ASIA-PACIFIC
TRADE AND INVESTMENT TRENDS
2020/2021

*Preferential Trade Agreements in Asia and the Pacific: Trends and Developments*

[Image: Map of Asia and the Pacific with colorful circles around it]
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ACKNOWLEDGEMENTS:

This Brief was prepared by Witada Anukoonwattaka and Natnicha Sutthivana, Trade Policy and Facilitation Section (TPFS), Trade, Investment and Innovation Division (TIID) with substantive inputs and under the guidance and supervision of Mia Mikic, Director, TIID; and Yann Duval, Chief, TPFS, TIID. The report was edited by Tony Oliver. Richard Sean Lobo provided research assistance. Cover design and editorial layout were carried out by Yaoling Liu. We are grateful to Deborah Elms for a permission to use her text for Box on Services and Investment provisions in RCEP.

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Highlights

• The Asia-Pacific region continues to be the largest contributor to the worldwide build-up of preferential trade agreements (PTAs). Looking at the stock of PTAs with at least one party from Asia-Pacific region, 184 trade agreements are in force, 19 are signed and pending ratification, and 95 are still under negotiation (as of December 2020).

• The majority of PTAs go beyond the liberalization of trade in goods, with 54% of all enforced PTAs in the region covering both goods and services.

• Bilateral PTAs account for approximately 78% of all PTAs in force. In terms of geographical coverage, 49% of all Asia-Pacific region PTAs are with economies outside the region, which reinforces the claim about the Asia-Pacific economies’ actively participating as dialogue partners within as well as outside the region.

• Between January 2018 and December 2020, 27 new PTAs were signed that had at least one Asia-Pacific region’s economy. Of these, 10 were signed in 2018, 11 in 2019, and six in 2020 (as of December 2020).

• The number of newly-signed PTAs by the Asia-Pacific economies has more than halved from the previous year. This was mostly due to the COVID-19 pandemic, which not only disrupted international trade flows, but also caused some trade negotiations to stall. From the 10 outstanding PTA initiatives started since January 2019 (six intraregional and four extra regional), only three have commenced negotiations during 2020. As of December 2020, none of the new initiatives have been signed.

• On the other hand, the pandemic has emphasized the needs to ensure trade openness and supply chain connectivity on essential goods, especially medical supplies. Many economies in the region have reaffirmed their commitment to refraining from the imposition of export controls or tariffs and non-tariff barriers and of removing any existing trade restrictive measures on essential goods, especially medical supplies during the COVID-19 crisis.

• It is also encouraging that new trade agreements signed during the reporting period tend, in general, to include provisions in areas such as investment, labour standards, intellectual property rights, and environmental standards. In fact, all 17 agreements signed during 2019 to 2020 – except Indonesia-Mozambique and the EAEU-Serbia PTAs – go beyond the liberalization of trade in goods.

• The United Kingdom’s efforts to ensure trade continuity after 1 January 2021 under preferential terms included in the existing European Union-third country trade agreements has resulted in a rise in the number (if not the coverage) of Comprehensive Economic Partnership Agreements (CEPA) with the economies in the Asia-Pacific region, and may continue in that direction over the next few years. As of December 2020, the United Kingdom has signed agreements (and so called Mutual
Recognition Agreements, MRA) replicating elements of European Union-third party agreements with selected Asia-Pacific economies, including the Pacific States (Fiji and Papua New Guinea), Georgia, Japan, the Republic of Korea, Singapore, and Viet Nam. The Government of the United Kingdom is also holding discussions on rolling over the European Union preferential trade agreements with Turkey and negotiating new agreements with Australia and New Zealand and has already signed MRA with Australia and New Zealand already.

- Trade negotiators are increasingly turning to including digital trade issues into the PTAs: eight of the 17 trade agreements signed between 2019-2020 already include specific e-commerce provisions. Moreover, regional economies, especially Singapore, have signed Digital Trade Agreements (DTAs). As of December 2020, the region has successfully signed three DTAs: the Japan-United States DTA signed in 2019, while Australia-Singapore Digital Economy Agreement (DEA) and Chile-New Zealand-Singapore Digital Economy Partnership Agreement (DEPA) were both signed in 2020. More agreements, driven by Singapore, are coming their way because Singapore has ongoing negotiations with the Republic of Korea and will start negotiation with the United Kingdom in 2021.

