

Training of Trainers

Enhancing Capacity on

Trade Policies and Negotiations

Session 11: New generation trade agreements

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Presentation structure

- **What are comprehensive trade agreements (so-called “next generation” agreements)?**
 - Coverage and modalities
- **Asia-Pacific trade agreements**
 - Mega-regionals
- **Negotiating principles, approaches and modalities**

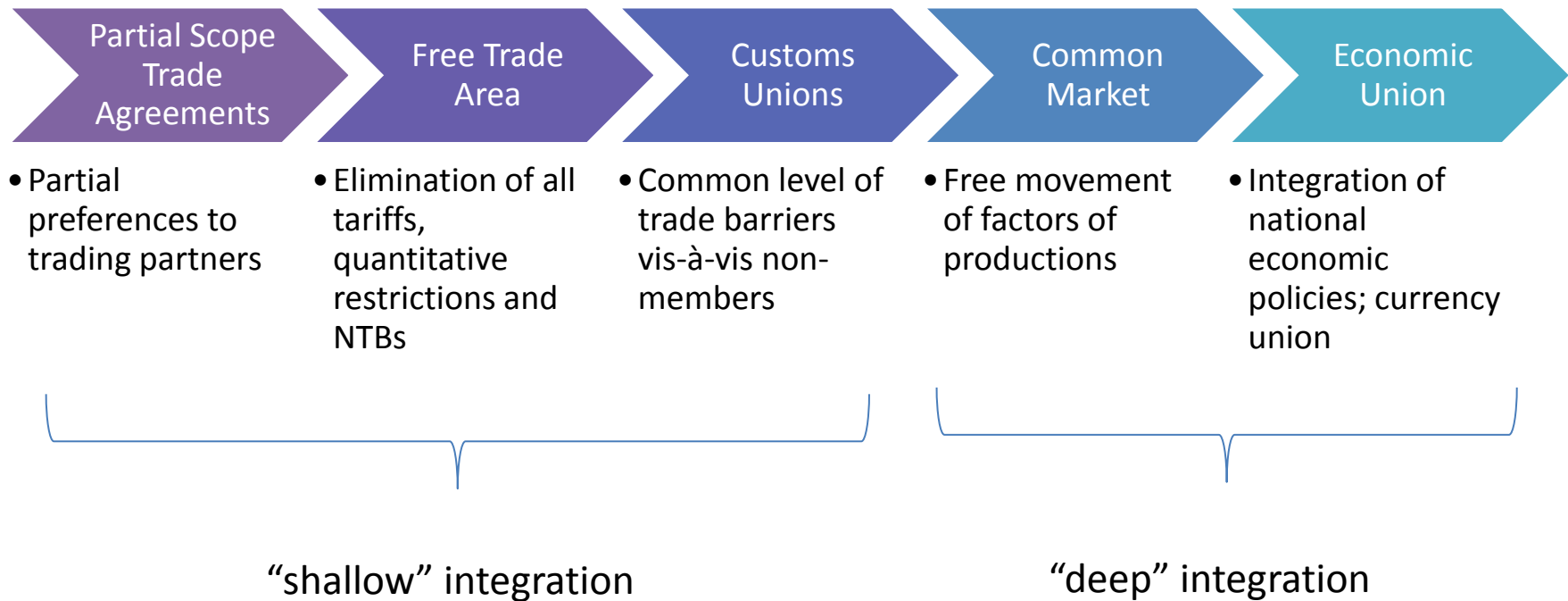
Reminder: Departures from the MFN under WTO for the purpose of PTAs

- GATT Article XXIV (1947)
- The Enabling Clause (1979)
- Understanding of the GATT Art. XXIV (1994)
- GATS Article V (1994)
- Transparency mechanism (2006)

WTO JARGON ON TRADE AGREEMENTS IS VERY SPECIFIC:

- FTAs AND CUSTOMS UNIONS (GOODS) = RTAs
- PARTIAL SCOPE AGREEMENTS (GOODS)
- ECONOMIC INTEGRATION AGREEMENTS – EIAs (SERVICES only)
- PREFERENTIAL TRADE **ARRANGEMENTS** - ONLY FOR NON-RECIPROCAL PREFERENCES

Types of trade agreements



“Preferential trade agreements” is used as an umbrella category to encompass all of the above on the basis of all including RECIPROCAL PREFERENCE GRANTING as opposed to MFN-based WTO system

