



MULTILATERAL AND REGIONAL TRADE LIBERALISATION

CAPACITY BUILDING ON TRADE POLICY ANALYSIS
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Structure

- ⊙ **Multilateralism vrs. Regionalism**
- ⊙ **Legal framework**
- ⊙ **Replacement of tariff protection**
- ⊙ **Rules of origin and the cost of compliance**
- ⊙ **Effects of overlapping FTAs**
- ⊙ **Effects to business sector**
- ⊙ **The loss of tariff revenue and adjustment costs**

Multilateralism vrs regionalism

The Conceptual Basis

- ◎ Broad Trends
 - Growth in Number of RTAs
 - Intra-Regional Trade of Major RTAs
 - Types of RTAs
- ◎ RTAs: Economics of their own
- ◎ RTAs: Self-propelling force
- ◎ Regional Cooperation and Multilateralism
- ◎ Level Playing Field vs. Efficiency Concerns
- ◎ Trade-Development Relationship
 - Two-way Causality
 - Trade Creation and Diversion
 - Distribution of Trade Gains
 - Rules of Origin
- ◎ Trade-Investment Linkages
- ◎ Static and Dynamic Gains
- ◎ Need for Safeguards

Regional Trading Arrangements : Economic rationale

- ⊙ A desire to obtain more secure, quick and preferential access to major markets.
- ⊙ The pressures of globalisation, forcing firms and countries to seek efficiency through larger markets, increased competition, and access to foreign technologies and investment.
- ⊙ Material management
 - Cheaper imports – domestic prices in control
 - Better quality products at competitive price
- ⊙ Investments flow – JVs
- ⊙ Coverage of Services
- ⊙ Mutual recognition of standards & laboratories
- ⊙ Trade facilitation, Harmonisation of Customs procedures etc.

Other Reasons

- ▣ Governments' desire to maintain sovereignty by pooling it with others in areas of economic management where most nation-states are too small to act alone.
- ▣ Governments' wish to bind themselves to better policies and to signal such bindings to domestic and foreign investors.
- ▣ A desire to jog the multilateral system into faster and deeper action in selected areas by showing that the GATT/WTO was not the only game in town and by creating more powerful blocs that would operate within the GATT/WTO system.
- ▣ A desire to help neighbouring countries stabilize and prosper, both for altruistic reasons and to avoid spillovers of unrest and population growth.
- ▣ The fear of being left out while the rest of the world swept into regionalism, either because this would be actually harmful to the excluded countries or just because "if everyone else is doing it, shouldn't we?"

BASIC GATT PRINCIPLES

- ◎ MFN (Most Favoured Nation Treatment)
- ◎ TRADE TO BE REGULATED BY CUSTOMS DUTY ONLY
- ◎ DUTIES TO BE BOUND
- ◎ NATIONAL TREATMENT

MFN

- ⦿ **Non – discriminating clause**
- ⦿ **All WTO members to be treated at par for:**
 - **Export control/policy**
 - **Import control/policy**
- ⦿ **If give any preference to non-WTO member – it should be extended automatically and unconditionally to all members of WTO.**

GATT RULES

- ⊙ Permitted under Article XXIV of GATT 1994.
- ⊙ Exception to MFN treatment within the Rules subject to fulfillment of conditions:
 - items on which there is **substantial trade** to be covered
 - the phase out of duties should be **within a reasonable length of time**
 - it should **not have trade distorting effect** to non-RTA Parties.
- ⊙ **Enabling Clause Decision – flexibility.**

WTO RULES

- ◎ The text of Article XXIV became part of WTO Agreement.
- ◎ During Uruguay Round an understanding was reached on duties & other regulations of commerce, reasonable length of time, and procedure for RTA notification to WTO.
- ◎ Services: Article V of GATS allows for Economic Integration.

Services in RTAs

- ◎ Article V of GATS
 - substantial sectoral coverage (12 sectors – 155 subsectors);
 - Elimination of existing discriminatory measures, and/or prohibition of new or more discriminatory measures either at the entry into force or on the basis of reasonable time-frame.
- ◎ Flexibility for developing countries
- ◎ Facilitate trade between parties and to to raise the overall level of barriers to trade in services within the respective sectors or sub-sectors compared to the level applicable prior to such an agreement.

SAT - Test

- ⦿ **Para 8(a) of Article XXIV of GATT.**
- ⦿ **Trade value?**
- ⦿ **Tariff lines?**
- ⦿ **Both?**
- ⦿ **Being discussed and debated in WTO but no clarity – no decision – neither in Uruguay Round nor in Doha Round.**

Reasonable Length

- ◎ The reasonable length of time [para 5 (c)] should exceed 10 years only in exceptional cases.
- ◎ In cases where members believe that 10 years is insufficient, they shall provide a full explanation to the Commission for Trade in Goods of the need for a longer period.

RTAs notification

When entering an RTA containing provisions on goods, a WTO Member should invoke one of the following provisions, and comply with the relevant conditions:

Categories	RTA parties		
	Developed only	Developing only	Developing & developed
Trade in goods	GATT XXIV	GATT XXIV Enabling Clause	GATT XXIV
Trade in services	GATS V	GATS V	GATS V
EIA/CECA/ EPAs	GATT XXIV & GATS V	GATT XXIV/Enabling Clause & GATS V	GATT XXIV & GATS V

Doha Round - Rules negotiations

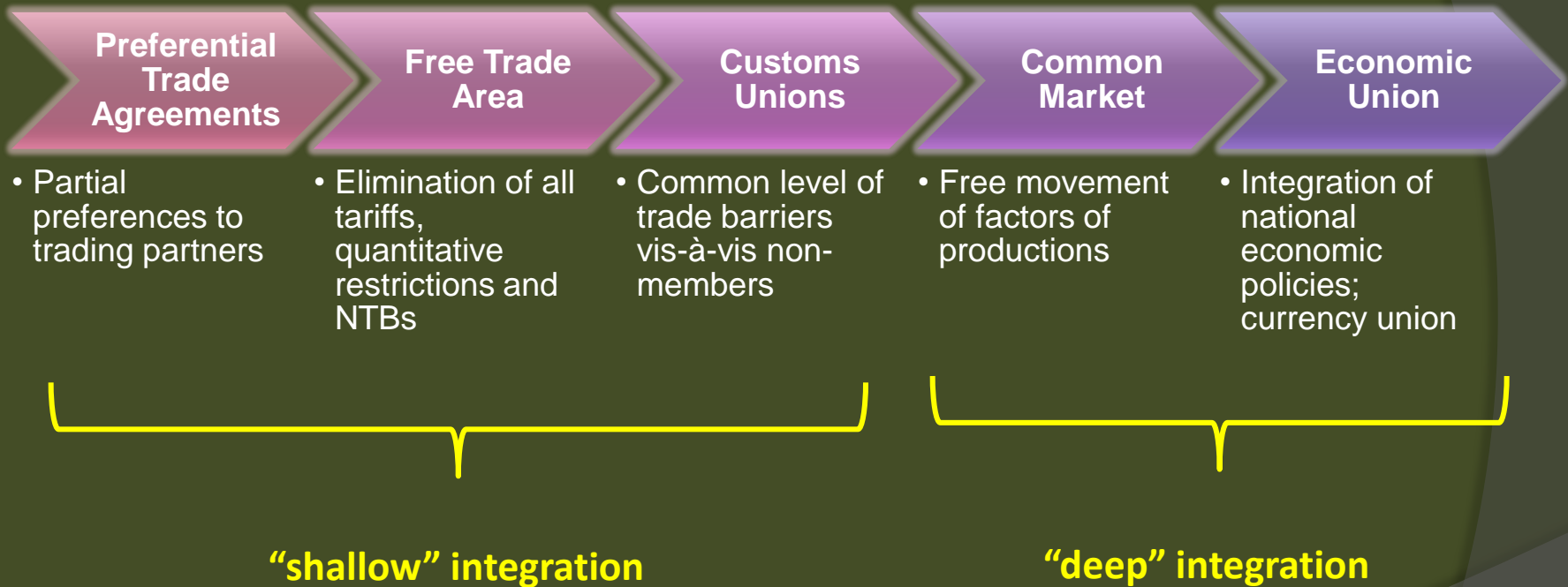
- ◎ RTA transparency part of Doha Round negotiations.
- ◎ A decision was taken on 14th December 2006 on Transparency mechanism for RTAs which was adopted by the General Council. It involved issues relating to:
 - Early announcement
 - Notification
 - Procedures to enhance transparency, etc.