- The Regional Comprehensive Economic Partnership (RCEP) signed on 15 November 2020 is a major milestone towards trade integration in Asia and the Pacific. Even without India’s participation, this agreement accounts for about 30% of global GDP, the world population and world trade. It updates the coverage of existing “ASEAN+1” PTAs and includes chapters that go beyond traditional trade issues, such as chapters dedicated to e-commerce, investment or small-and-medium sized enterprises (SMEs). However, the most important feature of the RCEP (apart for boosting confidence in regional cooperation) is a conversion of multiple rules of origin into a simplified and a single set of rules, which potentially can lead to a higher utilization of this deal especially for the SMEs and GVCs.
1. Introduction

This brief provides an update on the recent trends and developments with regard to the initiatives and approaches of the Asia-Pacific economies towards PTAs. More specifically, it reviews the involvement of Asia-Pacific economies in trade agreements with countries within and outside the region from January 2019 to December 2020. It tracks the creation of new PTAs during this period of increasing uncertainties in global and regional trade and investment. Finally, it assesses the relevance of PTAs for Asia-Pacific economies’ trade by considering how much trade has been covered by such deals among PTA partners.

As of December 2020, there were 305 ‘physical’ PTAs in force worldwide that had been notified to the World Trade Organization (WTO), which is almost a six-fold increase since 2000 (when there were just 55 such agreements). The Asia-Pacific region continues to be a major contributor to the worldwide build-up of PTAs, with more than half of them currently in force PTAs involve at least one Asia-Pacific economy. Nevertheless, in 2020 there were only six new PTAs signed, which is significantly less than in the previous years and could be attributed to the preoccupation of Governments with the COVID-19 pandemic and a wide-spread economic recession.

2. New PTAs in Asia and the Pacific in 2019 and 2020

While many initiatives emerged in 2019 because countries might have felt trade agreements could be a way to mitigate growing protectionist pressures as well as a weakening effectiveness of the multilateral trading system, the emergence of COVID-19 has significantly hindered the progress of trade negotiations around the world since early 2020. Indeed, as countries shifted their attention towards the health emergency and economic contractions, talks on many ongoing PTAs were suspended or delayed. One example of this was the suspension in trade negotiation between Singapore and the Southern Common Market of South America (MERCOSUR), as a result of Argentina’s withdrawal from the agreement due to different handling of the pandemic between the parties (Dezan Shira & Associates, Brazil Liaison Office, 2020). Accordingly, the number of new agreements signed during the past two years has more than halved. From January 2019 to December 2020, Asia and the Pacific
economies signed 17 new PTAs. However, while 11 were signed in 2019, just six were completed during 2020 (and the accession of Solomon Islands to European Union-Pacific States Interim EPA).\(^1\)

Of the 17 PTAs signed during 2019-2020 several were between economic blocs and individual economies (figure 1). These include the comprehensive and ambitious North-South trade agreement between the European Union and Viet Nam,\(^2\) the Eurasian Economic Union (EAEU)-Serbia trade agreement, the EAEU-Singapore trade agreement,\(^3\) and the Regional Comprehensive Economic Partnership (RCEP). Several bilateral trade agreements were signed during the same period including the Australia-Hong Kong, China; Cambodia-China; Australia-Indonesia; China-Mauritius; China-United States; Indonesia-Mozambique; Japan-United Kingdom; Japan-United States PTAs\(^4\); the Republic of Korea-United Kingdom; Georgia-United Kingdom; Singapore-United Kingdom; and Viet Nam-United Kingdom.\(^5\) Among these, two are partial scope agreements including the interim agreement between China and the United States (Phase-I agreement); and Japan-United States. It has to be noted that a number of these agreements, while being put into force or signed, have not been notified to the WTO (and therefore are not observing the Transparency Mechanism agreed by the WTO members).

One of the most significant deals signed and pending ratification is the Regional Comprehensive Economic Partnership (RCEP), which was signed on 15 November 2020, after eight years of negotiations.\(^6\) Even without India’s participation, this agreement accounts for about 30% of global GDP, the world population and world trade. It updates the coverage of existing “ASEAN+1” PTAs and includes chapters that go beyond traditional trade issues, such as chapters dedicated to e-commerce,

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1 The accession of the Solomon Islands was notified to the WTO on 26 Oct 2020, while it came into force in May of that year. Similarly, the accession of Samoa enforced from 31 Dec 2018 was also notified on 26 Oct 2020.
2 The European Union-Viet Nam PTA negotiations began in 2012 and were concluded in 2015. However, the formal signing of the agreement was delayed until 2019 due to a pending opinion of the European Court of Justice on the division of competencies between the European Union and its member States, related to the conclusion of the European Union-Singapore PTA (European Council, 2019). After being notified to the WTO in July 2020, the agreement entered into force on 1 August 2020.
3 The EAEU-Singapore PTA – the Framework Agreement between Armenia and Singapore including trade in goods, services, and investment – was signed in October 2019. However, the services and investment agreements with the other four EAEU member states: Belarus, Kazakhstan, Kyrgyzstan, and the Russian Federation are currently being negotiated. The PTA will be ratified and subsequently enter into force as a whole once the four negotiations are signed and concluded.
4 The Japan-United States PTAs is a limited-scope trade agreement. Both countries stated their intent to begin negotiations on a more comprehensive deal after this initial agreement enters into force (Congressional Research Service, 2019)
5 The Singapore-United Kingdom and Viet Nam-United Kingdom PTAs were signed in December 2020. The Viet Nam-United Kingdom PTA is expected to enter into force on 1 January, 2021.
6 The RCEP negotiations began in 2012 and India withdrew in November 2019. See more details later in this section.
investment or SMEs. Moreover, the deal is also aimed at building the region’s resilience in response to the post-COVID-19 pandemic economic recovery.