Areas potentially covered under trade agreements

Goods

Services

Non-Tariff
Barriers

Investment

Competition

Labour
Mobility

Environment

Labour
standards

Government
Procurement

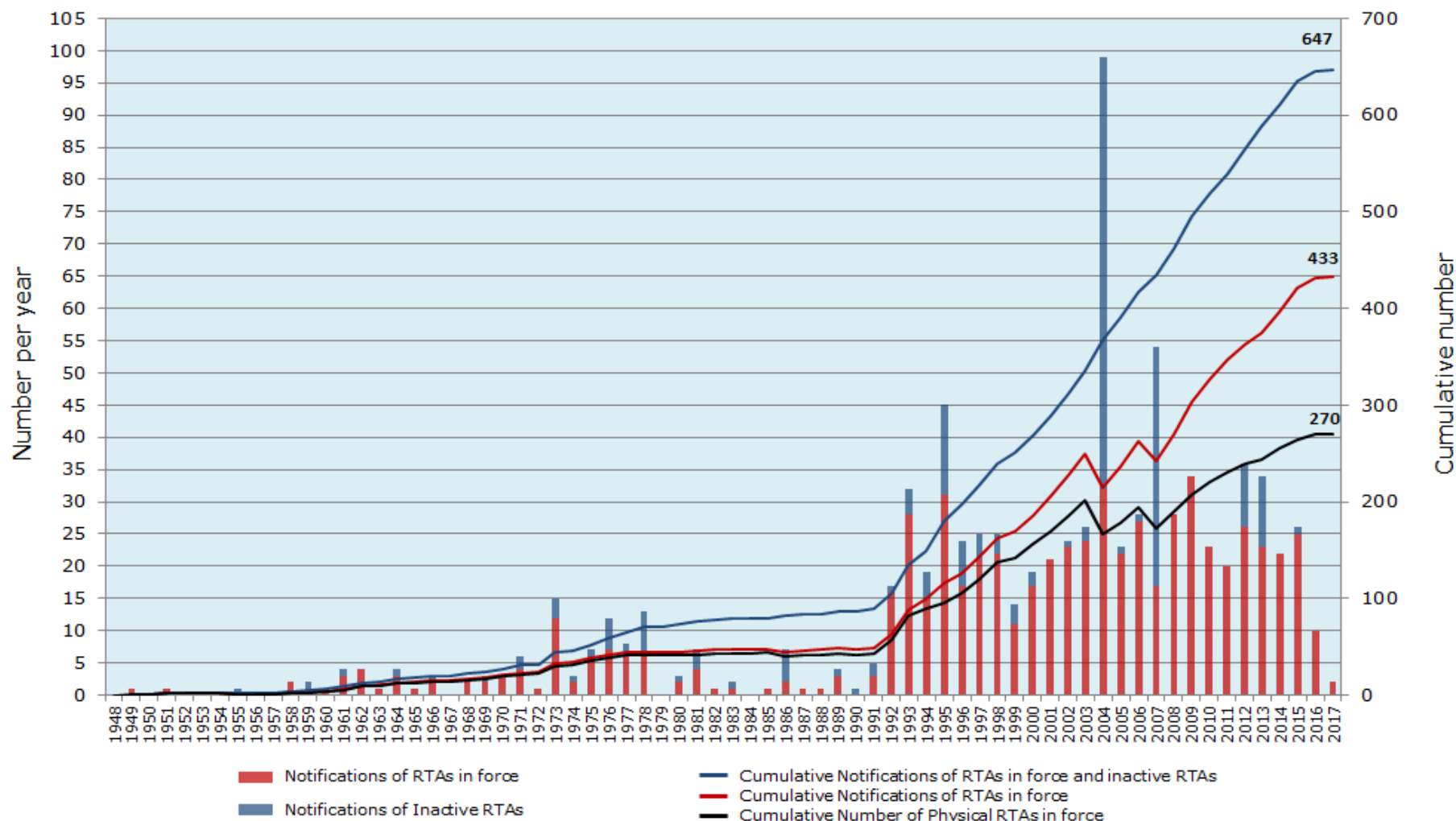
E-commerce

Intellectual
Property
Rights

Dispute
Settlement

SOME INFORMATION ON THE STATE OF AFFAIRS RELATED TO PTAs IN PRACTICE

Evolution of Regional Trade Agreements in the world, 1948-2017



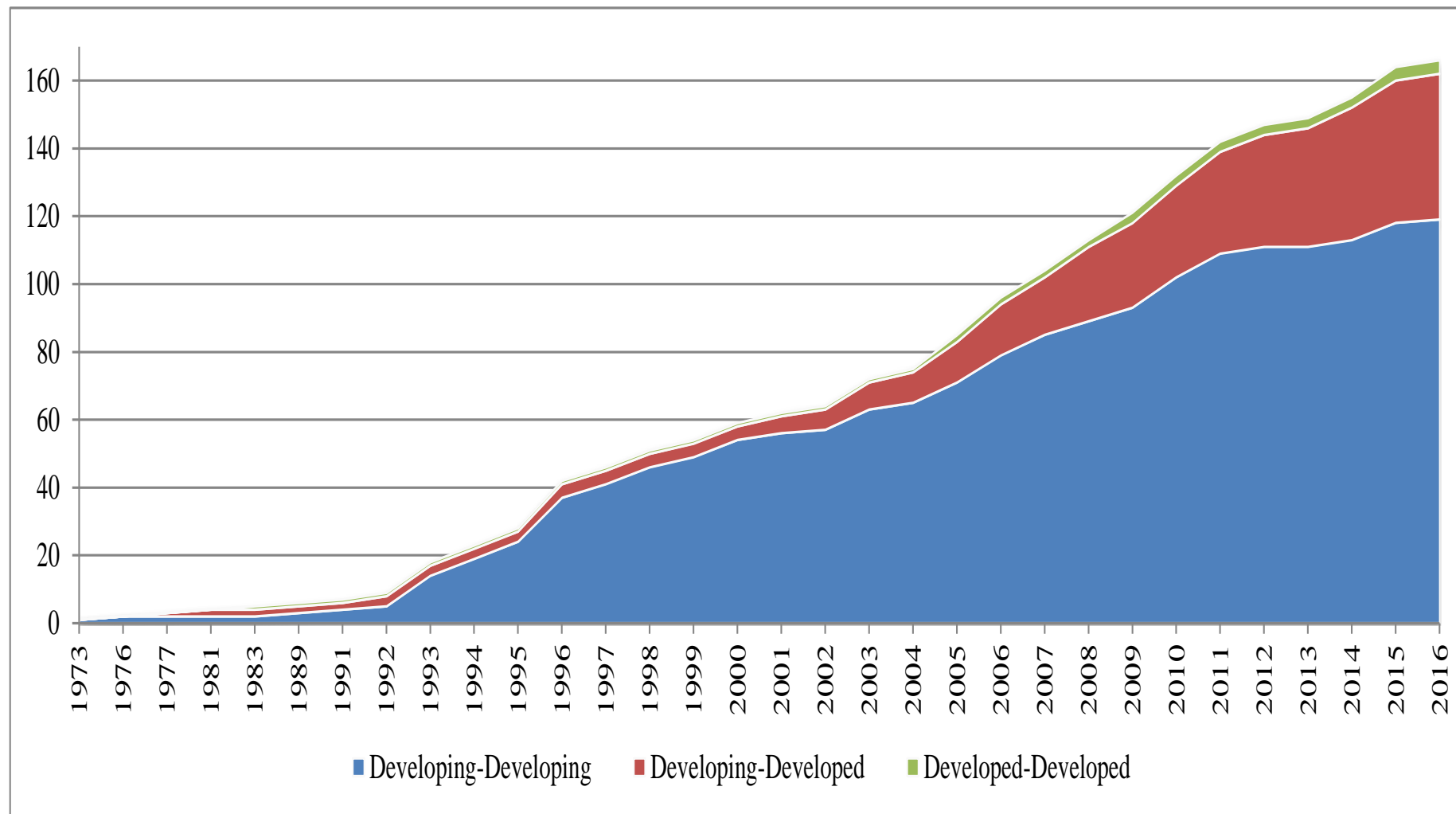
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs that were in force for a given year.
Source: WTO Secretariat.

Source: WTO website, 24 April 2017, https://www.wto.org/english/tratop_e/region_e/regfac_e.htm