Transparency mechanism

GATT Art. XXIV	GATS Art. V	Enabling Clause – Para. 2(c)
Transparency Mechanism for RTAs General Council's Decision of 14 December 2006 (WT/L/671) <i>(Provisional application pending conclusion of the Doha Round)</i>		

- Improves existing RTA transparency provisions
- Outlines specific guidelines for the provision of RTA data
- Charges the Secretariat with the preparation of a factual presentation of all RTAs notified to the WTO
- Requires the establishment of a public database on RTAs (paragraph 21).

Types of trade agreements



Goods – other elements

- ⦿ Anti Dumping
- ⦿ Safeguard
 - Global
 - Bilateral
- ⦿ Duty drawback
- ⦿ Rules of Origin
- ⦿ Export taxes/licenses
- ⦿ Import licenses

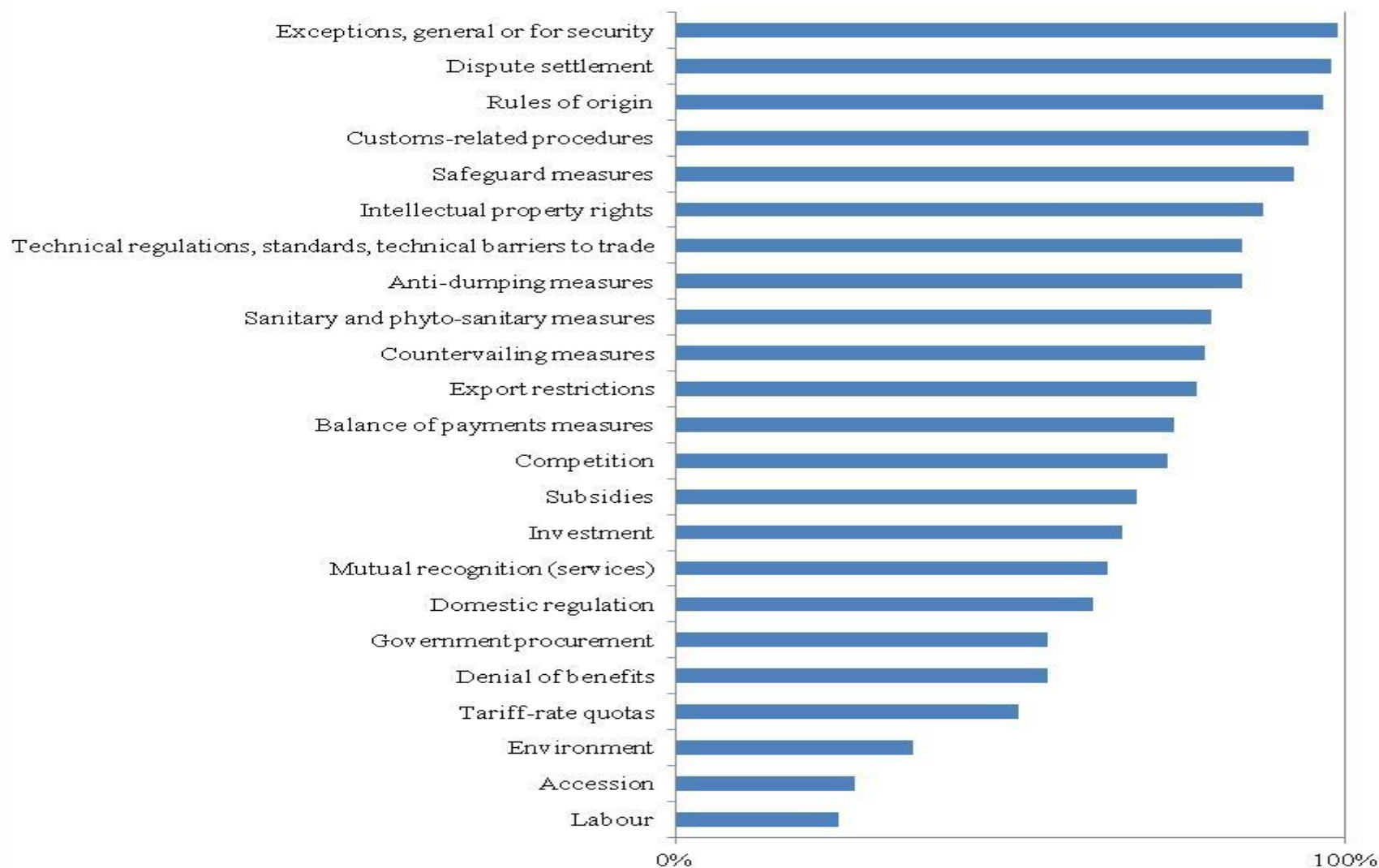
Issues covered

Goods	Services	Non-Tariff Barriers	Investment
Competition	Labour Mobility	Environment	Labour standards
Government Procurement	E-commerce	Intellectual Property Rights	Dispute Settlement
Customs cooperation/ Trade Facilitation	MRAs	Technical Assistance	Areas of cooperation

Asia-Pacific RTAs

- ◎ 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%) are from AP
- ◎ 12 - signed but not implemented
- ◎ 78 - under different stages of negotiations.