As of December 2020, five of the new 17 agreements signed during 2019-2020 have been ratified and put into force. The five agreements include: Australia-Hong Kong, China; Australia-Indonesia; EAEU-Serbia; Japan-United States; and Viet Nam-European Union. There are also eight agreements that were signed before 2019 that have entered into force during the 2019-2020 period. Six of them has entered into force in 2019: ASEAN-Hong Kong, China (signed in 2017); Indonesia-Chile Comprehensive Economic Partnership Agreement (CEPA) (signed in 2017); EAEU-Islamic Republic of Iran (signed in 2018); Hong Kong, China-Georgia (signed in 2018); Japan-European Union (signed in 2018); and Singapore-European Union (EU) (Signed in 2018). Two more agreements signed prior 2019 entered into force in 2020: the Pacific Agreement on Closer Economic Relation (PACPER) (signed in 2017); and Australia-Peru (signed in 2018).

Figure 1. PTAs signed after January 2019

Source: Authors, based on PTA information from the Asia-Pacific Trade and Investment Agreement Database (APTIAD) (accessed December 2020).

Note: *Pacific States that have signed the United Kingdom-Pacific States Interim Economic Partnership (EPA) include Fiji and Papua New Guinea (while Samoa and Solomon Islands have acceded to the one with the European Union).

7 The five agreements enforced do not include the China-United States Phase-I Agreement because of its interim agreement. The Phase-I agreement has been signed and enforced since January 15 2020. However, its future remains uncertain as the ongoing COVID-19 pandemic seriously jeopardized China’s ability to fulfill its Phase-I the United States goods purchasing commitments (Anukoonwattaka, Lobo and Romão, 2020; and Bown, 2020). In October 2020, an interim report on agricultural trade published by the United States Trade Representative and the United States Department of Agriculture revealed that China had met 71% of its target under the Phase-I Agreement to increase agricultural imports from the United States (USTR and USDA, 2020).

8 However, PACER Plus is different from other trade agreements. It is more of a duty-free quota-free agreement that replaces the previous one-way agreement known as the South Pacific Area Regional Trade and Economic Cooperation Agreement (SPARTECA). It differs from SPARTECA, as it obliges Pacific island members to reduce import tariffs over time and to liberalise incoming services trade and investment. Eight countries have now signed and ratified the Agreement: Australia, Cook Islands, Kiribati, New Zealand, Niue, Samoa, Solomon Islands and Tonga.
As of December 2020, there were seven PTAs negotiations had been started in 2019 and three more in 2020 (figure 2). These 10 newly initiated initiatives add to the sizable amount of ongoing PTA negotiations in the region, now having reaching 95 agreements. It shows that RCEP member States tend to be relatively more active than the rest of the region in negotiating new trade agreements. In fact, except for the Turkey-United Kingdom PTA, all of the newly initiated bilateral negotiations involve some of the RCEP member economies. In addition, these newly commenced negotiations include six intraregional initiatives and four cross-regional initiatives. The trend of initiating PTAs with non-traditional trade partners reflects the strategy to diversify trade risks and seek new market opportunities. The trend started even before the COVID-19 pandemic and may be enhanced due to new or exacerbated prior trade and investment issues, especially those related to the GVCs, revealed by the pandemic.

![Figure 2. PTAs for which negotiations commenced after January 2019](image)

Source: Based on information from APTIAD (accessed December 2020).
Note: The China-New Zealand negotiations are to upgrade their already enforced agreement.

Special feature: Regional Comprehensive Economic Partnership finally arrives

In a year when international cooperation has been repeatedly tested, the signing of the Regional Comprehensive Economic Partnership (RCEP) text by its 15 members is a great accomplishment. It has important symbolism for regional integration as it is the only regional agreement bringing together China, Japan and the Republic of Korea under the same trading rules. At the same time, it also includes three of the ASEAN LDCs (Cambodia, the Lao People’s Democratic Republic and Myanmar). Its potential
is real and it would have been even larger if India did not decide to withdraw from the deal in November 2019. In the present configuration it contributes about 30% of global GDP ($26.2 trillion), 28% of global trade and is a home to 2.2 billion people amounting to it being the largest trading bloc. Despite almost 83% of the trade among RCEP members already being covered by their existing PTAs, the impact of the full implementation of the RCEP commitments, according to Petri and Plummer (2020), will add $209 billion annually to world income, and $500 billion to world trade by 2030. In terms of the winners and losers, the same modelling shows that the three large dialogue partners would capture the largest absolute gains. However, the lower income ASEAN member States which were last to join ASEAN will benefit the most in a relative sense. Predictably, India is being singled out as the biggest loser. Given its size, the RCEP should create net gains at the global level and contribute to offsetting the global losses from the United States-China trade war thus pointing to the value-added from regional (and multilateral) cooperation and integration. As discussed in ESCAP (2018), expanding a free trade agreement to all Asia-Pacific countries would cover for all losses of The United States-China tariff war and create a net gain.