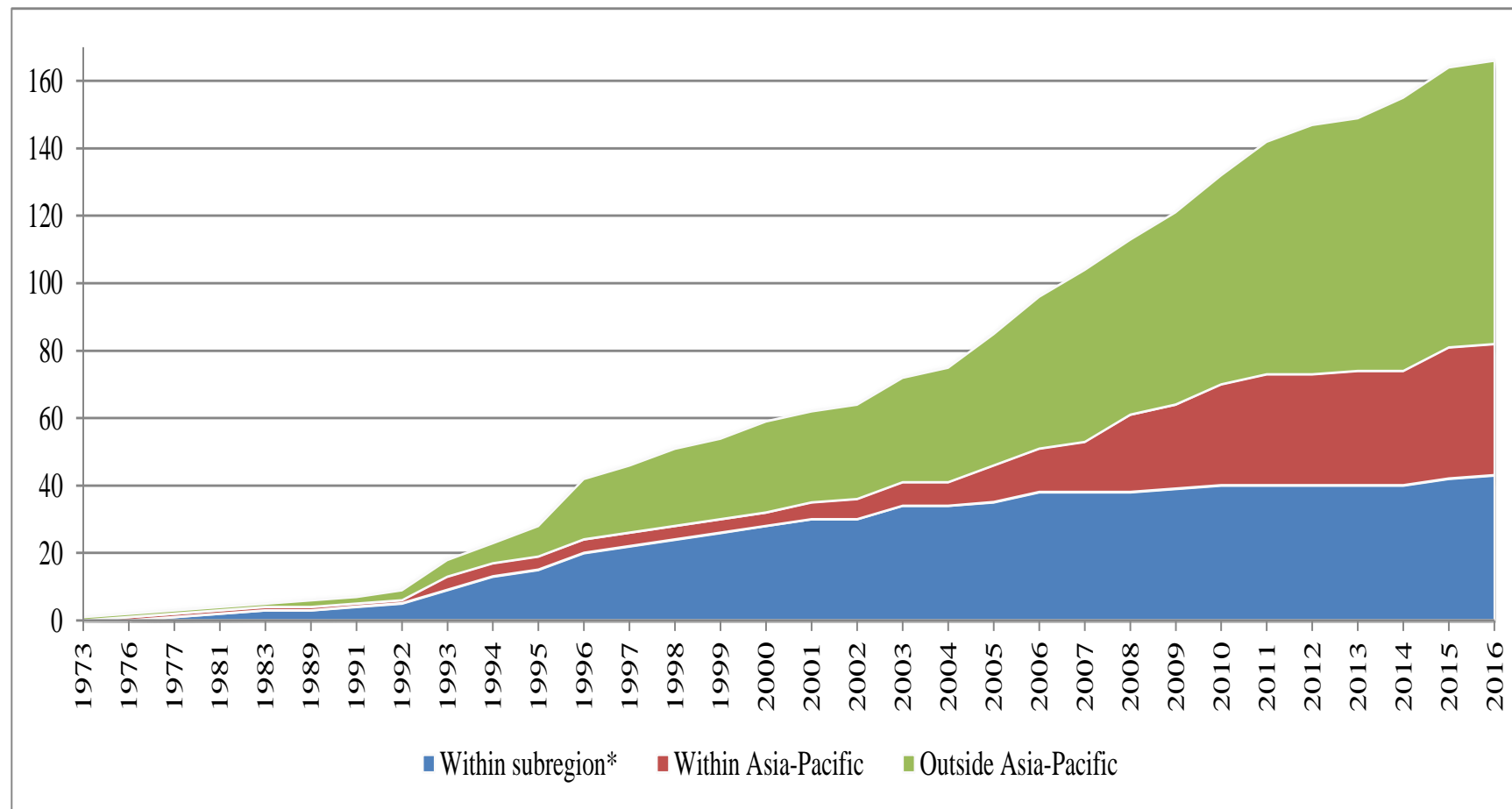
Asia-Pacific trade agreements

- As of July 2016, there were 260 RTAs in Asia-Pacific region which are either in force, signed or being negotiated.
- Globally 267 “physical” RTAs in force, and 169 (63%) involve economies from Asia and the Pacific
- 12 - signed but not implemented
- 78 - under different stages of negotiations.

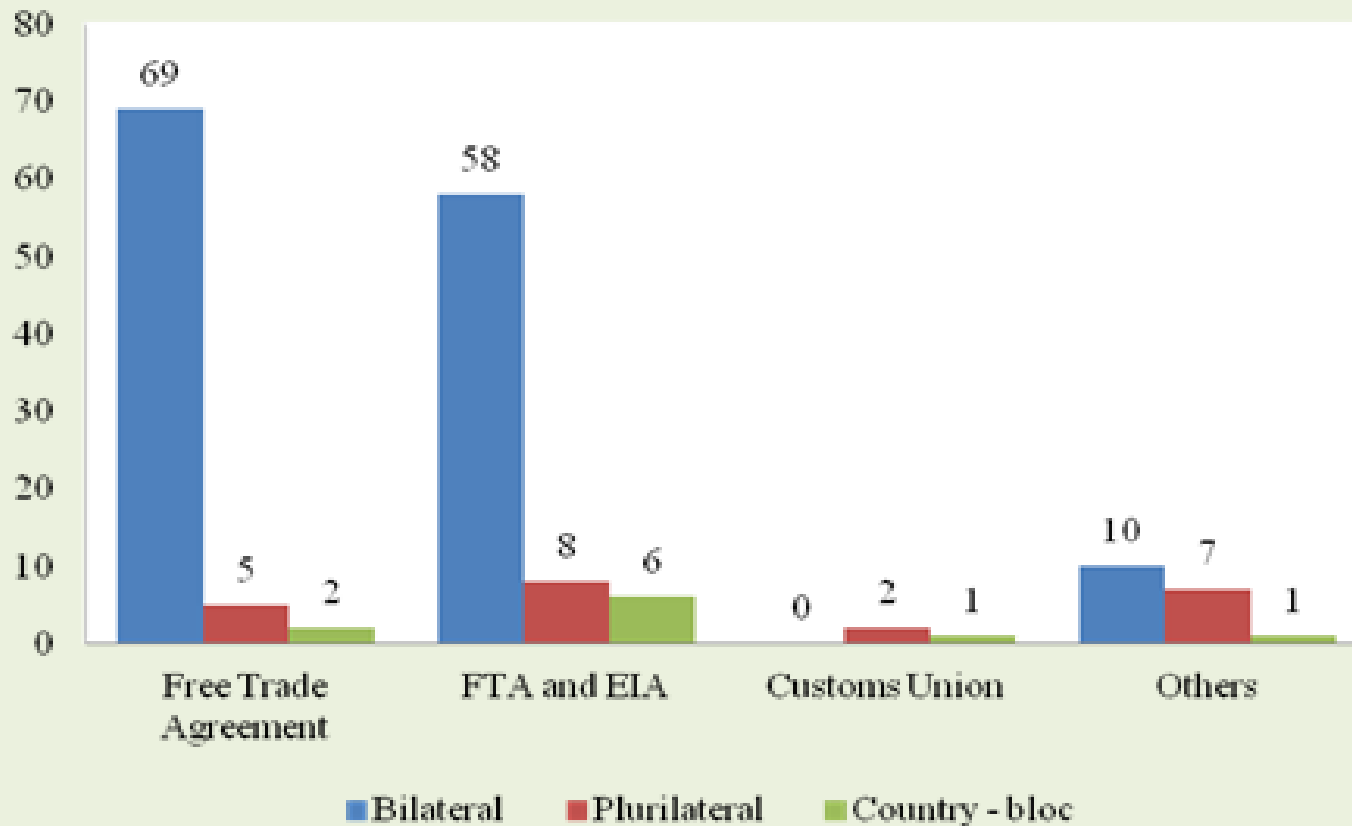
Cumulative number of RTAs (notified and non-notified to WTO) put into force by Asia-Pacific economies, 1971-July 2016