Areas of liberalization pursued by Asia-Pacific PTAs



Replacement of tariff protection

**Discussion Point: What is the
difference between WTO
negotiations and RTA
negotiations**

Comparison

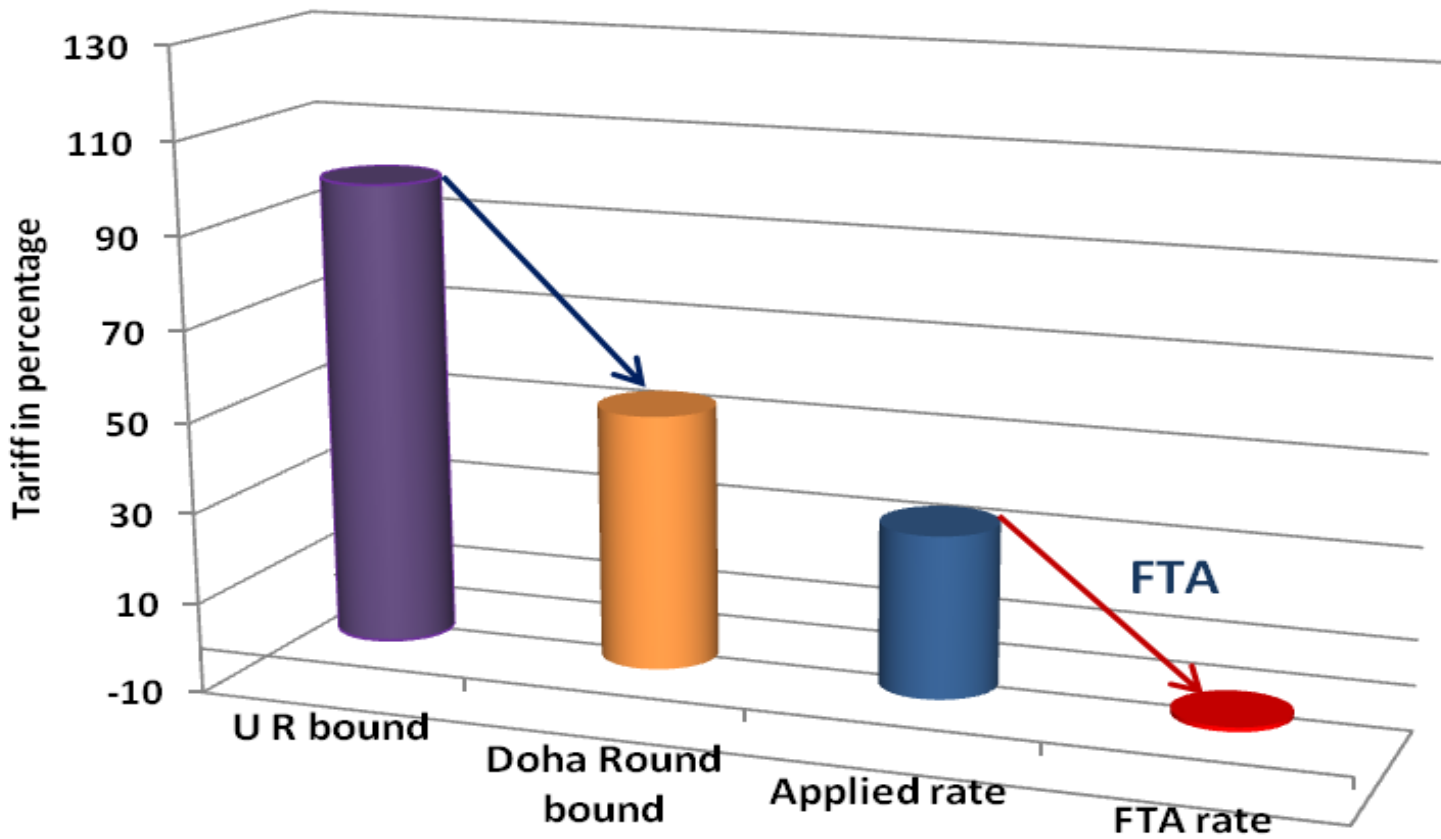
WTO

- ◉ Tariff – bound
- ◉ Services
- ◉ Trade Defence Measures
- ◉ Subsidies
- ◉ Agriculture
- ◉ Disputes
- ◉ S&D
- ◉ Technical assistance
- ◉ AfT
- ◉ Trade Facilitation
- ◉ Government Procurement
- ◉ Investments
- ◉ Competition Policy

RTA

- ◉ Tariff – applied
- ◉ Services
- ◉ Trade Defence Measures –
 - Only Preferential SG
- ◉ Subsidies - no
- ◉ Agriculture – DS and EC no
- ◉ Disputes
- ◉ Investments
- ◉ Trade Facilitation
- ◉ S&D
- ◉ Technical Assistance
- ◉ MRAs
- ◉ Environment
- ◉ Labour
- ◉ Singapore Issues

Tariff effect

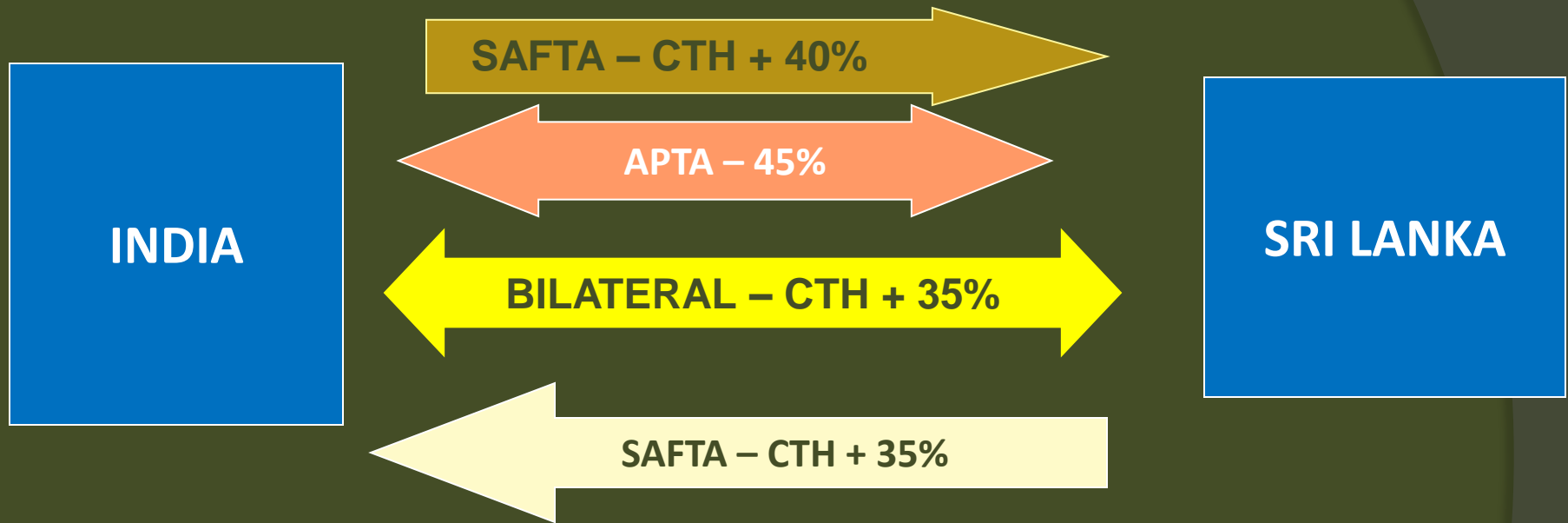


Rules of origin and the cost of compliance

Rules of Origin

- Rules of origin are criteria used to determine the “nationality” of a product i.e. where the product was ‘made’.
- A product’s raw materials or components might come from a number of countries, but customs officials must determine the product’s origin to decide how to treat it, including what tariff to charge, as the product enters their jurisdiction.
- Issue of origin is also important in determining the anti-dumping or safeguard duties, regulate quotas and capturing trade statistics.
- Since the preferential treatment provided for in a FTA is normally granted only to products originating from members to that FTA, rules of origin are therefore an important part of any FTA.

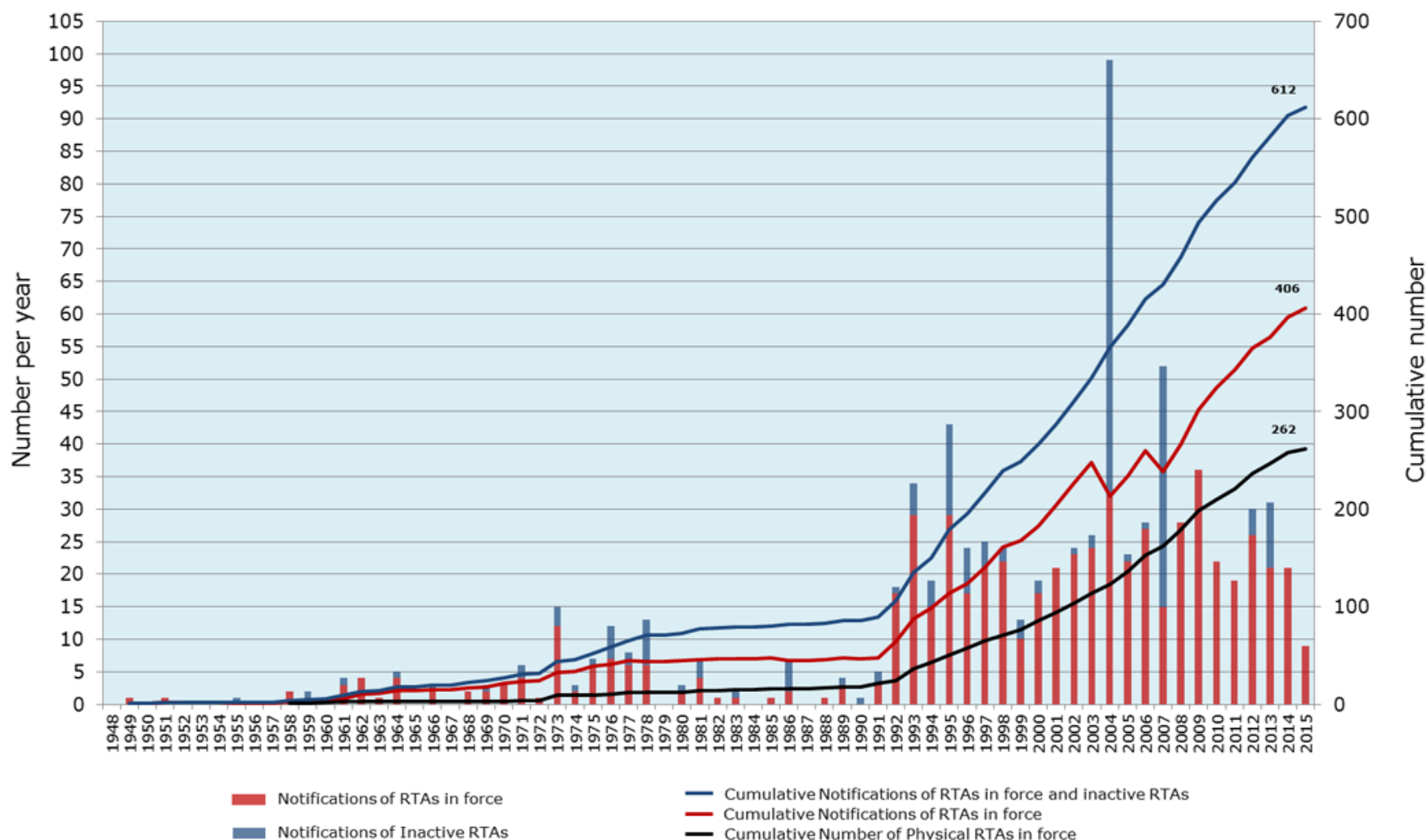
Case study – overlapping RoO



- Sri Lankan exporter enjoys benefits of harmonization for exports to India under the bilateral agreement as well as SAFTA as the RoO is same. Have disadvantage for exporting under APTA.
- India exporter has to meet different RoO to export to Sri Lanka under all the agreements, i.e. APTA, SAFTA and bilateral.
- Due to different thresholds in value added, its sourcing opportunities and strategic investment decisions could be affected.