RCEP is a comprehensive trade deal comprising 20 chapters. The standard chapters (goods accompanied by trade remedies and standards, services, investment) are complemented by chapters on intellectual property rights, competition, government procurement, e-commerce, SMEs, cooperation and technical assistance and dispute settlement. As expected, not all chapters go into the same level in depth associated with a gold standard for the comprehensive agreements (see box text). The notable exceptions from the texts are provisions on environmental and labour standards and the state-owned enterprises. The tariff reduction (while already ongoing due to all those other existing deals) in few cases extends for at least the next 20 years, but on a positive note it is more an exception since a large number of tariff lines will go to zero duties on the date of entry into force of the deal.

The biggest benefit from RCEP is its simple and easy-to-meet rules of origin which allow cumulation across the RCEP space. This raises expectations that RCEP will replace the current web of the rules which accompany ASEAN+1 agreements and perhaps even many of the bilateral PTAs between individual ASEAN member States and the other RCEP partners (figure 3). This is why it is expected to reorient trade,

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9 As of 2020, there are 30 PTAs that have been signed or are in-force between RCEP members. The majority of these are bilateral agreements between non-ASEAN and individual ASEAN economies: Japan and seven ASEAN economies (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam); Australia and four ASEAN economies (Indonesia, Malaysia, Singapore, and Thailand); New Zealand and three ASEAN economies (Malaysia, Singapore, and Thailand); the Republic of Korea and two ASEAN economies (Singapore and Viet Nam); China and two ASEAN economies (Cambodia and Singapore). Furthermore, China, Japan and the Republic of Korea all have PTAs with ASEAN, while Australia, New Zealand and ASEAN are part of a plurilateral PTA. The remaining agreements include Australia-Japan; Australia-the Republic of Korea; Australia-China; Australia-New Zealand; New Zealand-the Republic of Korea; China-the Republic of Korea; and China-New Zealand.
investment, business and supply chains towards regionally focused relationships in the value chains. The existence of a single RCEP rule of origin for all goods trade means that once a product meets the set RCEP originating criteria, the rules are the same for all 15 member economies. The criteria for meeting this RCEP rule are surprisingly simple: a product needs to either reach an RCEP regional value content (RVC) level of 40% or undergo a change in tariff heading (CTH) at the four-digit HS Code level. It is notable that the RVC is set to 40% only which allows for 60% content to be sourced from outside RCEP – a concrete sign that RCEP is in favour of open regionalism. Once this criterion is met, the product is free for shipment with preferential tariff treatment within the RCEP space encompassing all its 15 members. This will help all types of businesses, included foreign owned that are registered in the region as companies to be able to ship products across the region more easily without encountering different rule of origin criteria for each step in the manufacturing process or in each country crossed (which is of particular importance for more complex GVCs). This will lower costs for all companies with supply chains stretching across the region; it may also help South-South cooperation by consolidating opportunities for the more efficient operation of global value chains in the region at a time when their resilience is being questioned.

Another RCEP feature worth mentioning is that it contains provisions allowing flexibility as well as special and differential treatment for the low-income members (notably, the more recent ASEAN member States that have enjoyed such treatment in the process of ASEAN integration). The flexibility and special and differential treatment principle helps to include implementation delays for some developing country members. Accepting this flexibility allows the more advanced members to not have to compromise on the preferred level of ambitions, as the same level of commitment is accepted by all, but with some delayed timelines for the implementation of some selected commitments.11

10 For example, Cambodia will have an extension of five years to implement provisions like the application of digital technology at customs and the same five-year extension of the timeline for introducing a range of new rules to manage express shipments. Indonesia will be able to delay until February 2022 the implementation of two provisions for advance rulings and risk management. Similarly, Malaysia also asked for one timeline adjustment to February 2022 for express consignments (Asian Trade Centre, 2020).

11 It is important to note that RCEP members are among the highest and lowest levels of GDP per capita regionally and globally.
Services and investment chapters in RCEP*

Understanding services trade and seeing what new access might be on offer is complex. Eight members (Cambodia, China, the Lao People’s Democratic Republic, Myanmar, New Zealand, the Philippines, Thailand and Viet Nam) have opted to schedule services using a “positive list” approach. Put simply, greatly, only those services and investment sectors listed in the Annex II Schedules of Commitments are opened for RCEP participation. The remaining members (Australia, Brunei Darussalam, Indonesia, Japan, the Republic of Korea, Malaysia, and Singapore) chose to use “negative” list scheduling for services and investment in Annex III. In these schedules, Governments are required to include any exceptions from the general principle that all services (and investment) will be open for competition from RCEP member firms.

