

## *Asia-Pacific plurilateral trading blocs: Intra- and extra-bloc trade trends<sup>1</sup>*

This note examines how regional trade blocs in the Asia-Pacific region perform in terms of integration globally and regionally as well as within themselves. After giving an overview of the trade blocs currently in force or under negotiations in the Asia-Pacific region, the note looks at some of the trade indicators in order to assess the impact of preferential trade agreements on the overall degree of trade integration within the trade blocs. The last section concludes.

### **I. Trading blocs in the Asia-Pacific Region and their Main Features**

Over the past two decades, the countries of the Asia-Pacific region have worked towards enhancing regional economic cooperation and integration. This has resulted in the formation of several sub-regional trading blocs, with no strong connections and often high trade costs between them.<sup>2</sup> Members of these sub-regional trading blocs have also signed bilateral deals with selected other members of the same or other regional blocs, creating a “Noddle-Bowl” of overlapping free trade agreements in the region.

As of March 2018, there are 11 operating plurilateral trading blocs, two are in the process of ratification (the Pacific Agreement on Closer Economic Relations (PACER) Plus and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)), and two are still being negotiated (the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Regional Comprehensive Economic Partnership (RCEP)). As shown in table 1, these sub-regional trading blocs differ greatly in terms of their size and scope. The number of

#### APTIAD



Asia-Pacific Trade and Investment Agreements Database (APTIAD) was established by ESCAP secretariat in order to provide a useful tool for observers and stakeholders (governments, researchers and policy analysts) to monitor and analyze the development of trade agreements in this new environment. APTIAD provides detailed descriptive information on the provisions of preferential trade agreements involving one or more economies from the Asia-Pacific region that are either signed, in force or under negotiation.

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<sup>2</sup> <http://www.unescap.org/publications/APTIR2017>

members vary from 4 in the cases of Common Economic Zone (CEZ), Commonwealth of Independent States (CIS), Melanesian Spearhead Group (MSG) and Trans-Pacific Strategic Economic Partnership Agreement (SEPA) to sixteen members in the RCEP. MSG is one of the smallest trading blocs when it comes to population size with a total population of merely 8 million people. In contrast, RCEP, once in force, will not only be the largest bloc in terms of the number of members, covering a population of 3.5 billion people, but also in terms of aggregated GDP and population size. In 2016, the aggregated GDP of all member states of RCEP amounted to nearly \$229 trillion, or more than 30 per cent of global GDP and 86 per cent of the Asia-Pacific GDP. More than double the share of Asia-Pacific GDP is also currently covered by CPTPP.<sup>3</sup> Because of its wide influence, the RCEP with a population of 3.5 billion, appears to be a powerful vehicle to significantly contribute to the facilitation of trade in the Asia-Pacific region.

**Table 1: Select indicators of Asia-Pacific plurilateral trade blocs**

Regional Trade Block	Population 2016 <sup>4</sup> (thousand)	Population share of world (%) <sup>5</sup>	Aggregate GDP 2015 (\$, million)	Share in world GDP (%)	Share in Asia-Pacific GDP (%)
<b>Asia-Pacific Trade Agreement (APTA), 1976:</b> [Bangladesh; China (acceded in 2003 <sup>6</sup> ); India; Republic of Korea; Lao People's Democratic Republic; Sri Lanka (Mongolia's accession is pending)]					
	2,901,190	38.97	14,941,977	20.3	55.9
<b>Association of Southeast Asian Nations (ASEAN) Economic Community, 1992:</b> [Brunei Darussalam; Cambodia; Indonesia; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Viet Nam]					
	625,023	8.40	2,437,975	3.3	9.1
<b>Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), under negotiation:</b> [Bangladesh; Bhutan; India; Myanmar; Nepal; Sri Lanka; Thailand]					
	1,625,090	21.83	2,873,524	3.9	10.8
<b>Common Economic Zone (CEZ), 2004:</b> [Belarus; Kazakhstan; Russian Federation; Ukraine]					
	215,445	2.89	1,652,998	2.2	6.2

<sup>3</sup> Unless otherwise mentioned the 'Asia-Pacific Region' is defined as including all ESCAP member States and associated members for which data was available. For a list of all ESCAP member states, please see: <http://www.unescap.org/about/member-states>.

<sup>4</sup> Data for Belarus, Republic of Moldova and Ukraine was only available for 2015.