Effects of overlapping FTAs

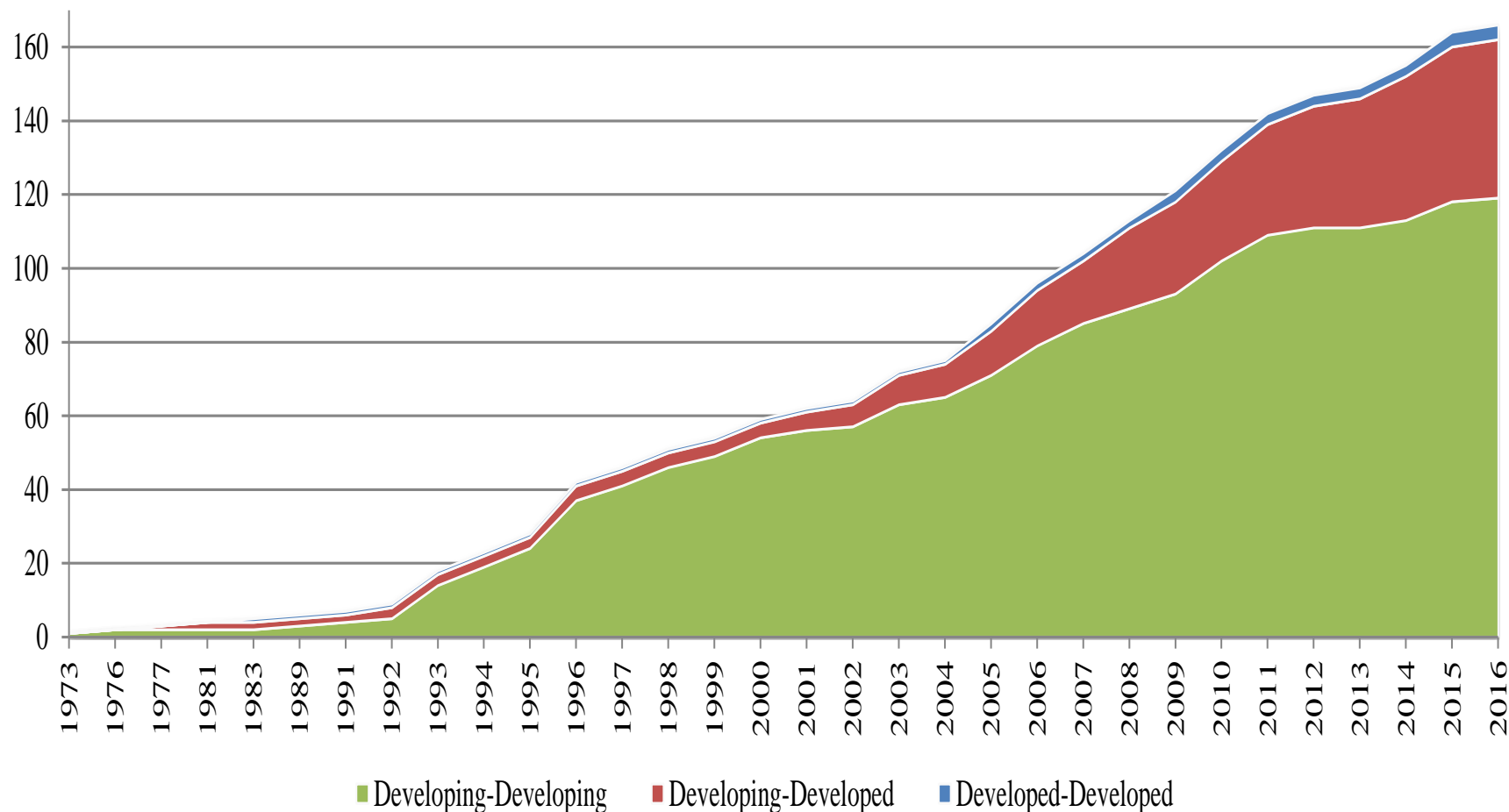
Evolution of Regional Trade Agreements in the world, 1948-2015



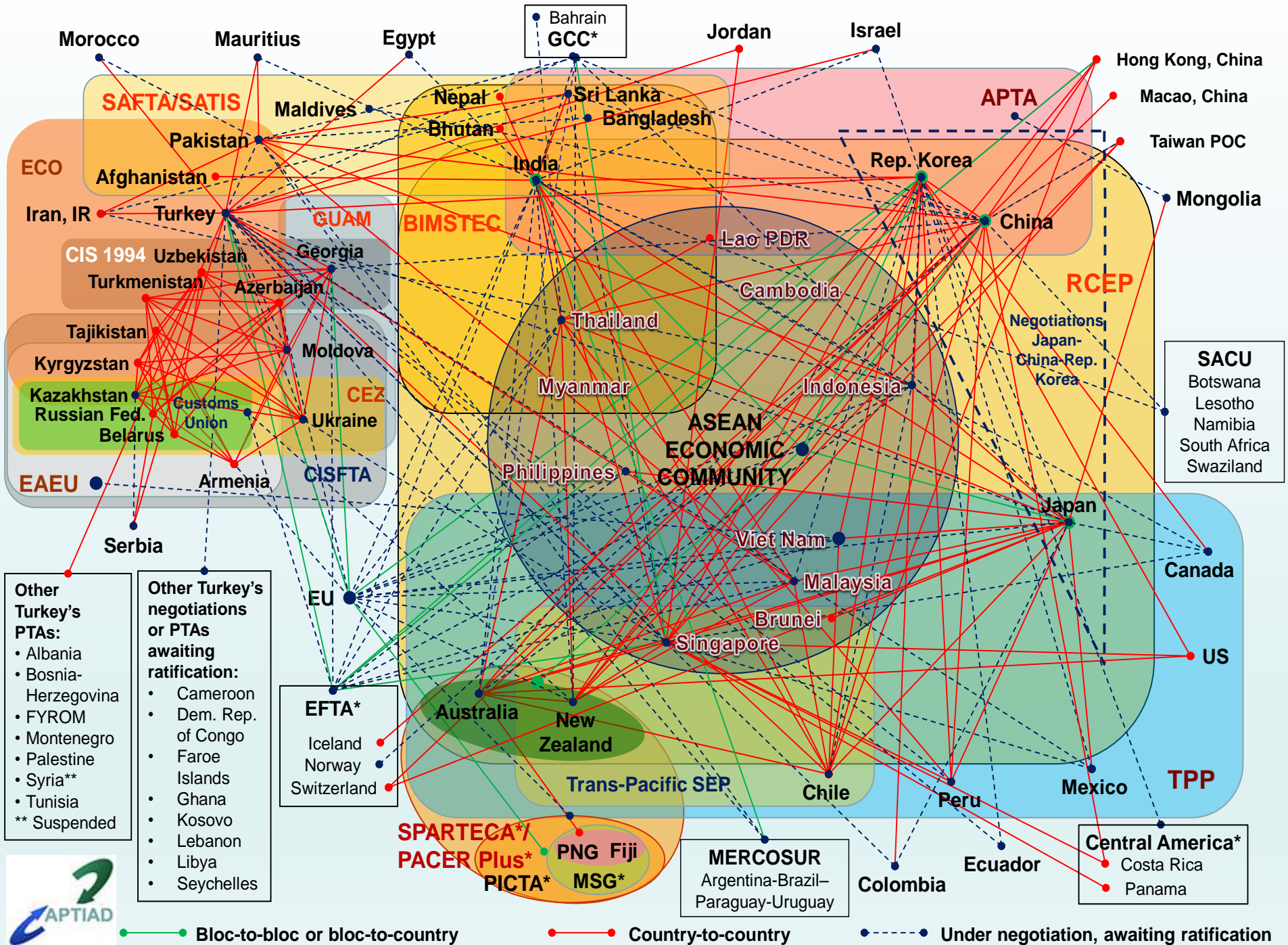
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.
Source: WTO Secretariat.