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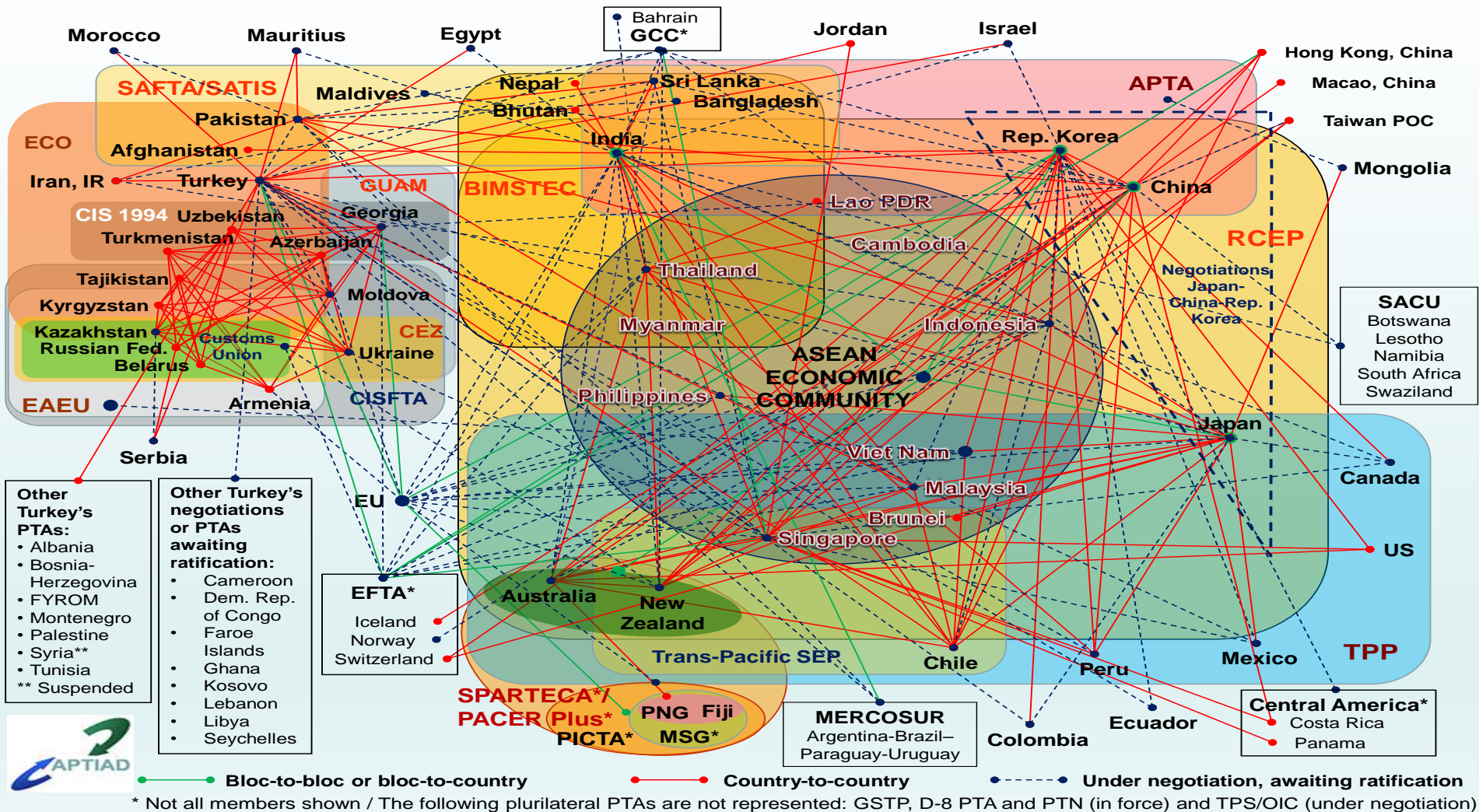


Trade agreements, by type and number of partners



Source: ESCAP (APTIR 2016) - calculation based on data from APTIAD

Asia-Pacific Noodle Bowl



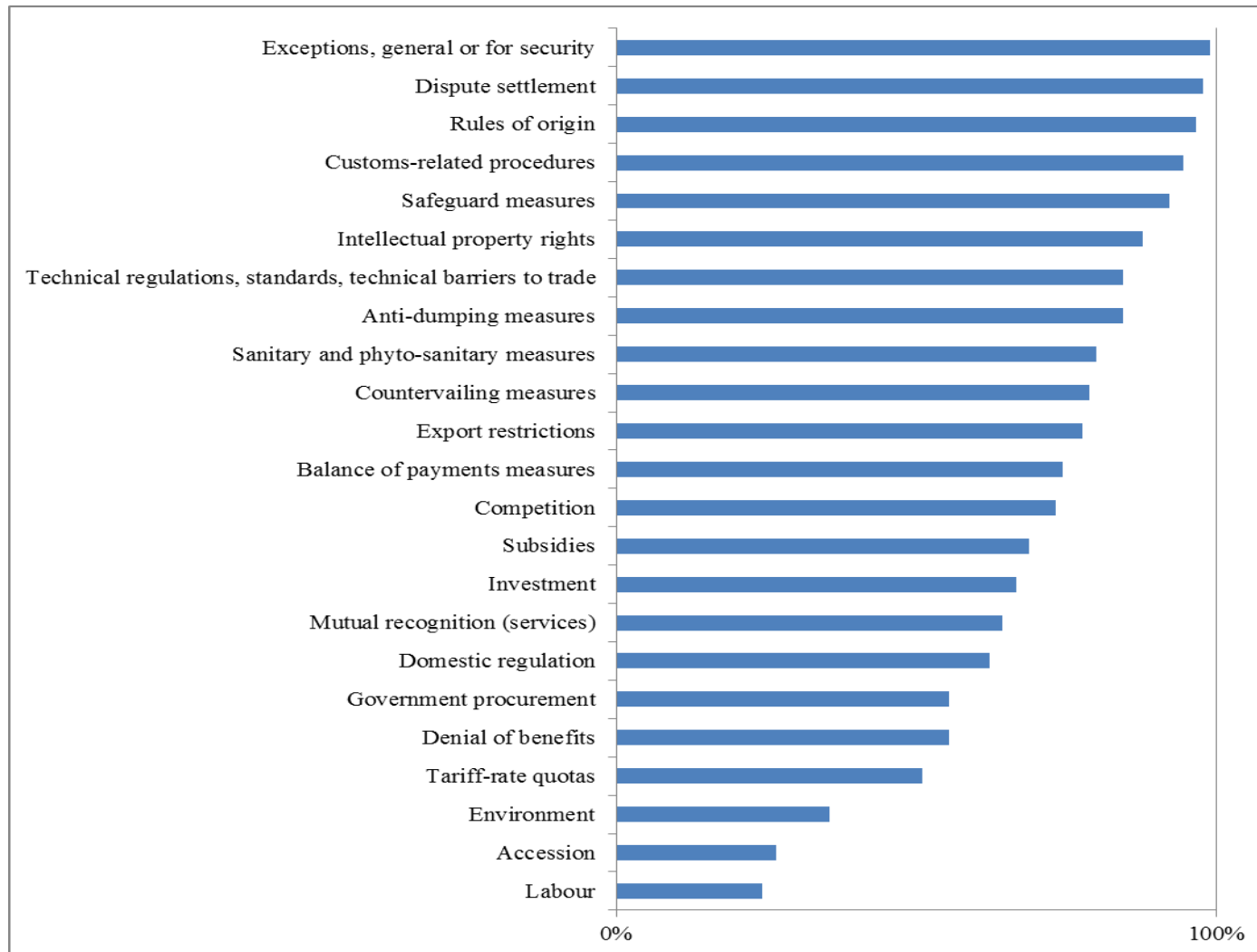
Matrix of PTAs in Asia-Pacific by status