<sup>5</sup> Data on world population in 2016 are obtained from the World Bank database: <https://data.worldbank.org/indicator/SP.POP.TOTL>

<sup>6</sup> ESCAP: <http://www.unescap.org/apta/highlights>, accessed on June 13, 2017.

Regional Trade Block	Population 2016 <sup>4</sup> (thousand)	Population share of world (%) <sup>5</sup>	Aggregate GDP 2015 (\$, million)	Share in world GDP (%)	Share in Asia-Pacific GDP (%)
<b>Commonwealth of Independent States (CIS)<sup>7</sup>, 1994:</b> [Azerbaijan; Georgia; Turkmenistan; Uzbekistan]					
	44,407	0.60	173,615	0.2	0.6
<b>Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed in 2018 and pending ratification:</b> [Australia; Brunei; Canada; Chile; Japan; Malaysia; Mexico; New Zealand; Peru; Singapore; Viet Nam]					
	499,244	6.71	9,838,894	13	37
<b>Eurasian Economic Union (EAEU), 2015:</b> [Armenia; Belarus; Kazakhstan; Kyrgyzstan; Russian Federation]					
	179,141	2.41	1,579,484	2.1	5.9
<b>Economic Cooperation Organisation Trade Agreement (ECOTA), 2008:</b> [Afghanistan; Azerbaijan; Islamic Republic of Iran ; Kazakhstan; Kyrgyzstan; Pakistan; Tajikistan; Turkey; Turkmenistan; Uzbekistan]					
	448,257	6.56	1,759,120	2.4	6.6
<b>Melanesian Spearhead Group (MSG), 1994:</b> [Fiji; Papua New Guinea; Solomon Islands; Vanuatu]					
	8,295	0.11	27,518	0.0	0.1
<b>Pacific Agreement on Closer Economic Relations (PACER) Plus, signed in 2017 and pending ratification:</b> [Australia; Cook Island; Kiribati; Marshall Islands; Micronesia; Nauru; New Zealand; Niue <sup>8</sup> ; Palau; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu]					
	29,577	0.40	1,430,014	1.9	5.3
<b>Pacific Island Countries Trade Agreement (PICTA), 2003:</b> [Cook Islands; Fiji; Kiribati; Micronesia; Nauru; Niue; Papua New Guinea Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu]					
	9,544	0.13	29,687	0.0	0.1
<b>Regional Comprehensive Economic Partnership (RCEP), under negotiation:</b> [Australia; Brunei Darussalam; Cambodia; China; India; Indonesia; Japan; Republic of Korea; Lao People's Democratic Republic; Malaysia; Myanmar; New Zealand; Philippines; Singapore; Thailand; Viet Nam]					
	3,494,739	46.95	22,877,942	31.1	85.6
<b>South Asian Association for Regional Cooperation (SAARC), 2006:</b> [Afghanistan; Bangladesh; Bhutan; India; Maldives; Nepal; Pakistan; Sri Lanka]					
	1,720,960	23.12	2,706,030	3.7	10.1

<sup>7</sup> When originally signed in 1994 this bloc had much larger membership: Armenia; Azerbaijan; Belarus; Georgia; Kazakhstan; Kyrgyzstan; Republic of Moldova; Russian Federation; Tajikistan; Ukraine; Uzbekistan.

<sup>8</sup> No GDP data was available for Niue.

Regional Trade Block	Population 2016 <sup>4</sup> (thousand)	Population share of world (%) <sup>5</sup>	Aggregate GDP 2015 (\$, million)	Share in world GDP (%)	Share in Asia-Pacific GDP (%)
<b>Trans-Pacific Strategic Economic Partnership Agreement (Trans-Pacific SEPA), 2006:</b> [Brunei; Chile; New Zealand; Singapore]					
	28,633	0.38	727,853	0.96	2.7
<b>Treaty on Free Trade Area between CIS members (FTA CIS), 2011:</b> [Armenia; Belarus; Kazakhstan; Kyrgyzstan ; Republic of Moldova,; Russian Federation; Tajikistan; Ukraine]					
	448,257	6.02	1,684,521	2.3	6.3

Sources: APTIAD database for regional trade blocs; own calculations based on GDP and population size data from ESCAP and the World Bank Development Indicators.