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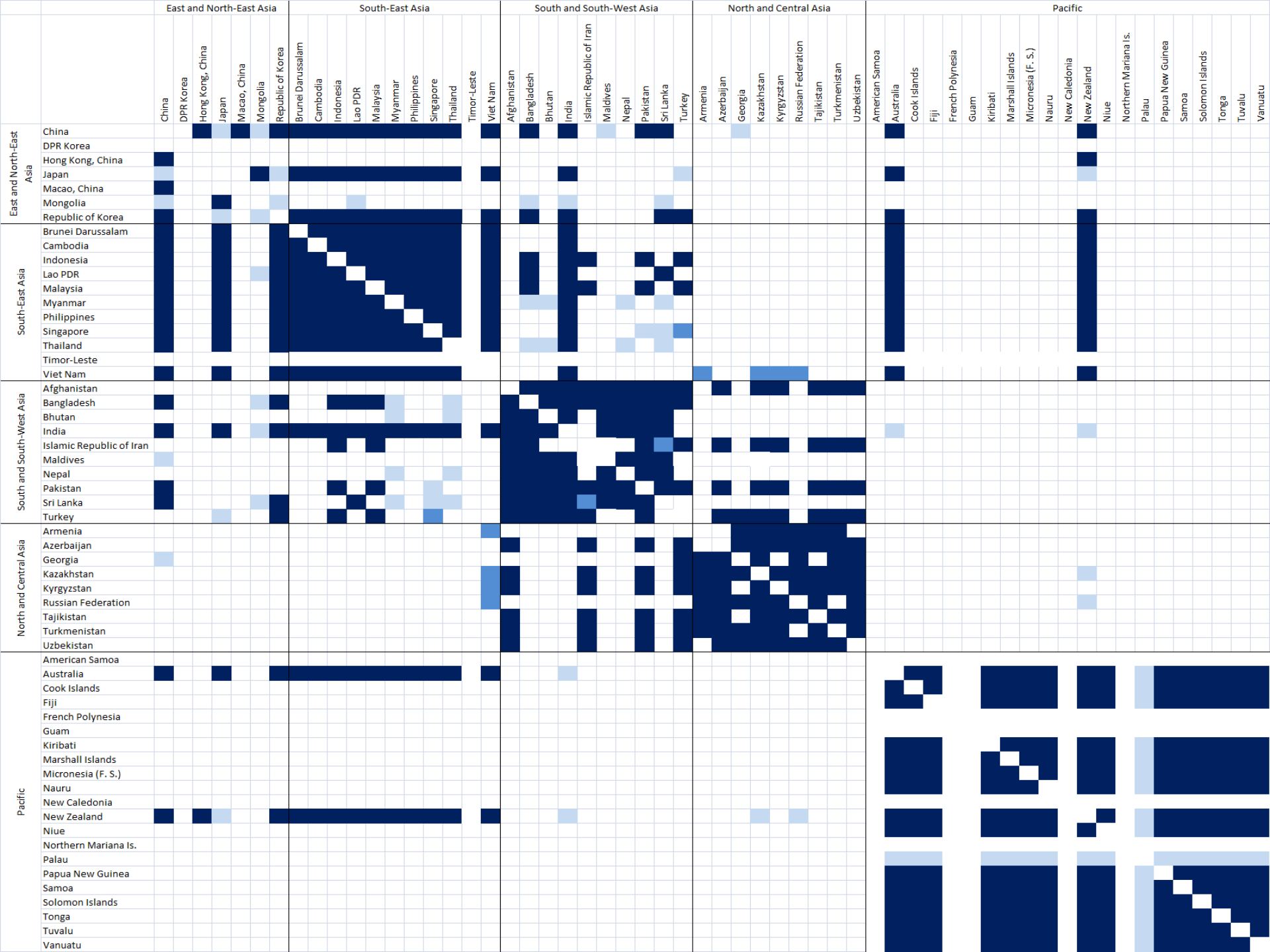
Cumulative number of PTAs (notified and non-notified to WTO) put into force by Asia-Pacific economies, by level of development of parties, 1971-July 2016

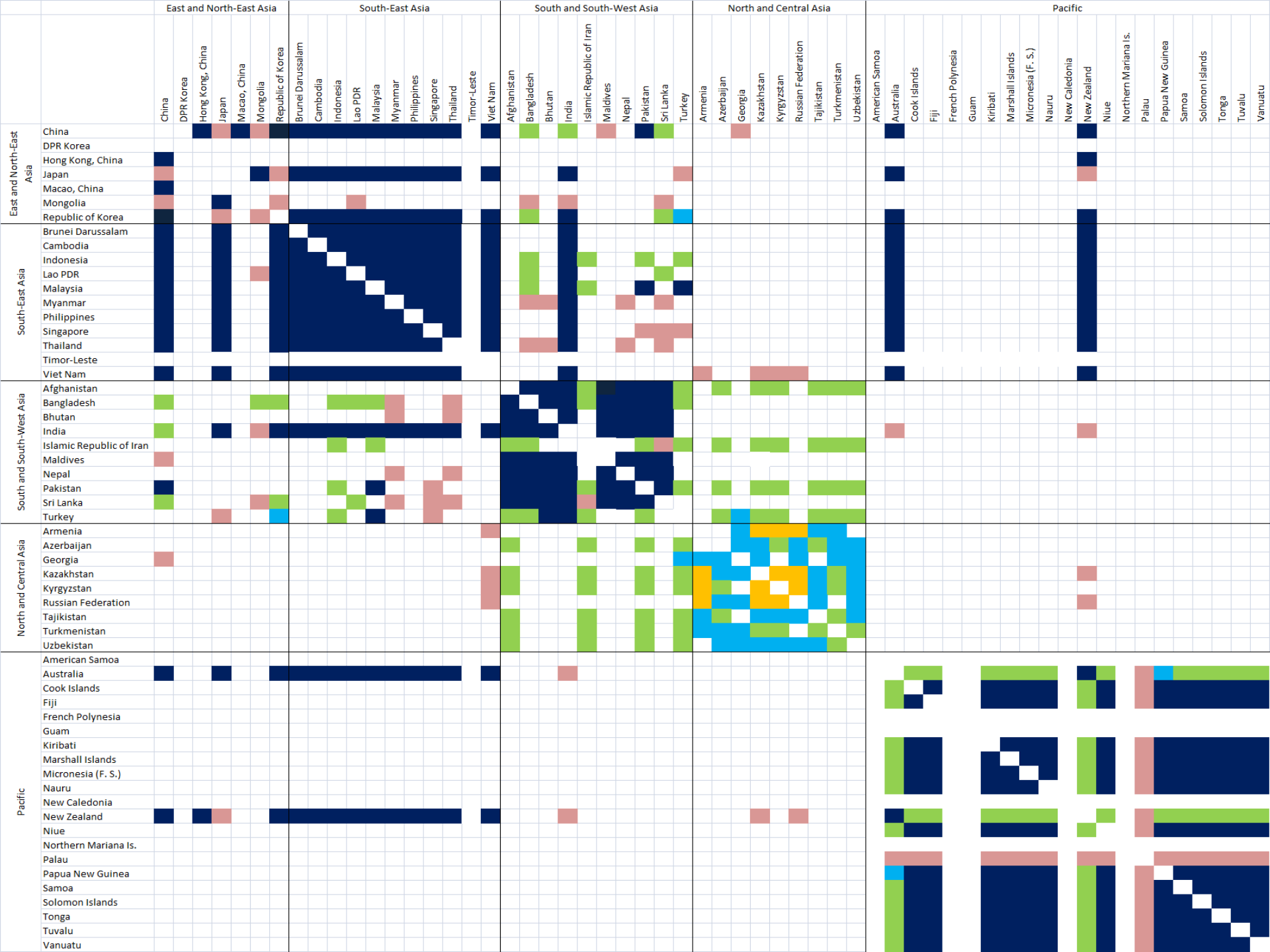


Source: ESCAP APTIAD Brief, August 2016 , calculation based on APTIAD data



* Not all members shown / The following plurilateral PTAs are not represented: GSTP, D-8 PTA and PTN (in force) and TPS/OIC (under negotiation)