		East and North-East Asia										South-East Asia										South and South-West Asia										North and Central Asia										Pacific																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
East and North-East Asia	China	DPR Korea	Hong Kong, China	Japan	Macao, China	Mongolia	Republic of Korea	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Timor-Leste	Viet Nam	Afghanistan	Bangladesh	Bhutan	India	Islamic Republic of Iran	Maldives	Nepal	Pakistan	Sri Lanka	Turkey	Armenia	Azerbaijan	Georgia	Kazakhstan	Kyrgyzstan	Russian Federation	Tajikistan	Turkmenistan	Uzbekistan	American Samoa	Australia	Cook Islands	Fiji	French Polynesia	Guam	Kiribati	Marshall Islands	Micronesia (F. S.)	Nauru	New Caledonia	New Zealand	Niue	Northern Mariana Is.	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Tuvalu	Vanuatu																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									

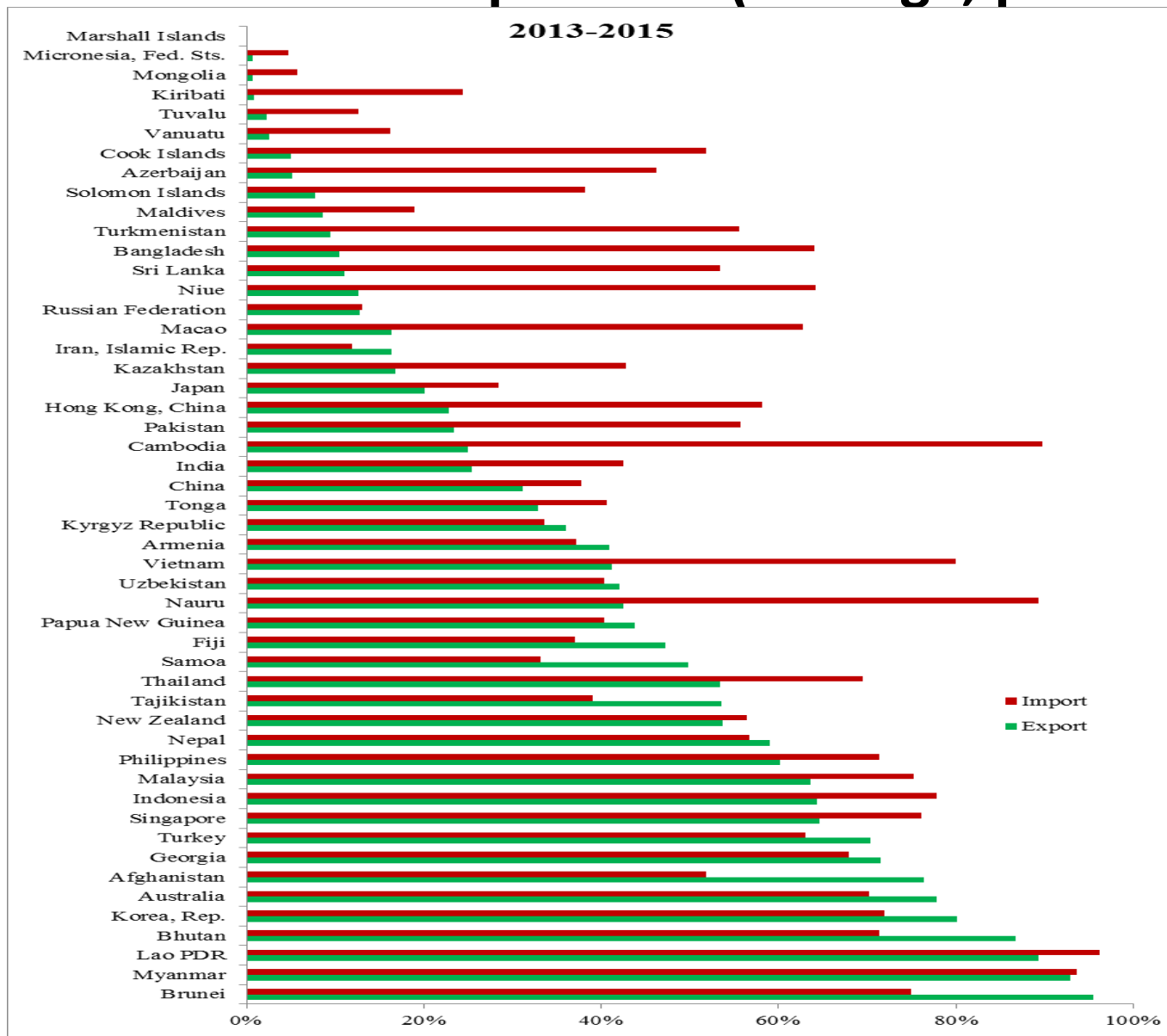
Matrix of PTAs in Asia-Pacific by type

