Income (83)	1998- 2004	10.0	13.8	9.4	24.1	33.6	21.2	77.8	99.9	74.5
3	High Inc. Non-OECDs (13)	2002- 2004	0.7	0.0	0.8	7.8	8.2	7.7	59.3	99.4	53.2
4	High Income OECDs (10)	2003- 2004	5.7	12.8	4.3	9.0	15.9	7.8	98.2	99.8	97.9

Notes: /a Based on simple average of MFN applied tariffs available in the latest year. Product categories are defined by HS classifications as all goods (HS 01-97), agricultural goods (HS 01-24), and manufacturing goods (HS 25-97).

/b Based on the classifications of income in WDI 2006; Figures in parentheses indicate numbers of countries/economies in the group.

/c Include specific tariffs.

Sources: WTO, IDB and CTS CD ROMs 2005 and Trade Policy Review, various issues, 1993-2005; and World Bank. World Development Indicators, 2005.

**Annex table 3. Coverage of Agriculture goods in Intra-South Asian preferential trade agreements**

<b>Agreement (Reference Year)</b>	<b>Approach for Listing Concessions</b>	<b>Agricultural tariff lines eligible for concessions</b>	<b>Preferences as a % of MFN tariff</b>	<b>Rules of Origin</b>	<b>Inclusion of NTBs</b>	<b>Conditions on Domestic Support/Export subsidies<sup>1)</sup></b>	<b>Technical Cooperation</b>	<b>Inclusion of Services</b>
<b>SAPTA (1999)</b>	Bilateral Negotiations (multilateralized to all members)	866 Bangladesh 229, Bhutan 61, India 223, Maldives 30, Nepal 141, Pakistan 107, Sri Lanka 85	5-20 (LDC 5-30)	40-50% of local content	Yes Sensitive List (Pakistan uses positive list for imports from India)	No	Yes	No
<b>Indo-Lanka Free Trade Agreement (2000)</b>	Negative list Approach	India: 53 Sri Lanka 23		25- 35% local content	Yes TRQ and Designated entry points  India: Tea	No	Yes	No
<b>Pakistan Sri Lanka Free Trade Agreement (2005)</b>	Negative List Approach	Pakistan 41 Sri Lanka 21	Duty Free subjected to TRQ	25-35% local content	Yes TRQ: Sri Lanka: Rice, Potato. Pakistan:-Tea, Betel leaves	No	Yes	No
<b>India-Nepal (2002)</b>			Duty-free access to Indian Market Nepal: 10-20 % tariff reductions form 10-110% tariff bands	30% minimum content of Nepalese or Indian products	TRQ-Quotas allocate to Indian State Trading Enterprises	No		No
<b>India-Bhutan: (2003)</b>					Provisions for Bhutan to use NTB	No		No
<b>Bangladesh-Bhutan (2003)</b>		Bangladesh: 58	23 % MOP (apple and apple juice)			No		No

**Annex table 4. Provisions concerning contingent protection to agriculture and technical standards within PTAs**

Title	Approach to liberalization	Anti-dumping	Countervailing duties	Safeguards	Technical standards
<b>South-East Asia</b>					
<b>ASEAN Free Trade Area (AFTA)</b>	<ul style="list-style-type: none"> <li>• Positive List: Common Effective Preferential Tariff (CEPT) Inclusion List</li> <li>• Tariff reduction (to 0-5 per cent level) implemented in ASEAN-6, under way in new ASEAN members</li> <li>• Further negotiation needed to include Highly Sensitive Products List under the agreement</li> </ul>	n.a.	n.a.	n.a. (But there is an exclusions list)	Creates the ASEAN Consultative Committee for Standards and Quality
<b>ASEAN–China Free Trade Area (ACFTA)</b>	<ul style="list-style-type: none"> <li>• Positive list</li> <li>• Tariff elimination by 2010 for ASEAN-6 and China; 2015 for New ASEAN members</li> <li>• Three tracks of tariff reduction: Early Harvest Programme (EHP), both for negative and positive list); and Normal Track and Sensitive Track, only for positive list</li> <li>• Calls for negotiations for further accelerating liberalization</li> </ul>	Follow WTO principles	Follow WTO principles	Follow WTO, allowed within five years of liberalization for up to three3 years (plus one-year extension)	n.a.
<b>Singapore–Australia Free Trade Agreement (SAFTA)</b>	<ul style="list-style-type: none"> <li>• Negative list</li> <li>• Tariff elimination by entry in effect of the agreement.</li> </ul>	Within WTO rules. Detailed process to initiate measures.	Within WTO rules.	Not allowed	Based on the previous Mutual Recognition Agreement on Conformity Assessment and calls for harmonization within APEC, WTO guidelines.

