

Executive Summary

International trade and investment have enabled many countries in the Asia-Pacific region to boost economic growth and have lifted millions out of poverty. As the Asia-Pacific region continues to thrive economically, trade and investment barriers are being dissolved and eliminated. As countries begin to depend on each other more, trade policy is gradually becoming a useful measure to achieve inclusive and sustainable development. Trade and investment are linked to the environment (e.g., causing environmental degradation, which can hinder trade in environmentally-friendly goods and technologies) and social issues (e.g., gender, employment, reducing poverty); hence, their impacts are also multi-dimensional. It has now been recognized that sustainable production and consumption are essential for sustainable development. Countries realize that they are not able to approach global and regional problems on their own and require cooperation, both at the level of government and business. As a result, the region has been active in concluding regional cooperation frameworks which routinely are centered on trade and investment. In the meantime, business has forged regional integration through the formation of regional value chains and production networks while governments have paved the way for the expansion of such production networks through the formation of regional trade agreements and economic partnerships. Thus, with regard to economic integration the Asia-Pacific Trade Agreement (APTA), which is the oldest preferential trade agreement in the region with a large consumer base, can play an important role in filling this gap.

Chapter 1 of this book gives an overview of the APTA. With the above objectives, this chapter gives an overview of APTA and provides an update on the developments taken place. The salient features of this RTA as well as the Framework Agreements on Trade Facilitation, Investment and Trade in Services have been duly ratified by all members of APTA and subsequently entered into force, are explained in detail. The chapter highlights the accession procedure, compares APTA rules of origin with other PTAs in the region, examines the frequency of SPS and TBT measures on concession items and highlights how ASEAN and SAARC have tried to address the issues relating to NTMs, especially the SPS- and TBT-related measures. This chapter explores the role of APTA in regional integration of Asia and the Pacific region, especially in view of other mega-RTA blocks that are being negotiated. The chapter also highlights APTA's linkages with ESCAP's RECI initiative, SDGs and other ESCAP's agreements and suggests that in order to keep itself relevant in the present era; the APTA will have to redesign itself in promoting South-South trade, investment, technology and innovation.

Chapter 2 examines how the APTA Participating States can promote trade and investment linkages among themselves. The chapter first highlights the tariff concessions granted due to the conclusion of the Fourth Round negotiation and examines the intra-APTA trade and investment flows. While highlighting the provisions of APTA Framework Agreement on Promotion, Protection and Liberalisation of Investment, it compares the coverage of issues in various investment agreements of economies in the region. The chapter highlights that the implementation of the Fourth Round tariff concessions may boost market access opportunities and encourage South-South economic cooperation. The authors also

suggested that the initiatives on cooperation may create a more transparent regime for investors, thereby promoting intra-APTA business and investment linkages; however, a commitment to liberalizing investments in the Participating States of APTA will pave the way to not only enhance intra-APTA investment flows but also investment flows from transnational corporations in non-members seeking efficiencies in their supply chains.

Chapter 3 analyses the opportunities and challenges regarding the accession of Pacific Island Forum Countries (PIFCs) to the APTA, while exploring the strategies for such accession. The Pacific Island Countries Trade Agreement (PICTA) is between the 14 PIFCs which entered into force in 2003. Out of the 14 PIFCs only 11 countries (the Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu) have ratified PICTA. The authors examined the trade between six PICTA members (Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu), due to data limitations, the authors used the methodology of the revealed comparative advantage, trade complementarity and gravity model to evaluate benefits of membership in APTA. The chapter has identified the products on which tariff concessions are available for PICTA members. While concluding, the authors recommend that PIFCs can gain from their accession to the APTA. This can be further ensured with the promotion of trade facilitation and pursuit of cooperation between the two regions in developing areas such as transportation, logistics, telecommunication, tourism and the primary sector which can result in a win-win situation for APTA Participating States and PICTA members.

