



Regional Rapid Response Trade Bulletin

Flier Number 1

The Cancun aftermath: from Bali to Bangkok to.....

Up to the late 1990s, the ESCAP region was the least “regionalized” in terms of regional trading arrangements notified to the WTO. Since then the situation has changed dramatically. At last count, about 80 bilateral agreements were under negotiation in the region. The number could be higher.

The collapse of Cancun was yet another reminder of how complex and slow the multilateral process is. Under this scenario, it is widely believed that there will be a surge in regionalism, with bilateral agreements forming the most popular way of achieving quick gains from trade.

Consider the following:

- At the Bali Summit of ASEAN leaders, agreements were signed between:

India-Thailand: a bilateral FTA, with an early harvest scheme in which around 100 products will be eligible for zero duty by March 1, 2006 was agreed to. IT hardware exports from Thailand, and IT software exports from India are expected to significantly boost trade between the two countries. The FTA excludes sectors that are in competition with each other, e.g. automobile components and gems.

China-Thailand: Negotiations on bilateral FTA also surged ahead, with more than 100 products in the fruits and vegetables category identified for duty free treatment.

India-ASEAN: A Framework Agreement on Comprehensive Economic Cooperation that is expected to bring about a PTA/FTA within the next 10 years was signed. An early harvest scheme that will achieve zero duty on about 100 industrial products by 2007, and 2010 for the four new ASEAN members was also agreed to.

China-ASEAN: Although the agreement to form an FTA within 10 years predates Bali by more than a year, negotiations forged ahead in Bali. The first phase of negotiations is reaching completion.

Japan-ASEAN: A Comprehensive Economic Partnership Framework Agreement is expected to bring in a FTA by 2012. As compared to the China-ASEAN agreement, the approach goes much wider than traditional tariff liberalization. It is driven by business sector interests, and therefore places emphasis on investment liberalization and facilitation, freer movement of business people, services liberalization, cooperation in high growth areas of ICT and e-commerce, scientific and technical cooperation, research, academic and cultural exchanges etc.

ASEAN+3: has followed a parallel approach to the ASEAN+1+1+1 (ASEAN+China, ASEAN+Japan, ASEAN+RoK) initiatives. China, Japan, the Republic of Korea signed a tripartite agreement to widen and deepen collaboration. Security, technology (particularly ICT) and energy featured prominently. The agreement stopped just short of a firm commitment to form an FTA.

The ASEAN+1+1+1 is making headway faster than the ASEAN+3 approach, which is the approach that the Republic of Korea, as the smallest of the three East Asian economies might prefer.

...but this is only a part of the picture

- At the **Bangkok Summit** of **APEC** leaders more announcements are expected. Japan for example has already indicated it hopes to launch negotiations with the Republic of Korea on a bilateral FTA. The United States is also expected to move boldly with selected trading partners on the bilateral front.

In short: Regionalism has moved into a new age mode. A much wider and complex network of countries with overlapping memberships exists than in earlier configurations. (see Figure 1) It also encompasses countries that are at much wider levels of economic development than before. The depth and scope of liberalization, as well as the sectoral coverage vary considerably, as do the approaches adopted. A few countries prefer a focused core tariff liberalization approach only, while many others prefer wider economic partnerships, with cooperation in softer issues being the means to forge consensus on core trade and investment liberalization issues.

...and where next?

- Has the ESCAP region found a new approach in these bilateral initiatives that promises greater economic benefits than the non-discriminatory (MFN) WTO or APEC-wide approach to liberalization? Will these initiatives reinvigorate or detract from the ongoing WTO negotiations? Or will all these initiatives eventually lead to an amalgamation and provide a fast track to the ultimate achievement of global free trade under multilateralism? What are the prospects for a forward-looking Pan-Asian Economic Partnership Agreement?
- Keep watching this space