It is possible, of course, to receive similar levels of openness and protection in both approaches. Having a negative list does not automatically mean greater access, nor does a positive list need to be limited. For example, Indonesia’s schedule of reservations runs to 111 pages, suggesting significant obstacles to trade and investment that are likely to remain. Page counts alone do not tell the whole story, of course. Even a single negative list reservation can be deeply problematic for business if it is too sweeping. Clearly, further analysis will be needed to clarify the details.
All 15 RCEP members used negative list scheduling for investment (except for those already covered under Mode 3 in the services schedules for positive lists). The actual commitments for services and investment will take more time to examine. Investment conditions appear, on first glance, to be stronger than anticipated. As an example, RCEP members promised to do away with what are called performance requirements, such as requirements to make invested firms use a certain level of domestic content, export a certain percentage of goods, transfer technology as a condition of investment and so forth. The specific provisions run to more than a page and go significantly beyond existing ASEAN commitments.

This is examined in greater detail later in this report, but investor-state dispute settlement (ISDS) is not included. However, the agreement does have a long section and a separate annex to detail the rules around expropriation. The agreement also pledges to review mechanisms to manage investor disputes within two years of entry into force, with a timeline of three years for such negotiations to bear fruit.

*The text for this box is taken from Elms (2020) with the permission of the author.

However, the benefits, as in all other trade deals, will depend on the speed and extent of implementation. Agreement will go into force once the majority of ASEAN members and three out of five dialogue partners ratify the agreement. It will enter into force 60 days after the ninth member notifies the ASEAN Secretariat (acting as the official Depositary). After that, the other members can join the agreement 60 days after their own documents are deposited with the ASEAN Secretariat. It is speculated that it may take until the end of 2021 for the agreement to enter into force, and for the provisions to be used to enable preferential trade and investment. In addition, some members would be able to use the RCEP provisions to drive and anchor some domestic reforms and regulatory alignments there are still needed, although this agreement is not seen as one of those external anchors for the domestic reforms (in contrast to the original Trans-Pacific Partnership text).

The agreement is open to accession by other developing countries 18 months after it comes into force with the exception of India, which can accede as soon as the deal into effect. In contrast to many other PTAs, RCEP establishes its own secretariat which will assist in monitoring ratification and implementation of the agreement. The open regionalism is embraced by all parties to RCEP, and as all but three LDCs members are also members of APEC. It is expected that RCEP, may be seen as the stepping-stone to the APEC-wide FTA. However, another regional deal — the Comprehensive and Progressive Trans-Pacific Partnership, (CPTPP) is also, and perhaps a stronger,
As of December 2020, there were 184 ‘physical’ trade agreements in force, 19 signed and pending ratification, and 95 under negotiation, involving at least one Asia-Pacific region member. Figure 4 presents a breakdown of all PTAs in force in Asia and the Pacific. PTAs covering goods, as well as agreements covering both goods and services, are by far the two most common formats for the economies in the region, with the agreements only on goods trade liberalization accounting for 38% of all regional PTAs in force and the agreements on both goods and services trade accounting for 50%. Partial Scope Agreements (PSAs) are referred to as ‘Others’ in figure 4 and account for 11% of regional PTAs in force. The customs unions continue to account for a minimal share of only 1.1%. The agreements focusing only on services trade (called EIAs) account for even less – 0.5% of regional PTAs in force (in fact there is only a single EIA between Armenia and the European Union).

Figure 4. Breakdown of PTAs in force as of 2020, by type

Source: ESCAP calculation, based on data obtained from APTIAD (accessed December 2020).

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12 Data from APTIAD, accessed December 2020, available at https://www.unescap.org/content/aptiad/.
As noted above, most PTAs signed by Asia-Pacific economies are bilateral. In this regard, bilateral PTAs account for 78% of all Asia-Pacific PTAs, while plurilateral agreements account for just 9% of PTAs in force in the region; Country-Bloc agreements make up the remaining 13%. However, many of these bilateral and plurilateral agreements co-exist between the same countries. For example, members of the CPTPP overlap with RCEP, while many of them also have bilateral agreements with each other. This situation, known as the “noodle-bowl phenomenon”, potentially increases international trade costs arising from differences in rules of origin and technical standard, and other NTMs in those agreements.