Chapter 4 examines the benefits of accession to APTA for the Marshall Islands, the Federated States of Micronesia and Palau. The author identifies the principal export items from these countries to the Participating States of APTA and used the methodology of revealed comparative advantage, trade complementarity index and potential to exports to evaluate the benefits of accession. The study concluded that if these countries could join APTA, the membership can help promoting their trade and investment flows and thereby helping their economies diversify. The author also suggests that these countries can further gain due to the services and investment agreements and cooperation and thereby improving their infrastructure, tourism, technology and other sectors which can also contribute to enhancing their productive capacities.

Chapter 5 assesses the potential benefits from accession to APTA by the Central Asian Republics (CARs) as well as the Participating States of APTA and possible strategies for expanding APTA membership to the CARs. The author points that although the five CARs (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) are landlocked countries and they often trade among themselves instead of with the other countries, the APTA can act as a Pan-Asian economic integration that creates more trade opportunities in Central Asia. The chapter examines the CARs' structure and direction of trade, trade policies, FDI flows and energy resources, engagements in regional trade agreements in order to assess the benefit of their accession to the APTA. The author also analyses the CARs-APTA trade integration in relation to the CGE simulations and uses the augmented gravity model estimation of gains. Furthermore, the chapter calculates the potential range at the product level as a minimum of CARs' exports to the world and the potential exports by the CARs to the Participating States of APTA. The chapter concludes by recommending accession of

the CARs to the APTA due to the potential for mutually advantageous gains by both sides from integration.

In chapter 6 the accession benefits of Bhutan, Myanmar and Nepal to APTA is discussed. The chapter examines the trade and investment flows of these countries with APTA Participating States and also evaluates their different bilateral and plurilateral preferential trade agreements that the Participating States of APTA have with these potential members, including duty-free and quota-free schemes. The chapter also calculates the additional market access frontier of these countries with individual APTA Participating States as well as their trade on items on which tariff concessions have been agreed in the Fourth Round. The author notes that since APTA involves three major economies of Asia – China, India and the Republic of Korea – which collectively provide a large market to many countries in the world, these LDCs would benefit from their accession due to better and easy rules of origin and cumulation provisions. It also concludes that since Bhutan, Myanmar and Nepal do not have effective services and investment agreements with their important trade partners, acceding to the APTA could be beneficial for these countries due to strong special and differential treatment provisions.

Chapter 7 examines the potential benefits for Pakistan if it accedes to the APTA, as well as the benefits for Participating States of APTA. The authors have analysed the macroeconomic performance, trade performance and revealed comparative advantage, trade agreements of Pakistan, including with the APTA Participating States, and used a partial equilibrium analysis to analyse the effects of tariff concessions of APTA. The chapter also examines the trade in services, investment flows, barriers related to trade facilitation and Pakistan's efforts to address some of the impediments. The authors recommended that both Pakistan and APTA Participating States would benefit from Pakistan's accession.

Chapter 8 carries forward the studies done in chapters 3 and 4 by evaluating the potential of regional supply chain that can be formed between the PICTA members and the Participating States of APTA with the aim of improving cost competitiveness among those countries. The authors use the classification of raw materials and intermediate products and examine their exports by the PICTA members to the Participating States of APTA and identify the products where a regional supply chain can be established. The study also calculated the sectoral intra-industry trade and aggregate industry trade between the Participating States of APTA and PICTA members. The chapter notes that PICTA members' exports cover mostly the raw materials and there is a high potential for being a part of APTA regional supply chain by exporting fish products, wood products and metal items. On the other hand, the PICTA members can source capital goods from APTA Participating States which will enhance their production capability and gradually can help them shifting to the higher value chain of production process, which will be beneficial to them in long run to become a part of global supply chain. Authors observe that China and the Republic of Korea are the two Participating States of APTA with the largest possible markets for PICTA members in terms of their exports of raw materials and intermediate products and among the PICTA members. Fiji and Papua New Guinea have the highest number of raw materials and intermediate products with the potential to be included in the supply chain with the Participating States of APTA.