Table 2 compares regional trade blocs in terms of trade flows, trade balance and their trade shares in the Asia-Pacific region and the world. Trade balance of the blocs with the world varies from a deficit of \$180,626 million in SAARC to a surplus of \$499,532 million in RCEP. The South Asian Association for Regional Cooperation (SAARC), BIMSTEC and the Economic Cooperation Organisation Trade Agreement (ECOTA) have the four largest trade deficits, meanwhile RCEP, the Asia-Pacific Trade Agreement (APTA), CEZ and Eurasian Economic Union (EAEU) have the four largest trade surpluses with the world. Overall, across all trade blocs in the region, the volume of exports exceeds the imports, mainly due to large trade surpluses of two major blocs, namely RCEP and APTA. It is not surprising that RCEP, the bloc with the largest number of members including some of the largest Asian trading economies, amounts to a significant share of world and regional trade. RCEP contributes 79 per cent of the region's trade and 27 per cent of the global trade, followed by APTA with shares of approximately 45 per cent and 15 per cent and CPTPP with 44 per cent and 15 per cent, respectively.

**Table 2: Comparisons of Asia- Pacific plurilateral trade blocs based on trade data  
(average for 2014-2016)**

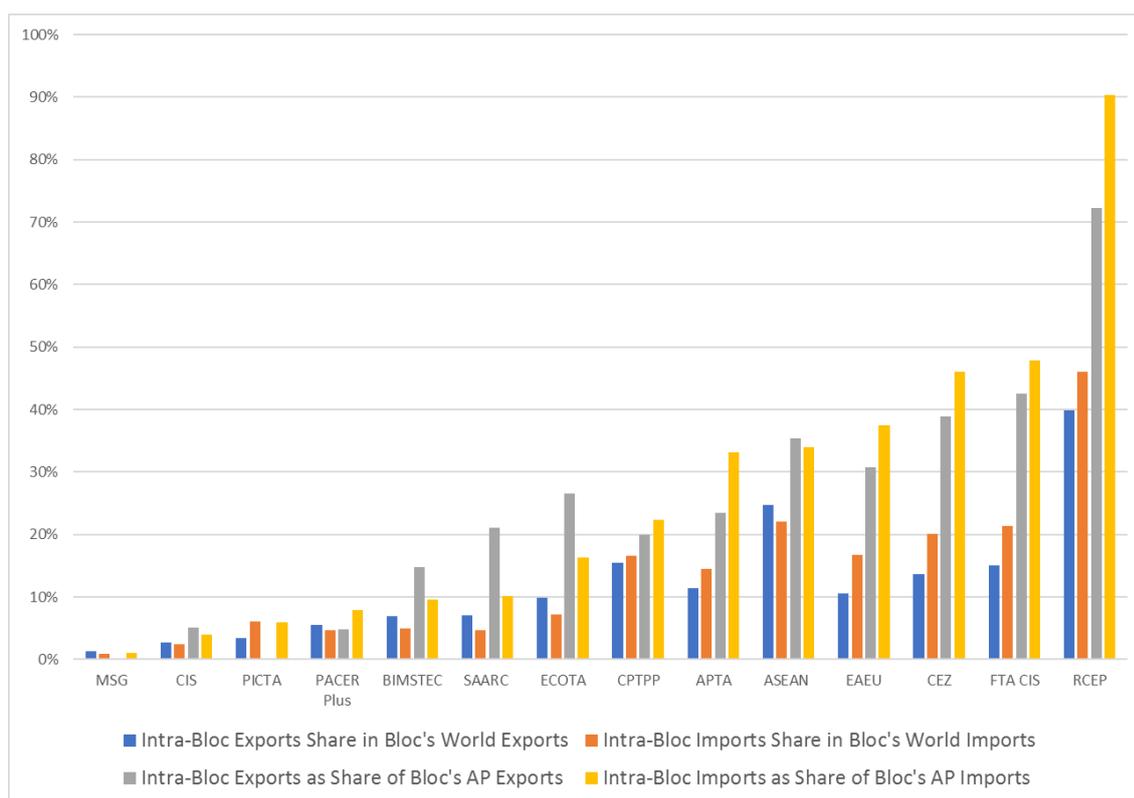
Regional Trade Bloc		Total	Trade balance with the world	Bloc's share of world trade, %	Bloc's share of Asia-Pacific trade, %
		(\$, Million)	(\$, Million)		
APTA	Import	2643320	467746	15.35	44.56
	Export	3111065		18.33	48.75
ASEAN	Import	1143079	59038	6.64	19.27
	Export	1202116		7.08	18.84
BIMSTEC	Import	690214	-136774	4.01	11.63
	Export	553440		3.26	8.67
CEZ	Import	325494	175386	1.89	5.49
	Export	500880		2.95	7.85
CIS	Import	34879	-2404	0.20	0.59
	Export	32475		0.19	0.51
CPTPP	Import	2596505	-48801	15.43	43.73
	Export	2547704		16.59	39.96
EAEU	Import	289646	171241	1.68	4.88
	Export	460887		2.72	7.22
ECOTA	Import	401487	-93317	2.33	6.77
	Export	308170		1.82	4.83
FTA CIS	Import	341271	165412	1.98	5.75
	Export	506683		2.99	7.94
MSG	Import	9032	-1360	0.05	0.15
	Export	7672		0.05	0.12
PACER Plus	Import	261464	-17016	1.52	4.41
	Export	244448		1.44	3.83
PICTA	Import	10120	-2300	0.06	0.17
	Export	7820		0.05	0.12
RCEP	Import	4666450	499532	27.10	78.66
	Export	5165982		30.44	80.96
SAARC	Import	527209	-180626	3.06	8.89
	Export	346583		2.04	5.43
Trans-Pac. SEPA	Import	575372	8044	3.86	10.28
	Export	655817		3.34	9.7
Total Asia-Pacific	Import	5932324	448889	34.45	100
	Export	6381213		37.6	100
World	Import	17221551	-249623	100	na
	Export	16971928		100	na