Title	Approach to liberalization	Anti-dumping	Countervailing duties	Safeguards	Technical standards
<b>Singapore–EFTA Free Trade Agreement</b>	<ul style="list-style-type: none"> <li>Positive list of products covered, but with exceptions</li> <li>The FTA covers only those products falling within Ch. 25 through 97 of HS Coding System; fish/other marine products; and processed agricultural goods</li> <li>Tariff elimination by signing of the agreement</li> </ul>	Not allowed, should be solved through consultation.	n.a.	For one year only, extendable to three years.	Subject to WTO Agreement on SPS
<b>Singapore–India Comprehensive Economic Cooperation Agreement</b>	<ul style="list-style-type: none"> <li>Positive list into India, all goods free into Singapore</li> <li>Full tariff elimination or reduction by 2010</li> <li>Further liberalization through negotiation</li> </ul>	Allowed	Following WTO	Allowed	Cooperation towards mutual recognition
<b>Agreement between Singapore–Japan for a New-Age Economic Partnership (JSEPA)</b>	<ul style="list-style-type: none"> <li>Positive list</li> <li>Full tariff elimination</li> <li>Foresees inclusion of more goods in the list</li> </ul>	n.a.	Following the WTO Agreement on Safeguards	Following the WTO Agreement on Safeguards	Calls for mutual recognition, and sets out the standards to register new conformity assessment bodies in the Sectoral Annexes
<b>Singapore–Jordan Free Trade Agreement</b>	<ul style="list-style-type: none"> <li>Positive List</li> <li>Tariff elimination in 10 years.</li> <li>Possible acceleration through negotiation</li> </ul>	WTO plus	According to WTO commitments	According to WTO plus some specifications on the process	n.a.
<b>Agreement between Singapore and New Zealand on a Closer Economic Partnership (ANZSCEP)</b>	<ul style="list-style-type: none"> <li>Tariff elimination by the signing of the agreement</li> </ul>	WTO rules, with more strict requirements	Not allowed.	Not Allowed	Mutual and unilateral recognition and harmonization of standards

Title	Approach to liberalization	Anti-dumping	Countervailing duties	Safeguards	Technical standards
<b>Singapore–United States Free Trade Agreement (USSFTA)</b>	<ul style="list-style-type: none"> <li>Positive list and schedule</li> <li>Tariff elimination in 10 years at the most (depending on the staging category)</li> <li>New products/services can be included through negotiation</li> </ul>	Allowed under domestic law principles	Allowed under domestic law principles.	Allowed, linked to WTO Agreement on Safeguards requirements.	Enhance cooperation in standards, certification and conformity assessments
<b>Thailand–Australia Free Trade Agreement (TAFTA)</b>	<ul style="list-style-type: none"> <li>Positive list and schedule</li> <li>Tariff elimination by 2010</li> <li>Calls for consultations in order to accelerate the schedule</li> </ul>	WTO Agreement on Implementation of WTO Art VI. Time frame: 12 months (Six months for seasonal products)	Accepted, following WTO principles.	Accepted, for up to two years. Special provisions for agricultural products.	SPS: comply with WTO obligations, work towards harmonization and setting up a Experts Group. TBT: same.
<b>Thailand–India Framework Agreement for Establishing an FTA</b>	<ul style="list-style-type: none"> <li>There is an early harvest scheme with products to be liberalized in 2004.</li> </ul>	n.a.	n.a.	n.a.	n.a.
<b>Thailand–Lao People’s Democratic Republic Preferential Agreement</b>	<ul style="list-style-type: none"> <li>n.a.</li> </ul>	n.a.	n.a.	n.a.	n.a.
<b>Thailand–New Zealand Closer Economic Partnership Agreement</b>	<ul style="list-style-type: none"> <li>Positive List</li> <li>Upon entry into force, New Zealand will eliminate duties on 5,878 Thai products while Thailand will do the same for 2,978 export items</li> <li>New Zealand will scrap duties on another 697 items by 2010, and on 858 products on the sensitive list including textiles, clothing and shoes by 2015.</li> <li>Tariff elimination by 2014</li> <li>Tariff elimination acceleration is encouraged</li> </ul>	Following WTO commitments	Following WTO commitments	Specific requirements for bilateral safeguards	Calls for harmonization



Title	Approach to liberalization	Anti-dumping	Countervailing duties	Safeguards	Technical standards
<b>Trans-Pacific Strategic Economic Partnership Agreement (Brunei Darussalam, Singapore, New Zealand and Chile)</b>	<ul style="list-style-type: none"> <li>Negative approach</li> </ul>	Following WTO	Following WTO	Following WTO	Calls for cooperation
<b>China–Hong Kong, China Closer Economic Partnership Arrangement (CEPA)</b>	<ul style="list-style-type: none"> <li>Positive List</li> <li>Tariff elimination by 2005</li> <li>Every year, new products can be included in the no-tariff list (1 October every year)</li> </ul>	Parties commit to not applying them on each other's goods	Parties commit to not applying them on each other's goods	n.a.	n.a.
<b>China–Macao, China Closer Economic Partnership Arrangement (CEPA)</b>	<ul style="list-style-type: none"> <li>Positive list, can be reviewed annually</li> <li>Tariff elimination by 2006</li> </ul>	n.a.	n.a.	n.a.	n.a.
<b>Japan–Mexico Economic Partnership Agreement</b>	<ul style="list-style-type: none"> <li>Positive List</li> <li>Tariff elimination in five or seven years (particularly for tariff quotas)</li> <li>Accelerated elimination possible through consultation</li> </ul>	WTO commitments	WTO commitments	Allowed, maximum 3 years	Cooperation for harmonization
<b>Republic of Korea–Chile Free Trade Agreement</b>	<ul style="list-style-type: none"> <li>Positive List</li> <li>Tariff elimination in zero, 5, or 10 years according to schedule (some exceptions up to 13 years)</li> <li>Accelerated tariff elimination through consultation</li> </ul>	Subject to GATT Art VI	Subject to GATT Art VI	Subject to GATT Art XIX	WTO plus

Source: APTIAD, 2006 as cited in Pasadilla (2007)