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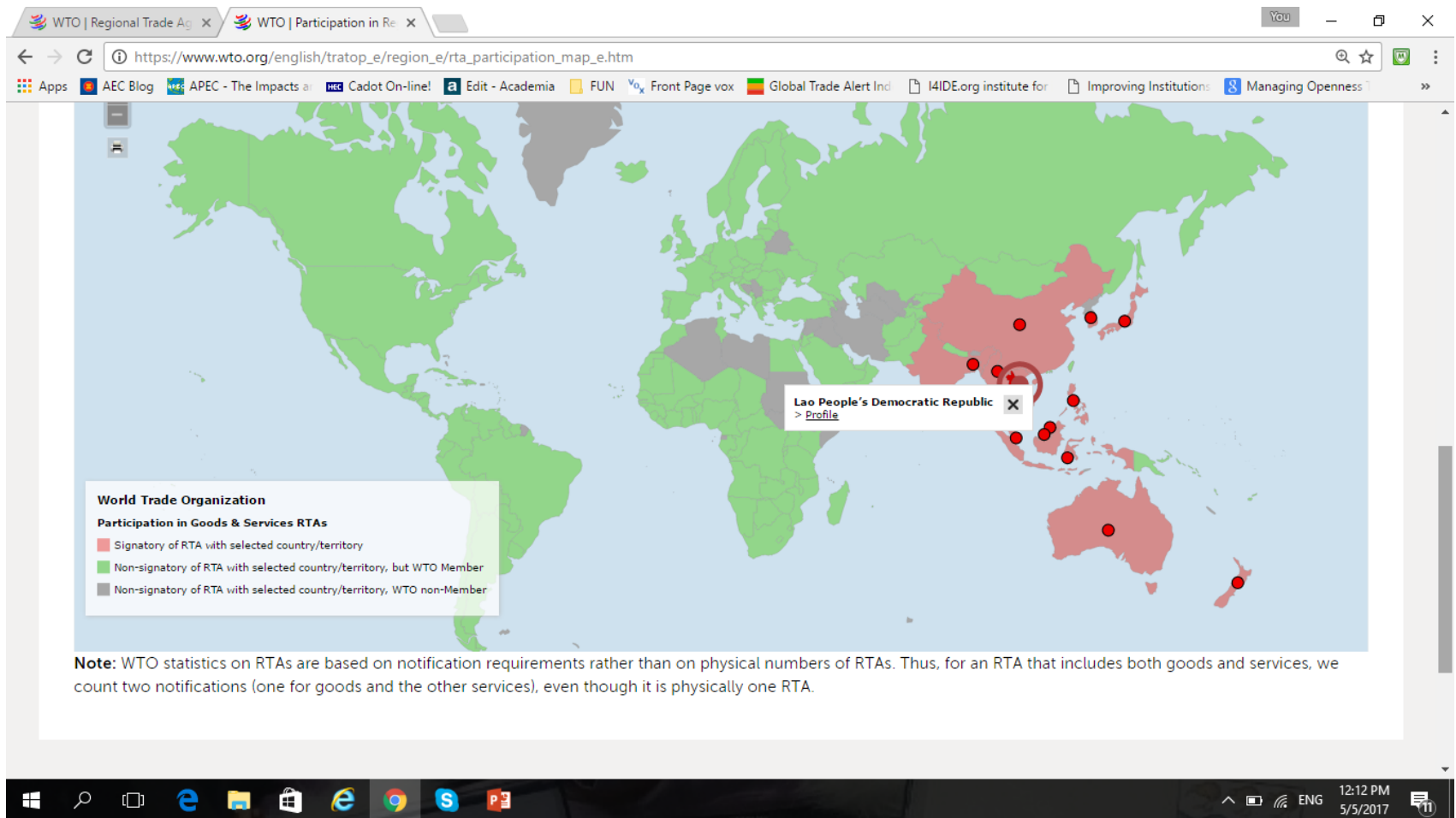
Areas of liberalization in A-P PTAs (%)



Share of trade with PTA partners (Average, percentage)



Lao PDR trade agreements ID card



WTO | Regional Trade Agreements | Participation in Regional Trade Agreements | WTO | Regional trade agreements

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Lao People's Democratic Republic

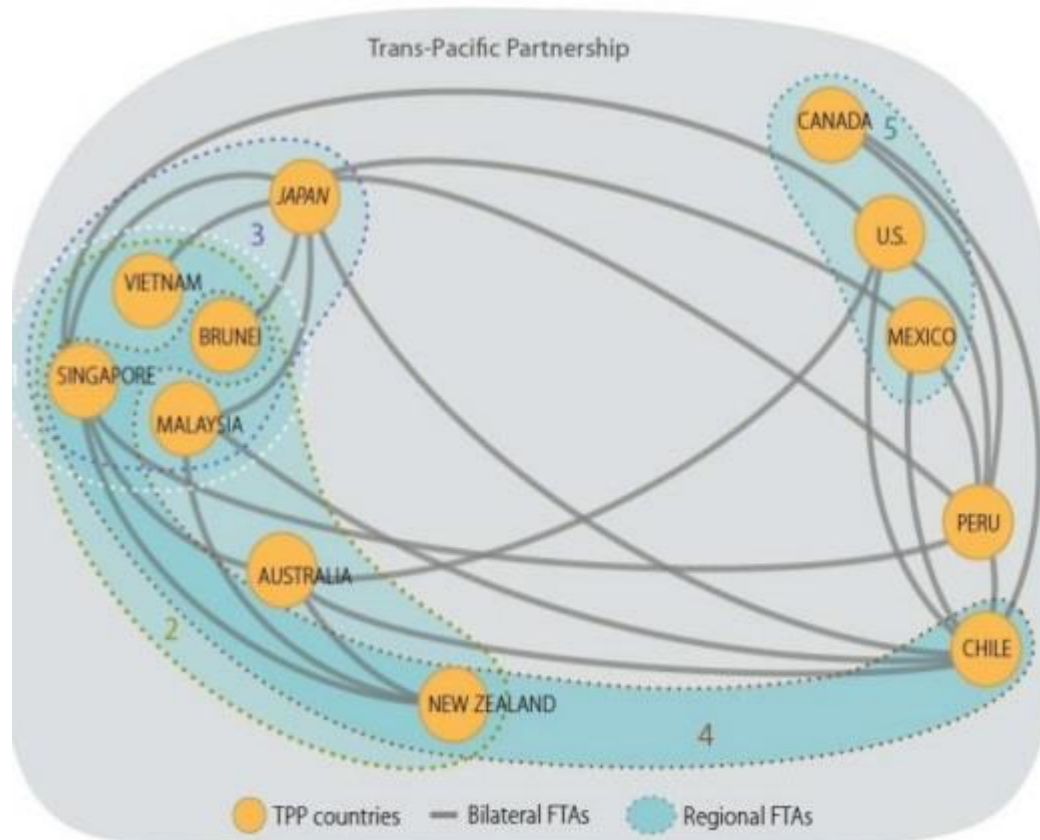
Background information available for this country/territory	List of notified RTAs in force	List of RTAs for which an early announcement has been made
<ul style="list-style-type: none"> Trade profiles Tariff profiles Trade policy review 	<ul style="list-style-type: none"> ASEAN - Australia - New Zealand ASEAN - China ASEAN - India ASEAN - Japan ASEAN - Korea, Republic of ASEAN Free Trade Area (AFTA) Asia Pacific Trade Agreement (APTA) Asia Pacific Trade Agreement (APTA) - Accession of China Lao People's Democratic Republic - Thailand 	