Source: ESCAP calculations based on data from IMF DOTS.

## II. Asia-Pacific Trade Blocs Trends

In principle, regional trade agreements (RTAs) are expected to significantly affect national trade and investment flows by reducing conventional barriers such as import and export tariffs and quotas, improving trade facilitation and altering the commercial environments with respect to, for example, services, intellectual property rights (IPR), investment, competition and public procurement. As a result, trade between RTA partners can increase due to reduced trade costs and improved connectivity. Furthermore, RTAs can be the first step for deeper economic and political efforts to promote regional integration beyond trade and investment also typically present in the multilateral trade arena.

**Figure 1: Intra-bloc merchandise imports and exports as shares of bloc's trade with the world and Asia-Pacific (2014-2016)**



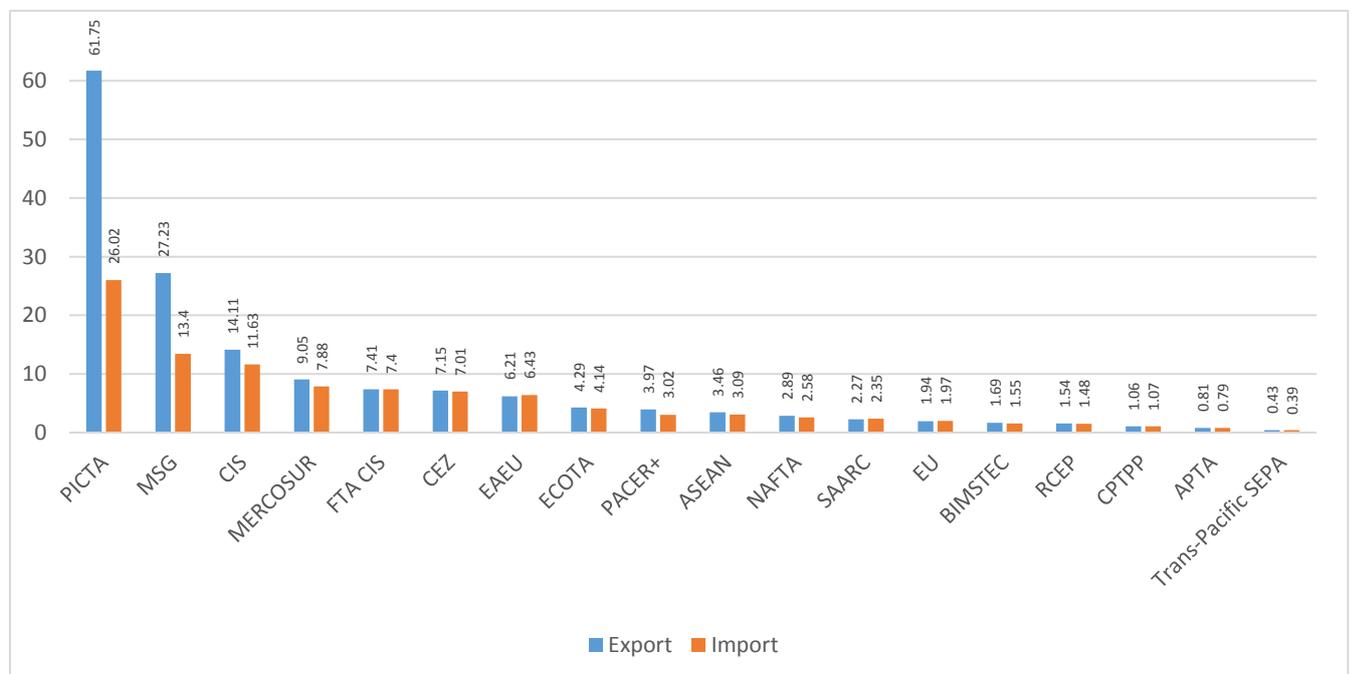
Source: ESCAP calculations based on data downloaded from IMF DOTS.