Integration within five different subregions in Asia and the Pacific used to be a driver of PTAs. From the 1970s until the early 2000s, most PTAs signed were between economies within the subregion in which they were located. During that period, PTAs were formed among members of subregional intergovernmental organizations: ASEAN, South Asian Association for Regional Cooperation (SAARC), Commonwealth of Independent States (CIS), and the Pacific Islands Forum (PIF). Since the early 2000s, the focus of Asia-Pacific PTAs has gradually expanded to Asia-Pacific economies outside their own subregions, but mostly through the bilateral PTAs (e.g., EAEU-Viet Nam, EAEU- Islamic Republic of Iran). However, figure 5 clearly demonstrates that intra-subregional PTAs are still important, although intra-regional PTAs have become a dominant feature. As shown in figure 6, PTAs within the Asia-Pacific region and PTAs within subregions accounted for 29% and 22% of total Asia-Pacific PTAs, respectively, in 2020.

Economies in the region have been more active in signing cross-regional PTAs. Currently, there are 87 PTAs in force that include economies outside the region, accounting for 49% of total Asia-Pacific PTAs. One of the factors driving PTAs with Asia-Pacific economies and beyond is the need for PTAs in facilitating participation in regional and global value chains.

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13 In the Asia-Pacific region, the following subregions overlap with plurilateral trade negotiations efforts: North and Central Asia (EAEU); South Asia (SAFTA); South-East Asia (ASEAN); Pacific (PACER plus). East and North-East Asia is the only subregion without a comprehensive subregion-wide deal. There are only two regional plurilateral agreements that connect countries from different subregions. One is the Asia-Pacific Trade Agreement (APTA) connecting members from East and North-East Asia (China, Mongolia and the Republic of Korea), ASEAN (Lao People’s Democratic Republic) and SAFTA (Bangladesh, India and Sri Lanka). Another agreement is RCEP connecting members from East and North Asia, ASEAN and the Pacific.

14 The CIS Agreement, signed in 1994, was terminated following notification in 2013 from the Russian Federation to the WTO Committee on Regional Trade Agreements.
Figure 5. Bilateral matrix of economies covered by trade agreement relationships

Source: ESCAP compilation, based on data from APTIAD (accessed November 2020).
4. Trade with PTA partners

The sheer number of PTAs will not have an impact on an economy’s trade by much if those PTAs do not cover a significant part of trade between that economy and its partners. Obviously, the larger the number of PTAs, the more likely it will be to include those partners with whom a country in question (also known as a “natural trading partner”) trades a great deal. Still, there are some countries that have signed a relatively large number of PTAs but not with the largest of their trading partners (e.g., the United States and European Union do not have a trade agreement, and India does not have an agreement with any of its large trading partners.). What also matters, is the quality of the PTAs signed and the ease with which traders can avail preferential treatment. Based on trade data in 2018, on average, exports to PTA partners accounted for 47.8% of the Asia-Pacific region’s exports to the world. Imports from PTA partners amounted to 52.3% of the region’s total imports from the world. However, trade covered by PTA partners varies considerably across the region (figure 7). At one end, the region has Bhutan (94.6%), Afghanistan (90.2%), the Lao People’s Democratic Republic (89.2%) and Brunei Darussalam (92.3%) which have a very large

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15 In reality, the expected effect of a PTA on trade might not materialize. Actual utilization of a PTA depends on the difficulties and costs involved in complying with the rules of origin. This varies not only across products but also across PTAs. A more precise estimation of trade covered by PTAs would require the unpublished data on trade utilizing preferential schemes.
export share with PTA partners because of signing PTAs with dominant neighbouring countries. At the other end, advanced economies in the region, including Singapore (95.3%), Australia (79.5%) and the Republic of Korea (77.3%) have broad coverage from strategically signing PTAs with major trading powers within and outside the region, most notably the United States, China and the European Union.  

Figure 7. Share of trade with PTA partners in 2018


16 Australia’s PTA with the European Union is still under negotiation.
Conversely, the Marshall Islands is the Asia-Pacific economy with the lowest share of PTA exports, amounting to only 0.9% of its total exports. This is reflective of a more general trend among Pacific island developing economies (PIDEs) towards having small trade coverage with PTA partners, despite engaging in several agreements within the subregion, some of which include Australia and New Zealand. In this regard, Federated States of Micronesia, Kiribati, Solomon Islands and Tuvalu are among the countries with some of the lowest export shares with their PTA partners, with PTA export shares under 21% of total exports. The small trade share of PTA partners in PIDEs reflects the fact that the current merchandise trade structure of PIDEs is directed beyond countries in the Pacific. Instead, Japan, the Philippines, Indonesia, the European Union and China are the key destinations for exports produced by PIDEs and already grant them unilateral trade preferences for free market access without requiring reciprocal liberalization. Most of these major partners have not seen the rationale to form trade agreements with PIDEs. An exception is the (interim) economic partnership agreement that Fiji and Papua New Guinea have with the European Union in anticipation of a comprehensive European Union-PIDE partnership agreement, and a subsequent replication of such agreement made by the United Kingdom.