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THE MEGA-REGIONALS

Trans-Pacific Partnership



	Encompassed Regional Trade Agreements				
	1 ASEAN	2 ASEAN- Australia-NZ	3 ASEAN- Japan	4 P-4	5 NAFTA
Australia		●			
Brunei	●	●	●	●	
Canada					●
Chile				●	
Japan			●		
Malaysia	●	●	●		
Mexico					●
New Zealand		●		●	
Peru					
Singapore	●	●	●	●	
United States					●
Vietnam	●	●	●		



(2012, \$billions)

Source: Duane Morris, 2014

Regional Comprehensive Economic Partnership

- Membership: ASEAN+6: Australia, China, India, Japan, South Korea and New Zealand
- RCEP is a comprehensive free-trade agreement including goods, services, investment, competition and intellectual property rights. But less ambitious than TPP.
- 10th round of negotiations in Busan, ROK in October 2015
- Deadline for end-of-2015 agreement missed: India and Indonesia failing to make offers for tariff liberalization



Comparison between RCEP and TPP

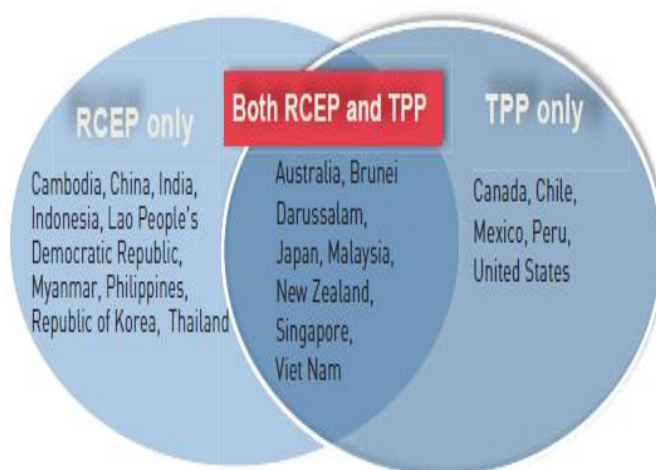
Comparison of the combined economic size, populations and imports of the Regional Comprehensive Economic Partnership and Trans-Pacific Partnership

TABLE 6.1

	GDP (Trillions of dollars; percentage in world)	Population (Millions; percentage in world)	Imports (Billions of dollars; percentage in world)
Regional Comprehensive Economic Partnership	21.2 (29.6%)	3 400 (49.0%)	5 070 (27.7%)
Trans-Pacific Partnership	27.6 (38.5%)	790 (11.4%)	5 090 (30.6%)
Memo item: Asia Pacific Trade Agreement*	11.4 (15.8%)	2 816 (40.5%)	2 746 (14.8%)

Source: ESCAP calculation, based on IMF World Economic Outlook Database (accessed July 2014).

* including six current Participating States and Mongolia.



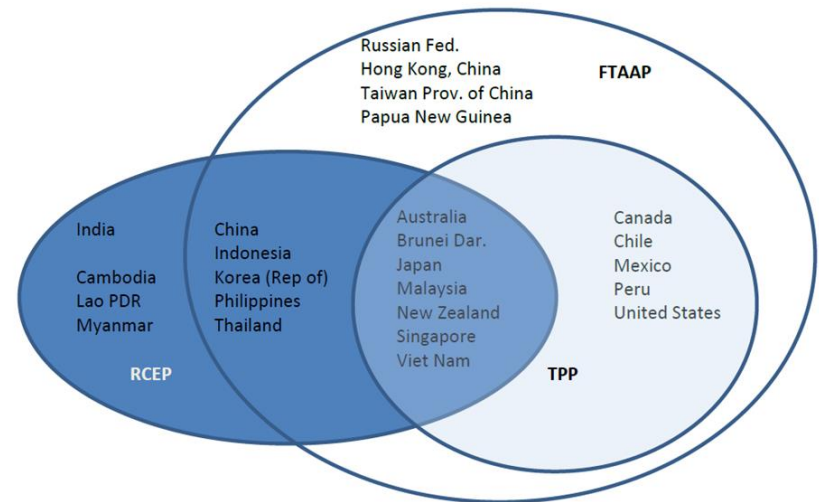
Eurasian Economic Union



- EEU is rare example of new customs union: common external tariff
- Launched in January 2015
- Structurally modeled on the EU, comprising a single market with its own commission, court, and bank - based in Moscow, Minsk, and Almaty, respectively.
- Current economic slowdown and depreciation of Rouble increasing trade tensions
- Monetary union?

Towards the FTAAP?

- Progress of TPP and RCEP will heavily influence the future of regional integration
- Possible pathways towards broader liberalization in FTAAP?
- Discussions and options currently being considered in APEC forum



	TPP	RCEP	FTAAP
Number of Economies	12	16	21
Aggregate share of world GDP	38%	29%	58%
Aggregate share of world exports	24%	30%	46%



HOW TO MAKE SUCCESSFUL TRADE AGREEMENTS?

Elements of successful agreements

- Choose partners with high MFN tariffs (to maximize trade creation) and then lower external MFN tariffs (to non-PTA members) to minimize trade diversion
- Few sectoral and product exemptions (i.e. pursue negative listing)
- Non-restrictive rules of origin
- Trade facilitation and enabling measures
- Allow more cross-border competition, especially in services
- Investment liberalization and IPR protection appropriate to development context
- Coordination to implement schedules on a timely basis
- Advocacy, increase awareness among businesses and establish “PTA crisis center calls”
- Living institutions to review implementation and resolve disputes

PTAs: NEGOTIATING PRINCIPLES, APPROACHES AND MODALITIES

Important decisions on negotiating PTAs

- Scope: level of engagement (depth) under PTAs and broad areas
- Negotiating (guiding) principles
- Mandates and approaches

Reminder (again): Levels of engagement under PTAs

Type	Shorthand	Definition
Preferential trade area (Partial scope agreement)	PTA	An agreement with two or more countries which lowers but does not eliminate trade restrictions
Free trade area	FTA	An agreement with two or more countries that eliminates trade restrictions in a substantial manner
Customs union	CU	An agreement with two or more countries to eliminate trade restrictions and to apply a uniform external tariff
Common/Single market	CM/SM	An agreement with two or more countries to eliminate trade restrictions, apply a uniform external tariff and allow free movement of labour and capital

Scope and sequencing

As most of the PTAs aim for FTA or CEPA* level, the scope will range from:

1. (Phase I):

- tariff /goods liberalization (cum ROO),
- customs procedures (TF),
- transit,
- NTMs (?),
- remedies,
- disputes,

2. To (Phase II):

- Services
- investment

3. To (Phase III) the areas under “next generation PTAs”....WTO + and WTO ++ areas

*CEPA= Comprehensive Economic Partnership Agreements...