Figure 1 compares intra-bloc imports and exports of different blocs relative to each bloc's world and Asia-Pacific imports and exports. Disregarding RCEP as this RTA is still being negotiated, members of the Treaty on Free Trade Area (FTA) between CIS members are found to have the highest level of intra-bloc trade as a share of the bloc's

total Asia-Pacific trade and thereby being the most self-contained trading bloc, followed by CEZ, EAEU and ASEAN. The intra- FTA CIS's imports and exports is almost half of its imports and exports with the Asia-Pacific region. Among all regional trade blocs, ASEAN has the highest level of intra-bloc trade as share of the bloc's world trade, followed by FTA CIS, CEZ and CPTPP. Intra-ASEAN exports make up 25 per cent of its trade with the world, while around 20 per cent of its global imports come from within the ASEAN region. But not all regional blocs trade as much within the bloc. For instance, MSG's intra-bloc imports and exports as a share of their world trade is almost zero and around one per cent as a share of their Asia-Pacific trade. Similarly, numbers for Pacific Island Countries Trade Agreement (PICTA) and CIS are equally low with intra-bloc trade less than 5 per cent of their world and Asia-Pacific trade.

The intra-bloc shares we calculated above naturally tend to be larger the larger the size of the group considered and therefore may not be entirely suitable for making comparisons across countries or groups (Gilbert, 2017). In that context, trade intensity provides an alternative measure of trade integration within blocs, where intra-bloc shares are expressed relative to the world's trade share with each bloc.

**Figure 2. Trade intensity of the trade blocs (average for 2014-2016)<sup>9</sup>**



<sup>9</sup> For the methodology of calculation of trade intensity index, please refer to <http://artnet.unescap.org/APTIAD/trade%20intensity.pdf>.

Source: ESCAP calculations based on data downloaded from IMF DOTS.

Figure 2 provides the data on the trade intensity index within the regional blocs in Asia and the Pacific as well as several blocs outside of the region for benchmarking purposes. The trade intensity takes a value of one when the intraregional (intra-bloc) trade pattern does not differ from the expected level given the pattern of world trade, while a trade intensity index over 1 shows that members of the bloc trade more intensively among themselves than with the rest of the world (Gilbert, 2017). Across the examined blocs only APTA and Trans Pacific SEPA show a trade intensity index lower than 1. The highest levels of trade intensity are achieved by PICTA, MSG and CIS, highlighting the importance of intra-bloc trade for these groups when taking into account how little the rest of the world trade with them. Regional blocs that are not yet in force, e.g. CPTPP or BIMSTEC, show a lower level of trade intensity than within the regional blocs already in force (except for APTA and Trans-Pacific SEPA), which may indicate that there is an untapped potential for trade that will be triggered by ratifying these agreements. Overall, the region's trade blocs perform well when compared with the blocs outside of the Asia-Pacific region, such as the European Union (1.9).<sup>10</sup>

Table 4 represents the trade costs within the Asia-Pacific blocs and with their partners in two blocs outside of the Asia-Pacific region for benchmarking purposes, namely North-America Free Trade Agreement (NAFTA<sup>11</sup>) and the Southern Common Market (MERCOSUR<sup>12</sup>). The share of tariffs represents a relatively small portion of the comprehensive trade costs, amounting on average to 10-12 per cent of the total costs. The highest share of tariffs in the comprehensive trade costs is observed in BIMSTEC, SAARC, APTA and ECOTA. In other blocs, the major share of trade costs is represented by non-tariff costs (policy-related non-tariff trade costs and natural trade costs), indicating the need for the policymakers in the region to focus on the reduction of non-tariff barriers.