Effects to business sector

Effects to business sector

⦿ Gains

- Market access
- Cheaper raw materials
- Create employments
- Globally competitive
- Part of regional or global supply chains

⦿ Losses

- Competition
- Employment loss
- Displacement of industry

⦿ Integration

- Investment flows
- MRAs

Effects (2)

◎ Four main effects

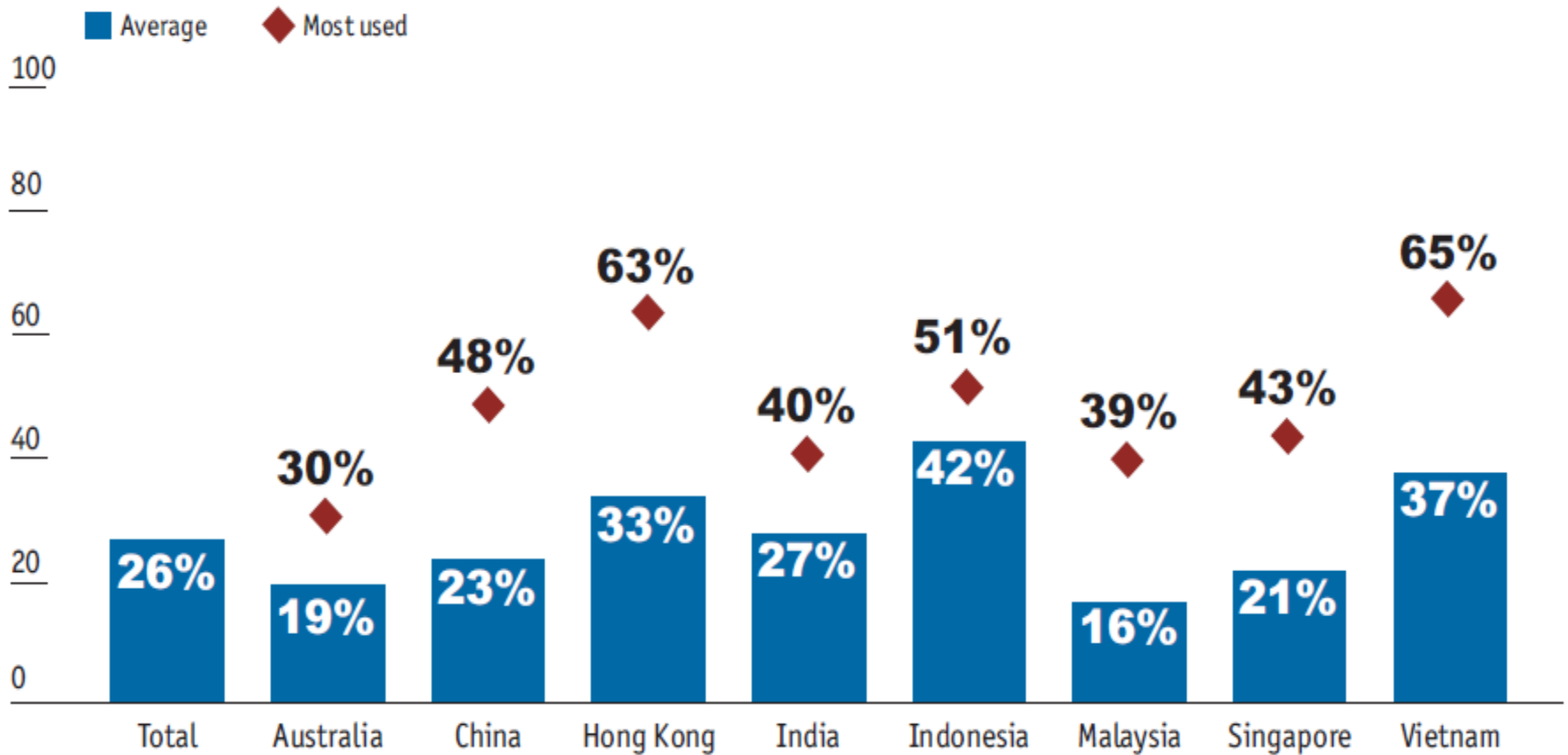
- **Trade creation:** Import from partner what was previously produced at home
- **Trade diversion:** Import from partner what was previously imported from 3rd country
- **Preference erosion:** Loss of a preference when a previous partner forms FTA with a 3rd country
- **Trade reversion:** Import from new partner what had been diverted to a partner in prior FTA (Deardorff, 2014)

Effects (3)

- ◎ **Overlapping and uncoordinated rules**
- ◎ **The complex rules and variable tariffs increase transaction costs**
- ◎ **Deter the use of FTA preference , particularly by small- and medium-sized enterprises (SMEs)**
- ◎ **One way to solve the problem is having an over-arching set of free-trade principles.**

Usage of FTAs signed by named country

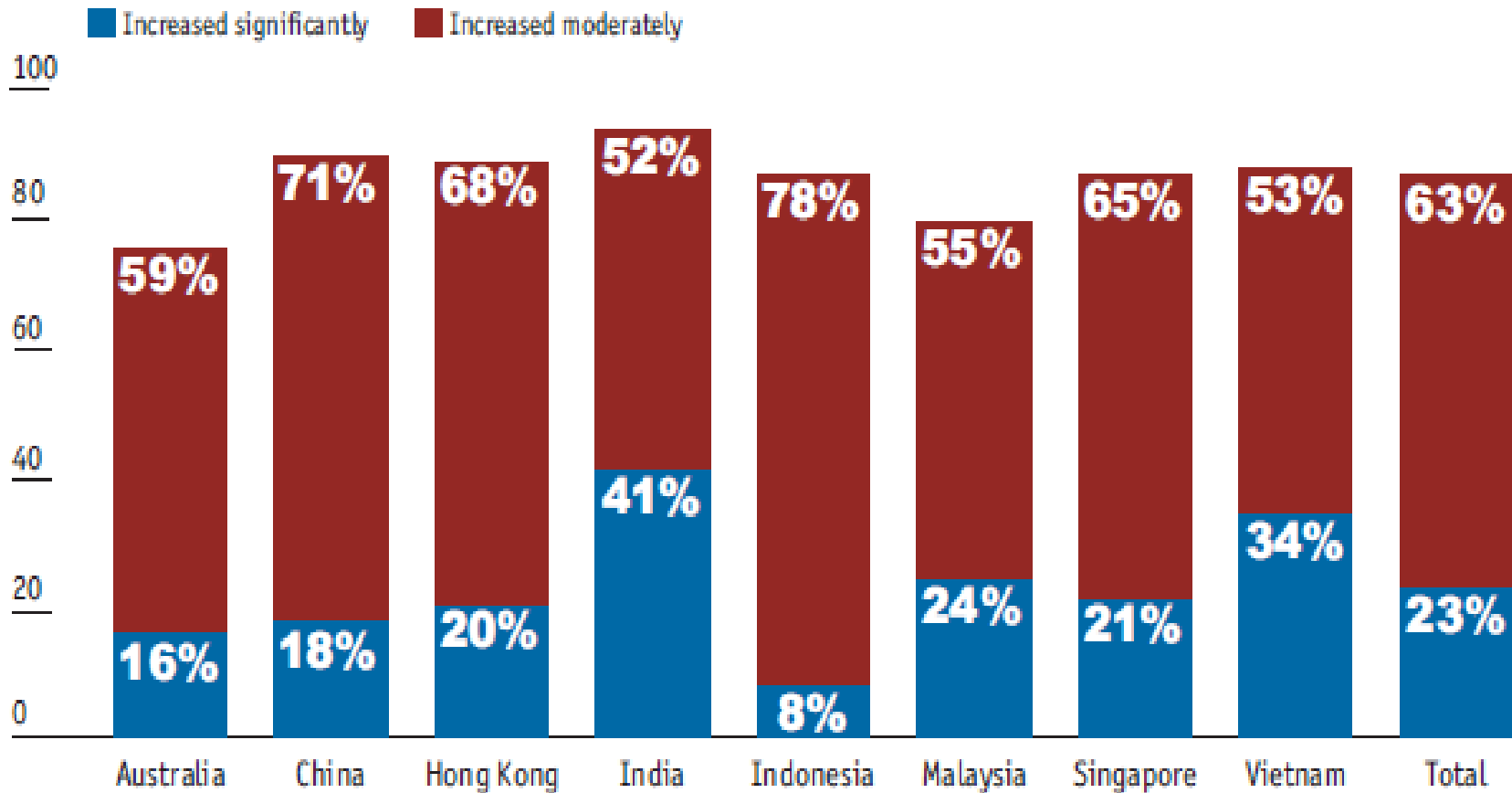
(% respondents)



Source: EIU Report “FTAs: fantastic, fine or futile?”