In view of the APTA Framework Agreement on Promotion and Liberalisation of Trade and Services and a likelihood of starting negotiations in services, chapter 9 examines the potential of trade in services among APTA Participating States. The chapter highlights the features of the Framework Agreement on Trade in Services, examines the contribution of services to their economies and the services trade performance. The chapter evaluates the services trade restrictiveness index, trade specialization index and commitments of APTA Participating States in their economic integration agreements in services. Upon examining the complementarity in services sector's trade among APTA Participating States, the authors prescribe the approach that can be taken in services negotiations and identify that sectors of other business services, transportation, tourism, information and communication technology, construction, commercial would benefit from such integration. The chapter also suggests liberalisation of movement of natural persons (under Mode 4) in order to ensure that service suppliers are able to meet the demands of APTA market for services.

In view of the rising demand of energy and moving towards meeting energy security by many economies of the Asia-Pacific region, chapter 10 examines the prospects of energy security through regional trade. While examining the demand and supply of various forms of energy (oil, gas, electricity, etc.), the chapter evaluates the trade pattern of selected Asia-Pacific economies. The chapter notes that the efforts aimed at achieving energy security have mostly favoured bilateral approach and most of energy trade is extra-regional. The authors examine how APTA could facilitate the free flow of goods and technological know-how for creating energy efficiency in the region and observe that APTA is poised to serve as a framework for effective cooperation in energy trade. The chapter concludes by stating that Central Asian and South Asian countries and the Participating States of APTA should consider jointly working towards expanding APTA membership to attain a 'win-win' situation for energy trade and energy security. As the APTA has an open-ended membership, it is easy for any ESCAP member to seek accession, which would also facilitate the free flow of goods and technological know-how for enhancing energy efficiency.

Chapter 11 attempts to develop a future roadmap for APTA in view of many RTAs in the region including mega-RTA blocks. The author has showcased how the APTA has been a powerful engine for growth and integration. The chapter looks into the intraregional exports among the Participating States of APTA, the variable geometry of the Asian regionalism and explained the regional value chains using the fragmentation theory. The author stresses the importance of establishing an open and transparent trading system because regional cooperation can immensely facilitate growth in trade and investment flows. In conclusion, the author suggests that APTA must aim to move from the conventional preferential agreement to a comprehensive economic integration agreement by converting to FTAs in goods, services, investment, trade facilitation and NTMs. It also recommends the APTA Participating States to initiate discussions on cooperation in the area of energy, digital connectivity, tourism, audio-visual services; science, technology and innovation; climate-smart goods and technologies which could benefit the Participating States. The author recommends that APTA can be a useful mechanism for regional integration for Asia and the Pacific if membership is expanded and people to people contacts are facilitated. The chapter also recommends for raising the level of APTA Ministerial Council to the

Summit level, as the case in other fast moving RTAs in the region, and strengthens the Secretariat in order to cater to the rising demands.

Given a slow progress in the multilateral negotiations in the WTO, especially when the members have started questioning the utility of the negotiations after 15 years, and a lack of consensus on how to move forward, the regional trade agreements can play a vital role. Even if they pose a challenge to the multilateralism, selected liberalisation of trade and economy in present time can become a building block for future multilateral negotiations. One of the reasons for the surge in these preferential trade agreements is to make binding commitments on WTO-plus and WTO-beyond issues. While there are many agreements that exist in Asia and the Pacific, there is no such attempt to consolidate them in one umbrella framework. Understanding the benefits of the consolidation, one such initiative was started by ESCAP a few years back. The RECI initiative for market integration could well be facilitated by APTA; however, it cannot deliver unless it transforms itself in a new generation agreement. Regional integration and cooperation are also important to meet the 2030 agenda for sustainable development. Instead of wasting resources in discussing a new institutional framework, it would be more effective to use the existing framework and for the Asia-Pacific economies, the APTA provides an existing institutional platform. The cases discussed in this book prepare a ground for the future, and it is expected that all the stakeholders, member States of ESCAP, private sector as well as researchers would benefit from this publication on *APTA: South-South Regional Integration and Sustainable Development*.