Trade costs vary significantly across the blocs in the region, ranging from 71 per cent to 231 per cent of ad-valorem tariff equivalent. Except for APTA, CPTPP and Trans-Pacific SEPA, all trade blocs in Asia and the Pacific have lower intra-bloc trade costs than trade costs with NAFTA or MERCOSUR. This difference varies considerably

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<sup>10</sup> It is worth noting, however, that trade intensity indices tend to be biased against large country groups. See Gilbert (2017) for a discussion and alternative measures, at:

[http://www.unescap.org/sites/default/files/Analytical%20Approaches\\_Low%20resolution.pdf](http://www.unescap.org/sites/default/files/Analytical%20Approaches_Low%20resolution.pdf)

<sup>11</sup> Canada, Mexico, US are members.

<sup>12</sup> Argentina, Brazil, Paraguay and Uruguay are members. Venezuela is also a member but has been suspended since 1<sup>st</sup> December 2016.

across the blocs, reaching up to three times the level of trade costs with other blocs outside the region. As could be expected, that blocs with relatively high trade intensity tend to have higher trade costs with partners outside the bloc. Similarly, low levels of trade intensity go hand-in-hand with higher intra-bloc trade costs (and/or low trade costs with the third parties, for example for APTA, Trans-Pacific SEPA):-

**Table 4 Trade costs within the blocs and with the NAFTA and MERCOSUR (average for 2014-2015)<sup>13</sup>**

Regional Blocs	Within the bloc		With NAFTA	With MERCOSUR
	Comprehensive trade costs	Excluding tariff	Comprehensive trade costs	Comprehensive trade costs
APTA	202	180	163	254
ASEAN	152	147	184	252
BIMSTEC	188	127	206	259
CEZ	71	71	218	274
CIS	138	138	307	377
CPTPP	144	137	133	199
EAEU	142	142	256	345
ECOTA	186	171	293	347
FTA CIS	146	146	288	386
RCEP	131	123	156	229
SAARC	231	195	246	325
Trans-Pacific SEPA	200	194	189	260

Source: Author's calculations based on the UN ESCAP-WB International Trade Cost Database.

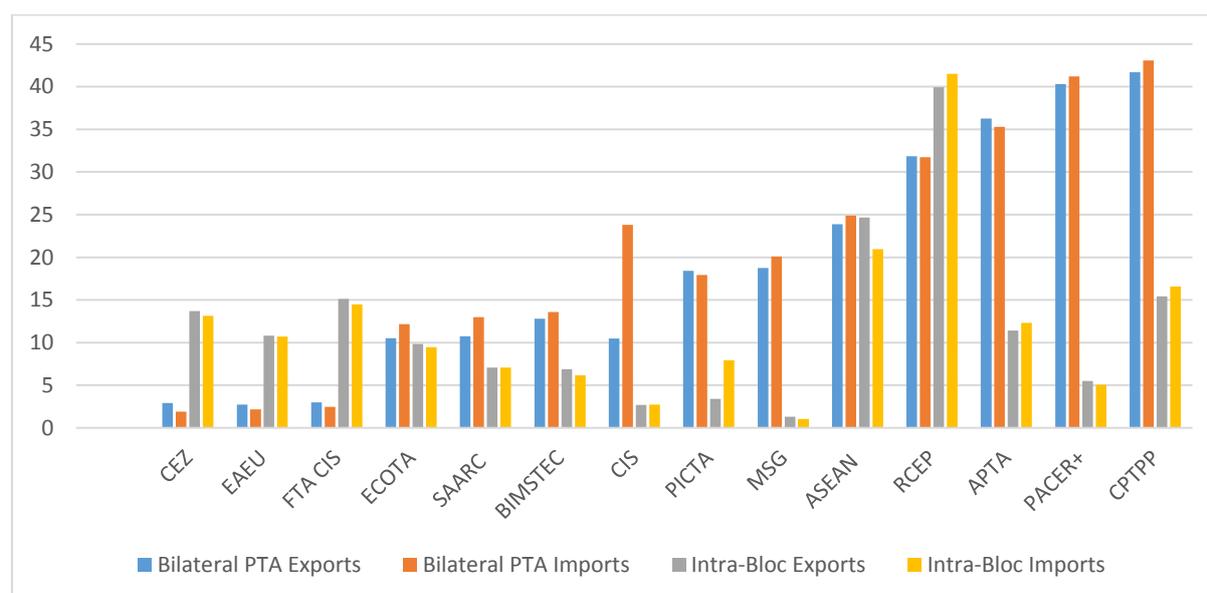
Apart from establishing regional trade blocs, countries also sign bilateral preferential trade agreements in order to reduce or eliminate trade barriers and expand trade. Higher share of trade with partners in the bilateral trade agreements than with partners in the regional trade blocs might mean that bilateral deals are easier to calibrate to one's own strength.