Negotiating (guiding) principles (example)

- Member/Partner State driven (if no bloc involved)
- Variable geometry (if more than 2 parties)
- Flexibility and Special and Differential Treatment
- Transparency including the disclosure of information
- “Substantial all trade” liberalization
- MFN Treatment
- National Treatment
- Reciprocity (may be not full/ symmetric),
- Decisions shall be taken by consensus (if more than 2 parties).

Modalities for trade liberalization

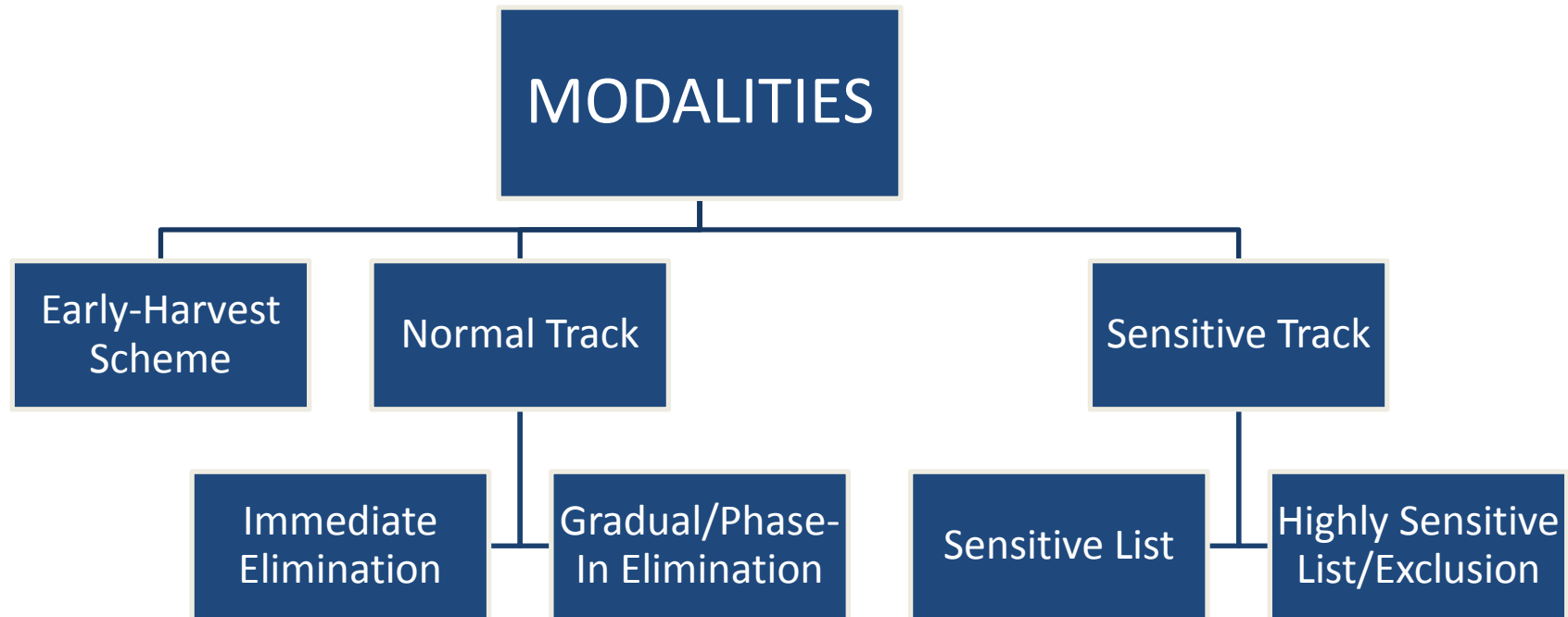
- Modalities imply the basic framework by which a specific aspect of a negotiation will be conducted.
- Will be (most likely) different for different areas of PTAs
- For example, the modalities for a tariff negotiation (goods):
 - request-offer, or
 - formula negotiations,
 - PLUS each of these broad modalities might be further specified:
 - a formula-based modality might be based upon the Swiss formula, or a tiered version of the Swiss formula, with certain specified coefficients,
 - etc.
- Depending on the precision of these modalities and the amount of "wiggle room" that they provide for (e.g., whether and to what extent countries can take specific products off the table), the modalities might determine most or all of the results of a negotiation.

Modalities for trade liberalization

- In PTAs (unless partial scope agreement), the focus should be on meeting GATT Art XXIV:
 - elimination of tariffs (and other measures) in goods' trade*,
 - on substantially all trade
 - in a reasonable period of time
- *if building CU, new level of common external protection, not to be higher than parties' before
- the base rate from which tariffs are eliminated is usually the applied rate in an agreed year (whereas in a MTN the base rate is usually the WTO bound rate).

Modalities for trade liberalization

- Because substantially all tariffs will be eliminated, the focus of the PTA negotiations is usually on the phase-out period of the tariffs.
 - Tariffs in a PTA are only eliminated between the participants and the benefits are not available to non participants (no multilateralization)
- **Phase-outs can be**
- *Immediate (when agreement is put in force),*
 - *Linear (a sequence of equal cuts over the phase out period),*
 - *Front-end or*
 - *Back-end loaded*



- How will this play-out often depends on level of development of parties in the PTA and their objective for the PTA

Designing inclusive PTAs:

The core areas of coverage for PTAs

- The modalities of trade liberalization matter, as e.g.
 - Elimination of trade barriers will generate more impact than lowering them
 - Free movement of labour and capital and external tariffs may be politically unsavory but will generate significant impact and ameliorate issues such as human trafficking
- The sectors and goods/services that are liberalized **often matter *even more***
 - Inclusive growth can be kickstarted by targeting sectors such as clothing and textiles which are known to employ groups whom have not benefitted from growth on equal terms before

Designing inclusive PTAs:

The core areas of coverage for PTAs

- Not all trade is **the same**
- The kinds of goods and services that are being traded have significant impact on how trade, and changes therein, will affect inclusive growth
- For example, increased trade in certain parts of the agricultural sector might **benefit the consumers while harming the producers in a less competitive country**

Designing inclusive PTAs:

The core areas of coverage for PTAs

- Opening certain sectors such as financial services may society-wide direct benefits through, e.g. lower business costs and increased overall financial efficiency
- However, certain goods and services may not have any direct impacts on inclusive growth, rather, they may have only indirect effects
- The first step to mapping and understanding the different effects is to examine intermediate and final goods

Conclusion

- 1. Modern PTAs cover a wide range of issues in addition to traditional tariffs on goods.**
- 2. Identifying the scope for “deep” integration, as well as sectoral particularities, is key to making PTAs inclusive.**
- 3. PTAs increasingly deal directly with development-related issues, like social and environmental standards. Negotiating mutually satisfactory approaches is challenging, but gains are possible.**
- 4. Many different architectures are possible for preferential integration, using different degrees of formality and issue coverage. There is no single recipe.**

Q&A

Thank you