Firms reporting increase in exports as a result of FTAs used

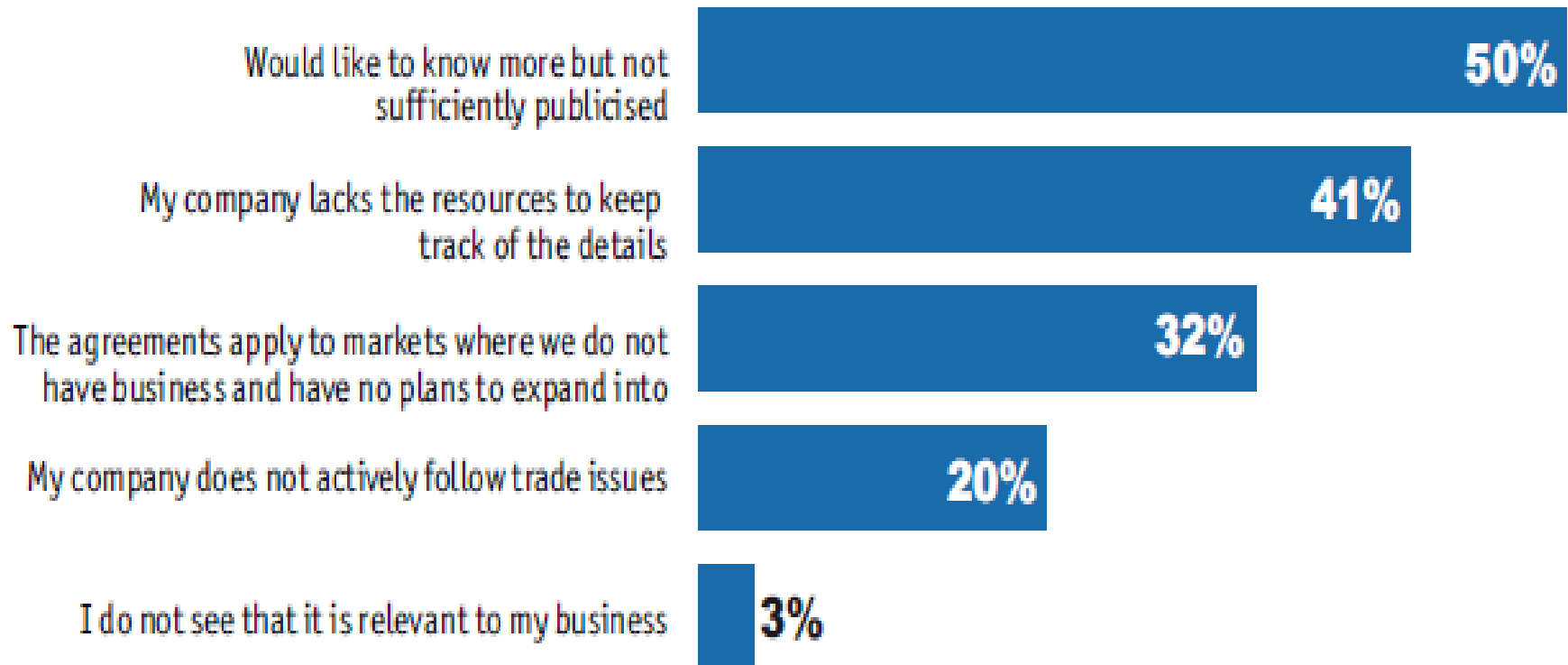
(% respondents)



Source: EIU Report "FTAs: fantastic, fine or futile?"

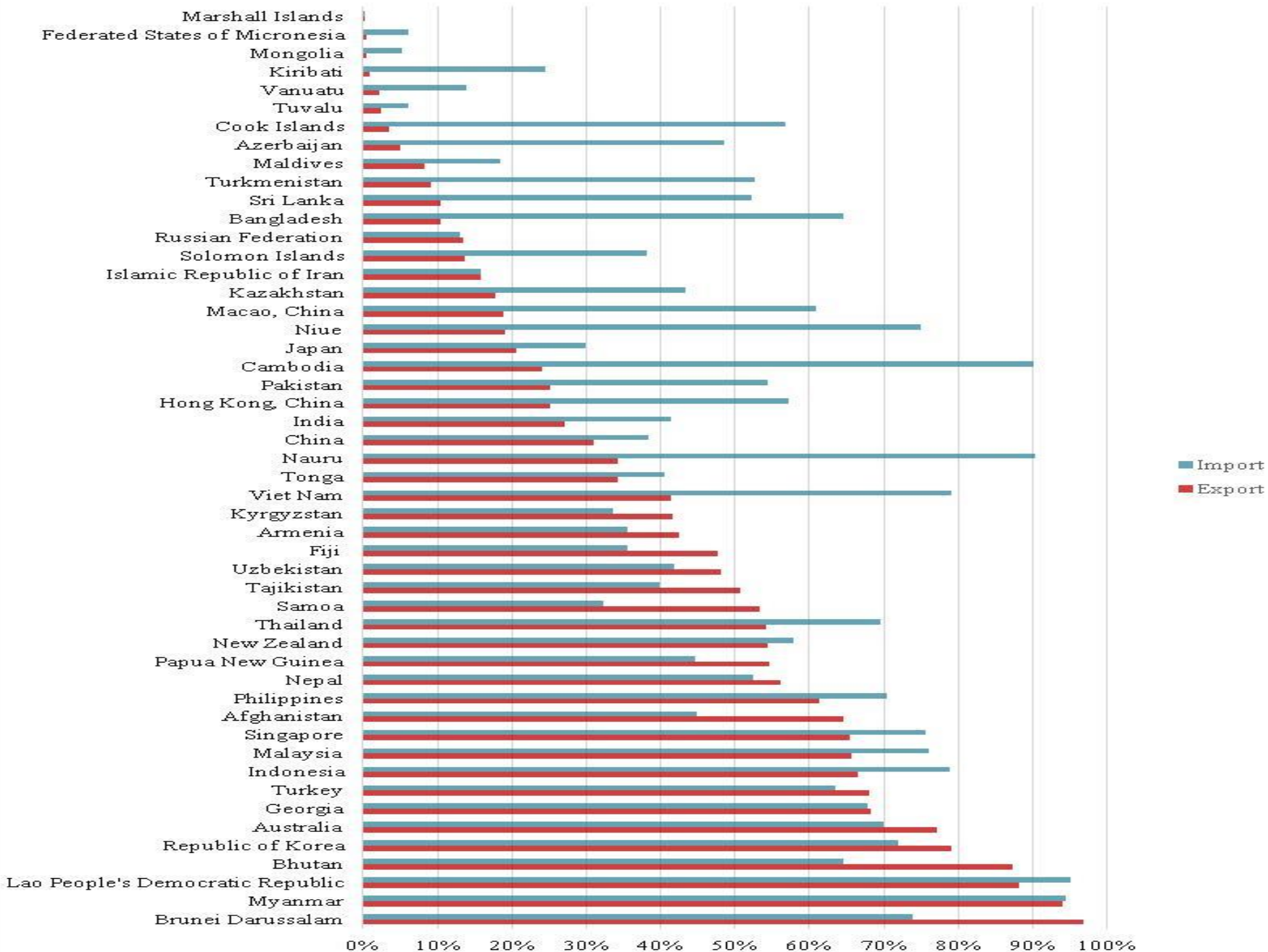
Reasons for limited understanding of FTAs

(% respondents)