The trend in PTA coverage of imports is similar to exports. Singapore has the largest share of PTA-covered imports, amounting to 97% of its total imports. It is followed closely by the Lao People’s Democratic Republic, with 94.3%. For the latter, this is a result of its PTAs with China and Thailand, which are its two largest import partners and account for approximately 90% of its total imports (Anukoonwattaka and Lobo, 2019). Bhutan, Myanmar, and Georgia follow closely behind with sizeable PTA import shares of 90.7%, 90.6%, and 81%, respectively. In contrast, Marshall Islands and Federated States of Micronesia are once again the economies with the lowest PTA import shares among Asia-Pacific countries, with PTA import shares of just 0.1% and 3.8%, respectively. Again, the selection of PTA partners is an important determinant of the PTA potential trade effect.

Finally, some countries have PTAs with their major importing partners, but not with their key exporting partners. This is the case with Cambodia, Nauru and Bangladesh, which have PTA export shares of 28%, 21% and 9.6%, respectively, and PTA import shares of 84.2%, 46.2% and 63.1%, respectively. Although they will see trade

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17 Trade agreements signed or in force in PIDEs include SPARTECA, PACER Plus, PICTA, MSG, European Union-Pacific States iEPA, and the Australia-Papua New Guinea PTA. Agreements that include Australia and New Zealand are: SPARTECA, a non-reciprocal partial scope trade agreement; PACER Plus, a comprehensive PTA covering goods, services and investment; and the Australia-Papua New Guinea PTA. PICTA and MSG only include developing Pacific island countries. The European Union-Pacific States iEPA is the interim economic partnership agreement between the European Union and selected PIDEs, including Fiji, Papua New Guinea and Samoa. In addition, Solomon Islands has submitted a formal accession request and Tonga has notified its intention to accede to the iEPA.

18 This brief does not discuss unilateral preference schemes and the associated rules under the special and differential treatment (S&DT) provisions of WTO.
imbalances with their PTA partners, these countries are likely to record substantial efficiency gains from the lowered cost of their imports.

5. PTAs’ trends in the post COVID-19 pandemic times

The slowing down of PTA negotiations during the COVID-19 pandemic is expected to be short-lived, and PTA activity will rebound in terms of both deepening and number. However, the crisis has emphasized the need to ensure trade openness and supply chain connectivity on essential goods, especially medical supplies. Collective efforts and initiatives have emerged during COVID-19 pandemic. For example, Australia, Brunei Darussalam, Canada, Chile, China, the Lao People’s Democratic Republic, Myanmar, Nauru, New Zealand, Singapore, the United Arab Emirates and Uruguay have jointly committed to keep supply chains open and to remove any trade restrictive measures on essential goods, especially medical supplies. In addition, New Zealand and Singapore have built on the Joint Ministerial Statement with a Plurilateral Declaration on Trade Essential Goods – a list of more than 120 essential goods in combating the pandemic. Signatories to the Declaration agree to remove any tariffs barriers to these goods. Similarly, at the Special ASEAN Summit on Coronavirus Disease 2019 (14 April 2020), ASEAN member States reaffirmed their commitment to: (a) keeping markets open for trade and investment; (b) enhancing cooperation among ASEAN member States and with ASEAN’s external partners with a view to ensuring food security, such as the utilization of the ASEAN Plus Three Emergency Rice Reserve (APTEERR); and (c) strengthening the resiliency and sustainability of regional supply chains, especially for food, commodities, and medicines, medical and essential supplies.

Towards the medium-to-longer term, with rising concerns related to heightening geopolitical tensions, and the effectiveness of WTO, plus the global demand collapse due the COVID-19 pandemic, countries are likely to seek PTAs as a means of navigating a highly uncertain environment. Moreover, the COVID-19 health crisis has highlighted the need to deepen the scope of PTAs in order to cover wider market

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19 The Joint Ministerial statement by Australia, Brunei Darussalam, Canada, Chile, People’s Republic of China, Lao People’s Democratic Republic, the Republic of the Union of Myanmar, Nauru, New Zealand, Singapore, the United Arab Emirates and Uruguay affirming commitment to ensuring supply chain connectivity amidst the COVID-19 situation, 4 July 2020. Available at http://ca.china-embassy.org/eng/sggg/t1794809.htm.

distortions such as competition, subsidies, and intellectual property rights. The trends observed include:

a) Deepening traditional coverage

Regional economies are increasingly focusing on the depth of PTAs, rather than on the number of its partners (Mattoo, Rocha, and Ruta, 2020). Indeed, the World Bank’s new database shows that notable deepening in trade agreements can be identified both regionally and globally.\textsuperscript{21} Comprehensive trade agreements used to be most popular among advanced economies, especially the European Union. However, middle-income developing Asia-Pacific economies, and ASEAN economies in particular, are increasingly participating in such agreements with more advanced parties.\textsuperscript{22} Focusing on 2018-2020, 25 out of the 27 agreements signed cover extensive policy areas such as investment, movement of capital, intellectual property rights, environment, and labour. Following the growing concerns for future international health crises such as COVID-19, PTAs are also expected to be expanded further to encompass public health, and supply and distribution of vaccines (Mattoo, Rocha, and Ruta, 2020).