<sup>13</sup> The data on the regional trade costs is calculated for the countries covered in the UN ESCAP-WB International Trade Cost Database, date of access: 13.12.2017. The database provides information on bilateral trade costs. The regional trade costs are calculated as simple averages of bilateral trade costs of member-countries in the bloc, as suggested in Duval and Utoktham (2011).

Note: The data for China, Canada, United States, Mexico and Viet Nam is for the 2012-2013 timeframe, the data for Japan is for the period of 2013-2014, for New Zealand – the years of 2011-2012, for Bhutan – the year 2012, no data for Turkmenistan and Myanmar for this period is available. There is no calculation of PACER+ and PICTAD because of the lack of information on the number of member-states.

Figure 3 compares the shares of intra-bloc trade on one side, and share of trade carried under bilateral trade agreements that members of those blocs have signed with third parties.<sup>14</sup> For example, ASEAN members on average export 25 per cent of their total export within the ASEAN bloc. The same countries exports to their partners in bilateral agreements signed outside ASEAN a similar share of 24 per cent of their total trade<sup>15</sup>.

**Figure 3: Intra-bloc trade versus bloc members bilateral preferential trade with non-members (as shares in their total trade, average for 2014-2016)**



Source: Authors calculations based on data from IMF DOTS.

On the other hand, in case of APTA, while intra-APTA exports account for around 12 per cent of the bloc total export to the world, the share of exports undertaken under bilateral trade agreements of members outside the bloc account for 36 per cent of their total exports (35 per cent on the import side). However, in general, and disregarding RCEP and BIMSTEC as they are still being negotiated, it seems that for most of the regional trade blocs in Asia and Pacific bilateral PTAs are more important than RTAs with respect to their trade shares in the bloc's world trade. This is true for: CPTPP, PACER plus, APTA, MSG, PICTA and ECOTA. The exceptions are CEZ, FTA CIS and EAEU; for the members of these trade blocs bilateral preferential trade amounts to a greater share of their total world trade than trade with bloc members. For ASEAN and ECOTA the shares are more or less the same.

<sup>14</sup> The preferential trade agreements considered in this analysis are all bilateral agreements of bloc members with the status "enforced" listed in the APTIAD.

<sup>15</sup> This share will go up if one includes the exports under ASEAN+1 agreements.

### **III. Conclusion**

This note compared trends in intra-bloc trade for all the Asia-Pacific plurilateral trade blocs. In terms of trade intensity, the trade blocs perform well when compared with the blocs outside of the Asia-Pacific region, which indicates higher propensity to trade within the bloc than with the rest of the trading partners. The existing high trade costs with the rest of the world is one of the reasons for the high level of trade intensity within the Asia-Pacific's blocs. However, some blocs are still underperforming in terms of intra-block trade and since the major share of trade costs arises from non-tariff costs, there is a need for policymakers of those blocs to focus on the reduction in bilateral trade costs by taking appropriate measures nationally and during the review of these agreements.

It should be noted that all the analysis is based on the overall trade between the bloc partners rather than actual trade taking place under preferential concessions of the agreement, and as such the data bias will exist. The actual preferential trade is lesser than this due to the rules of origin requirements and existence of sensitive lists of items on which tariff concessions have not been offered and also the fact that most of the economies in the region do not record or publish preferential imports or exports data. This limitation should be kept in mind when evaluating the relevance of trade agreements for trade, as the shares of trade conducted under preferential rates may in many cases be significantly smaller than total intra-bloc shares.

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