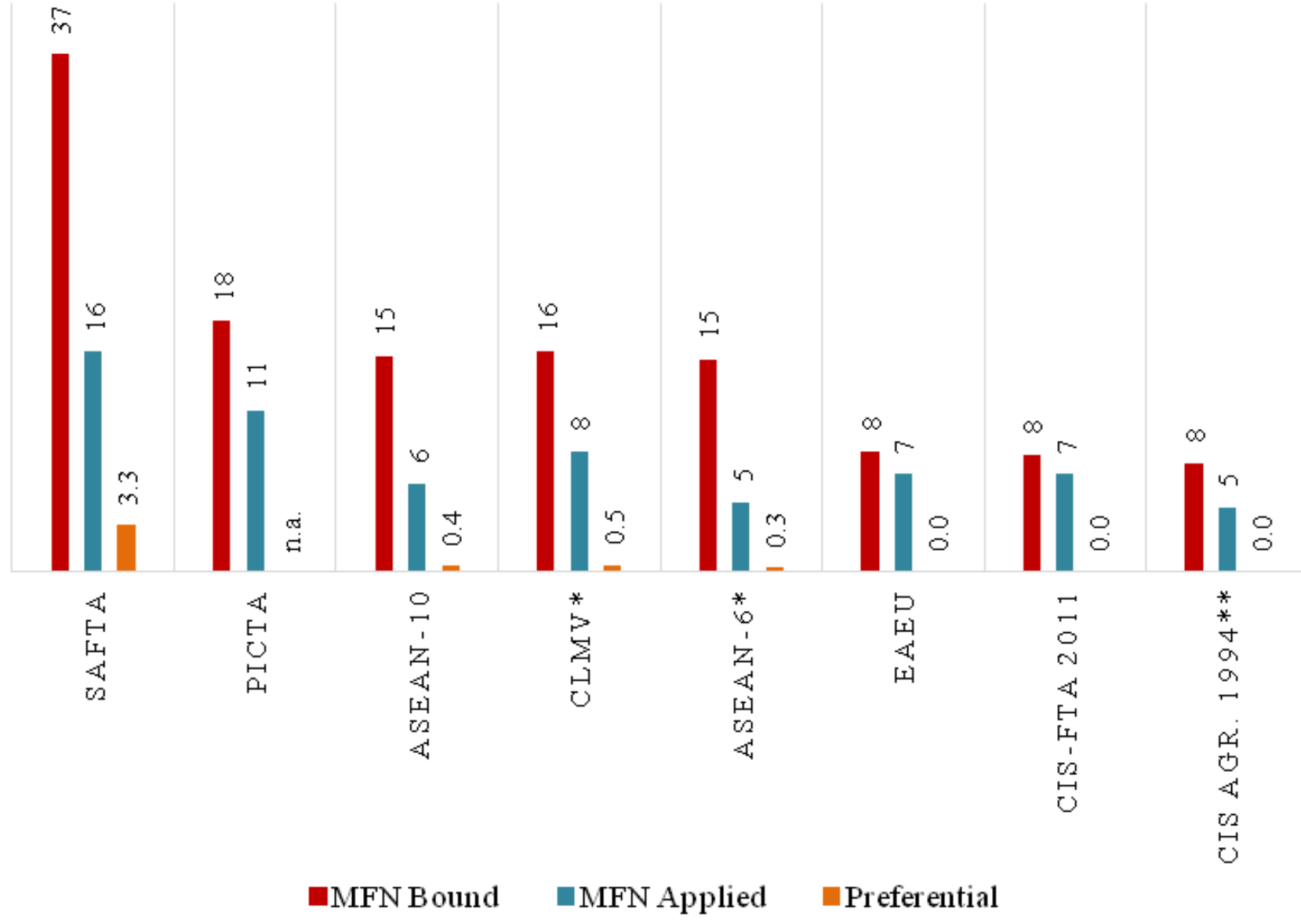


NB: Totals do not add to 100 since respondents could select more than one answer

Source: EIU Report "FTAs: fantastic, fine or futile?"

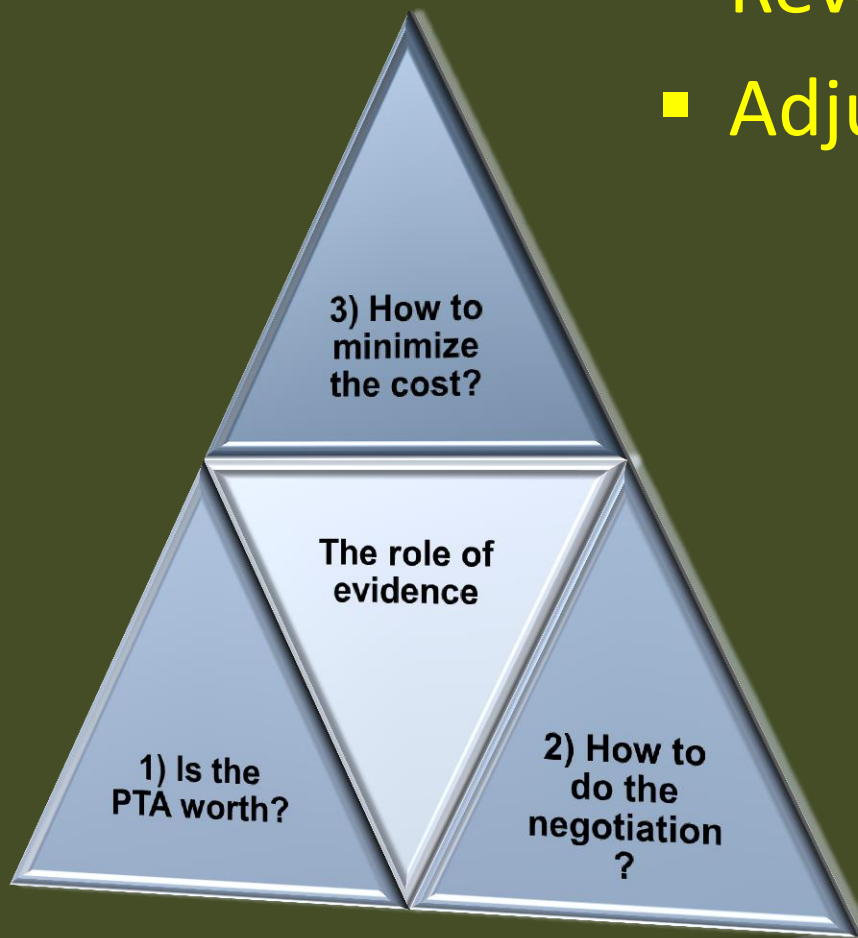


**Loss of tariff revenue and
adjustment costs**



How to minimize the cost?

- Revenue cost
- Adjustment cost



Mitigating revenue costs

- ⊙ Revenue loss an unavoidable effect of cutting tariffs
 - An economic model should help estimate the scale
- ⊙ Falling average MFN duties have already reduced the impact
 - What is the tariff share of total revenue collected?
- ⊙ Mitigation may not be necessary but...
 - Progressive implementation will discount revenue losses
- ⊙ Alternative revenue sources should be considered in the context of the overall PTA strategy
 - Moving from a production to consumption tax base
 - Restructuring and re-balancing existing excise, stamp-duties

Minimizing trade adjustment costs

- ◎ Economic specialization is not a “free lunch”
 - Employment and investment returns industries whose assistance is cut as part of the PTA (a tariff, a services barrier) may fall
 - Freeing these resources for other more valuable uses
- ◎ To help firms, households minimize the impact
 - Involve stakeholders early in a transparent process with clearly defined goals and scope (sector coverage)
 - Investors, workers who anticipate changes will adapt more quickly and at least cost
 - Provide for and publish progressive liberalization schedules
 - Use temporary safeguards
 - In combination with adjustment, retraining assistance

Selected sources

ESCAP:

- APTIAD Brief, August 2016
- Asia-Pacific Trade and Investment Report
<http://www.unescap.org/resources/asia-pacific-trade-and-investment-report-2015-supporting-participation-value-chains>
- Asia-Pacific Trade and Investment Preferential Agreements Database – APTIAD:
www.unescap.org/tid/uptiad
<http://artnet.unescap.org/databases.html#second>

WTO:

- WTO RTA database
https://www.wto.org/english/tratop_e/region_e/region_e.htm

THANK YOU