Most new agreements signed in the region include policy areas related to investment, labour standards, intellectual property rights, and environmental standards. In fact, all 17 agreements signed from 2019 to 2020 – with the exception of the Indonesia-Mozambique and EAEU-Serbia PTAs – go beyond trade in goods and tariffs reduction. These also include Comprehensive Economic Partnership Agreements between Australia and Indonesia, and between the United Kingdom and selected Asia-Pacific economies.

b) Securing preferential trade arrangements

As of December 2020, the United Kingdom has signed agreements replicating elements of European Union-third party agreements with the Pacific States (Fiji and Papua New Guinea), Georgia, the Republic of Korea, Japan, Singapore and Viet Nam. These six agreements are based on the nine existing agreements that the European Union has with selected Asia-Pacific economies, the preferential arrangements which the Government of the United Kingdom will lose access to after the Brexit transition period ends on 31 December 2020. In addition, The United Kingdom government is also discussing a roll-over of the European Union-Turkey trade agreement as well as negotiating trade agreements with Australia and New Zealand, which currently

\textsuperscript{22} While North-South trade agreements are increasingly deepening, South-South trade agreements remains focusing on tariff issues (Hofmann and others, 2020).
do not have trade agreements with the European Union. These efforts may raise the absolute number of CEPAs in the region during the next few years. Also, it seems the newly signed agreements with Singapore and Viet Nam may pave the way for the United Kingdom to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in the future.23

c) Including new areas

The importance of digital agreements – boosted by the COVID-19 pandemic – is also widely and growingly recognized. As a result, in 2019, the first digital trade agreements (DTAs) aimed at creating a common digital trade framework and regulation to assist cross-border data flows (Burri, and Polanco, 2020) was signed between the United States and Japan. Moreover, as of December 2020, the Asia-Pacific region was home to a total of four DTAs, of which three agreements have been signed and one agreement is still under negotiation.24 At the same time, e-commerce is increasingly being captured in regional trade agreements, while also thriving as a result of pandemic-induced shutdowns.25 In the Asia-Pacific region, the first trade agreement with a dedicated chapter on e-commerce was the New Zealand-Singapore FTA signed in 2000. This trend particularly accelerated from 2013 onwards. As of 2020, there are 65 agreements having e-commerce-related provisions in PTAs (figure 8). Of these agreements, 58 are in force, six have been signed and are pending ratification, and one agreement is still under negotiation. Focusing on the 2019-2020 period, eight of the 17 trade agreements have included specific e-commerce provisions.26

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24 The United States-Japan Digital Trade Agreement, signed in 2019; and Australia-Singapore Digital Trade Agreement; signed in 2020 and still being negotiated as of November 2020.

25 E-commerce, trade and the COVID-19 pandemic (WTO, 2020)

26 These include five agreements signed in 2019 (Australia- Hong Kong; China, Australia-Indonesia; Japan-United States; Singapore-Eurasian Economic Union; and Viet Nam-European Union) and one partial scope agreement signed in 2020 between China and the United States.
6. Conclusion

The Asia-Pacific region remains a major contributor to the worldwide build-up of PTAs. As stated above, more than half of the PTAs in force globally involve at least one Asia-Pacific economy. Nevertheless, in 2020, Asia-Pacific region economies’ have slowed down in the signing and negotiating of PTAs, both intra- and extra-regional, due to the COVID-19 pandemic. Between January 2019 and December 2020, Asia-Pacific economies signed 17 new PTAs, while commencing negotiations for six new intraregional initiatives and four extra-regional initiatives.

Both the COVID-19 pandemic and trade tensions between important economies been shaping the contemporary and future of regional PTAs. Indeed, despite fewer new PTAs being signed and negotiated in the Asia-Pacific region, the scope of many new PTAs is becoming more comprehensive, covering areas related to investment facilitation, intellectual property rights, labour and environmental standards, competition as well as cooperation and so-called +trade areas (gender, SMEs, etc.). All 17 agreements signed from 2019 to 2020 cover beyond trade and tariffs reduction, 8 of the 17 trade agreements have included specific e-commerce provisions. Moreover, the COVID-19 pandemic has catalysed the public’s recognition of the importance of regional trade cooperation in health products and services, as well as in digital trade. It is therefore expected that future PTAs and other instruments of regional cooperation will pay more attention to those areas as compared to traditional goods trade liberalization.
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**Online databases**


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